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# THE STATE OF *Small Business and Entrepreneurship* IN ATLANTIC CANADA 1998

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Atlantic Canada  
Opportunities  
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## Message from the Honourable Fred J. Mifflin



*Secretary of State  
for the Atlantic Canada  
Opportunities Agency*

The Government of Canada is committed to the notion that strong regional economies are essential to a strong national economy. ACOA, as the federal agency responsible for economic development in Atlantic Canada, works closely with other federal departments, the provinces and the private sector to develop economic strategies that help create jobs and contribute to the growth of regional economic capacity.

In addition to investing in the start-up and expansion of small- and medium-sized businesses (SMEs), ACOA has invested strategically in innovation and technology, trade and export development, tourism development, and better business management practices. And, perhaps most significantly, ACOA has made the development of entrepreneurship one of its key priorities, for the simple but compelling reason that SMEs create the majority of new jobs.

In order to understand the impact of entrepreneurship on the Atlantic Canadian economy and to better plan for the future, comprehensive and accurate research is essential. Such research not only shows how entrepreneurship contributes to economic development in the region but also determines the specific type of encouragement and support needed by entrepreneurs.

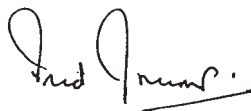
*The State of Small Business and Entrepreneurship in Atlantic Canada* is ACOA's main research publication on the region's small- and medium-sized enterprises and on the people who create and operate them. As in previous years, the report includes statistics and describes the trends and issues related to SMEs in the region.

This 1998 edition also deals with more specific themes – such as the factors influencing entrepreneurial start-ups, the impact of women entrepreneurs on the Atlantic economy, and regional competitiveness – that show the vitality and evolution of entrepreneurship in Atlantic Canada.

Over the years, *The State of Small Business and Entrepreneurship in Atlantic Canada* has been a very important reference tool on the Atlantic Canadian economy. It has been used by a great many stakeholders in the region, including educators, students, business leaders, entrepreneurs, decision-makers and other people wanting to know more about entrepreneurship and small business in this region.

It has also become a significant promotional and outreach tool, influencing the attitudes of potential entrepreneurs and the general public alike. This is essential, because it is just as important to build an entrepreneurial *culture* in Atlantic Canada as it is to develop entrepreneurs.

I am pleased to present the fifth edition of *The State of Small Business and Entrepreneurship in Atlantic Canada*. I hope it helps you gain insight into our dynamic region.

A handwritten signature in black ink, appearing to read "Fred J. Mifflin". The signature is fluid and cursive, with a horizontal line underneath the name.

Fred J. Mifflin, P.C., M.P.

# Acknowledgements

The Atlantic Canada Opportunities Agency (ACOA) would like to recognize the people who have contributed to the development and quality of this fifth edition of *The State of Small Business and Entrepreneurship in Atlantic Canada*. The publication was written as a collaborative effort between Gar Pynn of the St. John's-based GAP Associates, Wayne King of the P.J. Gardiner Institute for Small Business Studies at Memorial University of Newfoundland and Gary Gorman of the Faculty of Business Administration, also at Memorial University. Research assistance and data analysis support was provided by Thomas Dunne and James Parmiter, while Lorraine Clarke looked after technical support.

The project was coordinated by Marc-André Chiasson who chaired the ACOA Editorial Committee comprised of Robert Smith, David Carpenter, Geoff Allen, Doug Smith and John Kavanagh. The participation of two ex-officio members of this Committee, David Slade and Douglas Robertson, was appreciated. The Committee recognizes the immense contributions of Marie Hudson and Charlene Sharpe for their excellent secretarial services, Jeannette McLaughlin for the attention to detail in the final proofreading and copy-editing, and Hudson Design Group in developing and bringing the publication to the camera-ready stage for printing.

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College of Cape Breton. As for the information on regional competitiveness contained in Chapter 5, it was gleaned from five studies commissioned by ACOA, and from a roundtable co-hosted by the Atlantic Provinces Chamber of Commerce and ACOA. Of these five studies, four were produced in 1996 and one was done in 1997. The organizations involved were the North American Policy Group based at Dalhousie University, KPMG Management Consulting, Business Development Information Incorporated, Informetrica Limited, Prospectus Inc., and the Atlantic Provinces Chamber of Commerce.

Last, but definitely not least, ACOA recognizes the excellent work (and patience) of the Translation Bureau at Public Works and Government Services Canada in Moncton.

Feedback from previous editions indicates that *The State of Small Business and Entrepreneurship in Atlantic Canada* plays a significant role in providing information and ideas to many people including elected officials, public servants, business support organizations, consultants, students, educators, media, and basically anyone interested in the economic growth of Atlantic Canada.

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# Executive Summary

The 1998 edition of *The State of Small Business and Entrepreneurship in Atlantic Canada* analyzes the dynamics of growth in overall employment and the number of businesses by employment size over the 1989-1995 period, and presents summarized versions of recent research studies on entrepreneurial start-ups in Atlantic Canada, the impact of women entrepreneurs on the Atlantic economy, and regional competitiveness. It adds to the knowledge base on small business and entrepreneurship needs and issues established in the four previous editions of this report.

## **Growing Small Businesses**

Despite the fact that Canada as a whole and the Atlantic region in particular experienced an economic downturn for much of the 1989-1995 period, the total number of firms actually increased. In fact, the region managed an increase of 5% in the number of firms operating, approximately twice the rate experienced nationally.

At the end of 1995, there were over 941,000 firms operating in Canada and approximately 91,000 in the Atlantic region. The vast majority of these were very small firms. At the end of 1995, almost 79% of all firms in the region had fewer than five employees, 90.5% had less than 20 employees, and 94.2 % had less than 100 employees.

From 1989-1995, firms with fewer than five employees were responsible for all of the total increase in the number of firms in the region. This category experienced the highest number of entrants and exits and had the highest increase in number of firms (10.8%) of any size category. Unlike previous years, there was also a solid increase in the number of firms with more than 100 employees. The average annual rate of new business entries over the period was 19.4% while the exit rate averaged 18.6%, compared with 14.9% and 14.5% respectively for Canada as a whole. The average annual net increase in the number of firms in the region (0.8%) was twice that of Canada as a whole. The most turbulent province was Newfoundland and Labrador which experienced entry and exit rates of 24.1% and 23.5%

respectively. Even so, that province's rate of net increase in the number of firms compared favourably with the national rate of 0.4%. In fact, each of the Atlantic provinces, with the exception of New Brunswick, exceeded the national rate of increase. It must be pointed out, however, that this rate of increase has declined steadily over the six-year period and, in 1995, the region actually experienced a decrease in the number of firms.

Growth in the overall number of firms varied by industry. The highest growth, at 8.8%, was in education, while health (6.7%) and business services (6.4%) were also strong performers. Not surprisingly, in view of the problems in the region's fishery, the agriculture, fishing and trapping industry was the worst performer, with a decline of 3.9%. Virtually all of the other industries grew to some extent.

