

SMALL BUSINESS IN CANADA

THE STRENGTH OF OUR COMMUNITY

Jennifer Dickson

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It is fast becoming old news that small and medium sized enterprises make an impressive contribution to the Canadian economy - especially in terms of new job creation. We know too, that these jobs are fragile, and too often the small businesses that provide them are neither well understood nor supported. Only recently have governments, financial institutions and business associations begun to develop and implement policies to help service this important engine of the Canadian economy.

In spite of this, there has never been a better business environment in Canada to start a business, to develop new products, technologies and services, to grow existing business and to trade with the rest of the global village. Every day people risk their financial resources, their time and reputation, in order to realize their dream of professional independence. For those who evaluate these accomplishments in economic terms, these independent citizens create by far the most jobs, and contribute more to our economy, than all other economic activity in Canada.

And small business has other benefits to the Canadian community - not easily quantified, and often overlooked. For example, those studying the challenges of balancing professional and domestic responsibilities are discovering that small business employees feel that their organizations are generally more supportive of their family's needs than are larger, less personal firms. As well, there is a sense of 'family', a camaraderie that develops trust and loyalty. Often there is more variety in tasks, and more interaction, as well as the opportunity (or requirement) for in-house training, as members of a smaller staff must each be efficient at several activities.

However, there is much that may be done to support this sector. There are challenges within SMEs themselves - employees site low pay, poor benefits, few opportunities for advancement and the big one, little job security. And the institutions SMEs rely upon for service, are often instead their biggest headache. In particular, they face endless regulations from governments and discrimination from financial institutions. This paper will describe some examples of current policies and programs that service this key sector of Canadian business activity. But first, let me back up a moment and provide some of the pertinent definitions and numbers for this activity.

Since there is no single, agreed upon definition of a Small and Medium Enterprise (SME) in Canada - either in terms of financial size or number of employees, let's start with the broadest numbers. As of April 1997, there were 2.5 million businesses with fewer than 100 employees in Canada. 97% of these have fewer that 50 employees, and 75% have fewer than five people. Their contribution to job creation is impressive and growing. In '95-'96 they accounted for 70% of new job creation. By '96-'97 they accounted for 81% of job creation, and all indications are

that these numbers are growing. They now account for at least 50% of all private sector employment and more than 43% of private sector economic output.¹

Examples of Public and Private Sector SME Programs

Bank Programs - one example:

- Bank of Montreal - has twelve innovation and technology centres, where it trains loan managers on how to deal with loan applications from knowledge-based companies with few hard assets.

Government/Financial Partner Programs:

- The Business Development Bank of Canada has a continually changing roster of instruments that apply primarily to small business - young entrepreneurs, high tech start up, partner development, export. Services include tailored financing, counseling and mentoring.
- FedNor has an agreement with the Royal Bank to provide financing for successful, growth oriented knowledge-based industries. \$2 million has been approved to date.
- Industry Canada has the Small Business Loans Program, a credit insurance program. It provided 34,400 loans valued at \$2.2 billion in 1995/96 to support SMEs - now being re evaluated. In December of 1997, the Auditor General expressed concerns about the management of the Program, pointing out the conflict between the two main program objectives - increasing the availability of loans at reasonable rates on the one hand, and recovering all the costs on the other. The media, of course, had a field day. See attached Auditor General comment and clipping samples.
- Manitoba Business Expansion Fund - a partnership of the CIBC, the Toronto Dominion Bank and the Province of Manitoba. Instead of the government guaranteeing the loans, each loan recipient is charged a one-time five per cent premium - this premium, matched by the province, goes into a loss insurance pool. Loans, for up to five years, are targeted to Manitoba based companies engaged in product or service development or process or manufacturing activities. Sector emphasis includes tourism, high tech, export and information technologies.
- The Canada Community Investment Plan (CCIP) helps communities outside major financial centres access venture capital for small business growth. There are 22 CCIP demonstration projects across the country, each receiving \$600,000 over a five year period to support efforts to identify sources of private venture capital and to educate small businesses on how to access and manage venture capital.
- The Department of Foreign Affairs and International Trade has:
 - The International Business Opportunities Centre - over 3500 leads and over 9,000 companies contacted and
 - a new unit to focus on the export needs of small and medium sized business. They have a new service called Export Source and a toll-free line (1-888-811-1119).
- The Export Development Corporation - a well-kept secret for SMEs wanting to export. The EDC provides export financing, export credit insurance, references to other assistance. See list of services included.

- Technology Partnership Canada joins with industry partners to invest in the development and commercialization of technology in key industries and sectors - many are small and medium sized businesses.
- National Research Council - finding new ways to partner with the private sector - one such is the Industrial Research Assistance Program (IRAP). 250 Industrial Technology Advisors across the country, providing hands-on help for business to innovate through new technologies. IRAP links over 850 organizations across Canada through the Canadian Technology Network (brochure included).
- The Canada Business Call Centres provide one window access to up to the minute information on government services, programs and regulations. They're a collaboration between the federal and provincial governments and the private sector.
- The CANADIAN BUSINESS NETWORKS COALITION was one recent project that will have far reaching benefits for small business. Funded by Industry Canada, it was a two-year coalition of 106 of Canada's principal business, trade and economic development associations, representing more than a million businesses. The CBNC developed tools to help business association member companies form profitable alliances to achieve their business objectives. Partnership provides advantages of scale, scope and speed. And these provide strength in numbers, to rationalize purchasing and training, to share the cost of an expensive piece of equipment or product development, to share export development and marketing efforts, to increase access to equity and capital formation and to access human and financial resources in order to develop and bid on projects previously available only to larger firms.

