

HD  
2346  
C2A272



Government  
of Canada

Gouvernement  
du Canada

Regional Industrial  
Expansion


Expansion industrielle  
régionale

# Consultation Paper on Small Business

REGIC ..  
INDUSTRIAL EXPANSION  
FEB 12  
L'EXPANSION INDUSTRIELLE  
Bibliothèque



February 1985

Canada 



To be viable, small business must be competitive, maintain modern facilities and concern itself with productivity. It must be innovative and able to produce a quality product that can be marketed easily both in Canada and abroad. But to attain this objective, it is necessary to improve the economic situation and eliminate the obstacles that small business encounters.

Hon. André Bissonnette  
The Twenty-Fifth Annual Convention of  
the Association des commissaires  
industriels du Québec  
Trois-Rivières, Québec

October 2, 1984



February, 1985

This paper has been prepared to carry on the process of consultation outlined in the Economic and Fiscal Statement delivered in the House of Commons on November 8, 1984.

The government recognizes the important role of the private sector and the economic responsibilities of provincial governments. Our aim is to promote economic growth in concert with the private sector and the provinces.

To foster growth in the private sector, Canadians must begin a process of change toward a new business environment that encourages entrepreneurship and facilitates adaptation to changing market realities. In some cases, this will mean less government regulation and intervention. In others, it will be necessary to redirect or reinforce government activities that support growth and adjustment.

An important commitment within this government's mandate for change is to consult. Consultations will be held on a broad range of social and economic issues and will focus on three key areas: the problems and issues facing Canada's economy; the directions in which we must move to remedy the situation; and, the options available to governments and the private sector. The guiding principle underlying the consultations is fiscal responsibility by governments: if we do more in some areas we must do less in others. This is, in our view, the linchpin in a successful strategy for economic renewal. The consultations should contribute significantly toward our determination to identify and implement appropriate measures to restore fiscal responsibility, flexibility and credibility.

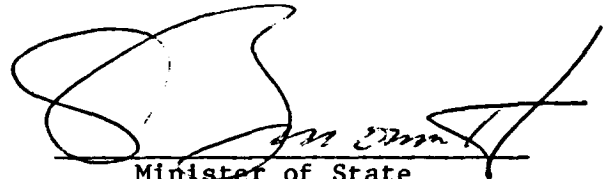
To achieve this goal, we wish to conduct a complete round of consultations with the small business community using this paper as the focus. We seek a full airing of small business issues in the hope that the discussion will serve to guide all levels of government in the formulation of policies and programs.

Time is short. Entrepreneurs, businesses, associations, financial institutions, labour, academics and provincial governments will be consulted. If you have a contribution to make and are not approached directly, we ask that you contact any office of the Department of Regional Industrial Expansion (DRIE) where arrangements will be made to receive your comments.

As we begin discussions, let us not lose sight of the broad national purpose to which we are pledged. Our common bond is the desire to see a strong and prosperous Canada.



Minister of Regional  
Industrial Expansion



Minister of State  
(Small Businesses)

TABLE OF CONTENTS

I.	The Process of Economic Renewal .....	1
II.	Small Business and Economic Renewal .....	1
III.	The Challenge .....	2
IV.	Guiding Principles .....	3
V.	Small Business in Canada .....	3
VI.	Consultations .....	4
	Small Business Environment .....	4
	Management .....	6
	Financing .....	7
	Marketing .....	9
	Information and Services .....	10
	Charts .....	12

## I. THE PROCESS OF ECONOMIC RENEWAL

The federal government set out four broad challenges it must meet in An Agenda for Economic Renewal released on November 8, 1984, in conjunction with the Economic and Fiscal Statement. They are:

- to organize federal affairs to limit, and ultimately reverse, the massive build-up in public debt and the damaging impact this has on confidence and growth;
- to redefine the role of government so that it provides a better framework for growth and job creation and less of an obstacle to change and innovation;
- to adopt policies that foster higher investment, greater innovation, increased international competitiveness and a positive climate for the birth and growth of new enterprise; and
- to bring about these changes in a way that is fair, open and consistent with the basic sense of compassion, tolerance and justice that is characteristic of Canadian society.

## II. SMALL BUSINESS AND ECONOMIC RENEWAL

This government recognizes the positive and critically important contribution that small business makes to Canada's economy. A viable and stable small business sector is one of the top priorities of the government. The Prime Minister, in referring to small business, noted "Our goal is to unfetter the private sector -- especially the small business sector -- so as to enhance that entrepreneurial spirit and creative genius that encourages risk, rewards productivity and creates new economic opportunities for Canada."

Job creation is a fundamental priority for this government. Statistics readily demonstrate the important role played by small business in creating and sustaining employment. What may not be fully recognized is that small firms generate economic activity in every village, town and city in Canada. In addition, small firms contribute significantly to job creation and regional development. Success enjoyed by Canada's entrepreneurs results in small firms growing into medium-sized firms, and medium-sized firms growing into large firms. These medium and large firms, in turn, create demands for goods and services, which lead to the creation of yet more small businesses. Canada needs to strengthen this growth pattern and the generation of new business startups.

Canada was recently recognized for its international competitiveness. Our products are good and our labour force is recognized as being among the best. Modest gains in exports and import replacements translate into large numbers of jobs and business successes. The potential of small business in helping to achieve this is substantial and this potential must be actively encouraged and fostered.

This government is committed to listening to suggestions on how it can promote and improve the performance and opportunities in this vital sector of the nation's economy. It is also committed to turning this advice into concrete result-oriented action. The priority and importance this government attaches to small business and its contribution to job creation will not be allowed to fade.

### III. THE CHALLENGE

The task before us is to get Canada's economy back on track. A major part of that effort must be a strategy for stimulating the private sector, which must be the driving force of the economy.

