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SME PROFILE

INNOVATION IN CANADA

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ABSTRACT

This report analyzes data from the 2023 *Survey on Financing and Growth of Small and Medium Enterprises (SFGSME)* to examine the characteristics, financing behaviour, growth performance, and innovation activities of innovative SMEs in Canada. In 2023, 27.1% of SMEs reported engaging in at least one form of innovation, with product innovation being the most common.

The analysis reveals that innovative SMEs are generally larger, more growth-oriented, and more likely to pursue a wide range of financing options, including debt, government, equity, and trade credit. They also tend to have more educated and experienced decision makers, and are more engaged in technology adoption, intellectual property protection, and international business activity. Despite their strong performance and future growth expectations, innovative SMEs face more financing-related barriers and report a broader set of challenges to growth than their non-innovative counterparts.

These findings highlight the critical role of innovative SMEs in driving Canada's economic growth and underline the need for targeted policy and financial support to help these firms scale and succeed.

1. INTRODUCTION

Innovation is the structured process of developing and applying new ideas to create and market breakthrough products and services, benefiting both customers and stakeholders.¹ It plays a critical role in business success and long-term economic growth. One key channel through which innovation influences economic performance is labour productivity, measured as real GDP per hour worked. According to Statistics Canada, the labour productivity of Canadian businesses rose by 0.6% in 2024, following three consecutive years of decline.²

Recognizing the importance of innovation, the Canadian government invested an average of approximately \$5.1 billion annually between 2020 and 2022 to support businesses, most of which were small and medium-sized enterprises (SMEs).³

However, despite this investment, concerns persist that innovation activity has not translated into tangible improvements in the standard of living. For example, labour productivity in the business sector declined by an average of approximately 2.6% per year between 2020 and 2023, highlighting that productivity gains remain elusive despite substantial innovation efforts.⁴

This report presents findings from the 2023 *Survey on Financing and Growth of Small and Medium Enterprises* (SFGSME) to provide insights into the financing, growth, and innovation activities of innovative SMEs in Canada. It begins with a description of the data source and methodology of data collection, followed by a presentation of key results focused on SME innovation and related business activities.

In 2023, just over one in four SMEs (27.1%) reported engaging in at least one form of innovation, ranging from product and process innovations to marketing and organizational changes. The results highlight key differences between innovative and non-innovative SMEs across several dimensions, including firm characteristics, ownership profiles, growth performance, and financing behaviour.

Innovative SMEs tended to be larger and older, were more likely to seek external financing, and generally received approval at rates comparable to other SMEs. These firms also demonstrated stronger performance metrics, including higher rates of growth, exporting, and market expansion intentions.

Furthermore, innovative SMEs showed a higher potential for future growth, with a greater share anticipating significant expansion in the coming years. While their ownership structures were in some cases less diverse, the primary decision makers of innovative SMEs were generally more educated and experienced, suggesting that human capital plays a key role in driving innovation.

1 McKinsey & Company. *What is innovation?*

2 Statistics Canada. *The Daily*, March 5, 2025.

3 Statistics Canada. Table 33-10-0221-01 — Enterprises (ultimate beneficiary) with business innovation and growth support by industry and year.

4 Statistics Canada. Table 36-10-0208-01 — Multifactor productivity, value-added, capital input and labour input in the aggregate business sector and major subsectors, by industry.

The rest of the profile is organized as follows:

- Section 2 describes the data and methodology used in the analysis.
- Section 3 outlines how innovation is defined for the purpose of this study.
- Sections 4 and 5 examine the characteristics of SMEs, focusing on firm-level and ownership-level attributes, respectively.
- Section 6 explores the role of innovation in driving business growth and competitiveness.
- Section 7 analyzes the financing patterns of both innovative and non-innovative SMEs.
- Finally, Section 8 concludes with a summary of key findings and implications.

2. DATA AND METHODOLOGY

The 2023 *Survey on Financing and Growth of Small and Medium Enterprises* (SFGSME) was developed to gather comprehensive information on the financing activities, growth patterns, innovation behaviours, and ownership characteristics of Canadian SMEs. Conducted by Statistics Canada on behalf of a consortium led by Innovation, Science and Economic Development Canada (ISED), the survey provides valuable data to support evidence-based policymaking, business development programming, and industry analysis.

The survey targeted private-sector, for-profit businesses with 1 to 499 employees and at least \$30,000 in annual revenue. Excluded from the survey were joint ventures, non-profit organizations, and businesses in specific sectors not relevant to the study of SME financing, including finance and insurance, education, and public administration. The main population refers to this broad group of general-purpose SMEs, as defined above. In addition to the main population, the survey also included several sub-populations of interest (e.g., co-operatives, clean tech firms, and ICT enterprises), which were sampled separately. The core population was drawn from Statistics Canada's Business Register and included over 900,000 enterprises. This population was stratified by enterprise size, industry, region, and business age to ensure comprehensive coverage.