Then, there is a growing number of more local Initiatives - groups coming together to provide expertise, pools of capital, planning, training, mentoring, match-making for small business. Examples include:

- Specific Investment Opportunity Program (SIO) at the Ottawa-Carleton Economic Development Corp. (OCEDCO) - has arranged over \$20 million in new investment for specialized, knowledge-based or high-tech companies;
- Montreal based Inno-centre helps companies prepare for the investment process - Bell Canada and Hydro Quebec are among its supporters;
- Manitoba has a labour-sponsored investment fund called the Crocus Investment Fund, that raises money from public and institutional investors;
- The Ontario government has a Community Small Business Investment Funds Program.

Because these projects operate at a local level and are monitored closely, they tend to have a low delinquency rate.

Good Web Sites

- 'Strategis' is Industry Canada's web site - strategis.ic.gc.ca - probably the best resource for Canadian business information on the net. There are, for example, market reports and economic analysis, 35,000 technologies you can license, more than 25,000 company profiles,

Steps to Growth Capital, Sources of Financing... Strategis also links to most other business data bases, including:

- 'ExportSource' This site gives information on markets, export network connections, and business services from many government departments and
- Canadian Business Map - offers 3,500 links to statistical data and federal, provincial, territorial and municipal governments all over Canada.

What do SMEs say they want?

What do they want Government to do?

- balance the books - get rid of the deficit, keep inflation low. Current low interest rates free up capital for investment. The more capital available, the lower interest rates will fall...;
- reduce taxes, especially profit insensitive taxes. The CFIB is happy with provisions in the February Budget to a) eliminate the 3% income tax surtax for about 13 million Canadians earning up to \$50k; b) allow companies that hire young workers to get a holiday from paying I.E. premiums for hiring in 1999 and 2000 and c) allow the non incorporated self employed to deduct the cost of dental and health-care premiums;
- cut paper work - revise or revoke the more than 500 regulations that affect small business; provide consistency, transparency and simplicity in marketplace laws and regulations.

As well, some want government to:

- deregulate the financial services sector - they want many financial institutions with lots of capital, subject primarily to market discipline - domestic and foreign banks, credit unions, trust and insurance companies, venture capitalists and non-traditional lenders.

SMEs want Banks to:

- provide more equitable access to capital;
- provide better codes of conduct and alternative dispute resolution mechanisms and
- apply benchmarks that measure and provide for more accountability for service to clients, including promptness, responsiveness to complaints, product information and after sales service.

What help can institutions bring to larger SMEs, when they're ready for expansion, diversification, export, partnering, adopting new technologies? At that point, SME business managers want assistance/mentoring for:

- access to new markets;
- financing support;
- new technology support;
- marketing and project management;
- linkages with public/private funders and
- training - export readiness, electronic commerce, management, succession planning...

All these programs and wish lists are useful and desirable, and do or would make a considerable contribution to Canada's small business. But there is another area - softer, perhaps, historically more associated with the private rather than public domain, that bears some examination. This is the challenge of recognizing small business more clearly as members of their local communities, and for their governments and financial institutions to develop services that help SMEs provide policies that reflect this reality. Examples include human resource arrangements that reflect work-family obligations, implementing flexible work scheduling arrangements, work at home options, providing skills training, initiating employee participation in decision-making and devising non-monetary reward systems.

Recent Relevant Documents:

- 1997 - **Balancing Work and Family: A Study of Canadian Small Business Employees** - Summary Report. Duxbury, L. and Higgins, C.
- 1997 - **Clearing The Path** - Liberal Caucus Task Force, Chaired by Tony Valeri, M.P.
- 1996 - **Canadian SMEs in the World Economy** - H. of C. Standing Committee on Foreign Affairs and International Trade. Chaired by Bill Graham, M.P. An excellent review of the history and current status of SMEs and trade.
- 1996 - **Your Guide to Government of Canada Services and Support for Small Business, 1996-1997**. Lots of phone numbers and e-mail addresses, so it's a good start, but not very user friendly, unless you're already familiar with the programs.
- 1995 - **Small Business - A Progress Report**. John Manley and Paul Martin. Good synopsis of the issues and possible options.
- 1994 - **Breaking Through Barriers** - thirty three member Working Committee, co-chaired by Phil O'Brien, former Chair of the Canadian Chamber of Commerce, and Brien Grey, Senior VP Policy, CFIB. An endless description of issues, lots of recommendations, and 'how to get there' suggestions.

¹ These are 1997 Statistics Canada numbers.