The Economic and Fiscal Statement pointed to the key role of small business in economic renewal. The tremendous potential of small business must be stimulated by creating a business climate that rewards initiative and risk-taking.

The principal reward for entrepreneurs is the achievement of financial success and the satisfaction of running their own businesses. In order to do so, entrepreneurs must be able to operate their businesses in a stable economic environment relatively free from obstacles and disincentives, and be aware that society recognizes the important role they play. Entrepreneurs must be confident that governments are striving to improve the environment in which they operate.

The challenge is to promote the startup of small business in Canada, to identify obstacles to their successful operations, and to take steps to either eliminate or reduce such obstacles. As well, we must focus on means of strengthening three major elements, which are key to the success of most small businesses: knowledge of the business field, sound financing and effective marketing. It is important for entrepreneurs to be able to integrate and manage these and other elements of their businesses in such a way that they will succeed.

We hope that the various parties will be able to acquire a better understanding, during these consultations, of each other's problems and constraints, and to develop options for constant improvement.



#### IV. GUIDING PRINCIPLES

Underlying the policy objectives and challenge set out above are several principles guiding the government's approach to small business:

- the government recognizes the fundamental need to promote and improve the small business sector's strong sense of competitiveness, entrepreneurship, creativity and risk-taking;
- the government seeks increased self-reliance of individuals and business in responding to changing circumstances;
- the government wishes to promote fiscal responsibility, recognizing that if we do more in some areas, we must do less in others; and
- the government recognizes the need to remove major obstacles to growth in co-operation with business, labour and other levels of government.

#### V. SMALL BUSINESS IN CANADA

Small business in Canada is generally defined as those businesses with up to \$2 million in annual sales and/or employing up to 50 people. There are about 750 000 small businesses in Canada. Within the sector there is a large number of startups and close-downs each year, but the total net number of new businesses is increasing only marginally.

The majority of small businesses employ fewer than 20 people and these firms provide 26 per cent of total Canadian employment. They also accounted for virtually 100 per cent of the net job creation over the 1978-1982 period, as indicated in Chart 1. It should be noted that this positive performance by small business was influenced in part by the effect on larger firms of the economic downturn in 1982.

In 1980, approximately 96 per cent of firms operating in Canada reported sales below \$2 million, as indicated in Chart 2. They contributed approximately 30 per cent of the private sector gross domestic product and the majority were in retail trade, business and personal services or construction. The distribution of smaller-sized businesses in Canada in 1980 by sector is shown in Chart 3. The vast majority are in the category of under \$250 000 in annual sales as illustrated in Chart 4. Chart 5 indicates the percentage in each province of small businesses and total sales.

The average age of Canadian entrepreneurs is between 35 and 45, and is getting lower. Young people and women are playing a larger role in small business ownership. The number of new small business proprietors increased by 50 per cent from 1964 to 1980. During this time the proportion of businesses owned by women almost tripled while those owned by persons under 30 more than doubled.

## VI. CONSULTATIONS

For small businesses to contribute more effectively to economic renewal, it is essential that the difficulties facing them be recognized by everyone and a determined effort be made to implement appropriate solutions.

In these consultations, we must be realistic in recognizing the constraints we face. The lack of resources for either new tax or expenditure initiatives restricts what the federal government can do, and the substitution of business tax incentives for direct government expenditures may increase the complexity of the tax system. Therefore, governments must make wise choices to ensure the development of effective policies and programs to support growth.

To assist in providing the necessary focus, this consultation paper incorporates separate sections on the small business environment, management, financing, marketing and information and services. They are not intended to be exhaustive, and indeed some may not be applicable to certain sectors of the small business community. They are intended merely to serve as a guide to discussions.

### SMALL BUSINESS ENVIRONMENT

#### Objective

To create an environment for the small business sector that is conducive to startups, investment and growth and is free of major obstacles.

### Perceptions

- . Entrepreneurship and risk-taking are not promoted to the extent desirable.
- . Governments and most financial institutions are perceived by small business to be oriented to the needs of big business.
- . The design and application of regulations by governments is insensitive to the limited resources of small business.
- . Complex tax regulations may have detracted from entrepreneurship and small business ownership.
- . Small businesses have extreme difficulties in recruiting and training employees and are particularly affected by skills shortages.
- . Small businesses often have difficulty motivating and retaining personnel whom they have trained and whom they need to be profitable.

### Opportunities

- . Co-operate with other levels of government and the private sector towards improving the climate for entrepreneurship.
- . Develop a greater sensitivity to small business interests and needs in the private sector and in governments.
- . Improve opportunities for the generation of new businesses, including startups from university-based research, spinoffs from larger companies and sub-contracts from large investment projects.
- . Encourage the success of large businesses. The success of small business depends greatly on the demand for goods and services created by large business and small business has the vitality and flexibility to respond to that demand.
- . Develop a greater general awareness of small businesses' lack of resources to take part in advocacy functions.
- . Remove unnecessary regulations, inspections and paperburden in concert with other levels of government, for example, the tax simplification and administration measures already announced by the federal government.
- . Ensure that social and employment regulations achieve their intent while not acting unnecessarily as barriers to employers offering permanent jobs or to people seeking work.

- . Co-operate with other levels of government and the private sector, particularly labour, toward improving skills development for small business.
- . Encourage small businesses to examine methods of making employees more integral parts of their operations.
- . Develop an improved data base to enhance everyone's understanding of the small business sector.

#### Questions

1. How can governments support the further development of entrepreneurship?
2. What are the areas in the tax system and its administration that can be further simplified for small business?
3. What are the areas worth pursuing to achieve meaningful regulatory reform and reduced paperburden to recognize better the special needs of small business?
4. How can the government make its programs and assistance related to skills training more effective for small business?
5. What can be done to encourage more involvement of the employees in the operation of small businesses?