The final sample size was 29,100 enterprises, including 22,084 from the main population. Data were collected via an electronic questionnaire, and the survey achieved a response rate of 52.4% for the main population.

3. DEFINING INNOVATION

Innovation can be understood as the process of creating significant value by moving beyond ideas, invention, and research toward adoption, application, and implementation. It enhances or introduces new capabilities, products, services, markets, or business processes, helping businesses remain competitive and adapt to changing environments.

According to the OECD definition used in the SFGSME, an SME is considered innovative if it engages in at least one of four types of innovation: product innovation, organizational innovation, process innovation, and marketing innovation.⁵ This question is asked to the non-franchise SME population with 1 to 499 employees, which represents approximately 97% of all employer SMEs in Canada. Franchise businesses are often excluded from innovation analyses due to their focus on standardization and brand consistency, which can limit franchisees' ability to introduce novel ideas or processes. When franchise SMEs are included, the overall share of innovative firms declines slightly to 26.4%.

As shown in Figure 1, 27.1% of non-franchise SMEs engaged in at least one type of innovation activity between 2021 and 2023:

1. Product innovation

The introduction of a new or significantly improved good or service. This was the most common form of innovation. Around 57% innovative SMEs reported product changes.

2. Organizational innovation

The adoption of a new business practice, workplace organization, or external relations method. About one in three innovative SMEs focused on organizational changes.

3. Process innovation

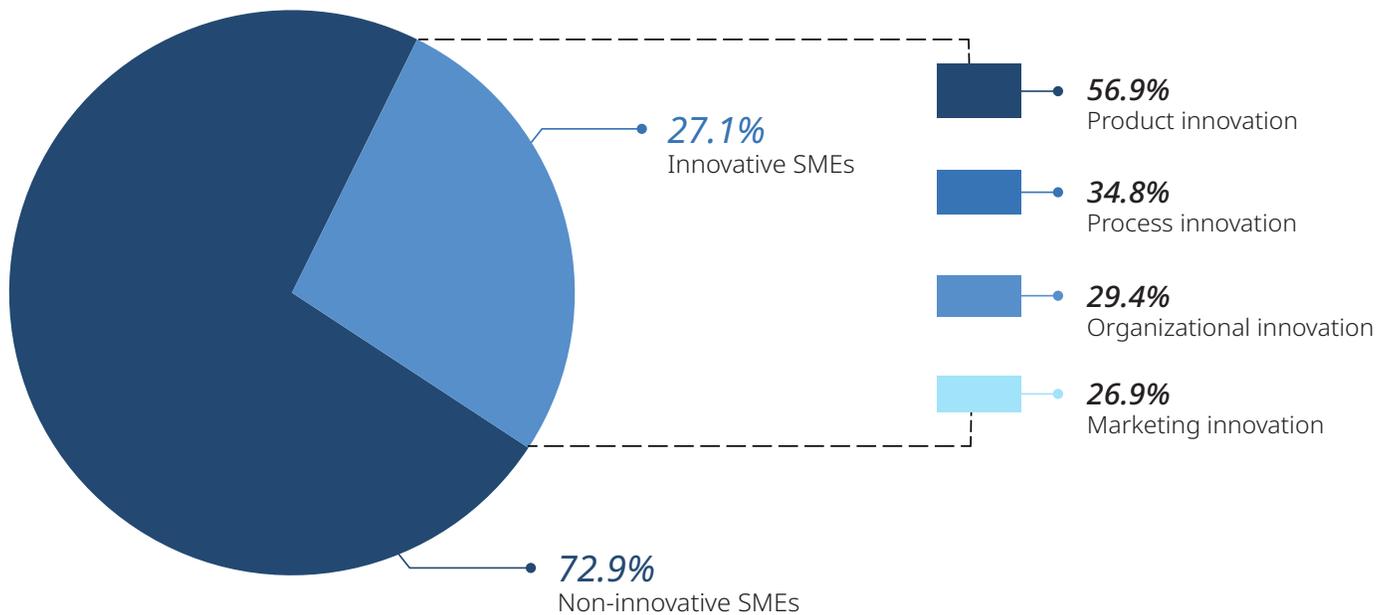
The development or significant improvement of production processes or delivery methods. Approximately 29% of innovative SMEs introduced process innovation.

4. Marketing innovation

The implementation of new ways to market or sell goods and services. Just over one in four innovative SMEs engaged in marketing-related innovations.

⁵ Oslo Manual 2018: Guidelines for Collecting, Reporting and Using Data on Innovation, 4th Edition.

Figure 1: SME innovation activity



Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2023.

Together, these categories capture the diverse ways Canadian SMEs are leveraging innovation to improve performance, respond to market shifts, and position themselves for growth.

4. FIRM CHARACTERISTICS

Innovation among SMEs does not occur uniformly across the business landscape. Factors such as firm size, geographic location, and industry sector play a key role in shaping the likelihood of engaging in innovative activity. This section explores how these firm characteristics relate to innovation among Canadian SMEs in 2023, highlighting where innovation is most concentrated and where it remains less common.