### **Job Creation – The Dynamics**

Small businesses continue to generate a significant percentage of the gross employment creation in Atlantic Canada. Of the total gross employment created over the period 1989-1995, 62.6% occurred in firms with fewer than 100 employees and 26% was in firms with fewer than five employees. Of the gross new employment created, 70.9% occurred in firms with fewer than 100 employees.

In examining the Atlantic region by province, there appears to be some significant differences. Losses in employment in small businesses in Newfoundland and Labrador and Nova Scotia more than offset the small gains in New Brunswick and Prince Edward Island, 300 and 1,700 respectively. Of the total of 57,200 jobs lost in the Atlantic region, 47,200 or 83% were lost in Newfoundland and Labrador and in Nova Scotia. Firms with 100 or more employees represented 61% of the total job losses in these two provinces.

In terms of employment distribution by industry, all major industries in Atlantic Canada, with the exception of construction and community services, experienced a net decrease in employment. The goods-producing sector declined by 24,000 jobs or 34% of the total decrease of 69,500. Manufacturing employment was down in

all Atlantic provinces. The most notable decrease was in Newfoundland and Labrador where 9,300 jobs were lost in the manufacturing industry, representing 45.8% of the total Atlantic Canada decrease in this industry. Overall, the Nova Scotia economy experienced the most significant declines in the region, losing 32,400 jobs or 46.6% of total job losses in Atlantic Canada.

The situation in Canada was similar with the goods-producing sector, losing 444,700 jobs. The total job loss in Canada was 363,100 with only community services and personal and business services showing job gains.

In conclusion, it can be said that despite the volatility within and among provinces, the small business sector has remained strong. The small firm share of total employment distribution in 1995 was 40.7% in Canada and 38.5% in Atlantic Canada. The comparative percentages for 1989 were 39.3% and 37.8% respectively. With the exception of Nova Scotia, all other Atlantic Canadian provinces experienced similar employment distribution gains. The goods-producing sector showed significant decreases in employment in Canada and in Atlantic Canada. The manufacturing industry accounted for some 85% of this decrease.

### **Entrepreneurial Start-Ups in Atlantic Canada**

This chapter summarizes the results of a study conducted by Dr. Helen Mallette of Mount St. Vincent University and Dr. Norman McGuinness of Acadia University. The research, which was funded by the Atlantic Canada Opportunities Agency and the Acadia Centre for Small Business and Entrepreneurship, was designed to investigate the entrepreneurial start-up process with a view to assisting those involved in providing counselling services to small firms. The questions addressed included:

- Which aspects of the start-up process are likely to have the most impact on success?
- How can counsellors intervene more effectively?
- Do high achievers go through start-up differently than low achievers?
- How can individuals adapt their counselling to the varying needs of different entrepreneurs?

Some 7,083 questionnaires were sent out during late 1996 and early 1997. Of these, 912 usable responses were received for a response rate of 12.9%.

The authors began with the development of a basic entrepreneurial start-up model. This basic model consisted of three elements, background factors, process activities and outcomes. The remainder of the report addresses each of these in some depth.

Outcomes were examined through the application of the Theory of Planned Behaviour, which is based on the premise that the best predictor of behaviour is the intention to perform. *Intention*, in turn, is the product of three variables. These include the degree to which a person believes that the behaviour will lead to desired outcomes – *Attitude*, the degree to which the person believes that the behaviour will meet the approval of prominent people in his/her life – *Subjective Norms*, and the degree to which the person perceives he/she exercises control over behaviour – *Perceived Control*. Because the entrepreneurs surveyed found it difficult to remember what their intentions were prior to start-up, the authors found it necessary to modify this model. Thus, *Success* was substituted for *Intentions*, *Goals* for *Attitude*, *Support* for *Subjective Norms*, and *Efficacy* for *Perceived Control*. The survey results confirmed that both *Efficacy* and *Support* positively impacted on *Success*. *Goals* had little direct impact on *Success* but did strengthen *Efficacy*, thus providing an indirect impact on *Success*.

The report next moved to a discussion of Process Activities. The process variables identified were *Planning*, *Difficulties* and *Financial Risk*. The survey indicated that *Difficulties* had a positive impact on both *Planning* and *Financial Risk*, in that the greater the difficulties perceived by the entrepreneur, the more planning was undertaken and the greater the perceived financial risk. *Planning* did not, however, reduce perceived *Financial Risk*. Instead, these two variables seemed to move in tandem. *Financial Risk* also decreased *Efficacy*. *Planning*, on the other hand, strengthened *Efficacy*.

The final section of the preliminary model to be dealt with was Background Factors. There were three of these identified:

Experience, Individual Circumstances, and Need for Achievement. The first two of these factors were further categorized as: prior dissatisfaction with one's employment or financial situation, the degree to which the entrepreneur expected the business to remain small, the presence of a clear business idea, related business experience, and experience in management. The survey indicated that entrepreneurs who experienced significant dissatisfaction with their previous situation, or who expected the business to remain small, had little interest in goal setting. Entrepreneurs with clear business ideas tended to do more planning and to have a stronger sense of personal efficacy. Both related business and management experience had a small, positive effect on planning, but only management experience had an impact on efficacy.

The authors consider Need for Achievement (nAch) as significantly different from previous experience and individual circumstances. A person with high nAch generally likes situations where he/she takes personal responsibility for problem-solving, tends to set moderate achievement goals and take calculated risks, and wants concrete feedback on how well he/she is doing. In the survey, nAch was measured using the Work and Family Orientation (WOFO) scale which assesses individuals in terms of four dimensions. These are: a desire to master something before moving on to something else, a positive work attitude, competitiveness, and lack of concern with negative reactions of others. The survey results indicated that people with high nAch want to have challenging goals and will seek them out, and are challenged by difficulties. They also hate to lose and will plan carefully in order to avoid making mistakes.

The authors conclude by pointing out that, although the relationship of nAch to entrepreneurship has received a good deal of attention in the research literature, the use of the WOFO scale is new and may become a useful tool for business counsellors. The research also indicated that the major impact of nAch is on specific parts of the entrepreneurial start-up process, rather than on the process as a whole. Finally, the development of a large integrated model, as the authors outline in the report, allows for a better understanding of the real complexity of the business start-up process and the many interactions involved between variables.