#### MANAGEMENT

##### Objective

To improve management skills in the small business sector in order to enhance small business and support its growth.

##### Perceptions

- . Inadequate management skills are a major contributor to inefficiencies and failure in small businesses.
- . Small businesses tend to rely on the management skills of one individual and often lack the resources to train others.
- . Many owner/managers feel they do not have the time to formally upgrade their management skills.
- . Private sector professional management assistance and training are often too expensive for small business.
- . Institutional training is often unable to keep pace with changing technologies, market developments and new management techniques.

### **Opportunities**

- . Improve the information flow to small businesses on the types of management education, and technical and professional advice available.
- . Encourage small businesses to make use of existing advisory and management training services.
- . Encourage financial institutions and consulting organizations to continue to expand their advisory services to small business.
- . Continue to improve government management training programs to ensure their relevance and effectiveness.

### **Questions**

1. What is the most effective method for providing management advisory services to the small business community?
2. Is greater local orientation required in management training?
3. How can business associations, and the private sector in general, play an increased role?
4. Can more use be made of franchising, enterprise centres and other business formation techniques?
5. Are support, consultation and formation services offered by government and organizations such as the Federal Business Development Bank effective, and how might they be improved?
6. How can the universities play an improved role in enhancing small business management skills and conduct relevant research on the small business sector?

## **FINANCING**

### **Objective**

To promote adequate capitalization and improved access to equity to enhance the financing of small business.

### **Perceptions**

- . Many small businesses appear to be undercapitalized: too much debt supported by too little equity. This situation is attributed to one or more of the following:
  - (a) limited financial resources of entrepreneurs when they start businesses;

- (b) small business owners are reluctant to share ownership and/or control, hence their reluctance to seek outside equity for start-up and growth;
  - (c) a lack of knowledge of private networks for financing; and
  - (d) limited financing alternatives available from financial institutions.
- . Existing regulations and attitudes inhibit investment in small businesses.
  - . Government programs and policies are not designed to address adequately the undercapitalization problem.
  - . Government financial programs and incentives often create distortions in the efficient operation of the market place.

#### **Opportunities**

- . Improve the awareness and understanding of small business owners of the options available to finance startup and growth.
- . Encourage private sector financial institutions to provide a broader range of financial services appropriate to the needs of small business.
- . Review regulations and policies that may be impeding the flow of financing to small business, including equity capital.
- . Re-evaluate the effectiveness of limited government resources in the support of small business.

#### **Questions**

1. What barriers are currently preventing the adequate provision of private sector financing, especially for startup and growth in the early years of development?
2. How can the private sector better meet the financing needs of small business, especially the provision of equity and venture capital funds?
3. How can the investment of more pension fund dollars and other pools of capital into small business be facilitated?

4. How can the government redirect its policies and programs to support better the financing needs of small business?
5. Is there overlap and duplication between federal and provincial programs and, if so, how and where should changes be made?
6. Are tax and direct expenditure incentives properly structured and, if not, how can they be better balanced or made more effective?
7. Do current government lending programs continue to be relevant, including, for instance, Federal Business Development Bank (FBDB) lending?

## MARKETING

### Objective

To promote the importance of effective marketing as a key to success for small business.

### Perceptions

- . Many small businesses do not recognize marketing as being an important function distinct from sales activity.
- . Generally small businesses lack the financial and human resources to engage in extensive marketing and promotion.
- . Small businesses often have difficulty pursuing new market opportunities, gaining access to existing export vehicles, and utilizing existing assistance and government programs.

### Opportunities

- . Promote the importance of effective marketing in assisting small business to identify market niches and develop new products.
- . Encourage small business to seek new markets through import replacement, sub-contracts from large private sector corporations, government procurement and export opportunities.
- . Encourage large private sector corporations to do more sub-contracting to the small business sector to foster increased market opportunities, improved technology transfer, competitiveness and efficiency.
- . Promote the opportunities for overseas export trade by the small business sector, including involvement in projects supported by international organizations.

- . Ensure that marketing services offered by the government are sensitive to the needs of the small business community.

#### Questions

1. How can the private sector, including business associations, play a more active role in assisting small businesses to penetrate domestic and foreign markets?
2. How can we improve the circulation of information on import substitution and export assistance programs?
3. How can the government improve its procurement policies to ensure better access by small business?
4. Do federal and provincial export promotion efforts overlap? How can co-ordination be improved?
5. Can existing government export assistance programs be improved, such as the Program for Export Market Development (PEMD) and the services offered by the Export Development Corporation (EDC)?

### INFORMATION AND SERVICES

#### Objective

To enhance the provision of information and services to improve the management, financing and marketing functions of small business.

#### Perceptions

- . Generally small businesses have insufficient information in the following areas:
  - (a) management advisory services;
  - (b) financial advisory services, including information on taxation and sources of small business financing;
  - (c) marketing opportunities, including import replacement and exports;
  - (d) technology and innovation;
  - (e) regulatory requirements; and
  - (f) government programs and services.



- . Competitive factors preclude the timely exchange of new technology between large and small businesses.
- . There is overlap and duplication in the services and information offered by the private sector and the provincial and federal governments.

### **Opportunities**

- . Harmonize and co-ordinate the delivery of various programs and services offered to small business in the areas of management, financing and marketing.
- . Ensure the wide distribution of relevant information to small business through the private sector, business and trade associations, and government service centres.
- . Encourage information exchanges between large and small companies so that makers and users of advanced technology and innovative ideas can discuss mutual needs and available opportunities.
- . Develop a network between levels of government, business and business organizations to ensure that small business obtains timely information on technological advancements, market opportunities and existing government programs and assistance.
- . Explore the concept of "one-stop-shopping" for better co-ordination and delivery of information and services to small business.