Innovative activity among Canadian SMEs appears to be positively correlated with business size. As shown in Table 1, only 20.9% of micro-businesses (1 to 4 employees) are innovative SMEs, compared with 45.7% among medium-sized firms (100 to 499 employees). Around 34% of small firms (5 to 19 employees) and 41.3% of those with 20 to 99 employees reported engaging in innovation. These findings suggest that larger SMEs are more likely to innovate, potentially due to greater capacity, resources, and access to innovation-enabling infrastructure.

Table 1: Percentage of innovative SMEs by size of business

	Innovative SMEs
	(%)
All SMEs	27.1
1 to 4 employees	20.9
5 to 19 employees	33.8
20 to 99 employees	41.3
100 to 499 employees	45.7

Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2023.

As shown in Table 2, the share of innovative SMEs varies notably across Canadian regions. British Columbia and the Territories report the highest proportion of innovative SMEs at 31.8%, followed by Quebec (29.5%) and Ontario (27.9%). In contrast, innovation rates are lower in the Prairie and Atlantic regions, with Saskatchewan and the Atlantic provinces recording the smallest shares of innovative SMEs at 20.8% and 21.4% respectively.

Table 2: Percentage of innovative SMEs by region

	Innovative SMEs
	(%)
British Columbia and Territories	31.2
Quebec	28.5
Ontario	26.9
Manitoba	24.0
Alberta	24.7
Atlantic	21.4
Saskatchewan	20.8

Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2023.

Table 3 shows the five sectors with the highest rate of innovative SMEs in 2023. Innovative SMEs are most concentrated in the manufacturing sector, where 47.0% report innovation activity. This is followed by wholesale trade (38.7%), professional, scientific and technical services (34.8%), and retail trade (34.2%). The accommodation and food services sector has the lowest share of innovative SMEs among the listed industries, at 25.8%. These figures highlight sectoral differences in innovation, with manufacturing and wholesale trade leading in reported innovation activity.

Table 3: Percentage of innovative SMEs by industry sector

	Innovative SMEs
	(%)
Manufacturing	47.0
Wholesale Trade	38.7
Professional, Scientific and Technical Services	34.8
Retail Trade	34.2
Accommodation and Food Services	25.8

Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2023.

5. OWNERSHIP CHARACTERISTICS

Understanding who owns and leads SMEs provides important context for exploring the drivers of innovation. Characteristics such as age, gender, education, experience, and identity can shape business strategies, openness to risk, and capacity for innovation. In 2023, several differences emerged between innovative and non-innovative SMEs, offering insight into the demographic and experiential factors associated with innovative activity.

This section presents a comparative overview of SME ownership characteristics, including the age and place of birth of the primary decision makers,⁶ gender representation in ownership, educational attainment, and the entrepreneurial experience. While many patterns are similar between the two groups, innovative SMEs tend to be led by younger, more educated, and more diverse ownership teams.

⁶ In the SFGSME, the primary decision maker is identified as the majority owner, chairperson of the board, president, or general manager of the business.

In 2023, as shown in Table 4, decision makers in both innovative and non-innovative SMEs were most commonly aged 40 to 64, accounting for nearly three-quarters of firms in each group. Among innovative SMEs, those aged 50 to 64 represented the largest share (46.4%), followed by 40 to 49 (26.9%). While the overall age distribution is broadly similar across both groups, one notable difference is in the oldest age group (65+), which represented a smaller share of decision makers in innovative SMEs (10.6%) compared with non-innovative SMEs (16.1%), suggesting that innovation may be less common among firms led by older entrepreneurs.

Table 4: Distribution of innovative SMEs and non-innovative SMEs by age of primary decision maker

	Innovative SMEs	Non-innovative SMEs
	(%)	(%)
Less than 30 years old	1.4	1.5
30 to 39 years old	14.6	12.3
40 to 49 years old	26.9	24.3
50 to 64 years old	46.4	45.8
65+ years old	10.6	16.1

Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2023.

Table 5 shows that in 2023, most SME decision makers of both innovative SMEs and non-innovative SMEs were born in Canada. However, a higher share of innovative SMEs (34.3%) were born outside of Canada compared with non-innovative SMEs (29.9%), suggesting that immigrant entrepreneurs may play a notable role in driving innovation.

Table 5: Percentage of innovative SMEs and non-innovative SMEs by place of birth of primary decision maker

	Innovative SMEs	Non-innovative SMEs
	(%)	(%)
Canada	65.7	70.1
Outside of Canada	34.3	29.9

Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2023.

In 2023, the distribution of SMEs by majority ownership was nearly identical between innovative and non-innovative firms, as shown in Table 6. Majority men-owned SMEs made up the largest share of both groups (65.0%), while majority women-owned and equally owned SMEs each accounted for 17–18% in both categories.

Table 6: Distribution of innovative SMEs and non-innovative SMEs by majority ownership

	Innovative SMEs	Non-innovative SMEs
	(%)	(%)
Majority men-owned	65.0	65.1
Equally owned	17.4	17.0
Majority women-owned	17.7	18.0

Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2023.