### **Women-Owned Businesses in Atlantic Canada: A Profile**

A study commissioned by Women's World Finance/Cape Breton Association (WWF/CBA) forms the basis for chapter 4. The study, supported with funding from the Atlantic Canada Opportunities Agency, the University College of Cape Breton, Nova Scotia Economic Development and Tourism, Department of Canadian Heritage and Air Nova, was designed to identify the economic contribution made by women-owned businesses in the region. In addition, several related issues are addressed. These include: factors affecting start-up, characteristics of women-owned businesses, financing, education and training, work and family, and growth and expansion. The highlights are as follows:

- The major reasons for starting up a new enterprise were less economically motivated and more personal in nature. Opportunity to be one's own boss ranked highest at 42.5%.
- The majority of women-owned businesses operate in the service sector and the retail trade sector.
- There appears to be an upward trend in the percentage of self-employed women operating in the manufacturing sector.
- The major source of start-up capital for women-owned businesses is personal savings.
- Forty-six percent of women entrepreneurs have university education and the majority pursue additional training in business management skills.
- A significant percentage (38%) of women entrepreneurs indicate that they use high technology in their business operations.
- More than 50% of the businesses in the study were home-based. As the businesses grow in terms of sales and number of employees, there is a tendency to move into leased or owned premises.
- Women entrepreneurs use a variety of strategies to balance work and family responsibilities.
- Women-owned businesses appear to be expanding their markets beyond their local area with 52% operating provincially, 36% regionally, 36.8% nationally and a surprising 31.6% operating internationally.



The study concludes that women-owned businesses in Atlantic Canada make a significant contribution to the economy, that women entrepreneurs have a high degree of determination and tenacity, and that they are optimistic despite the obstacles they have to encounter in the process of creating and developing a business.

### **Regional Competitiveness**

Chapter 5 summarizes the results of recently completed research on Atlantic Canada's competitiveness, discusses the challenges facing the region in this area and outlines potential strategies to improve its competitive position. Five studies commissioned by ACOA and a roundtable co-hosted by the Atlantic Provinces Chamber of Commerce and ACOA provide the basis for much of the discussion. The first study examines site location-sensitive cost factors and quality of life indicators. The second study compares the socio-economic status of Atlantic Canada with G-7 nations. The third study compares the economic performance and development potential of Atlantic Canada with that of the 50 U.S. states. The fourth study compares Atlantic Canada's competitiveness with the world's leading economies. The final study, completed in 1997, is an update and expansion of the first study, conducted a year earlier, which compared the costs of doing business in Atlantic Canada with those in the United States. The 1997 report provides an update on the comparison with the United States and also includes a comparison of the costs of doing business in Atlantic Canada with five European countries.

In total, the five studies present a comprehensive picture of the competitiveness of the economy of Atlantic Canada. The report on the roundtable provides a summary of the strengths and weaknesses of the Atlantic region and suggestions on how to improve Atlantic Canada's competitive position in the global economy.

Results of the research on the competitiveness of the Atlantic region indicate that Atlantic Canada has strengths that should provide long-term sustainable competitive advantages. In particular, the region offers advantages in the areas of initial investment and operating costs that reflect lower industrial land and construction costs and

lower labour costs, which hold over a wide range of exchange rates. In addition, human development indicators, including measures of longevity, knowledge and standard of living, place the region second only to Canada. While Atlantic Canada's strengths in this area are derived, in part, from its position within Canada, the region also offers its own distinct advantages, such as abundant renewable water resources and excellent educational infrastructure. Furthermore, in terms of economic performance and development potential, the Atlantic region possesses advantages in areas such as health, social systems and the environment and demonstrates a strong entrepreneurial spirit.

Notwithstanding the many positive aspects of Atlantic Canada as an investment location and its demonstrated performance in the areas noted above, the region faces a number of challenges to improving its competitive position in the global marketplace. Specifically, a high rate of unemployment, decelerating population growth and the outmigration of highly educated young people are having a negative impact on the region's human resource potential. These problems are compounded in the technology area by comparatively low rates of innovation and technology adoption and a low level of private sector investment in research and development and related human resources. In addition, Atlantic Canada needs to diversify its export products, services and markets, to increase access to equity capital and to improve the quality of the workforce in the region, including those in management positions. Addressing the challenges related to the region's natural resources is considered essential to increasing the competitiveness of Atlantic Canada.

Suggested strategies to improve the region's competitiveness must be based on a well articulated and shared vision emanating from both public and private sector stakeholders. Partnering, collaboration, networking and strategic alliances are consistent themes underlying the implementation of specific strategies which should include the following: educational and training programs targeted to the needs of industry, enhanced efforts to increase technology transfer from the universities to the private sector, a more effective support structure for SMEs with high growth and export potential, and implementation of best management practices. Finally, the vision and strategies must reflect an overriding positive attitude about the prospects for Atlantic Canada.



# Background and Introduction

As background to this report, it is important to have an understanding of the Atlantic region's economy, in particular its demographics, economic circumstances and future outlook.

## **Economic Overview of Atlantic Canada**

The performance of Atlantic Canada's economy has been influenced by a number of key demographic trends, such as slow population growth, few large urban centers and a significant number of widely dispersed small communities. In addition, dependence on natural resources for employment has led to an economy that is much more sensitive to seasonal swings in employment than is the rest of the country.

The four provinces in Atlantic Canada cover 195,000 square miles of land or 5% of Canada's total land area. Approximately 2.4 million people live in the region, representing slightly less than 8% of the country's total population. Population growth in Atlantic Canada has been quite weak, averaging just 0.2% during the last five years. For Canada, population gains averaged 1.2% over the same period. Weaker population growth in the region has been a significant contributor to slower economic and labour force activity. Limited population growth tends to restrict domestic demand, impacting negatively on the service-producing industries.

People are more likely to live in rural areas or small towns in Atlantic Canada (45% of the population) than in Canada as a whole (25% live in rural areas). Nova Scotia has Atlantic Canada's largest urban agglomeration, the Halifax metro area, whose population of about 300,000 is one-third of the province's total. Other large centres (over 100,000 people each) are St. John's, Newfoundland, and Saint John

and Moncton, New Brunswick. Since only a portion of the region's population is located in large metropolitan areas, concentrations of population required to sustain a large and diversified set of economic activities are lacking.

Atlantic Canada developed a dependency on resource industries early in its history and, more than other parts of Canada, continues to rely on fishing, mining, forestry and agriculture. The region's dependency on resources has led to the establishment of many small communities in isolated areas. In Atlantic Canada, 856 communities, or 96% of a total 892, have a population of less than 10,000. Almost all of these communities are reliant on the resource industries for employment. In many of these communities, the resource industries, both primary and processing, account for almost all non-government employment. Employment in these communities has become much more vulnerable, due not only to resource depletion but also mechanization.

Natural resources in Atlantic Canada provide the foundation for the region's economy. These industries and their associated processing activities account for almost half of the output in the goods-producing industries in Atlantic Canada and also generate significant economic spin-offs in the rest of the economy through the intermediate purchase of goods and services. The region's exports are also dominated by natural resource products. Major commodity exports include wood pulp, newsprint, coated paper, lumber, fish products, potatoes, gasoline and fuel oil, iron ore, lead, zinc, potash and tires. Exports to the United States represent over two-thirds of total foreign exports. Other major markets include Western Europe and Japan. The resource industries are expected to continue to stimulate economic activity in the region. New mineral discoveries, offshore energy development, aquaculture and ocean industries all represent continued utilization of the region's natural resources.

