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SME PROFILE

INNOVATIVE ENTERPRISES IN CANADA

Innovation, Science and Economic Development Canada
Small Business Branch
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SME PROFILE

INNOVATIVE ENTERPRISES IN CANADA

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ABSTRACT

This profile provides a comparison between innovative and non-innovative small and medium-sized enterprises (SMEs) using data from the 2020 *Survey on Financing and Growth of Small and Medium Enterprises (SFGSME)*.

The survey revealed that around 28% of non-franchised SMEs were innovative businesses. Of these SMEs, product innovation is the predominant type of innovation. In general, innovative businesses have more employees than non-innovative businesses, and they are also more likely to be majority-owned by people who belong to visible minorities, compared with non-innovative SMEs.

Between 2018 and 2020, a larger proportion of innovative SMEs had positive growth compared with non-innovative SMEs. The survey also revealed that innovative SMEs were more likely to export than non-innovative SMEs (21.4% vs. 9.3%). In addition, there were more innovative SMEs than non-innovative ones that had adopted advanced technologies and held intellectual property. Innovative SMEs had more online presence in 2020, thanks to their websites, than non-innovative SMEs.

With respect to financing, nearly 90% of innovative SMEs had applied for external financing in 2020, compared with 79.1% of non-innovative SMEs. Government financing was the most requested type of financing, with a rate of 83% for innovative SMEs and 72.4% for non-innovative SMEs. Government financial assistance programs offered to businesses during the COVID-19 pandemic to mitigate its economic impact largely explain these results.

1. INTRODUCTION

The 21st century has been marked by growing technological development that seems to be accelerating. Cellphones, artificial intelligence, nanotechnologies and electric or self-driving cars are but a few examples. According to Schwab (2017),¹ we may even be in a new industrial era, called the “fourth industrial revolution,” which is distinguished by new and complex technological capabilities that are integrated into our societies. An example is the Internet of Things, where many items are connected and can communicate with each other via the Internet. This technological development has been made possible by, among other things, the capacity for innovation of certain individuals or certain businesses.

Innovation is one of the fundamental engines of economic growth.² With globalization and increasingly integrated economies that accentuate competition within markets, innovations are generally what distinguish businesses the most and what enable the economy to advance, a point raised by Joseph Schumpeter³ in his theory of creative destruction—a theory that holds that the economy is subject to a perpetual dynamic of creation and destruction that is fueled by innovation and technological progress.

This makes the economy a dynamic system constantly marked by innovative changes and constant evolution.⁴ According to Schumpeter, the innovative entrepreneur plays a crucial role by creating new businesses that acquire market share through, for example, the introduction of a new good or service, which leads to the disappearance of other less innovative or less productive businesses.

The goal of the following profile is to show the differences that exist between innovative small and medium-sized enterprises (SMEs) and non-innovative ones while comparing the results with all Canadian SMEs.

The rest of the profile is organized as follows: Section 2 presents the terminology and the data source used. Section 3 deals with the characteristics of businesses and section 4 presents certain characteristics that are associated with the majority owner of the business or the primary decision maker. Sections 5 and 6 in turn consider the activities linked to growth and exports, the adoption of advanced technologies, the online presence of businesses and the possession of intellectual property. Section 7 deals with applications for external financing for SMEs in 2020. Lastly, the final section presents conclusions.

¹ Schwab, K. (2017). *The fourth industrial revolution*. Currency.

² OECD (2016), *The Innovation Imperative: Contributing to Productivity, Growth and Well-Being*. Paris: OECD Publishing, 2016.

³ Schumpeter, J. (1942). *Capitalism, Socialism and Democracy*. London: Routledge.

⁴ Maurer, F. (2021). On a theoretically cup of inspiration with Schumpeter and von Foerster—creative destruction and emergence as means to prevent system lethargies: conceptual paper, 2021 IEEE International Conference on Engineering, Technology and Innovation (ICE/ITMC), pp. 1–6.

2. DATA SOURCE AND DEFINITIONS

In this report, the data from the 2020 *Survey on Financing and Growth of Small and Medium Enterprises* (SFGSME) from Statistics Canada were used to compare innovative small and medium-sized enterprises (SMEs) and non-innovative SMEs. The businesses that were considered have between 1 and 499 employees and gross revenue of \$30,000 or more.⁵

In addition, only non-franchised SMEs were considered regarding innovation activities. In fact, since franchises are generally businesses that have know-how, a business model and several other aspects that are already preconceived, innovation activities are foreign to them.

Innovative SMEs are defined as those that have developed or introduced at least one of the following four types of innovation between 2018 and 2020:

- ✓ **Product innovation:** a new or considerably improved good or service.
- ✓ **Process innovation:** a new or considerably improved production method or process.
- ✓ **Organizational innovation:** a new organizational method in business practices, workplace organization or external relations.
- ✓ **Marketing innovation:** a new way of selling goods and services.

The target population of the survey consisted of 859,735 businesses and its response rate was 59.5%. The final sample of the survey consisted of 9,957 respondents and among the non-franchised SMEs, 2,936 were innovative and 6,105 were not.

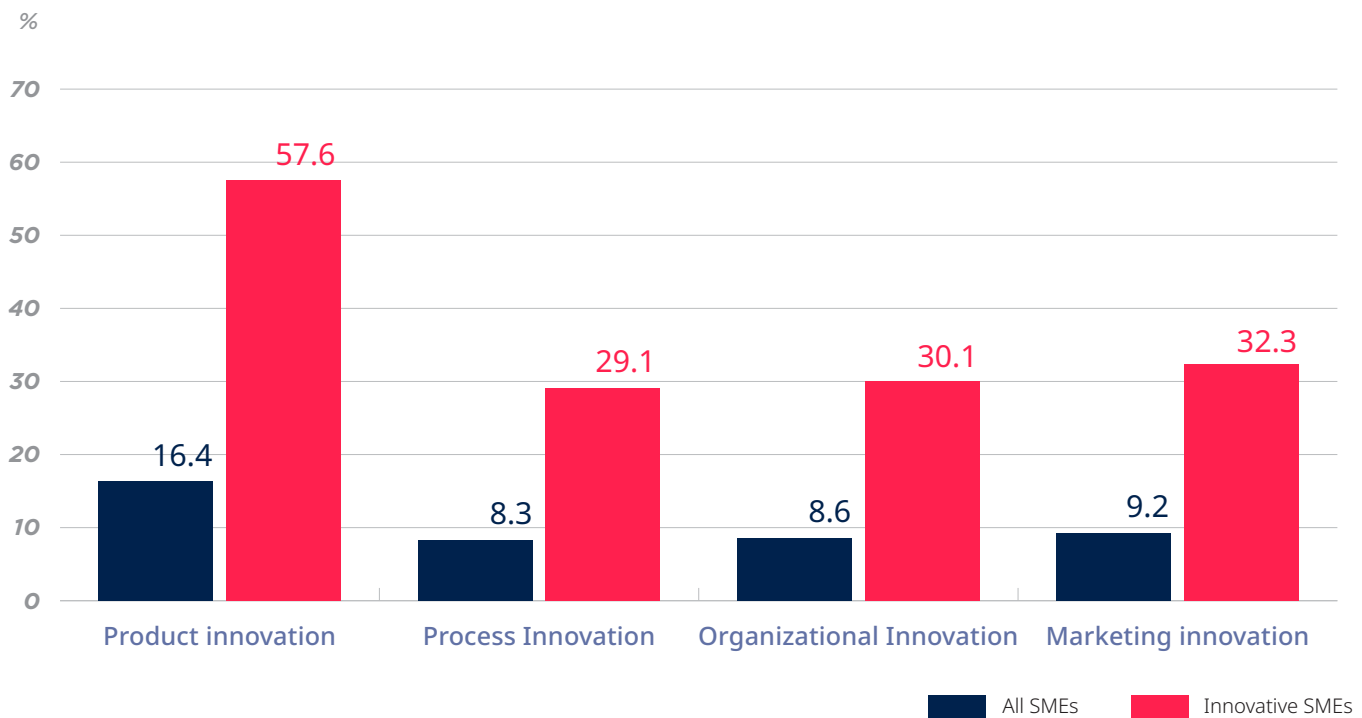
⁵ Non-profit corporations, joint ventures and public bodies are excluded from the survey. Businesses from the following sectors, based on the *North American Industry Classification System* (NAICS), were also excluded: utilities (22), finance and insurance (52), management of corporations and enterprises (55), educational services (61), public administration (91), automotive equipment rental and leasing (5321), commercial and industrial machinery and equipment rental and leasing (5324), out-patient care centres (6214), medical and diagnostic laboratories (6215), other ambulatory health care services (6219), general medical and surgical hospitals (6221), psychiatric and substance use hospitals (6222), specialty hospitals (except psychiatric and substance use) (6223), community food and housing, and emergency and other relief services (6242), and private households (814110).

3. FIRM CHARACTERISTICS

3.1. Types of innovation

Among the non-franchised SMEs, 28.4% are innovative versus 71.6% that are non-innovative. With respect to the types of innovation (Figure 1), the most frequent among innovative SMEs is product innovation, with a rate of 57.6%. Marketing innovation is in second place, with 32.3% of innovative SMEs, followed by 30.1% for organizational innovation and 29.1% for process innovation.

Figure 1: Types of innovation introduced or developed, % of businesses

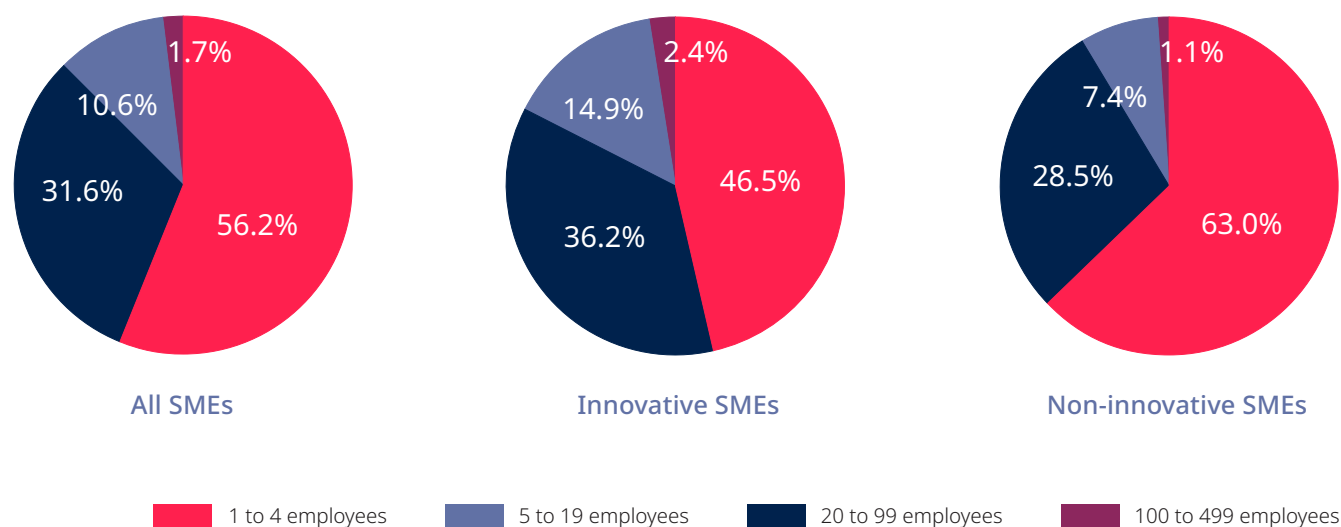


Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2020.