As shown in Table 7, in 2023, innovative SME primary decision makers tend to have higher levels of education compared with their non-innovative counterparts. A greater share of innovative SMEs have primary decision makers who hold a bachelor's degree (28.8% vs. 22.8%) or a master's degree or higher (23.4% vs. 18.9%). Conversely, the primary decision makers of non-innovative SMEs are more likely to have lower levels of education, with higher proportions having only a high school diploma (20.6% vs. 13.0%) or less than high school (8.1% vs. 4.7%). The proportion of those with college, CEGEP, or trade school diplomas is similar between the two groups. Overall, education appears to be positively correlated with innovation among SMEs primary decision makers.

Table 7: Distribution of innovative SMEs and non-innovative SMEs by the highest level of education attained by the primary decision maker

	Innovative SMEs	Non-innovative SMEs
	(%)	(%)
Less than high school diploma	4.7	8.1
High school diploma	13.0	20.6
College, CEGEP, trade school diploma	30.1	29.7
Bachelor's degree	28.8	22.8
Master's degree or above	23.4	18.9

Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2023.

In 2023, the distribution of years of experience among primary decision makers was relatively similar between innovative and non-innovative SMEs. As shown in Table 8, among innovative SMEs, 73.8% of decision makers had more than 10 years of experience, 21.7% had between 5 and 10 years, and 4.5% had less than 5 years. Likewise, in non-innovative SMEs, 75.0% of decision makers had over 10 years of experience, 19.2% had 5 to 10 years, and 5.8% had under 5 years.

Table 8: Distribution of innovative SMEs and non-innovative SMEs by primary decision maker’s years of experience managing or owning a business

	Innovative SMEs	Non-innovative SMEs
	(%)	(%)
Less than 5 years	4.5	5.8
5 to 10 years	21.7	19.2
More than 10 years	73.8	75.0

Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2023.

6. INNOVATION AS A DRIVER OF GROWTH AND COMPETITIVENESS

Innovation is closely linked to the growth potential and long-term competitiveness of SMEs. Innovative firms are often more forward-looking, more likely to adopt new strategies and technologies, and more engaged in international and expansion activities. This section explores how innovation correlates with business behaviours that drive growth and competitiveness, including technology adoption, intellectual property protection, market expansion, export activity, and international business presence.

It also examines how innovative SMEs have performed in recent years and their expectations for future growth, as well as the key obstacles they face along the way. The findings highlight that while innovative SMEs tend to be more growth-oriented and optimistic about the future, they also encounter a broader set of challenges as they pursue ambitious business goals.

As shown in Table 9, in 2023, a considerably higher percentage of innovative SMEs participated in growth and competitiveness drivers.

Innovative SMEs were nearly twice as likely to adopt new technology (76.6%) compared with their non-innovative counterparts (41.0%).

Examples of new technology adoption include activities such as business or enterprise software solutions, information technology (IT), security and authentication systems, and clean technology.

Innovative SMEs were also significantly more active in holding intellectual property, with 31.2% holding IP rights compared with just 9.5% of non-innovative SMEs.

These IP rights include registered trade-marks, patents, and non-disclosure agreements. Similarly, a larger share of innovative SMEs expressed intentions to expand into new markets (80.0% vs. 58.9%).

This trend continues in international engagement: 24.3% of innovative SMEs were involved in export activities, and 18.1% reported broader international business activity, compared with only 11.9% and 6.7%, respectively, among non-innovative SMEs.

These differences highlight the strong link between innovation and forward-looking, growth-oriented business strategies.

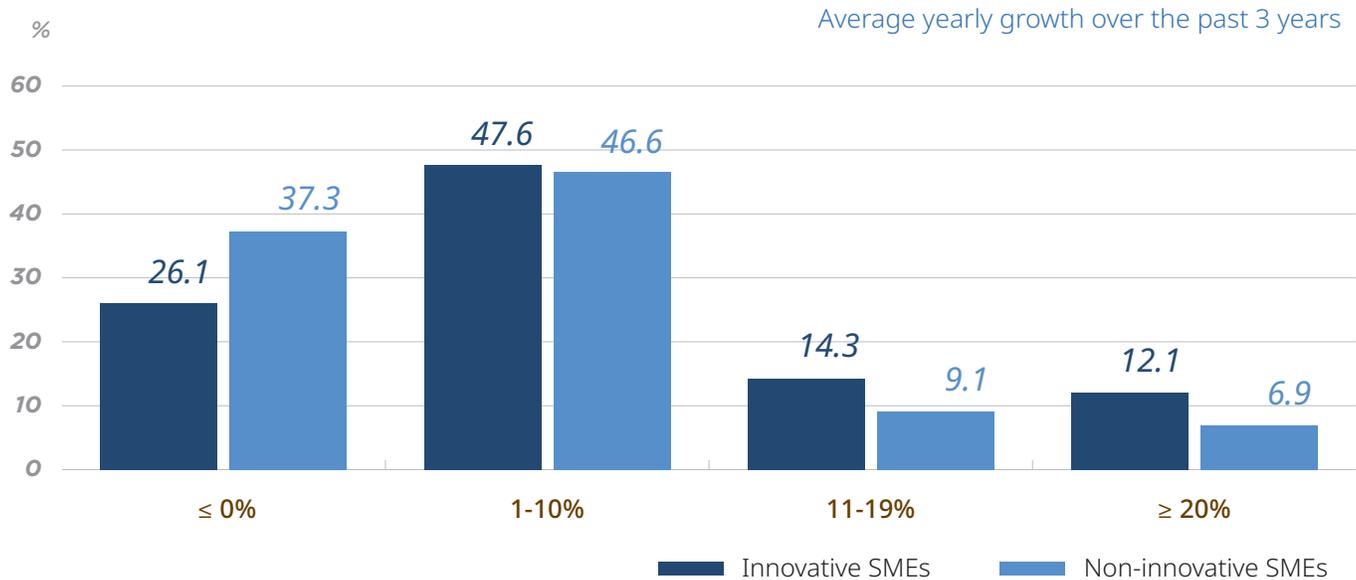
Table 9: Percentage of innovative SMEs and non-innovative SMEs by growth-oriented business strategies