### **Questions**

1. What are the most important kinds of information and advisory services that should be available to small business?
2. With respect to information, who should assume responsibility for collection, preparation and dissemination? How can this be best co-ordinated?
3. Who should be responsible for the delivery of advisory services to small business on:
  - (a) management?
  - (b) financing?
  - (c) marketing?
4. How can the diffusion and acquisition of new technology by small business be enhanced? Do technology centres have a role to play?

CHART 1

CHANGE IN PRIVATE SECTOR FULL YEAR EMPLOYMENT (FYE)  
BY FIRM SIZE AT START OF PERIOD - 1978-1982

GROSS EMPLOYMENT CHANGE

-  EMPLOYMENT GAINS IN FIRMS CONTINUING THROUGH PERIOD

 EMPLOYMENT IN NEW FIRMS DURING PERIOD
-  EMPLOYMENT LOSSES DUE TO CESSATION OF FIRMS DURING PERIOD

 EMPLOYMENT LOSSES IN CONTINUING FIRMS THROUGH PERIOD

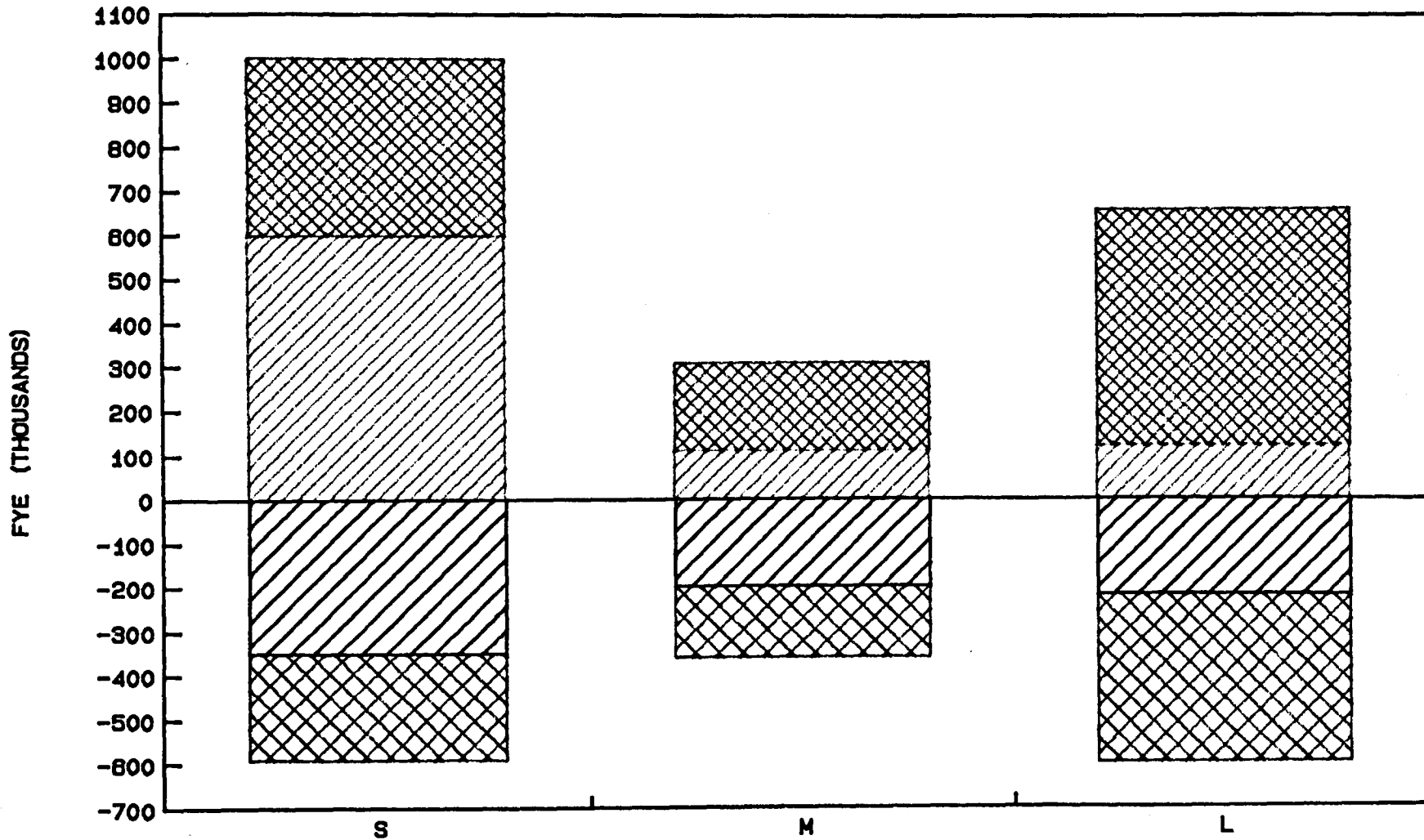
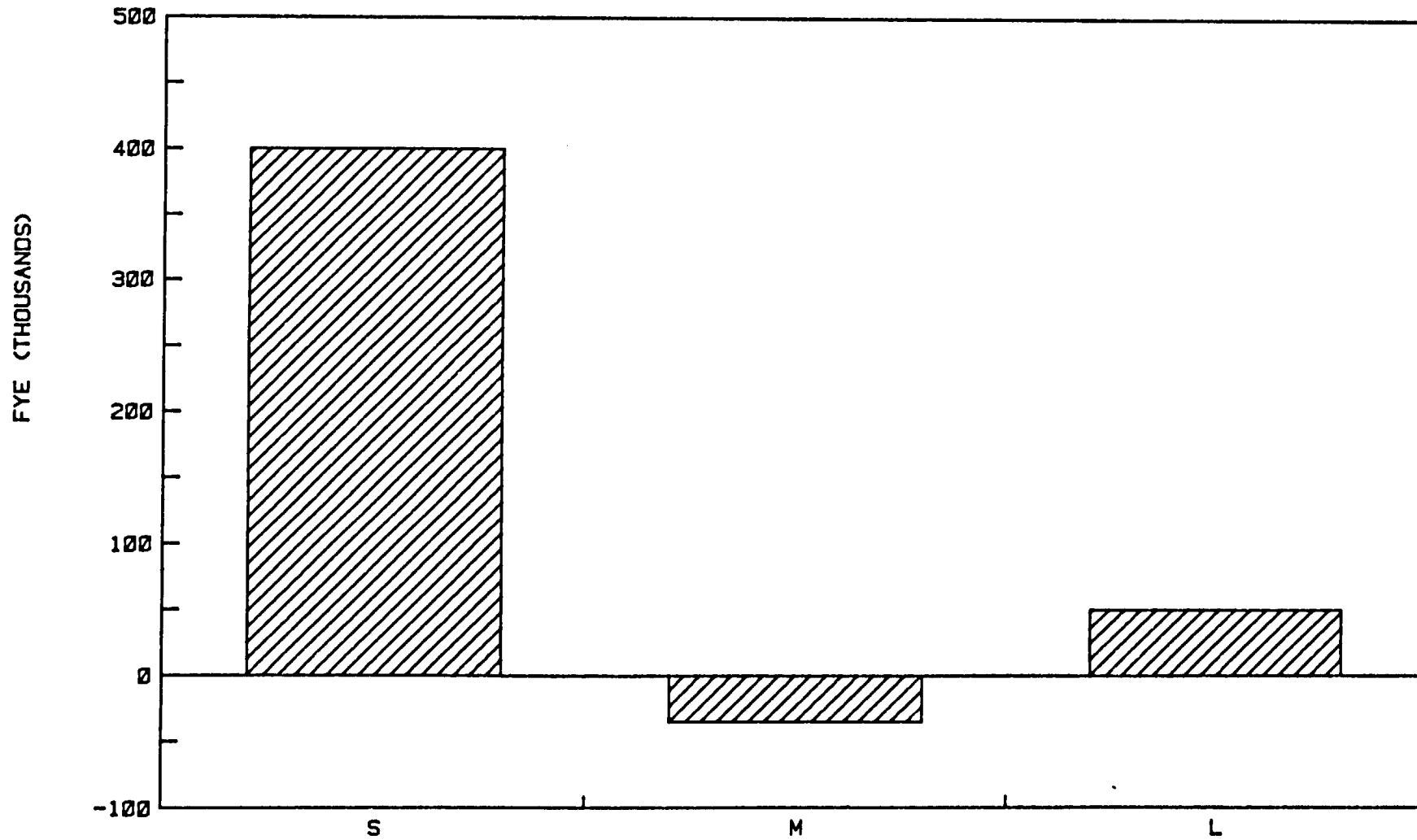