The Atlantic economy has begun to transform itself, with emerging growth areas being found, not only in knowledge-based industries, but in the traditional industries as well. The tourism industry in the region continues to grow with approximately 15,000 businesses accounting for more than 96,000 direct and indirect jobs in Atlantic Canada. In Newfoundland and Labrador, a number of high-growth industries, such as information technologies, aquaculture and

adventure tourism is becoming increasingly important in the diversification of the economy. In Prince Edward Island, potential growth opportunities have been identified in food processing, research and tourism. Health care services, computer-software manufacturers, marine-related instrumentation and biotechnology are a few of the key growth industries in Nova Scotia that are being developed from the knowledge base in the province. New Brunswick continues to diversify its economy, with the establishment of call centres by several major national and international companies. The economic contribution of small- and medium-sized firms in these areas is the focus of more detailed discussion and analysis presented in the first two chapters of this report.

Despite the recent growth among the various traditional sectors and diversification of the economy into new areas, there are major challenges that need to be addressed to reduce regional disparity. Low productivity levels remain a problem with improvements being hindered by the slower rate of advanced technology adoption, low levels of research and development and a less educated work force.

### **Recent Economic Performance of the Region**

The economy of Atlantic Canada showed a noticeable improvement in 1997 over 1996; however, growth in the region still lagged behind the country in most areas, including real Gross Domestic Product (GDP), employment, personal consumption, investment and exports.

Real GDP in the region increased by 1.5%, up from a gain of 0.8% in 1996. Economic growth in the region was led by increased output in the manufacturing, transportation and communication industries. Despite the stronger rate of growth, it was less than the 3.5% increase in real GDP registered for the Canadian economy. This performance, relative to the national economy, is a continuation of the slow growth trend that has occurred since the 1990 recession. Over the 1991-1997 period, real GDP in Atlantic Canada increased by an average of 0.9%, compared to 1.8% for Canada. On an industry basis, economic growth was hindered somewhat by the winding down of the Hibernia construction project and reduced production in the forestry and mining industries. A reduction in public sector activity moderated growth in the service-producing industries. One of the bright spots was the tourism industry which earned \$2.5 billion in receipts during 1997.

Labour market conditions in Atlantic Canada improved during 1997. Average monthly employment in the region increased by 1.3%, while the comparable increase for Canada was 1.9%. During 1997, the unemployment rate in the region averaged 14%, up slightly from 13.9% registered in 1996. This rate continues to average four to five percentage points higher than the national rate. Labour market participation rates remain seven percentage points below the national level (58% versus 65% nationally).

Consumer expenditures, which account for 72% of activity in the Atlantic economy, are estimated to have increased by 4.5% during 1997, reflecting an increase in spending on both goods and services. Nationally, consumer expenditures increased by 5.8%. The stronger national increase is a result of a larger gain in personal income, compared with the Atlantic region. Retail sales in Atlantic Canada increased by 3.9% during 1997, well below the national increase of 7.2%.

The overall weakness in consumer spending is related to continued concern over job security and high debt-to-income levels. In recent years, growth in personal disposable income had been much weaker in Atlantic Canada, compared with the national performance. In 1997, however, personal disposable income within the region is estimated to have increased by 2.2%; while, for all of Canada, there was an estimated 2.4% increase. This increase follows a decline of 0.4% in 1996. The Atlantic performance reflects an improvement in labour income growth.

Private and public investment increased by 9.1% in the region in 1997, while investment for all of Canada increased by 11.6%. Investment in the region was supported by a 12.1% increase in private sector investment, while public sector investment fell by 2.3%. Regional investment in machinery and equipment increased by 22.6%, while investment in construction increased by 3%. The gain in private sector investment was a result of increased capital expenditures in the mining and manufacturing industries. Capital expenditures in manufacturing increased by 14%, mainly due to pulp and paper investment.

The value of foreign exports in Atlantic Canada increased by 3.2% during 1997, compared with a 7.6% increase for Canada. The gain in exports in the region was led by an increase in the export of mineral products.

At the provincial level, the Newfoundland and Labrador economy is estimated to have registered a gain of 0.4% for 1997 following a decline in economic activity in 1996. This improvement in economic performance is a result of gains in consumer spending and exports. On an industry basis, increased activity in the mining, manufacturing and tourism industries supported the gain in output.

Following three fairly strong years of economic growth, the economy of Prince Edward Island is estimated to have increased by 0.2% in 1997. During the year, the economy was supported by strong growth in consumer spending and exports. In 1997, the economy had to adjust to the completion of the Confederation Bridge, which impacted negatively on the construction industry. However, with the opening of the Bridge, the tourism industry experienced a good year with a 30% increase in visitors and a 29% increase in visitor spending over 1996. As well, new food processing capacity contributed to higher levels of output in the manufacturing industry.

After several years of modest gains, the economy of Nova Scotia registered a stronger performance in 1997. The economy is estimated to have expanded by 2.4% in 1997, up from the 0.8% rate of growth registered in 1996. Increases in investment and consumer spending supported economic growth in 1997. On an industry basis, expansion in 1997 was a result of increased output in the construction, transportation and communication industries. In 1997, real GDP in New Brunswick is estimated to have increased by 1.2%, down slightly from the 1.5% gain in 1996. Slow growth in consumer spending and declines in both exports and investment contributed to the moderate expansion in the economy. Output in the goods-producing industries declined slightly, due to weakness in the mining, forestry and construction industries. An increase in activity in the service-producing industries was supported by strong gains in the transportation and communication industries.

### **Economic Outlook for 1998 and 1999**

According to the Conference Board of Canada, growth in the economy of Atlantic Canada is expected to accelerate in 1998, with real GDP forecast to increase by 3%, up from the gain of 1.5% in 1997. This rate of growth would be the strongest registered in the region since 1987 and compares favourably with the forecast national growth rate of 3.1%.

During 1998, economic growth in Atlantic Canada will be supported by offshore oil production, highway construction, development of Sable Island gas and a rebound in the demand for forest products. Employment in the region is forecast to increase by 1.8%, while the unemployment rate is expected to fall to 13.6%.

The Atlantic economy is expected to strengthen further in 1999, with real GDP forecast to increase by 3.6%, higher than the national rate of 3.2%. Strong growth in the Newfoundland economy, supported by production from Hibernia as well as development of the Voisey's Bay mineral complex, is responsible for the region outperforming the national economy. In terms of job creation, employment growth of 2.1% is expected in the region. The unemployment rate for the region is forecast to decline further to 13.1%.

### **The 1998 Report**

The following discussion serves as a backdrop for the 1998 edition of *The State of Small Business and Entrepreneurship in Atlantic Canada*. Previous editions have documented the contribution of small firms and entrepreneurship to economic development and growth in the region. These editions have profiled research in Atlantic Canada related to such themes as youth entrepreneurship, small business financing, home-based business and entrepreneurship education. The current edition extends the analyses of growing small businesses (Chapter 1) and employment dynamics (Chapter 2), and summarizes recent contributions to the empirical knowledge base in the areas of entrepreneurial start-ups (Chapter 3), the impact of women entrepreneurs on the Atlantic economy (Chapter 4) and regional competitiveness (Chapter 5).