	Innovative SMEs	Non-innovative SMEs
	(%)	(%)
Adoption of new technology	76.6	41.0
Intellectual Property	31.2	9.5
Intention to expand to new markets	80.0	58.9
Export	24.3	11.9
International business activity	18.1	6.7

Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2023.

One of the important roles of innovation is that it supports the long-term success of a business and, in turn, contributes to sustained economic growth in Canada. When SMEs were asked about their recent and expected business growth, clear differences emerged between innovative SMEs and non-innovative SMEs. As shown in Figure 2, over the past three years, innovative SMEs were more likely to be high-growth firms, with 12.1% achieving an average yearly growth of 20% or more, compared with just 6.9% of non-innovative SMEs. Similarly, a larger share of innovative SMEs (14.3%) experienced growth in the 11–19% range, compared with 9.1% of their non-innovative counterparts. While the majority of SMEs in both groups reported moderate growth of 1–10%, innovative SMEs were less likely to report no or negative growth (26.1% vs. 37.3%), suggesting stronger recent performance among innovative firms.

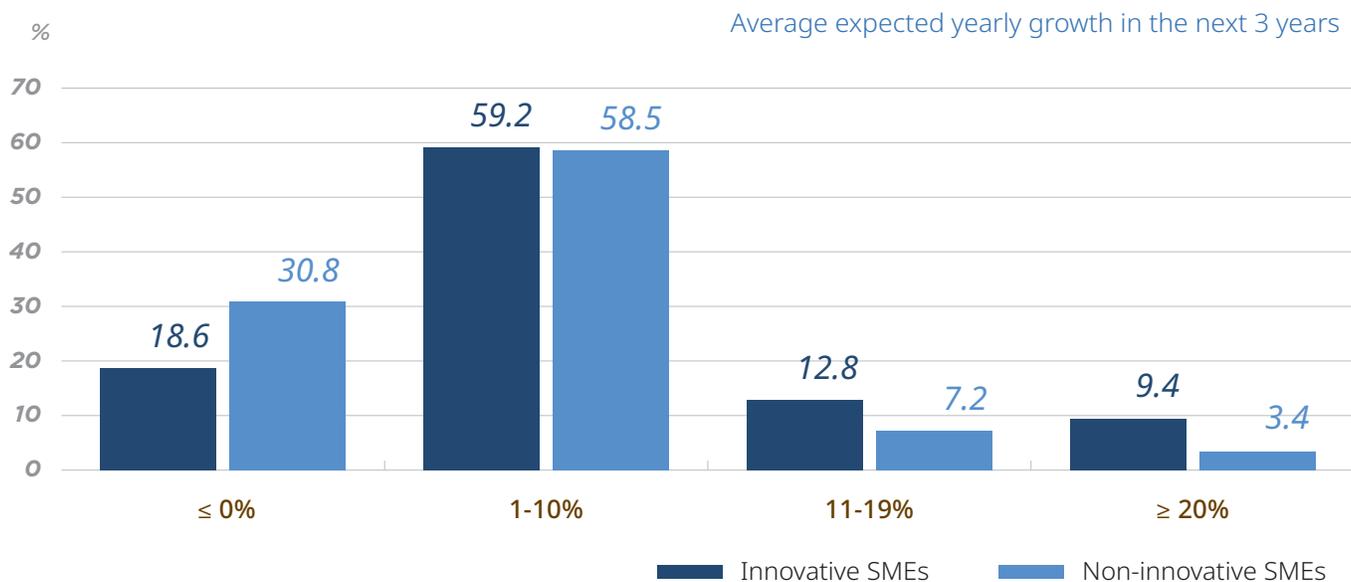
Figure 2: Growth performance of SMEs by innovation status (past three years: 2021–2023)



Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2023.