CHART 1 (contd...)

CHANGE IN PRIVATE SECTOR FULL YEAR EMPLOYMENT (FYE)  
BY FIRM SIZE AT START OF PERIOD - 1978-1982

NET EMPLOYMENT CHANGE



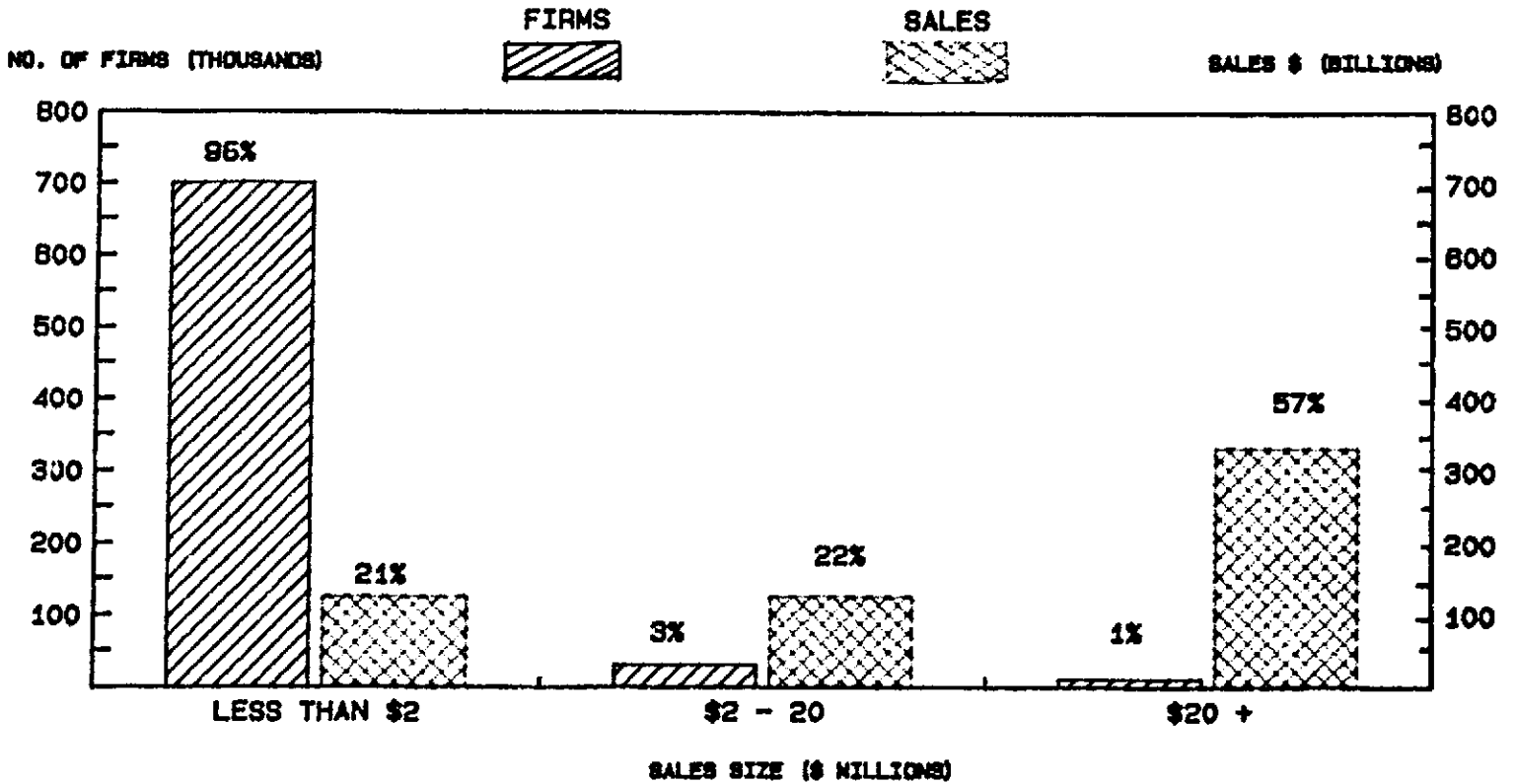