Chapters 1 and 2 are based largely on Statistics Canada data and provide the specifics of firm dynamics and employment dynamics for the period from 1990-1995, with comparisons to previous periods where appropriate.

The theme chapters are based on current studies and are intended to get behind the broad-based statistical data in an effort to understand components of the economy that underlie the entrepreneurial activity that so clearly contributes to the economic strength of the Atlantic region. The better these components are understood, the better governments and other public sector and quasi-government partners can design and implement programs that have a positive impact on employment, income and the general economic and social well-being of the region.



## Chapter One

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# Growing Small Businesses

Previous editions of *The State of Small Business and Entrepreneurship in Atlantic Canada* have presented statistical data which demonstrate the important role that entrepreneurship plays in the region's economy. Economic statistics<sup>1</sup> for the period 1990 to 1995 confirm the importance of that role within the region, as well as in the country as a whole. In comparison with the 1996 edition of *The State of Small Business and Entrepreneurship in Atlantic Canada*, the data indicate that the rate at which new firms are entering the economy has decreased slightly in recent years. At the same time, the rate at which firms are exiting the economy has also increased slightly. The resulting retention rate, while slightly lower than that indicated in the previous report, is still significantly higher than that of Canada as a whole. Unlike the national experience, which saw a shift away from traditional goods-producing sectors toward the service industries, the number of goods-producing firms in the region increased over the five-year period. The service sector in the region continued to progress as well.

In this chapter, we present a six-year analysis of data derived from *Statistics Canada*, focussing on entries and exits and on trends within

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<sup>1</sup> Data in this chapter, unless otherwise stated, were sourced from Employment Dynamics, Business Size and Life Status, Small Business and Special Surveys Division, Statistics Canada and from a special run of Employment Dynamics. There was a structural change in the Statistics Canada data base in 1989 and data prior to 1989 are no longer comparable with data after 1989. The structural change consists of a change from the 1970 SIC system to the 1980 SIC system as well as a change from the Business Register Division system of business identification to the current CFDB system (Central Frame Data Base). Readers are further cautioned that refinements of the 1990-1993 data have resulted in differences in the data presented for that period in this edition and the 1996 edition of *The State of Small Business and Entrepreneurship in Atlantic Canada*.

specific industries. The data clearly demonstrate that the region continued to outperform the Canadian economy over that period. This is indeed encouraging in a region which relies so heavily on new firms to stimulate employment and economic growth.

### Distribution of Firms by Sector

As can be seen in Tables 1.1 and 1.3, the number of firms in Atlantic Canada increased by 4,305 or 5% between 1989 and 1995. This gain was largely due to the 34.4% increase in the funded<sup>2</sup> sector.

*Table 1.1*

### Distribution of Firms by Sector Atlantic Canada 1989-1995

Sector	# of firms 1989	Share of total in %	# of firms 1995	Share of total in %	Net change in # of firms	% change in # of firms
Goods-producing	23,789	27.42	25,266	27.74	1,477	6.2
Trade	18,177	20.95	18,735	20.57	558	3.1
Market Services	36,547	42.12	37,633	41.32	1,086	3.0
Funded Sector	6,276	7.23	8,432	9.26	2,156	34.4
Unclassified	1,976	2.28	1,004	1.10	-972	-49.2
Total	86,765	100.00	91,070	100.00	4,305	5.0

Source: *Employment Dynamics*

Unlike the remainder of Canada, the region's goods-producing sector increased by 1,477 firms. This is rather surprising in view of the well-publicized problems within the Atlantic ground fishery. In fact, a comparison of Tables 1.1 and 1.2 indicates that when the relative size of the region is considered, the Atlantic region outperformed the national economy by a substantial margin.

<sup>2</sup> The funded sector includes Community Services (education, health and welfare) and Public Administration. The market services sector includes Transportation, Communications and Utilities, Finance, Insurance and Real Estate, and Personal and Business Services.

**Table 1.2**

**Distribution of Firms by Sector  
Canada  
1989-1995**

Sector	# of firms 1989	Share of total in %	# of firms 1995	Share of total in %	Net change in # of firms	% change in # of firms
Goods-producing	247,456	26.92	236,342	25.10	-11,114	-4.5
Trade	195,520	21.27	197,981	21.02	2,461	1.3
Market Services	387,416	42.14	406,039	43.12	18,623	4.8
Funded Sector	70,350	7.65	84,262	8.95	13,912	19.8
Unclassified	18,515	2.01	17,113	1.82	-1,402	-7.6
Total	919,257	100.00	941,737	100.00	22,480	2.4

Source: *Employment Dynamics*

Even though Canada experienced a recession during the early 1990s, the number of firms operating in the country increased from 919,257 to 941,737. However, as Table 1.2 indicates, there were a number of variations within sectors. The market services sector experienced the largest increase in the number of firms, growing from 387,416 to 406,039, or by 18,623 firms. The funded sector ran a relatively close second with an increase of 13,912. These gains were partially offset by a large decrease in the number of firms in the goods-producing sector, which lost over 11,000 firms over the six-year period.

### **Entries and Exits**

Generally speaking, new ventures have extremely high mortality rates during their first several years of existence. A dynamic economy needs a large number of new business start-ups each year, many of which will “beat the odds.” Some of these, in turn, will become solid contributors to employment growth and the creation of economic value. These new firms must also replace job losses in firms that decrease in size or which exit the economy during a period. A good indicator of a region’s economic health, therefore, is the rate at which new businesses are started.

**Table 1.3**

**Net Change in Number of Firms  
by Province and by Sector  
1989-1995**

<b>Sector</b>	<b>NF</b>	<b>NS</b>	<b>NB</b>	<b>PEI</b>	<b>Total</b>
Goods-producing	510	114	752	101	1477
Trade	122	236	74	126	558
Market Services	-380	886	263	317	1,086
Funded Sector	880	535	524	217	2,156
Unclassified	-380	-253	-317	-22	-972
All Industries	752	1,518	1,296	739	4,305
SIC Industries	1,132	1,771	1,613	761	5,277
% of 1989					
SIC Firms	5.46	5.78	6.09	11.02	6.22

Source: *Employment Dynamics*

In the context of our discussion, “entries” are defined as businesses that enter a region’s economy during a given year. “Exits” are firms that have left the economy in a particular period. Entry rates and exit rates are calculated by dividing the number of new firms or exiting firms by the number of firms that existed at the beginning of the period in question. Exit statistics do not necessarily measure business failure; in fact, businesses leave the economy for a number of reasons, including mergers, acquisitions and voluntary closures. In some cases, companies undergoing a change in legal status, a name change or a change in ownership might appear as an exit in Statistics Canada reports. It is not uncommon for firms to simply become inactive for periods of time and to reappear later as active businesses.