Over the next three years, innovative SMEs are more optimistic about future growth compared with their non-innovative counterparts, as shown in Figure 3. While both groups report similar expectations for moderate growth (1–10%) at about 59%, innovative SMEs are more likely to anticipate strong growth rates. Around 13% of innovative SMEs expect growth between 11 and 19% (compared with 7.2% of non-innovative SMEs), and 9.4% expect growth above 20% (versus just 3.4% of non-innovative SMEs). Additionally, fewer innovative SMEs expect no or negative growth (18.6%) compared with non-innovative SMEs (30.8%). These expectations suggest that innovative firms are more confident in their ability to perform strongly in the near future.

Figure 3: Expected growth performance of SMEs by innovation status (next three years: 2024–2026)



Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2023.

These results reinforce the link between innovation and stronger past performance as well as greater confidence in future growth.

Innovative SMEs were more likely than non-innovative SMEs to report a wide range of major obstacles to growth. The rising cost of inputs was the most commonly cited challenge among both groups but especially among innovative SMEs (44.8% vs. 36.8%).

As seen in Table 10, other notable concerns for innovative SMEs included fluctuations in consumer demand (30.5% vs. 23.3%) and recruiting and retaining skilled employees (30.1% vs. 23.0%).

Across nearly every category, from cash flow management to financing, labour shortages, and government regulations, a greater share of innovative SMEs perceived major obstacles compared with their non-innovating peers. This suggests that while innovative firms may be more dynamic, they also face a broader range of growth-related challenges.

Table 10: Percentage of innovative SMEs and non-innovative SMEs by obstacles to business growth

	Innovative SMEs	Non-innovative SMEs
	(%)	(%)
Rising cost of inputs	44.8	36.8
Fluctuations in consumer demand	30.5	23.3
Recruiting and retaining skilled employees	30.1	23.0
Maintaining sufficient cash flow or managing debt	26.8	17.5
Corporate tax rate	25.0	21.7
Shortage of labour	24.4	19.7
Transportation costs	21.2	18.0
Government regulations	21.0	15.9
Increasing competition	20.4	15.8
Obtaining financing	16.7	9.0

Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2023.

7. FINANCING PATTERNS OF INNOVATIVE AND NON-INNOVATIVE SMES

Access to financing is a critical factor in the growth, stability, and innovation potential of SMEs. Whether for managing day-to-day operations, investing in new technologies, expanding into new markets, or supporting long-term development, financing plays a central role in enabling SMEs to compete and thrive.

This section explores how SMEs accessed and used various forms of financing in 2023, with a particular focus on differences between innovative and non-innovative SMEs. It examines key dimensions such as application and approval rates, amounts requested and authorized, intended use of funds, financing types pursued, and reasons for denial. By comparing these financing behaviours and outcomes, the analysis provides insight into the unique challenges and strategies facing innovative firms as they navigate the financial landscape.

7.1 Types of financing

Table 11 shows that innovative SMEs were significantly more active across nearly all financing types in 2023. They had higher request rates for debt financing (36.3% vs. 21.8%), government financing (13.4% vs. 4.5%), trade credit (33.9% vs. 25.0%), and lease financing (9.9% vs. 5.9%). They also reported a notably higher rate of equity financing requests (2.7%) compared with only 0.9% among non-innovative SMEs.

Table 11: Request rate of different financing types by innovation status

	Innovative SMEs	Non-innovative SMEs
	(%)	(%)
Debt financing	36.3	21.8
Government financing	13.4	4.5
Equity Financing	2.7	0.9
Trade Credit financing	33.9	25.0
Lease financing	9.9	5.9

Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2023.

7.2 Debt financing

Innovative SMEs were consistently more likely than their non-innovative counterparts to request financing across all major debt instruments in 2023. Debt financing instruments include non-residential mortgages, lines of credit, term loans and credit cards. Credit cards were the most commonly requested product among innovative SMEs (18.1%), followed by lines of credit (14.5%), term loans (10.9%), and non-residential mortgages (4.8%), as shown in Table 12. In contrast, non-innovative SMEs had lower request rates across the board, with the highest being for credit cards (9.7%).

Approval rates were relatively high for both groups. Innovative SMEs saw particularly strong approval for credit cards (92.1%) and term loans (87.7%), though non-innovative SMEs had slightly higher approval rates for term loans (90.3%) and lines of credit (81.2%). For non-residential mortgages, innovative SMEs had a higher approval rate (87.8%) compared with non-innovative SMEs (81.5%).

Interest rates were generally similar between innovative and non-innovative SMEs. For credit cards, innovators reported a slightly higher average rate (19.5% vs. 18.9%).

Across all debt financing instruments, interest rates were also nearly identical: non-residential mortgage (7.1% for innovators vs. 6.9% for non-innovators), lines of credit (10.2% vs. 10.5%), and term loans (8.1% vs. 8.0%).