S = SMALL FIRMS, LESS THAN 20 EMPLOYEES

M = 20 TO 100 EMPLOYEES

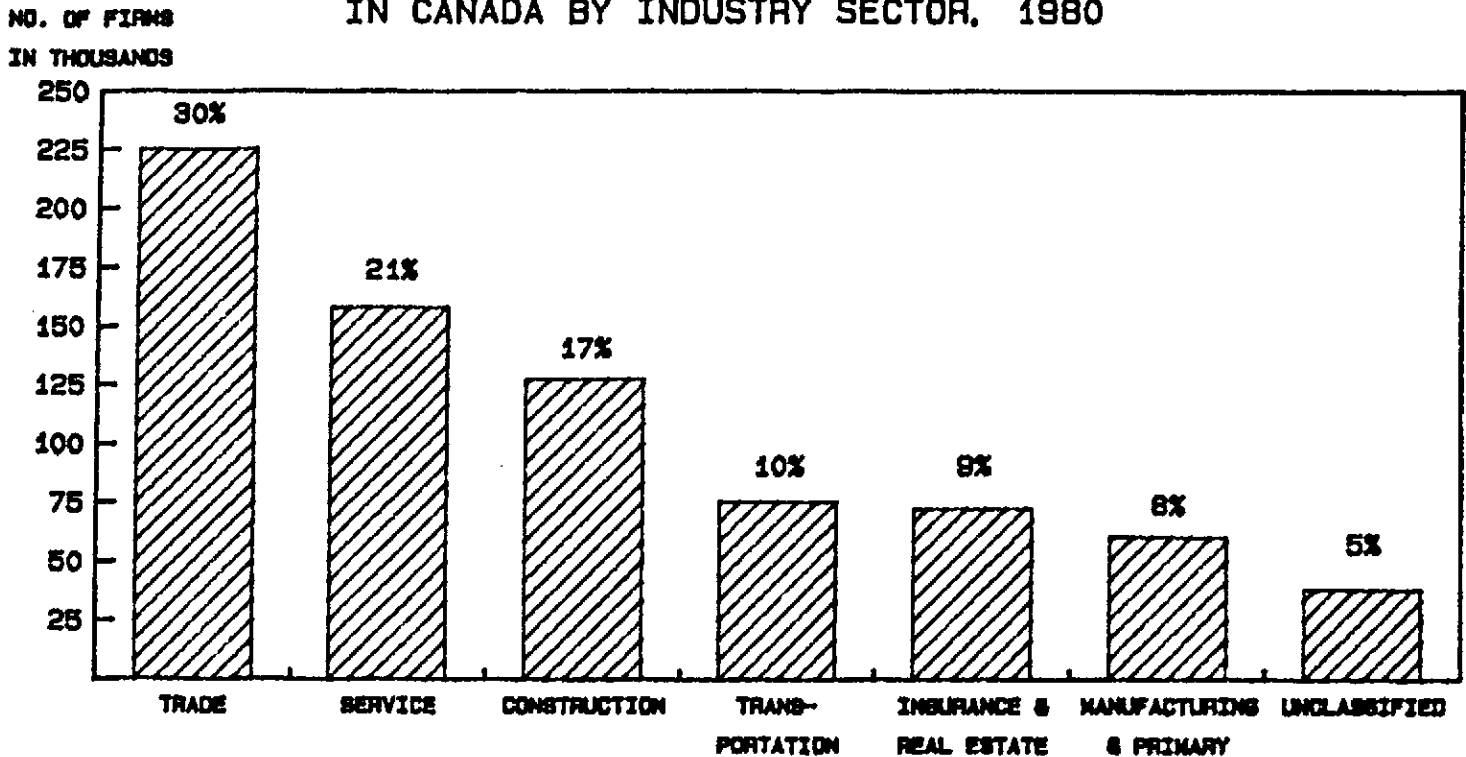
L = MORE THAN 100 EMPLOYEES

SOURCE: STATISTICS CANADA