Table 1.4 provides a summary of business entry and exit statistics for each of the individual Atlantic provinces, for the Atlantic region as a whole, and for Canada. Atlantic Canada’s entry rate of 19.4% compared very favourably with the rate of 14.9% experienced nationally. In fact, each of the individual Atlantic provinces substantially exceeded the national rate.

**Table 1.4**

**Average Entry and Exit Rates for Businesses  
Canada, Atlantic Canada and Provinces  
1990-1995  
(%)**

Province	Entry rate	Exit rate	Net gain in # of businesses
NF	24.1	23.5	0.6
PEI	19.8	18.1	1.7
NS	18.0	17.3	0.7
NB	17.1	16.8	0.3
ATL CAN	19.4	18.6	0.8
CAN	14.9	14.5	0.4

Source: *Special run of Employment Dynamics*

Table 1.5, which presents annual entry rates for the years 1990-1995 by province, region and country, indicates that despite the robust entry rate experienced in the region over this period, the rate has decreased from 21.8% in 1990 and has levelled at 18.5% for the 1993-1995 period. This may provide some cause for concern, particularly in view of the fact that the national rate increased 0.6% over the latter three-year period.

**Table 1.5**

**Trends in Business Entry Rates  
Canada, Atlantic Canada and Provinces  
1990-1995  
(%)**

Region	1990	1991	1992	1993	1994	1995	Average
NF	29.4	25.8	24.5	23.4	20.5	21.0	24.1
PEI	21.2	21.7	17.1	16.7	21.4	20.8	19.8
NS	18.9	18.7	17.7	17.4	17.6	17.4	18.0
NB	19.4	17.1	16.2	15.9	17.0	17.1	17.1
ATL CAN	21.8	20.3	18.9	18.5	18.5	18.5	19.4
CAN	16.7	14.7	14.3	14.2	14.6	14.8	14.9

Source: *Special run of Employment Dynamics*

Table 1.5 also indicates that a decline in entry rate was experienced in each of the Atlantic provinces. As in previous years, Newfoundland and Labrador experienced the highest entry rate overall, but its decline

was also the most precipitous – from 29.4% to 21%. In view of the impact of the bridge construction linking Prince Edward Island with New Brunswick, it is not surprising that the former province experienced only a slight overall decrease – from 21.2% to 20.8%, a commendable performance in comparison with the regional and national performances.

Table 1.4 indicates that the Atlantic region experienced an exit rate much higher, at 18.6%, than the national average of 14.5%. However, Atlantic Canada did experience an overall increase of 0.8% in the number of firms operating in the region, somewhat higher than the national rate of 0.4%. Newfoundland and Labrador experienced the highest exit rate at 23.5%, but still managed a net increase in firms of 0.6%, well above the national average. The region's highest performer was Prince Edward Island, which produced a net increase of 1.7%, again likely the result of the fixed link. The remaining Atlantic provinces also outperformed the national average. Although these exit rates might appear somewhat high, it must be pointed out that small firms traditionally experience high exit rates and that this was magnified by the recession which was prevalent in the region during the early 1990s. Given that fact, the region actually performed quite well.

Business exit rates varied widely within the region. Table 1.6 provides an overview of exit activity by province, together with a comparison of regional and national rates. The highest provincial rate, at 23.5%, belonged to Newfoundland and Labrador. This province had a significant increase, from 23.2% to 25.3%, over the period. The highest increase during this period occurred in Prince Edward Island, which experienced an increase from 16% to 23.2%. Nova Scotia also experienced an increase.



**Table 1.6**

**Trends in Business Exit Rates  
Canada, Atlantic Canada and Provinces  
1990-1995  
(%)**

Region	1990	1991	1992	1993	1994	1995	Average
NF	23.2	23.0	22.1	23.0	24.2	25.3	23.5
PEI	16.0	16.3	19.2	16.6	17.1	23.2	18.1
NS	16.6	17.4	16.9	17.2	16.8	19.0	17.3
NB	17.5	16.7	15.7	18.0	15.5	17.4	16.8
ATL CAN	18.5	18.5	18.0	17.7	18.3	20.4	18.6
CAN	15.1	15.5	14.0	13.9	13.7	14.6	14.5

Source: *Special run of Employment Dynamics*

As a result of this activity, the impact on the economy of relatively high entry rates has been largely offset by high exit rates. It would appear that Atlantic Canadians continue to start businesses at rates higher than the national average. However, mechanisms and support systems must be developed to help reduce the rate at which firms exit the economy. Table 1.7 reinforces this view.

**Table 1.7**

**The Dynamics of a High Turnover  
Atlantic Canada  
1986-1995**

Year	Total # of firms the year before	Entries this year	Exits identified this year	Net gain	%
1986	76,940	14,867	10,982	3,885	5.1
1987	80,825	15,796	12,559	3,237	4.0
1988	84,062	16,523	13,974	2,549	3.0
1989	86,611	17,060	13,433	3,627	4.2
1990	86,765	18,935	16,022	2,913	3.4
1991	89,678	18,176	16,598	1,578	1.8
1992	91,256	17,246	16,456	790	0.9
1993	92,046	16,978	16,240	738	0.8
1994	92,784	17,120	17,014	106	0.1
1995	92,890	17,155	18,975	-1,820	-2.0

Source: *Special run of Employment Dynamics*

The percentage of net new firms entering the region's economy has steadily decreased over the 1990-1994 period and, in fact, for the first time in ten years, the region experienced a net decrease in the number of firms in 1995. This situation is extremely serious given the region's dependence on growth in new businesses as an economic stimulant. In order to identify areas of strength and weakness within the region, it is useful to examine entries, exits and net retentions within various industries. This information is presented in Table 1.8.

**Table 1.8**

**Entries and Exits by Industry  
Atlantic Canada  
1990-1995**

Industry	Total entries #	Total exits #	Entry rate %	Exit rate %	Net gain
Agricult. Fish. Trap.	11,197	13,956	15.75	19.63	-3.9
Logging & Forestry	2,089	1,794	22.04	18.93	3.1
Mining	304	293	18.98	18.29	0.7
Manufacturing	4,550	4,266	17.39	16.30	1.1
Construction	11,545	10,816	19.99	18.73	1.3
Transportation	4,058	3,707	19.46	17.77	1.7
Communication	705	605	23.23	19.93	3.3
Wholesale	4,468	4,015	15.68	14.09	1.6
Retail	13,319	13,123	16.69	16.45	0.2
Finance & Insurance	3,364	3,188	15.31	14.51	0.8
Business Services	6,041	4,510	25.12	18.76	6.4
Government Services	1,519	1,549	28.94	29.51	-0.6
Education	1,201	863	31.33	22.51	8.8
Health	6,158	4,261	21.68	15.01	6.7
Accommodation	7,044	6,188	23.45	20.10	2.9
Other Services	28,048	28,171	25.82	25.93	-0.1
<b>Total</b>	<b>105,610</b>	<b>101,305</b>	<b>20.29</b>	<b>19.46</b>	<b>0.8</b>

Source: *Employment Dynamics*

Not surprisingly, one of the region's traditionally strong industries, Agricultural, Fishing and Trapping, has shown a decrease over the six years included in the analysis. Many of the other industries, however, performed extremely well over this period. Among the best performers is education which, with a net increase of 8.8%, reflects the growing number of privately operated educational institutions in

the region. Paralleling the national performance, services are also extremely strong. Logging and forestry experienced an entry rate of 22% and an overall increase in the number of firms operating in the region of 3.1%. The communications industry was strong, with an increase of 3.3%. Particularly heartening, from an employment point of view, was the manufacturing industry, which increased by 1.1%.