In terms of loan duration, innovative SMEs took out longer-term mortgages (95 months vs. 83 months), while term loan durations were nearly the same across groups (59 months for innovative SMEs vs. 58 months for non-innovative SMEs).

Table 12: Debt financing by instrument and their terms and conditions: innovative vs. non-innovative SMEs

	Innovative SMEs				Non-innovative SMEs			
	Request rate (%)	Overall approval rate (full and partial (%)	Average interest rate (%)	Average length of term (months)	Request rate (%)	Overall approval rate (full and partial (%)	Average interest rate (%)	Average length of term (months)
Non-residential mortgage	4.8	87.8	7.1	95	2.5	81.5	6.9	83
Line of credit	14.5	79.8	10.2	-	8.7	81.2	10.5	-
Term loan	10.9	87.7	8.1	59	5.9	90.3	8.0	58
Credit card	18.1	92.1	19.5	-	9.7	90.8	18.9	-

Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2023.

7.3 Amount of debt financing requested and financing outcomes

When looking at the amounts requested, innovative SMEs sought larger loans on average (\$516,456) than non-innovative SMEs (\$396,993), as shown in Table 13.⁷ Despite this difference, the share of businesses required to provide collateral (personal or business asset) was fairly similar across both groups, at 48.7% for innovative SMEs and 46.4% for non-innovators.

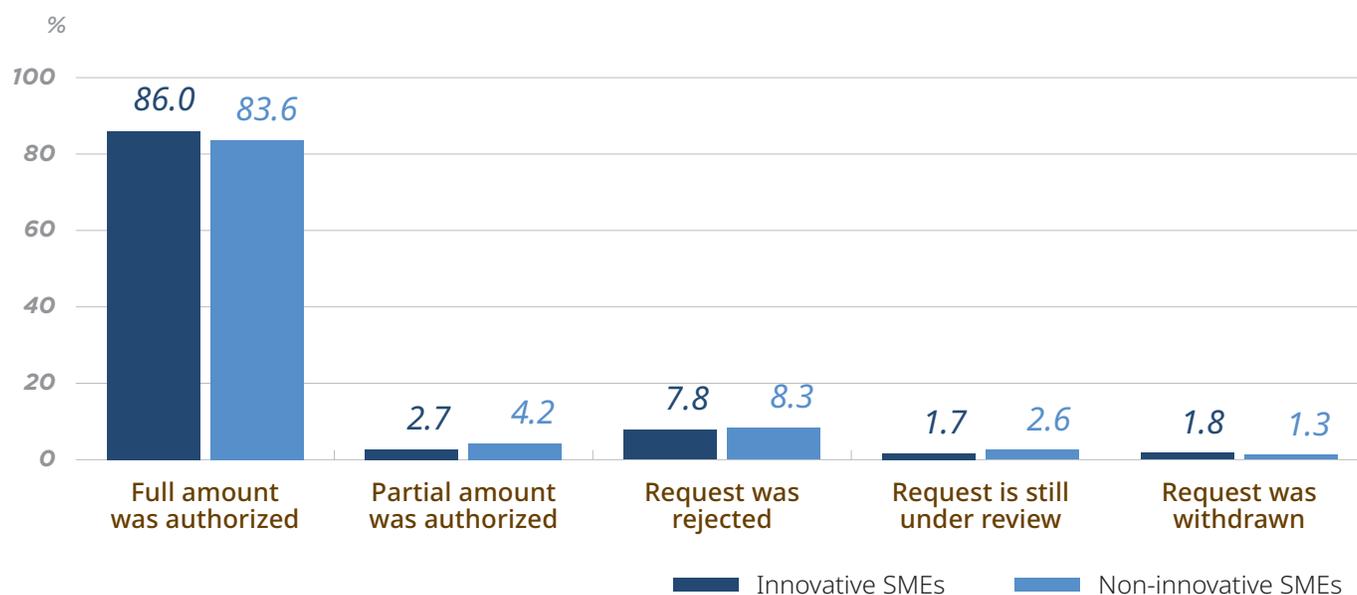
Table 13: Average amount of debt financing requested and authorized by innovation status

	Innovative SMEs	Non-innovative SMEs
Average amount requested (\$)	516,456	396,993
Average amount authorized (\$)	433,139	350,229
Required collateral (%)	48.7	46.4

Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2023.

As shown in Figure 4, a slightly higher share of innovative SMEs were approved for the full amount (86.0% vs. 83.6%), while non-innovative SMEs were more likely to receive partial approval (4.2% vs. 2.7%) or have their request still under review (2.6% vs. 1.7%). Rejection and withdrawal rates were fairly comparable.

Figure 4: Outcome of largest debt financing request by innovation status (%)



Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2023.

⁷ According to Statistics Canada, the estimates for the average amount requested and authorized received a data quality ranking of C for innovative SMEs. However, they received a ranking of D for non-innovative SMEs. These estimates should therefore be interpreted with caution.