3.2. Firm size and industry sectors

Innovative SMEs generally have more employees than non-innovative SMEs. Figure 2 shows that a greater proportion of innovative SMEs are found in the larger-size categories than non-innovative SMEs. Approximately 36% of innovative SMEs have between 5 and 19 employees compared with 28.5% of non-innovative SMEs and 31.6% of all SMEs. Innovative SMEs with between 20 and 499 employees account for 17.3% and this is the case for 8.5% of non-innovative SMEs, and 12.3% of all SMEs. Nevertheless, 46.5% of innovative SMEs are microenterprises, that is, they have between one and four employees, compared with 63% of non-innovative SMEs and 56.2% of all SMEs.

Figure 2: Breakdown of businesses based on number of employees



Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2020.

Table 1 shows that the proportion of innovative SMEs increases with the size of the business. In fact, nearly half of businesses with 100 to 499 employees report introducing innovation compared with 22.7% of SMEs that have between one and four employees.

Table 1: Firm size by innovation activity

	Innovative SMEs	Non-innovative SMEs
	(%)	(%)
1 to 4 employees	22.7	77.3
5 to 19 employees	33.5	66.5
20 to 99 employees	44.4	55.6
100 to 499 employees	47.0	53.0

Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2020.

With respect to industry sector⁶ (Table 2), innovative businesses are better represented in the professional, scientific and technical services sector with a rate of 19.5%, while non-innovative businesses make up a larger percentage in the other industries sector with a rate of 22.1%. Conversely, innovative SMEs are least present in the primary sector with 4%, while non-innovative SMEs are least present in the manufacturing sector with 3.8%.

⁶ The sectors are defined according to the [North American Industry Classification System \(NAICS\) 2017](#).

Table 2: Distribution of businesses by industry sector

Sector	All SMEs	Innovative SMEs	Non-innovative SMEs
	(%)	(%)	(%)
Primary ⁷	5.8	4.0	7.0
Construction	16.3	9.9	19.9
Manufacturing	5.3	10.1	3.8
Wholesale trade	4.8	6.6	4.1
Retail trade	11.0	12.6	8.1
Transportation and warehousing	7.1	4.7	8.6
Professional, scientific and technical services	14.6	19.5	13.9
Accommodation and food services	7.8	7.4	5.4
Other services	6.8	6.3	7.2
Other industries ⁸	20.6	18.9	22.1

Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2020.

Table 3 presents the breakdown for each industry sector based on innovation activity. Note that more than half of SMEs in the manufacturing sector are innovative businesses. The construction sector has the lowest percentage of innovative businesses at 16.6%.

⁷ The primary sector includes the following industries: agriculture, forestry, fishing and hunting, mineral extraction, and oil and gas extraction.

⁸ This category includes the following industries: information and cultural industries; real estate and rental and leasing; administrative and support, waste management and remediation services; health care and social assistance; and arts, entertainment and recreation.

Table 3: Industry sector by innovation activity

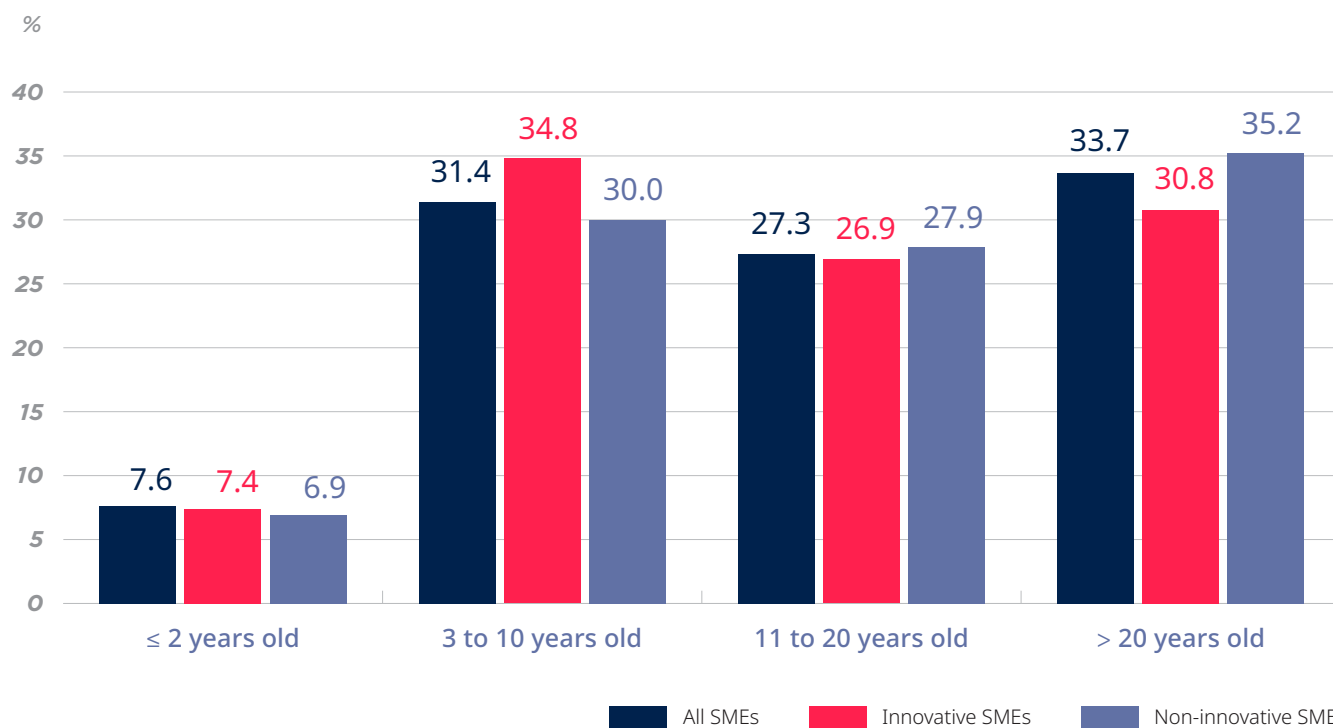
Sector	Innovative SMEs	Non-innovative SMEs
	(%)	(%)
Primary	18.4	81.6
Construction	16.6	83.4
Manufacturing	51.2	48.8
Wholesale trade	39.1	60.9
Retail trade	38.3	61.7
Transportation and warehousing	17.9	82.1
Professional, scientific and technical services	35.8	64.2
Accommodation and food services	35.4	64.6
Other services	25.8	74.2
Other industries	25.4	74.6

Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2020.

3.3. Firm age

According to the SFGSME, innovative SMEs are generally younger than non-innovative SMEs, as demonstrated in Figure 3. In particular, there are two notable differences regarding the 3-to-10-years age group and the over-20-years age group. In fact, a greater proportion of innovative SMEs are 3 to 10 years old compared with non-innovative SMEs and all SMEs, which account for 34.8%, 30.0% and 31.4% respectively. Additionally, fewer innovative SMEs are more than 20 years old (30.8%), compared with non-innovative SMEs (35.2%) and all SMEs (33.7%). The average age of all SMEs is the same as non-innovative SMEs (18 years), while innovative SMEs have an average age of 17 years.

Figure 3: Distribution of businesses by firm age



Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2020.

The breakdown for each age group based on innovation activity is presented in Table 4. Thirty percent of start-up businesses (SMEs that are two years old or less) are innovative, as are more than 32% of businesses aged 3 to 10 years. Only about a quarter of businesses aged 20 years and over are innovative.

Table 4: Firm age by innovation activity

Age	Innovative SMEs	Non-innovative SMEs
	(%)	(%)
2 years and less	30.0	70.0
3 to 10 years	31.6	68.4
11 to 20 years	27.7	72.3
More than 20 years	25.8	74.2

Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2020.

3.4. Financial overview

Table 5 presents the financial data of SMEs for 2020. Innovative SMEs had, on average, revenue of \$3.9 million, a higher amount than that of non-innovative SMEs, which had, on average, revenue of approximately \$1.9 million, and higher than that of all SMEs (\$2.6 million). The average expenses of innovative SMEs exceeded those of non-innovative SMEs and all SMEs: \$4.5 million compared with \$2.0 million and \$2.9 million, respectively. Innovative SMEs had a before-tax income that was lower than non-innovative SMEs, with an average negative profit of \$646,366, compared with an average negative profit of \$113,331 for non-innovative SMEs. It is important to note that the negative incomes were likely the result of the particular economic situation caused by the COVID-19 pandemic in 2020. The average amount of assets held by innovative SMEs was higher in value than that of non-innovative SMEs and that of all SMEs, that is, \$4.1 million compared with \$2.3 million and \$1.6 million respectively.

Table 5: Financial overview of SMEs

	Average revenue	Average expenses	Average income	Average amount of assets	Average amount of liabilities
	(\$)	(\$)	(\$)	(\$)	(\$)
All SMEs	2,607,519	2,902,815	-295,296	2,723,762	1,570,381
Innovative SMEs	3,854,539	4,501,175	-646,636	4,139,815	2,513,529
Non-innovative SMEs	1,915,549	2,028,880	-113,331	2,255,508	1,226,162

Note: The provided data only concerns businesses that were incorporated and for which tax data were complete. This represents about 88% of the SMEs in the survey's sample.

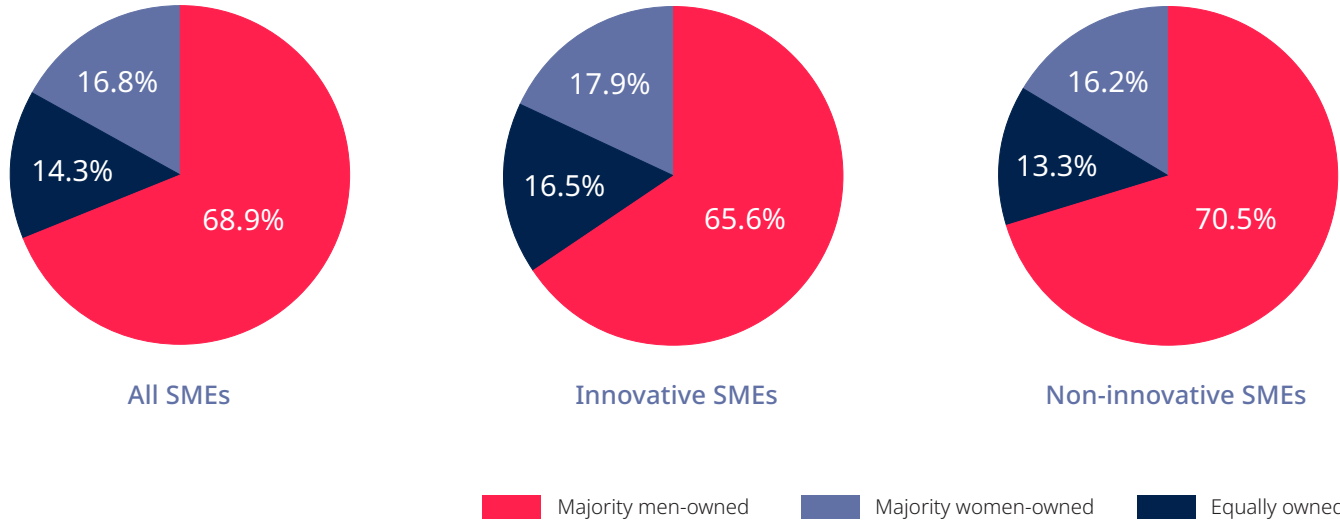
Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2020; Canada Revenue Agency, 2020.