### **Business Dynamics**

The previous section of this report examined the pattern of business entries and exits, revealing that large numbers of new firms are needed to offset those exiting the economy, and to create the economic wealth the region requires. This section will investigate the growth patterns of firms in existence at the end of 1989, as well as those established after that time. This analysis, based on the data presented in Table 1.9, looks at the growth in number of firms by employment size category. A small firm is defined as one with fewer than 100 employees, a medium-sized firm is one with 100-499 employees and a large firm is one with 500 employees or more.

Several patterns can be identified from a review of Table 1.9. First, most firms remained stable in size or, at best, experienced increases or decreases in employment which were not large enough to move them to another category. Second, in comparison with the number of new firms, relatively high numbers of firms of all sizes exited the economy. In order to understand the implications of these patterns, an examination of the movement of firms between employment categories is necessary. Before doing that, however, some clarification of the terminology is necessary. “Entrants” are defined as firms which entered the economy during the six-year period under review. “Exits” are firms which left the economy during that period. “Outflows” are firms that existed in 1989 and which moved to another size category during that same six-year period.

**Table 1.9**

**The Dynamics of Firms in Atlantic Canada  
1990-1995  
(000s)**

Status	<5 emp.	5<20 emp.	20<50 emp.	50<100 emp.	100<500 emp.	500+ emp.	Total firms
Firms in existence at the end of 1989	64.7	12.8	3.6	1.5	2.3	1.9	86.8
<b>Firms Coming into the Size Category</b>							
New entrants	90.3	6.9	3.1	1.7	2.4	1.2	105.6
Inflows	3.6	2.2	1.0	0.5	0.4	0.1	7.8
<b>Total</b>	<b>93.9</b>	<b>9.1</b>	<b>4.1</b>	<b>2.2</b>	<b>2.8</b>	<b>1.3</b>	<b>113.4</b>
<b>Firms Leaving the Size Category</b>							
Exits of 1989 firms	37.6	3.9	1.2	0.6	0.9	0.5	44.7
Outflows	1.7	4.1	1.1	0.5	0.3	0.1	7.8
Exits of post-1989 firms	47.6	4.0	2.0	1.0	1.4	0.6	56.6
<b>Total</b>	<b>86.9</b>	<b>12.0</b>	<b>4.3</b>	<b>2.1</b>	<b>2.6</b>	<b>1.2</b>	<b>109.1</b>
<b>Net Change</b>	<b>7.0</b>	<b>-2.9</b>	<b>-0.2</b>	<b>0.1</b>	<b>0.2</b>	<b>0.1</b>	<b>4.3</b>
Firms in existence at the end of 1995	71.7	9.9	3.4	1.6	2.5	2.0	91.1
% of all firms	78.7	10.8	3.7	1.9	2.7	2.2	100.0
% change	10.8	-22.6	-5.5	6.7	8.7	5.3	5.0

Source: *Special run of Employment Dynamics*

The most volatile size category was the smallest firms. This category experienced the highest numbers of entrants and exits by far. It was responsible for the highest increase in the number of total firms and, in fact, accounted for almost all of the increase in firms in the region over the six-year period, with medium-sized and large firms achieving modest increases. A somewhat surprising fact, however, is that very few small firms grew to a point where they entered a larger size category. In fact, most small firms remained about the same size. There may be a number of reasons for this. Small businesses tend to have somewhat restricted access to the financial and human

resources needed for expansion. Many small firms feel constrained by the size of local markets and find it difficult to see beyond local boundaries. During much of the period under review, the region experienced tough economic times. Finally, many small business owners choose to remain small and have no growth aspirations.

In conclusion, Atlantic Canada continues to lead the nation in new business start-ups and in net retention rate of new businesses. At the end of 1995, close to 80% of all firms in the region had five employees or fewer and nearly 95% had fewer than 100. This situation clearly reinforces the importance of small business to job creation within the region. The impact this has had on employment will be discussed in the next chapter.



## Chapter Two

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# Job Creation – The Dynamics

While the 1996 edition of *The State of Small Business and Entrepreneurship in Atlantic Canada* reflected the impact of the recession in the early 1990s, there were several positive trends. For example, the unemployment rate in Canada and Atlantic Canada was on the decline from 1993 through 1995. All provinces in the Atlantic region benefited from the trend in the overall decline in unemployment rates.

It should be noted, however, that by 1995 the unemployment rate in Atlantic Canada was 1.2 percentage points higher than in 1989. In Canada, the rate in 1995 was 2.0 percentage points higher than the 1989 level (Table 2.1).

**Table 2.1**

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### Unemployment Rates Canada and Atlantic Canada 1989-1995

Region	Year						
	1989	1990	1991	1992	1993	1994	1995
CAN	7.5	8.1	10.4	11.3	11.2	10.4	9.5
NF	15.7	17.0	18.3	20.2	20.1	20.4	18.3
PEI	14.0	14.9	17.0	17.9	18.1	17.2	14.7
NS	9.9	10.6	12.0	13.1	14.6	13.3	12.1
NB	12.4	12.1	12.8	12.8	12.5	12.5	11.5
ATL CAN	12.2	12.8	14.0	14.9	15.4	14.9	13.4

Source: Statistics Canada, Cat. No. 71-201

This chapter discusses the overall dynamics of employment in Canada, Atlantic Canada and individual Atlantic provinces. In particular, comparisons will be made between employment distribution among firms by size and by various sectors of the economy based on the Standard Industrial Classification (SIC) codes. It should be noted that comparisons will be for the period 1989-1995.

### **Employment Creation**

Table 2.2 indicates the gross employment created in Atlantic Canada by each firm size category as a percentage of total employment. The second column shows the percentage, by firm size, of total employment created by new firms entering the economy over the 1989-1995 period. Of the gross employment created by new firms, 70.9% occurred in those with fewer than 100 employees. What is also significant is that firms with less than five employees created 36% of the new employment. This indicates that the Atlantic region has a vibrant entrepreneurial sector that continues to create new employment as new firms enter the economy, replacing those being lost through exits and jobs that are lost through downsizing.

The third column in Table 2.2 shows the overall percentages of total gross employment created by each firm size category over the 1989-1995 period. These percentages take into account employment for firms that entered the economy, and those existing firms which increased employment. Over the 1989-1995 period, 62.6% of gross employment in the Atlantic region was created by small firms. While new firms continue to feed new employment into the economy, the small business sector remains the dominant force in overall gross percentage employment gains.