7.3.1 Use of debt financing funds

Innovative SMEs were more likely to use debt financing to support working capital needs (63.5%) compared with non-innovative SMEs (54.9%). While both groups used financing for similar core purposes, key differences emerged in more strategic areas. Innovative SMEs were more likely to invest in technology, computers, and research and development (R&D); specifically they had higher shares of the use of financing for digital and tech investments (8.1% vs. 3.0%), computer hardware (13.2% vs. 9.3%), computer software (11.1% vs. 7.1%), and R&D (5.3% vs. 1.2%), as shown in Table 14. In contrast, non-innovative SMEs were more likely to use debt financing towards machinery and equipment (20.6% vs. 18.0%), vehicles or rolling stock (17.9% vs. 12.2%), and business acquisitions (3.4% vs. 2.1%). These patterns suggest that innovative firms are more oriented toward growth and innovation-driven financing, while non-innovative firms tend to focus on asset-based and operational expenditures.

Table 14: Intended use of financing: innovative vs. non-Innovative SMEs (%)

	Innovative SMEs	Non-innovative SMEs
	(%)	(%)
Working capital and operating capital for inventory, paying suppliers, salaries, or other obligations	63.5	54.9
Other machinery or equipment	18.0	20.6
Debt consolidation or payments	14.8	12.4
Computer hardware	13.2	9.3
Vehicles or rolling stock	12.2	17.9
Computer software	11.1	7.1
Land and buildings	11.0	12.2
Digital and tech investments	8.1	3.0
Research and development	5.3	1.2
To enter a new market	3.8	1.9
Other purpose	3.2	2.8
Purchase a business	2.1	3.4
Reducing carbon footprint	1.1	0.2

Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2023.

7.3.2 Barriers to debt financing

Innovative SMEs were more likely to be denied credit due to business-specific risks and financial uncertainty. As shown in Table 15, the most common reason cited was insufficient sales or cash flow, affecting nearly half of innovative SMEs (48.2%) compared with just 26.7% of non-innovative SMEs. They were also more likely to be flagged for lack of credit history (24.1% vs. 18.0%) and for operating in an unstable industry (15.8% vs. 2.1%). Additionally, a greater share of their projects were deemed too risky (11.3% vs. 4.7%).⁸ In contrast, non-Innovative SMEs were slightly more likely to be declined due to insufficient collateral (24.0% vs. 21.1%) and more often cited as “other reason” (21.8% vs. 15.8%) or given no reason at all (14.5% vs. 13.1%).

Table 15: Reasons for credit denial: innovative vs. non-innovative SMEs

	Innovative SMEs	Non-innovative SMEs
	(%)	(%)
Insufficient sales or cash flow	48.2	26.7
Insufficient collateral	21.1	24.0
Poor or lack of credit experience or history	24.1	18.0
Project was considered too risky	11.3	4.7
Business operates in an unstable industry	15.8	2.1
Other reason	15.8	21.8
No reason given by credit provider	13.1	14.5

Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2023.

These findings suggest that innovative firms may face more scrutiny related to financial performance and perceived business risk, reflecting the uncertain and often high-growth nature of their ventures.

⁸ According to Statistics Canada, the data quality for this table is rated D, particularly for innovative SMEs in the categories of insufficient sales/cash flow and poor or limited credit experience/history. Data quality for all other categories ranges from A to C. These estimates should therefore be interpreted with caution.

8. CONCLUSION

This report draws on data from the 2023 *Survey on Financing and Growth of Small and Medium Enterprises* (SFGSME) to assess the characteristics, financing patterns, growth activities, and innovation behaviours of innovative SMEs in Canada. By comparing innovative and non-innovative SMEs across multiple dimensions, the report highlights how innovation shapes the business strategies and outcomes of Canadian SMEs. In 2023, 27.1% of non-franchise SMEs reported engaging in at least one form of innovation, most commonly in product development innovations. These innovative firms tended to be larger in size, particularly those with 100–499 employees, and were more concentrated in regions such as British Columbia, Quebec, and Ontario. Innovation was most prominent in manufacturing, wholesale trade, and professional, scientific, and technical services.

The findings show that innovative SMEs tend to be led by younger, more educated decision makers and have a slightly more diverse ownership profile in terms of gender and immigrant status. These characteristics may contribute to their openness to new ideas, technologies, and markets.

Innovative SMEs consistently outperformed their non-innovative counterparts across several key metrics, including the adoption of new technologies, intellectual property protection, and international engagement.

They were more likely to be high-growth firms and also more optimistic about their future growth, with a greater share expecting high sales growth over the next three years.

Despite their strengths, innovative SMEs face a broader and more complex set of challenges. They report higher rates of major business obstacles, including rising input costs, difficulty attracting skilled labour, and demand volatility. Moreover, they are more likely to be denied financing due to insufficient cash flow, lack of credit history, or perceived business risk.

Even though innovative SMEs request and receive higher financing amounts on average, they are subject to greater lender scrutiny and are more likely to use their financing to fund research, technology, and market expansion activities critical for innovation but are often seen as higher-risk.