4. CHARACTERISTICS OF THE MAJORITY OWNER OR PRIMARY DECISION MAKER

4.1. Gender of the majority owner

The proportion of businesses that are majority-owned by women (Figure 4) is 17.9%, 16.2% and 16.8%, respectively, for innovative SMEs, non-innovative SMEs and all SMEs. In addition, a larger percentage of innovative businesses are owned equally by men and women than non-innovative SMEs (16.5% versus 13.3%).

Figure 4: Distribution of businesses by gender of the majority owner



Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2020.

Table 6 gives the distribution of businesses by gender of the majority owner by innovation activity. Around 30.5% of SMEs with women as majority owners are innovative compared with 27.0% of businesses with men as majority owners.

Table 6: Gender of majority ownership by innovation activity

	Innovative SMEs	Non-innovative SMEs
	(%)	(%)
Majority men-owned SMEs	27.0	73.0
Equally owned SMEs	33.0	67.0
Majority women-owned SMEs	30.5	69.5

Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2020.

Around 9% of SMEs are majority owned by a member of a visible minority, compared with 11.6% of innovative SMEs and 8.2% of non-innovative SMEs (Table 7). In addition, around 0.9% of innovative SMEs are majority owned by Indigenous persons, compared with 1.1% of all SMEs and 1.3% of non-innovative SMEs. The 2020 SFGSME also reveals that among businesses that have majority owners who are persons from visible minorities, 35.8% are innovative SMEs. It is also noted that for businesses with majority owners who are Indigenous, 21.6% are innovative SMEs.

Table 7: Distribution of SMEs by type of majority owner

	Indigenous persons	Visible minority	Persons with disabilities
	(%)	(%)	(%)
All SMEs	1.1	9.3	0.6
Innovative SMEs	0.9	11.6	0.5
Non-innovative SMEs	1.3	8.2	0.6

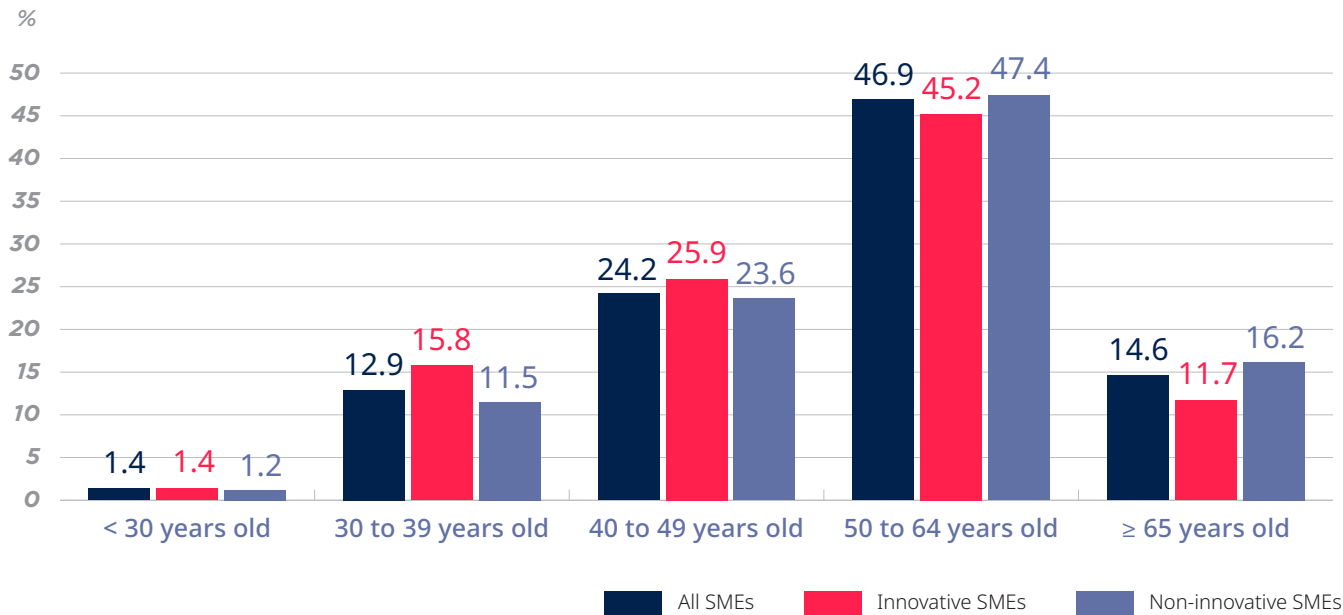
Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2020.

4.2. Age of the primary decision maker

The next results deal with the person who is primarily responsible for decision-making in the business. This person can be the majority owner, the president or the general manager.

With respect to the age of the primary decision maker (Figure 5), around 17% of innovative SMEs have a primary decision maker who is 40 years old or younger. This proportion is 12.7% for non-innovative SMEs and 14.3% for all SMEs.

Figure 5: Distribution of businesses based on age of primary decision maker

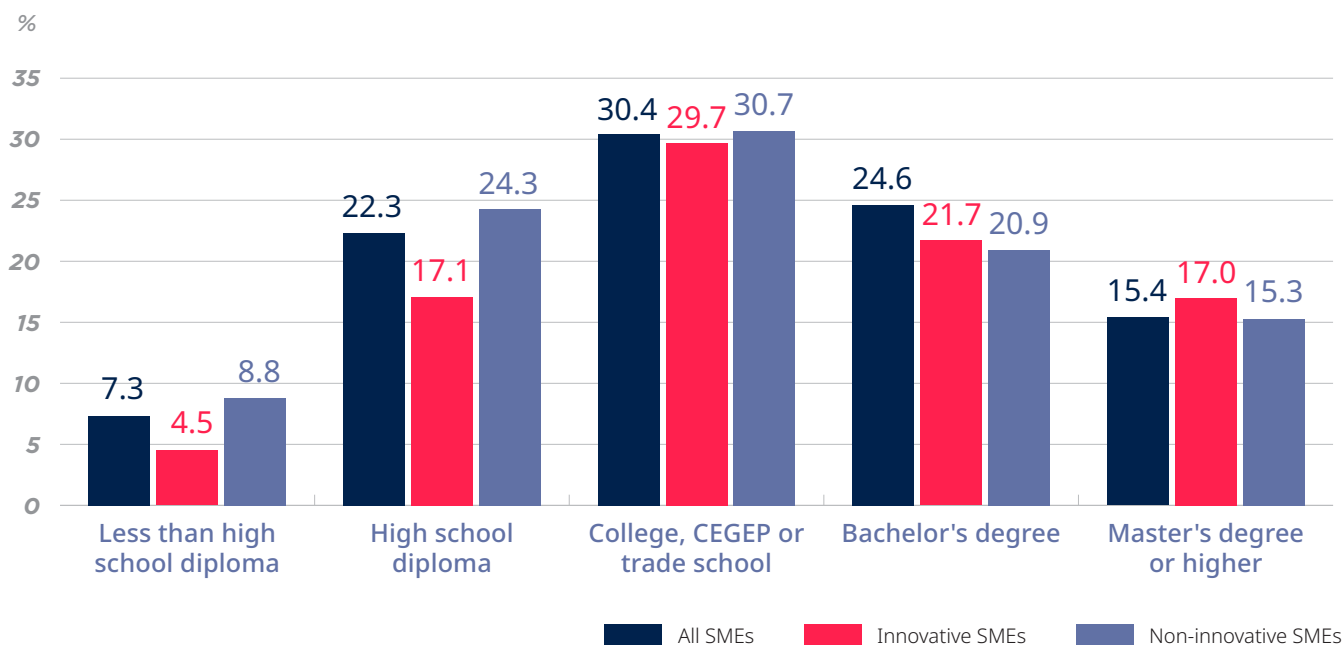


Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2020.

4.3. Level of education of the primary decision maker

Figure 6 presents the highest level of education attained by the business's primary decision maker. The majority do not have a university degree. Sixty percent of all SMEs have a primary decision maker who does not have a university degree. This proportion for innovative SMEs is 51.3% and increases to 63.8% for non-innovative SMEs.

Figure 6: Distribution of businesses based on highest level of education of primary decision maker



Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2020.

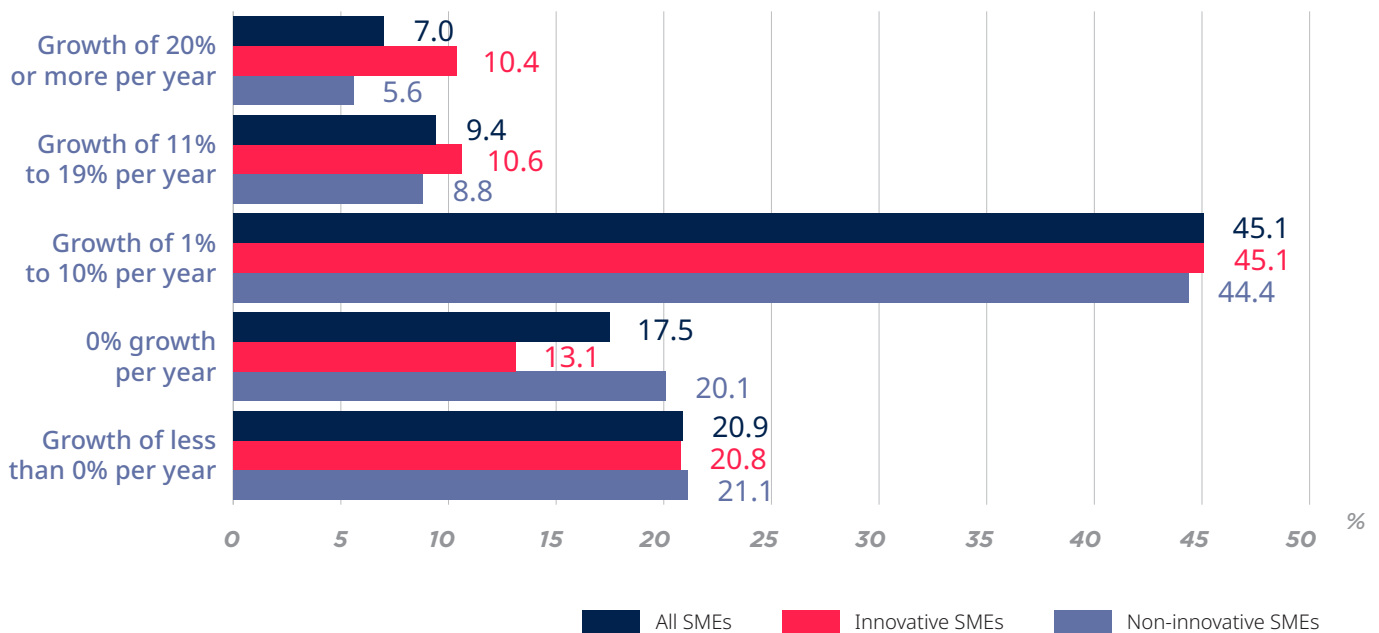
5. GROWTH-AND EXPORT-RELATED ACTIVITIES

5.1. Average annual growth of total sales

Between 2018 and 2020, a larger proportion of innovative SMEs had an annual average growth of total sales of 20% or more compared with non-innovative SMEs and all SMEs (Figure 7). In fact, 10.4% of innovative SMEs, 5.6% of non-innovative SMEs and 7% of all SMEs had growth of 20% or more over the 2018–2020 period.