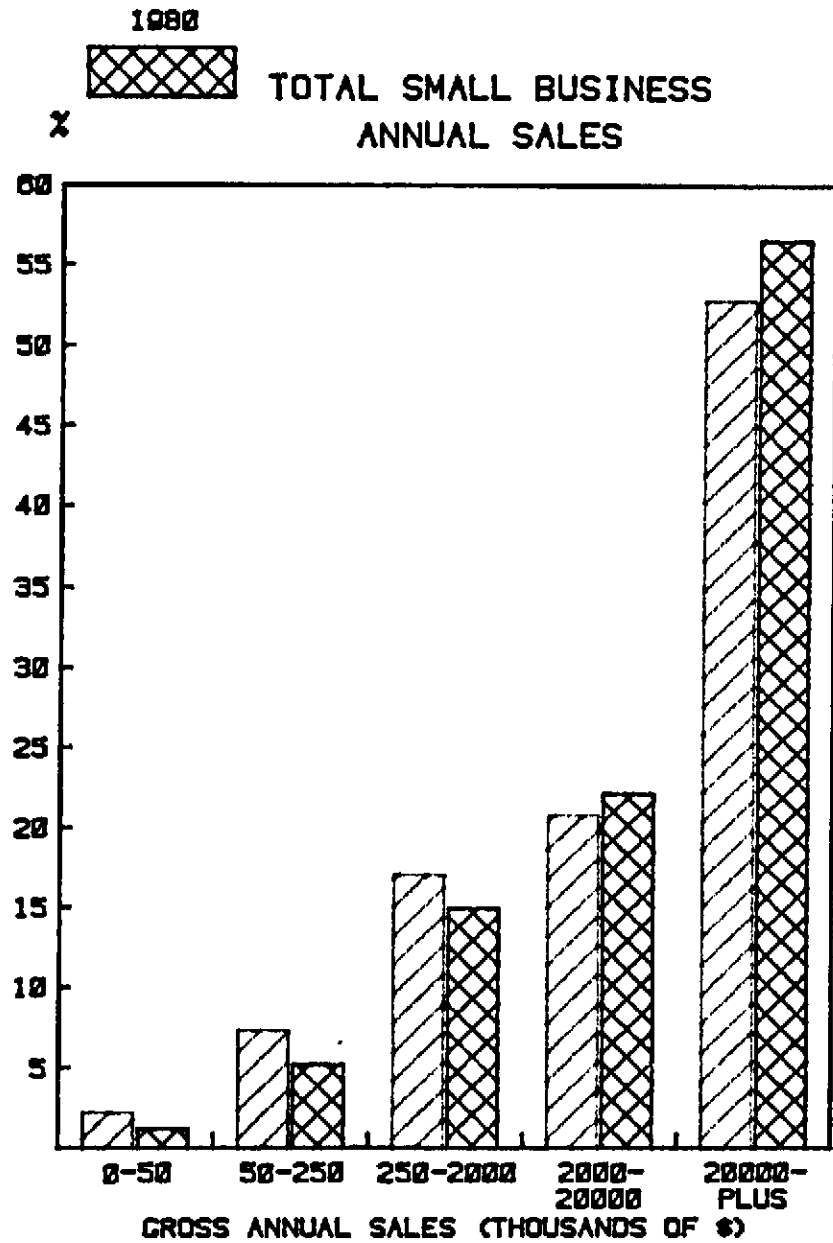
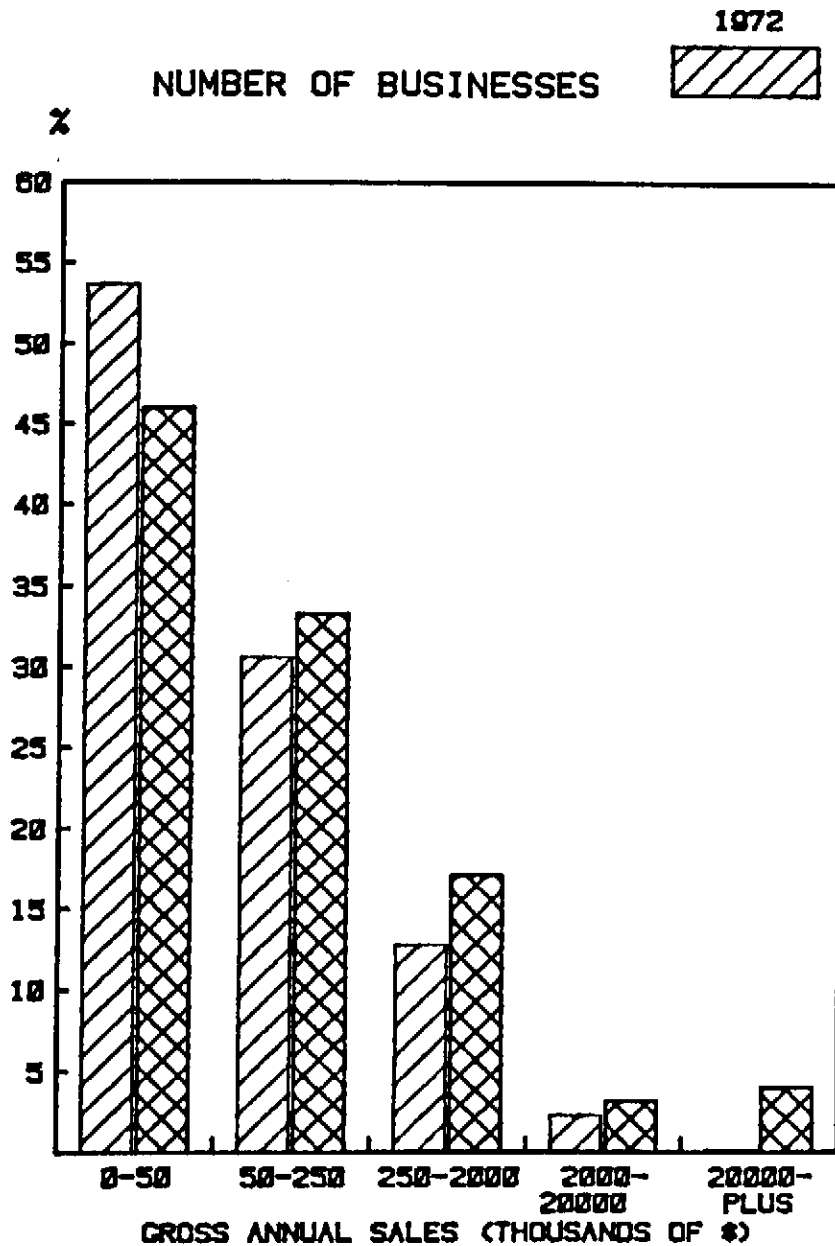
**CHART 2**  
**TOTAL SALES AND TOTAL FIRMS**  
**BY SALES SIZE GROUP OF FIRM, 1980**