In addition, fewer innovative SMEs had zero growth (0%) between 2018 and 2020 compared with non-innovative SMEs and all SMEs. Almost 13.1% of innovative SMEs had zero growth over that period compared with 20.1% of non-innovative SMEs and 17.5% of all SMEs.

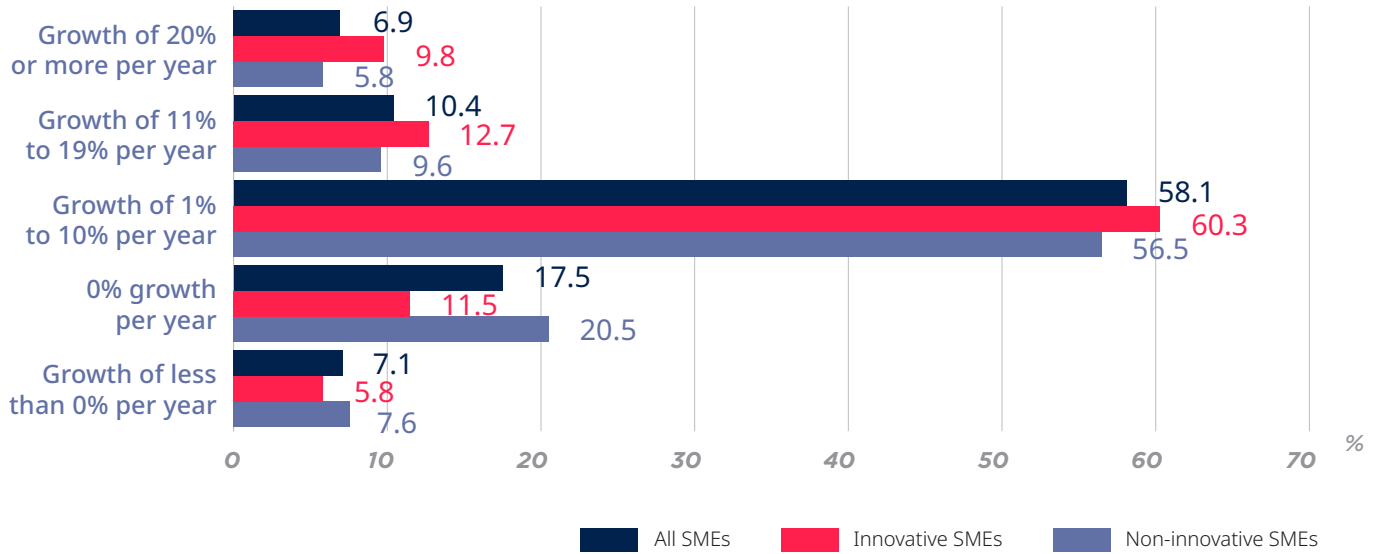
Figure 7: Distribution of businesses based on average annual growth of total sales between 2018 and 2020



Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2020.

Most SMEs forecasted annual growth of 1% to 10% between 2021 and 2023 (Figure 8). This is the case for 60.3% of innovative SMEs, 56.5% of non-innovative SMEs and 58.1% of all SMEs. Around 22.5% of innovative SMEs forecasted growth of 11% or greater between 2021 and 2023, compared with 15.4% of non-innovative SMEs and 17.3% of all SMEs.

Figure 8: Distribution of businesses based on average annual growth of total sales anticipated between 2021 and 2023

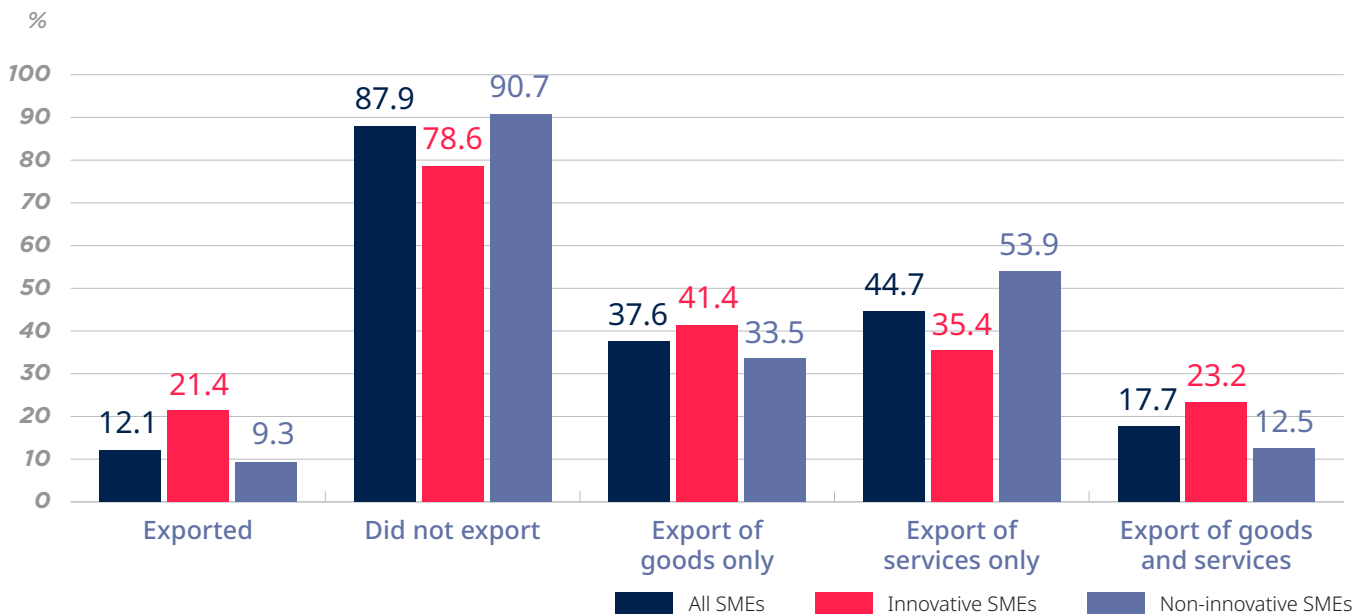


Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2020.

5.2. Exports

In 2020, almost 88% of SMEs had no exports (Figure 9). Of those SMEs that did not export, more than 80% did not do so because of the local nature of the business. However, more innovative SMEs exported than non-innovative SMEs (21.4% versus 9.3%). The export of services is the most frequent type of export among SMEs, with 44.7% of all exporting SMEs and 53.9% of non-innovative SMEs selling their services abroad. For innovative SMEs, the export of goods only was the most frequent, with a rate of 41.4%.

Figure 9: Distribution of businesses based on export activities

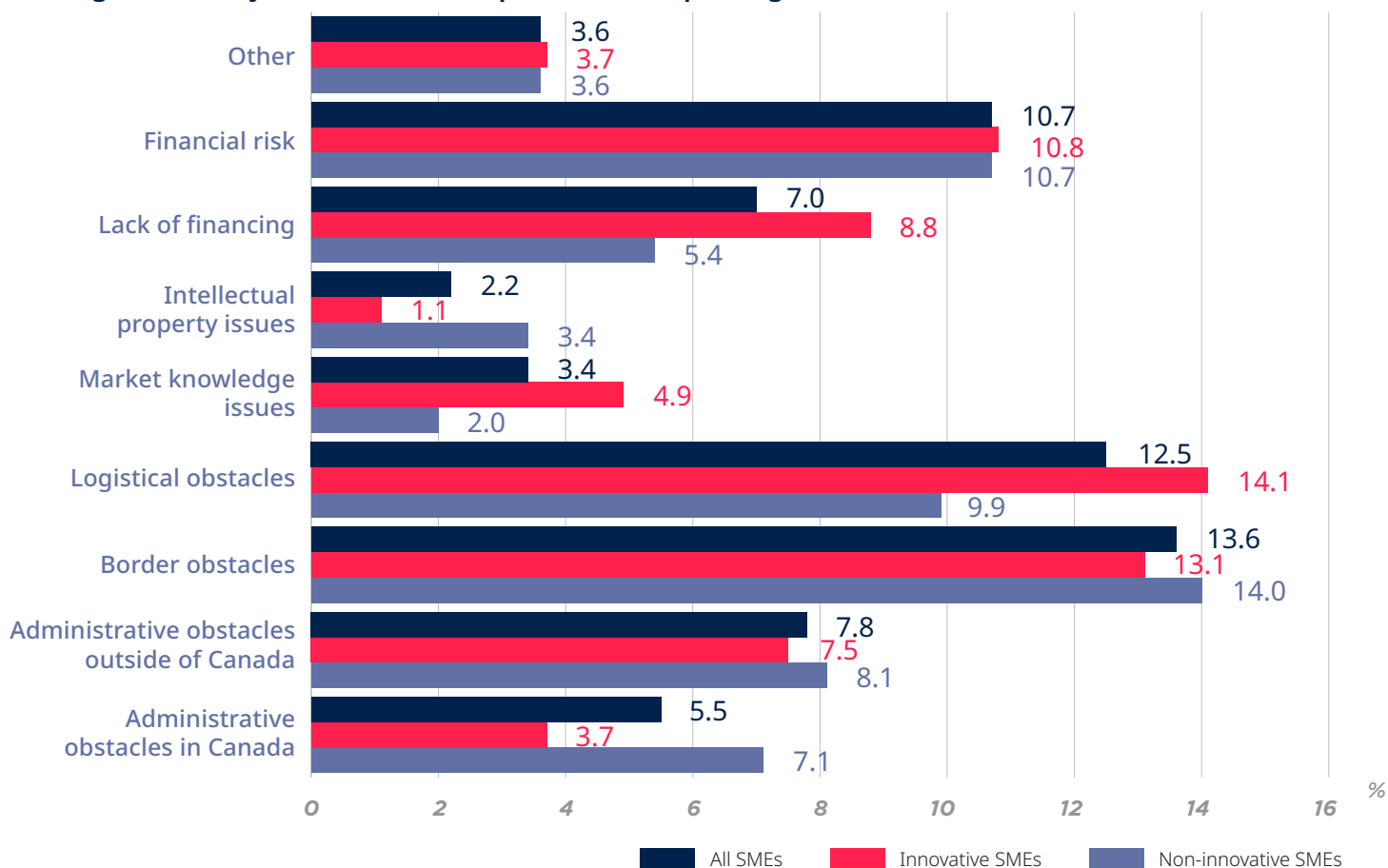


Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2020.

5.3. Obstacles to exporting

The 2020 SFGSME revealed some major obstacles to exporting for SMEs (Figure 10). Border obstacles⁹ were mentioned the most often by all SMEs, at a rate of 13.6% compared with 13.1% for innovative SMEs and 14.0% for non-innovative SMEs. Logistical obstacles presented the most problems for innovative SMEs, at a rate of 14.1% compared with 9.9% for non-innovative SMEs. The obstacles regarding financial risk and lack of financing were the most significant problem for innovative SMEs at a proportion of 10.8% and 8.8% respectively, compared with 10.7% and 5.4% for non-innovative SMEs.

Figure 10: Major obstacles to exports, % of exporting businesses



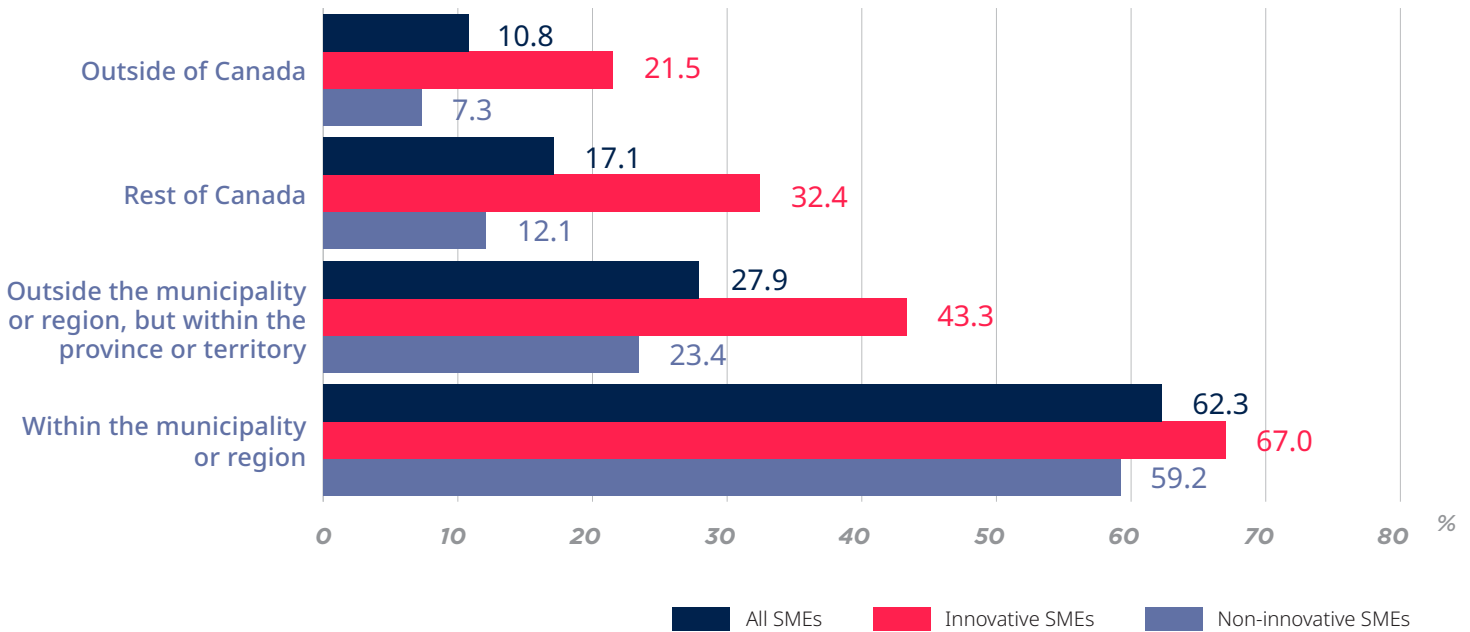
Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2020.

5.4. Intention to develop new markets

Innovative SMEs showed greater interest in developing new markets between 2021 and 2023. In fact, 76.8% of SMEs wanted to take on new markets, along with, in particular, 89.7% of innovative SMEs and 71.7% of non-innovative SMEs. Specifically, 67.0% of innovative SMEs intended to extend their sales in their municipality and region, compared with 59.2% of non-innovative SMEs (Figure 11). Moreover, the intention to extend sales outside the country was an objective in 21.5% of cases for innovative SMEs, while only 7.3% of non-innovative SMEs had such an intention.

⁹ This can include, for example, tariffs, non-tariff barriers, import quotas, customs duties or border security issues.

Figure 11: Intention to develop new markets, % of businesses



Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2020.

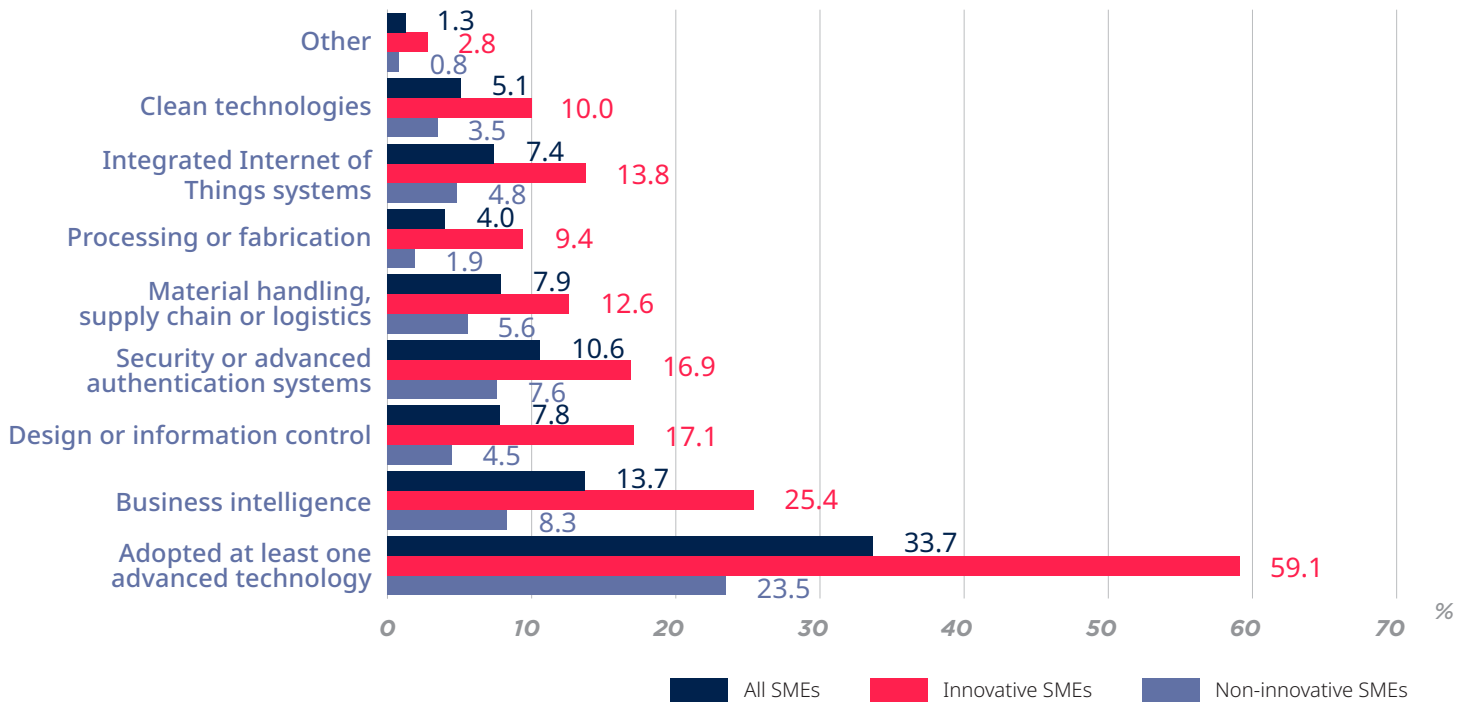
6. ADOPTION OF ADVANCED TECHNOLOGIES, ONLINE PRESENCE AND INTELLECTUAL PROPERTY

6.1. Adoption of advanced technologies

With respect to the adoption of advanced technologies,¹⁰ we can see that 33.7% of all SMEs did so over the period 2018–2020 compared with 59.1% of innovative SMEs and 23.5% of non-innovative SMEs (Figure 12). Business intelligence technology was the most frequently adopted, with a rate of 25.4% for innovative SMEs and 8.3% for non-innovative SMEs. Clean technologies are among the least frequently adopted, with a low rate of 10% of innovative SMEs and 3.5% of non-innovative SMEs.

¹⁰ Please refer to the 2020 SFGSME [questionnaire](#) for further details about advanced technologies (question 64).

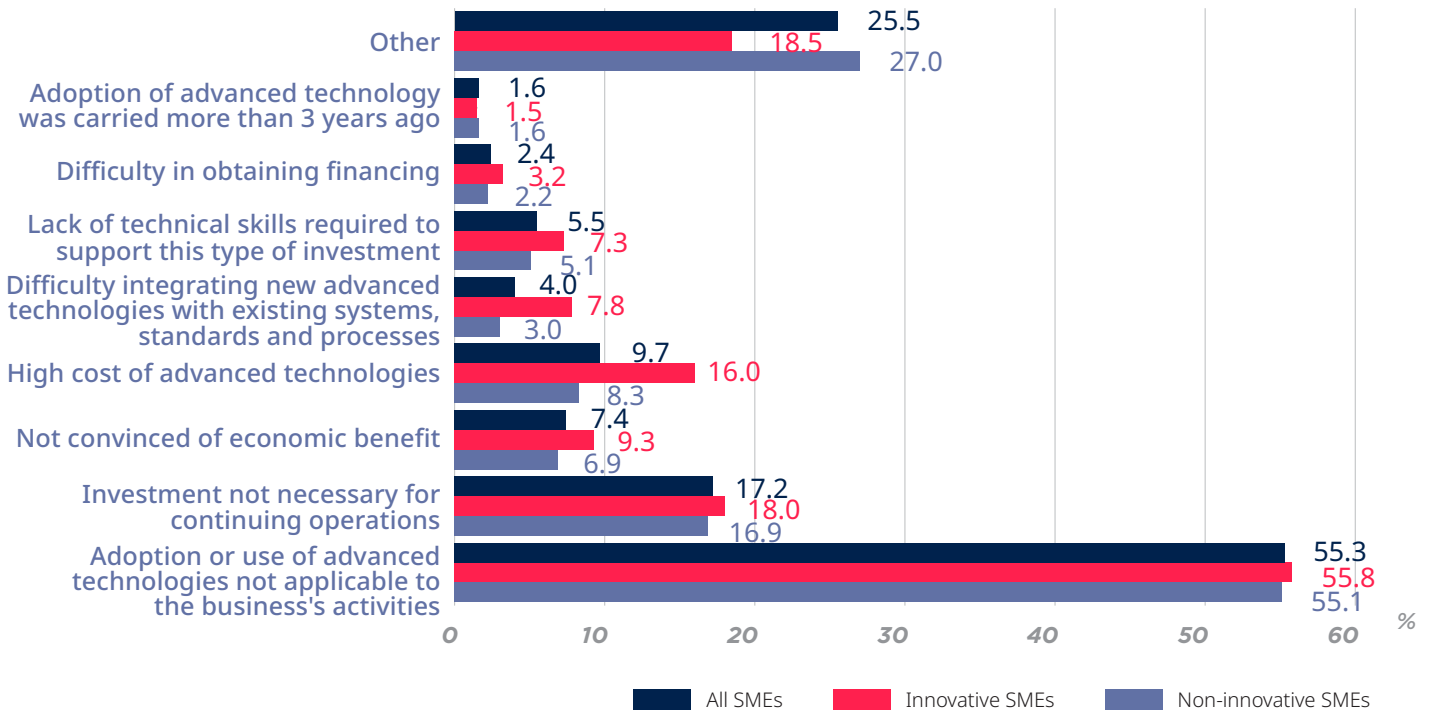
Figure 12: Adoption of advanced technologies, % of businesses



Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2020.