**CHART 3**  
**DISTRIBUTION OF SMALLER SIZE BUSINESSES**  
**IN CANADA BY INDUSTRY SECTOR, 1980**

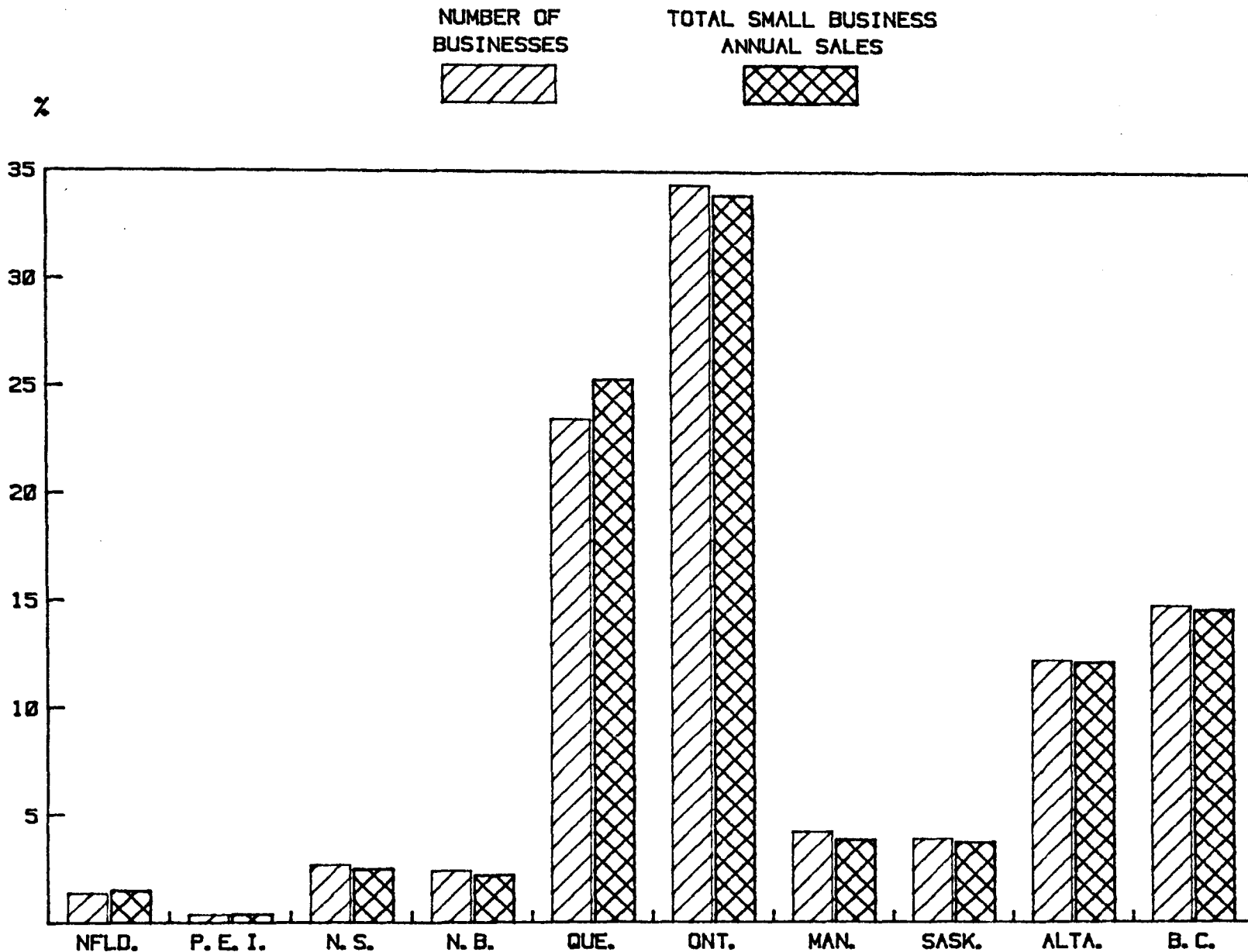


**CHART 4**  
**PROFILE OF ALL BUSINESSES FOR VARIOUS SALES SIZES FOR ALL CANADA**  
**1972 - 1980**



SOURCE: BUSINESS FINANCE DIVISION, STATISTICS CANADA, TAX RECORD ACCESS SUB-DIVISION, STATISTICS CANADA

CHART 5  
 PROFILE OF SMALL BUSINESSES BY PROVINCE  
 1980



SOURCE: SMALL BUSINESS STATISTICS, STATISTICS CANADA.

NOTES: SMALL BUSINESSES REFERRED TO HERE ARE THOSE BUSINESSES WITH LESS THAN \$2 MILLION IN ANNUAL SALES.  
 YUKON AND NWT ARE INCLUDED IN THE FIGURES FOR BRITISH COLUMBIA

FIGURES AND NOT ARE INCLUDED IN THE FIGURES FOR BRITISH COLUMBIA