Regarding the reasons why advanced technologies were not adopted, the majority of businesses replied that they did not adopt advanced technologies because they did not apply to the business's activities, with a rate of 55.3% of all SMEs, 55.8% of innovative SMEs and 55.1% of non-innovative SMEs (Figure 13).

Figure 13: Reasons for not adopting advanced technologies, % of businesses



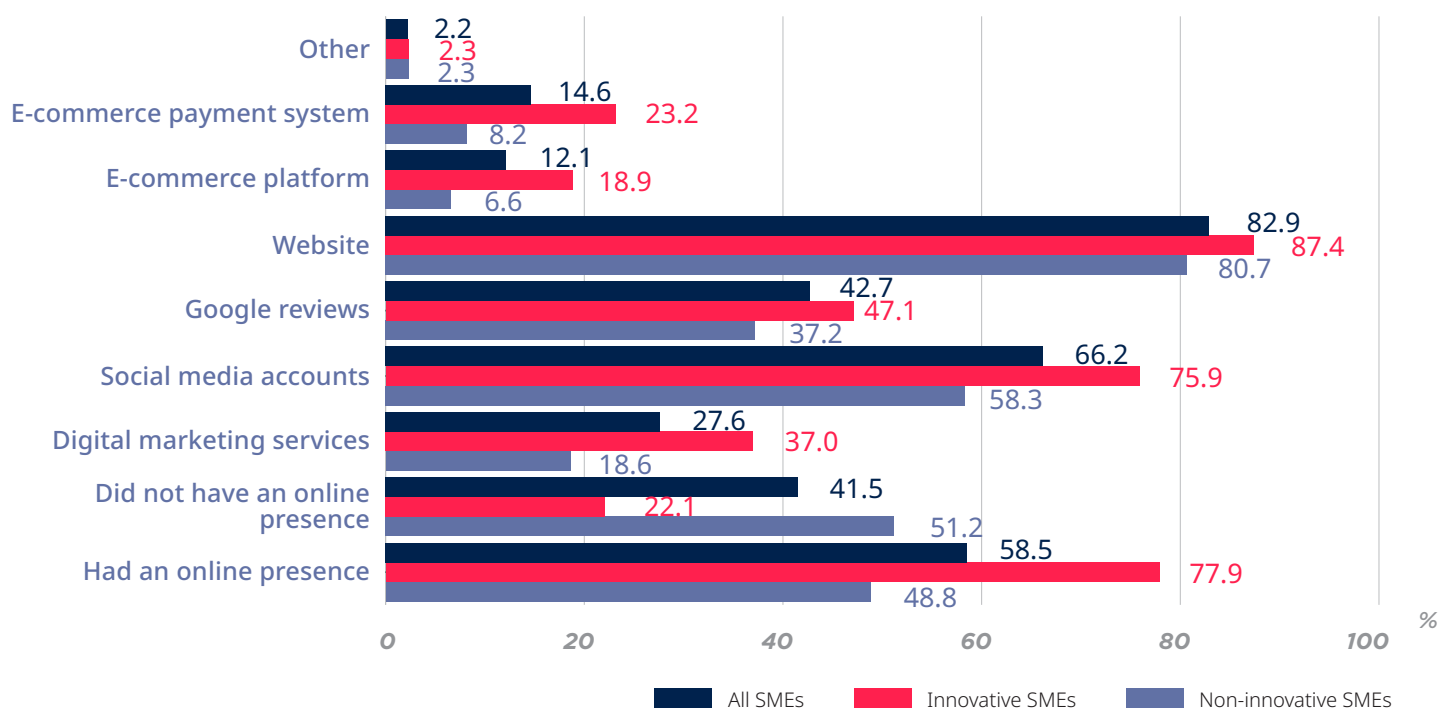
Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2020.

6.2. Online presence

Figure 14 shows the online presence of SMEs and the types of services or sites used by them. In 2020, more innovative SMEs had an online presence than non-innovative SMEs: 77.9% compared with 48.8%.

Websites are the main tool for online presence, with a use rate of 82.9% by all SMEs, 87.4% by innovative SMEs and 80.7% by non-innovative SMEs. Moreover, the use of social media accounts was the second most widespread method for being present online, with a rate of 75.9% for innovative SMEs and 58.3% for non-innovative SMEs.

Figure 14: Online presence in 2020, % of businesses

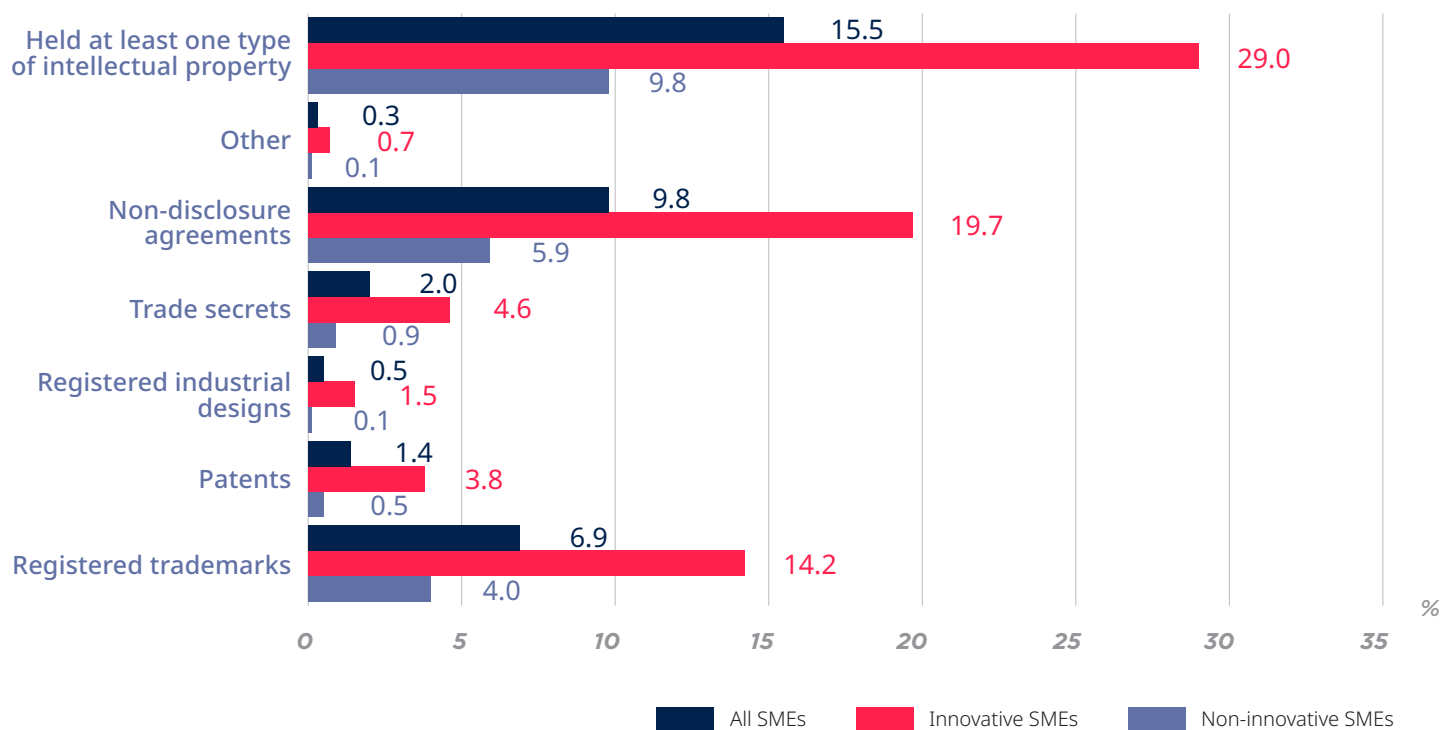


Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2020.

6.3. Intellectual property

The 2020 SFGSME also collected information on intellectual property, as shown in Figure 15. In 2020, 15.5% of SMEs owned at least one type of intellectual property, as did 29.9% of innovative SMEs and 9.8% of non-innovative SMEs. The non-disclosure agreement was the most widely used type of intellectual property, accounting for 9.8% of SMEs with intellectual property, 19.7% of innovative SMEs and 5.9% of non-innovative SMEs.

Figure 15: Types of intellectual property owned by SMEs, % of businesses



Note: Businesses may hold several types of intellectual property.
 Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2020.

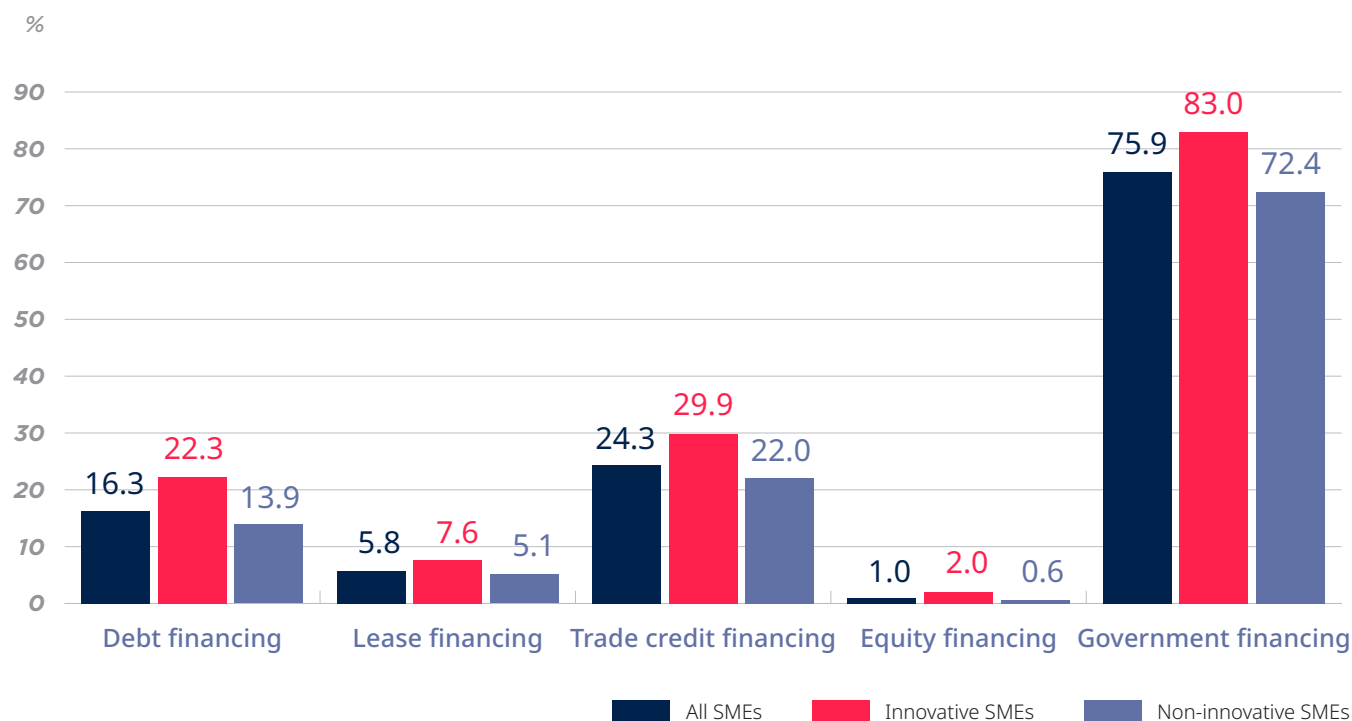
7. FINANCING

7.1. External financing requests

The SFGSME shows that 82.4% of SMEs applied for external financing in 2020. Close to 90% of innovative SMEs and 79.1% of non-innovative SMEs applied for external financing. The types of external financing that were requested may include debt financing (non-residential mortgage, line of credit, term loan, credit card), lease financing, trade credit financing, equity financing and government financing.

Figure 16 below shows the financing applications for each type. Government financing was the most requested type of financing by all SMEs, with 75.9%, and 83.0% for innovative SMEs and 72.4% for non-innovative SMEs. This is mainly due to the numerous programs offered by the various levels of government to help businesses get through the COVID-19 pandemic. The second most requested type of financing is trade credit financing, with a rate of 24.3% of all SMEs, 29.9% of innovative SMEs and 22.0% of non-innovative SMEs. Debt financing was in third place with a rate of 16.3% of all SMEs, 22.3% of innovative SMEs and 13.9% of non-innovative SMEs.

Figure 16: External financing requests by instrument type, % of businesses



Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2020.

Table 8 presents the average amount approved and the overall approval rate¹¹ for each type of external financing. In general, the approval rate is similar for all SMEs, innovative SMEs and non-innovative SMEs.

Table 8: Average amount approved and overall approval rate based on type of external financing

	Debt financing		Lease financing		Trade credit financing		Equity financing		Government financing	
	Average amount approved (\$)	Approval rate (%)	Average amount approved (\$)	Approval rate (%)	Average amount approved (\$)	Approval rate (%)	Average amount approved (\$)	Approval rate (%)	Average amount approved (\$)	Approval rate (%)
All SMEs	313,749	90.8	100,091	98.5	79,494	96.8	936,551†	-	69,614	98.2
Innovative SMEs	342,507	91.2	111,503	97.7	99,151	97.4	1,138,927††	-	88,606	98.4
Non-innovative SMEs	303,214	90.2	99,963	98.9	68,704	97.5	†††	-	61,108	98.0

Notes: † Quality estimate D (mediocre); †† quality estimate E (low, use with caution); ††† Estimate too unreliable to be published.
Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2020.

¹¹ The overall approval rate includes applications for which the amount was totally or partially approved.

7.2. Government financing

During the COVID-19 period, the government implemented several support programs to assist businesses that were experiencing difficulty. These programs include:

- ✓ The Canada Emergency Business Account (CEBA)
- ✓ The Canada Emergency Wage Subsidy (CEWS)
- ✓ The Canada Emergency Commercial Rental Assistance (CECRA)
- ✓ SME loan guarantees from Export Development Canada (EDC)
- ✓ Co-lending program for SMEs from the Business Development Bank of Canada (BDC)
- ✓ The Industrial Research Assistance Program (IRAP)
- ✓ Regional development agency (RDA)

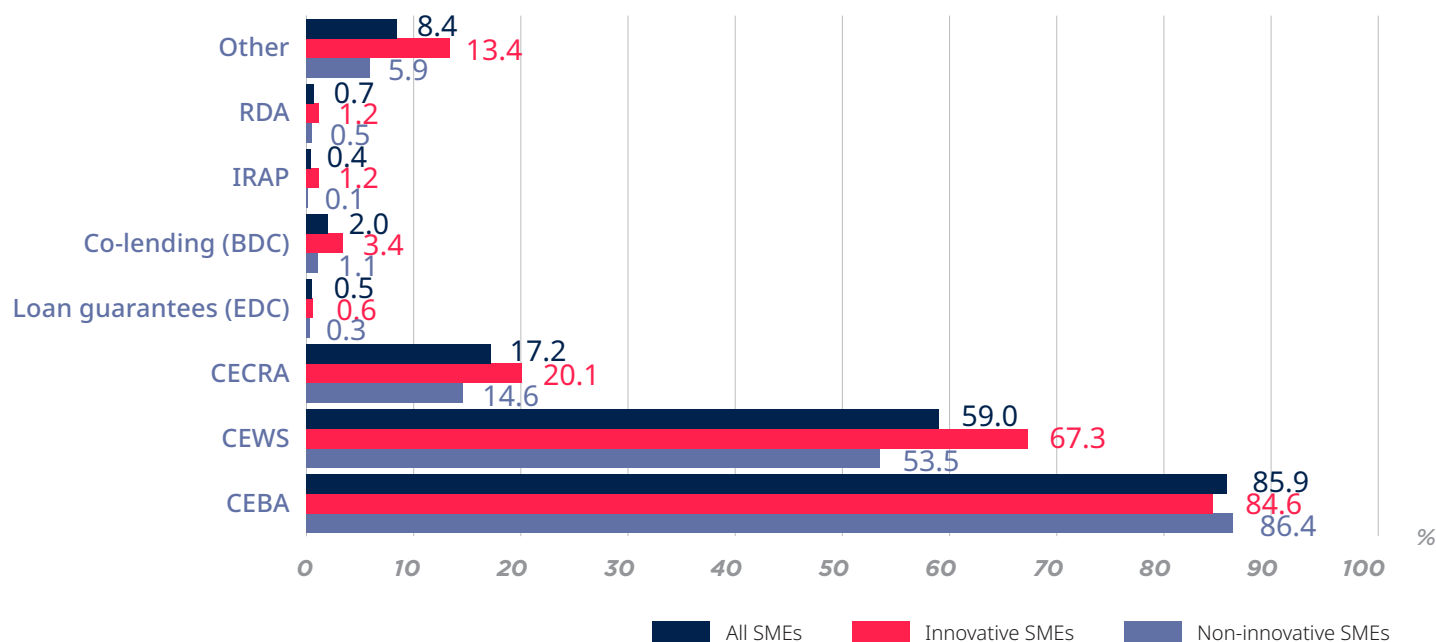
Among all SMEs, 66.6% remained open despite the pandemic, while 33.4% had to close temporarily for an average of 12 weeks. Close to 64% of innovative SMEs remained open, along with 67.6% of non-innovative SMEs. Nevertheless, many SMEs applied to the government's various financial assistance programs during the pandemic, as Figure 17 shows.

Of all the programs, the CEBA was the most applied-for program, with a rate of 85.9% among SMEs that applied for government financing.

With respect to innovative SMEs, 84.6% applied for this program, compared with 86.4% of non-innovative SMEs.

The emergency wage subsidy (CEWS) was also popular among SMEs. In fact, among SMEs that applied for government financing in 2020, 59% of all SMEs applied for the CEWS, compared with 67.3% of innovative SMEs and 53.5% of non-innovative SMEs.

Figure 17: Applications for government financial assistance programs, % of businesses



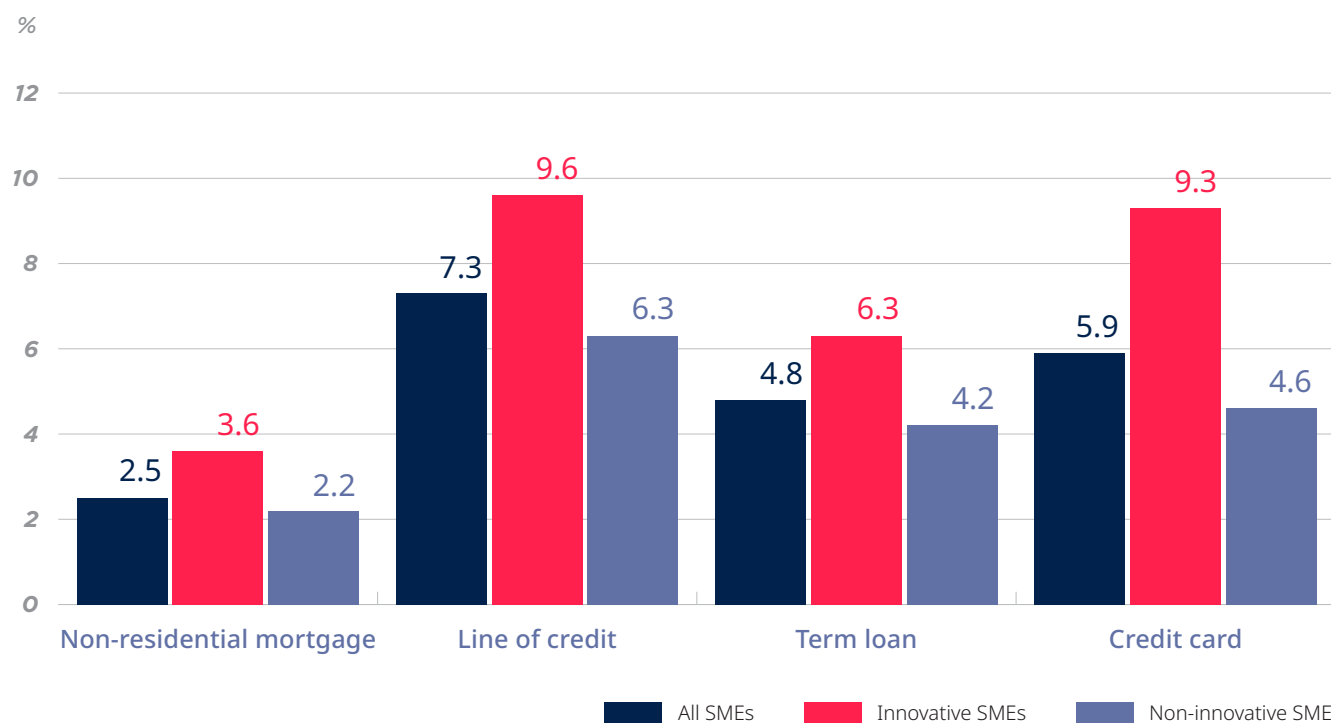
Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2020.

7.3. Debt financing

7.3.1. Debt financing requests

Figure 18 below shows the various request rates for each type of instrument. Lines of credit were the most applied-for instrument for SMEs in 2020 that applied for debt financing, with an application rate of 7.3% for all SMEs, 9.6% for innovative SMEs and 6.3% for non-innovative SMEs. With respect to term loans, 4.8% of all SMEs had applied for them, compared with 6.3% of innovative SMEs and 4.2% of non-innovative SMEs.

Figure 18: Debt financing requests by instrument type, % of businesses



Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2020.

7.3.2. Results of debt financing requests

Table 9 below shows the average amounts approved based on the type of debt financing and the overall approval rate. The overall approval rate for innovative SMEs was higher for applications for non-residential mortgages compared with those of all SMEs and non-innovative SMEs (98.5%, 95.5% and 93.2%). The approval rate was not as high for innovative SMEs for term loan, line of credit, and credit card applications compared with all SMEs and non-innovative SMEs.

Table 9: Average amount approved and general approval rate based on type of debt financing

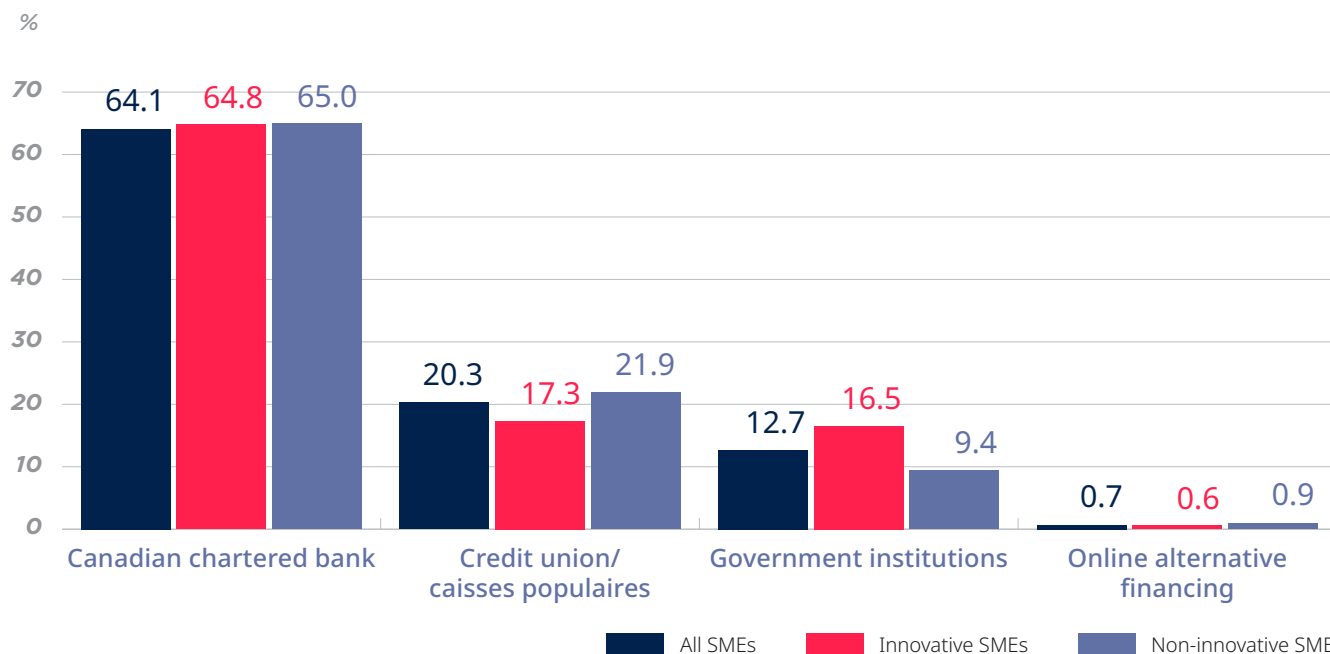
	Non-residential mortgage		Term loan		Line of credit		Credit card	
	Average amount approved (\$)	Approval rate (%)	Average amount approved (\$)	Approval rate (%)	Average amount approved (\$)	Approval rate (%)	Average amount approved (\$)	Approval rate (%)
All SMEs	894,371	95.5	232,718	89.0	225,558	83.1	19,015	89.7
Innovative SMEs	878,364††	98.5	285,876	86.4	268,713	81.1	21,500	88.1
Non-innovative SMEs	914,759†	93.2	194,985	90.0	205,041	83.6	17,259	91.3

Notes: † Quality estimate D (mediocre); †† quality estimate E (low, use with caution).
 Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2020.

7.3.3. Sources of debt financing

Canadian charter banks form the main source of debt financing, as shown in Figure 19. This was the case for 64.1% of all SMEs, 64.8% of innovative SMEs and 65.0% of non-innovative SMEs that received debt financing in 2020. Credit unions or cooperative banks were used by 20.3% of SME, 17.3% of innovative SMEs and 21.9% of non-innovative SMEs.

Figure 19: Sources of debt financing, % of businesses

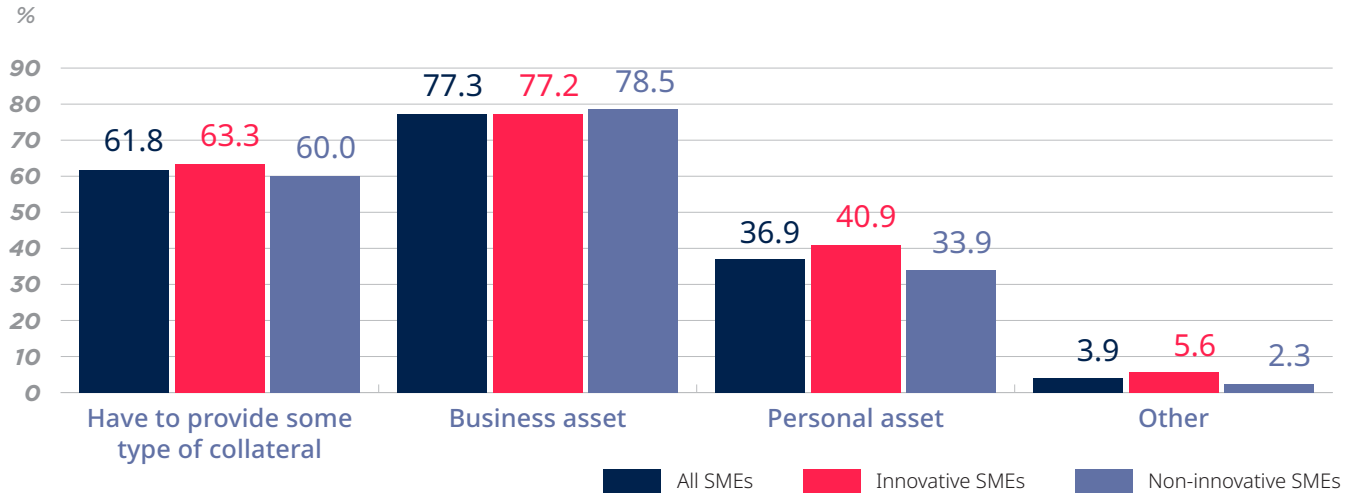


Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2020.

7.3.4. Collateral

Among the SMEs that received a term loan, 77.3% of them provided business property as a collateral, along with 77.2% of innovative SMEs and 78.5% of non-innovative ones (Figure 20). Almost 37% of SMEs had to provide personal property as collateral, compared with 40.9% of innovative SMEs and 33.9% of non-innovative SMEs.

Figure 20: Type of collateral, % of businesses

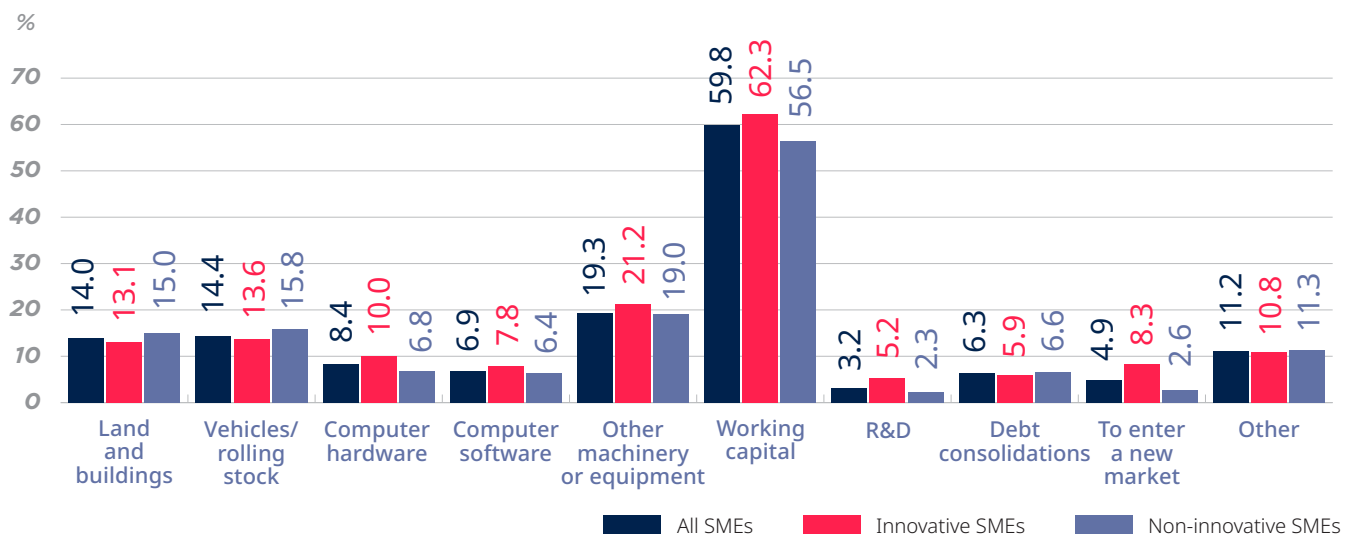


Source: Statistics Canada, Survey on Financing and Growth of Small and Medium Enterprises, 2020.

7.3.5. Intended use of debt financing

Working capital was the main use of debt financing for 59.8% of SMEs that applied for debt financing in 2020 (Figure 21). Similarly, this was also the case for 62.3% of innovative SMEs and 56.5% of non-innovative SMEs. The intended use of debt financing was very similar for the innovative, non-innovative and all SMEs regarding the other uses mentioned in Figure 21.

Figure 21: Intended use of debt financing, % of businesses



Source: Statistics Canada, Survey on Financing and Growth of Small and Medium Enterprises, 2020.

8. CONCLUSION

The 2020 *Survey on Financing and Growth of Small and Medium Enterprises (SFGSME)* makes it possible to draw comparisons between innovative and non-innovative SMEs, as well as all SMEs. The profile presents various characteristics of these SMEs, namely the size and age of the business. Some characteristics of the majority owner or primary decision maker are also examined, such as the highest level of education attained and the age of the primary decision maker. The profile also covers certain aspects, such as exporting activities, the adoption of advanced technologies, and intellectual property. Lastly, the profile also deals with applications for external financing for SMEs in 2020.

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There are several notable differences between the SMEs that innovate and those that do not. In particular, innovative SMEs are more likely to be larger in size compared with non-innovative SMEs.

In addition, a greater proportion of innovative SMEs had a positive average annual growth in total sales during the 2018–2020 period than non-innovative SMEs; this was the case for 66.1% of them compared with 58.8% of non-innovative SMEs. Innovative SMEs are more likely to export than non-innovative ones: nearly 21% of innovative SMEs exported goods or services in 2020 compared with only 9.3% of non-innovative SMEs.

Innovative SMEs also set themselves apart from non-innovative SMEs regarding online presence and the adoption of advanced technology. In fact, around 59.1% of innovative SMEs adopted at least one advanced technology compared with 23.5% of non-innovative SMEs. Close to 78% of innovative SMEs had an online presence in 2020, while that was the case for only 48.8% of non-innovative SMEs.

In addition, innovative SMEs are more likely to hold intellectual property than non-innovative ones: 29.0% of them had at least one type of intellectual property, while only 9.8% of non-innovative SMEs did. Lastly, a greater proportion of innovative SMEs applied for external financing in 2020 compared with non-innovative SMEs (89.5% versus 79.1%).

Government financing was the type of financing that was most applied for, with a rate of 83.0% for innovative SMEs, compared with 75.9% for non-innovative SMEs. This result essentially stems from the numerous programs offered by the government to businesses to offset the economic impact of the COVID-19 pandemic.