**Table 2.2**

**Employment Creation by Size of Firm  
Atlantic Canada  
1989-1995**

<b>Firm Size (# of employees)</b>	<b>Percent of Gross Employment Created by New Firms</b>	<b>Percent of Gross Employment Created by All Firms</b>
<5	36.0	25.9
5-19	18.1	17.9
20-49	10.2	11.7
50-99	6.6	7.1
<b>Small Firms</b>	<b>70.9</b>	<b>62.6</b>
100-499	12.4	13.4
500+	16.7	24.0
<b>All Firms</b>	<b>100.0</b>	<b>100.0</b>

*Source: Special Run of Employment Dynamics*

**Employment Distribution by Size of Firm**

Total employment in Canada decreased by 362,700 over the 1989-1995 period and this decrease can be totally attributed to large firms which lost 375,200 jobs. Overall, the small business sector gained a total of 11,300 jobs (Table 2.3). The micro-firm category (<5 employees) contributed 95,700 jobs, increasing its share of overall employment in Canada from 8.5% to 9.6%, the largest gain in percentage terms of all size categories.

The loss of 137,300 jobs in the 5-19 employees category appears to be somewhat of an anomaly. The decrease in jobs in this category is consistent with Atlantic Canada as a region and each province in the region with the exception of Prince Edward Island which registered a slight gain. Some elaboration will be made on this later.

The Atlantic region did not fare well during the 1989-1995 period. Overall employment was down 57,200 or 6.8% (Table 2.4).

**Table 2.3**

**Employment Patterns by Size of Firm  
Canada  
1989-1995**

Firm Size (# of Employees)	Employment Distribution 1989		Employment Distribution 1995		Net Change in Employment 1989-1995	
	(000s)	%	(000s)	%	(000s)	%
<5	974.4	8.5	1,070.1	9.6	95.7	9.8
5-19	1,529.7	13.4	1,392.4	12.5	-137.3	-9.0
20-49	1,195.4	10.4	1,210.4	10.8	15.0	1.3
50-99	829.7	7.2	867.6	7.8	37.9	4.6
<b>Small Firms</b>	<b>4,529.2</b>	<b>39.3</b>	<b>4,540.5</b>	<b>40.7</b>	<b>11.3</b>	<b>0.3</b>
100-499	1,700	14.8	1,701.2	15.2	1.2	0.1
500+	5,299.6	46.0	4,924.4	44.1	-375.2	-7.1
<b>All Firms</b>	<b>11,528.8</b>	<b>100.0</b>	<b>11,166.1</b>	<b>100.0</b>	<b>-362.7</b>	<b>-3.2</b>

Source: *Employment Dynamics*

While the greatest decline in employment in Atlantic Canada occurred in the medium to large firms (41,000), there was also a significant decline in employment in the small business sector with a loss of some 16,200 jobs. This decrease can be attributed to the decline of 17,000 jobs in the 5-19 employees category. Table 1.9 in Chapter 1 partly explains this decline in that 4,100 firms left this category over the period while only 2,200 firms entered – a net change of 1,900 firms. Assuming an average employment per firm of 10-12, the net change in firms would more than account for the decrease. The volatility in firm movement among firm sizes appears to be between the <5 and the 5-19 employees categories. It is not possible to know where the outflows of 4,100 firms went. They may have exited the economy, slipped to the <5 employee category or grew to become larger. It appears, however, that they did not take a great number of jobs with them since both the net change in firms and the net change in employment in all other size categories have remained relatively flat in the small business category over the 1989-1995 period. While there was a net increase of 7,000 firms into the micro-firm category (<5 employees), the net job creation was only 400 (Table 2.4). This would indicate significant downsizing in the micro-firm category.

**Table 2.4**

**Employment Patterns by Size of Firm  
Atlantic Canada  
1989-1995**

Firm Size (# of Employees)	Employment Distribution 1989		Employment Distribution 1995		Net Change in Employment 1989-1995	
	(000s)	%	(000s)	%	(000s)	%
<5	77.5	9.2	77.9	9.9	0.4	0.5
5-19	113.2	13.4	96.2	12.2	-17.0	-15.0
20-49	77.5	9.2	79	10.0	1.5	1.9
50-99	51.9	6.1	50.8	6.4	-1.1	-2.1
<b>Small Firms</b>	<b>320.1</b>	<b>37.8</b>	<b>303.9</b>	<b>38.5</b>	<b>-16.2</b>	<b>-5.1</b>
100-499	111.6	13.2	96.7	12.3	-14.9	-13.4
500+	414.7	49.0	388.6	49.3	-26.1	-6.3
<b>All Firms</b>	<b>846.4</b>	<b>100.0</b>	<b>789.2</b>	<b>100.0</b>	<b>-57.2</b>	<b>-6.8</b>

Source: *Employment Dynamics*

In examining the movement in the medium to large firms (>100 employees), there was a net increase of 300 firms in this size category (Table 1.9 in Chapter 1), yet, employment decreased in this category by 41,000. Again, there appears to be significant downsizing taking place over the 1989-1995 period.

In examining the Atlantic region by province, there appears to be some significant differences. Losses in employment in small business in Newfoundland and Labrador and Nova Scotia more than offset the gains in New Brunswick and Prince Edward Island. In Newfoundland and Labrador (Table 2.5), the employment loss of 4,100 in small businesses represented 27% of the total (15,000). In Nova Scotia (Table 2.6), there was a 14,100 decline in small business employment which represented almost 44% of the total decline of 32,200. Of the total of 57,200 jobs lost in the Atlantic region, 47,200 or 83% were lost in Newfoundland and Labrador and Nova Scotia. Firms with 100 or more employees represented 61% of the total job losses in these two provinces.

**Table 2.5**

**Employment Patterns by Size of Firm  
Newfoundland and Labrador  
1989-1995**

Firm Size (# of Employees)	Employment Distribution 1989		Employment Distribution 1995		Net Change in Employment 1989-1995	
	(000s)	%	(000s)	%	(000s)	%
<5	17.1	9.6	17.3	10.6	0.2	1.2
5-19	22.6	12.7	19.6	12.0	-3.0	-13.3
20-49	14.4	8.1	13.5	8.3	-0.9	-6.3
50-99	10.1	5.7	9.7	5.9	-0.4	-4.0
<b>Small Firms</b>	<b>64.2</b>	<b>35.9</b>	<b>60.1</b>	<b>36.7</b>	<b>-4.1</b>	<b>-6.4</b>
100-499	19.8	11.1	16.8	10.3	-3.0	-15.2
500+	94.7	53.0	86.8	53.0	-7.9	-8.3
<b>All Firms</b>	<b>178.7</b>	<b>100.0</b>	<b>163.7</b>	<b>100.0</b>	<b>-15.0</b>	<b>-8.4</b>

Source: *Employment Dynamics*

**Table 2.6**

**Employment Patterns by Size of Firm  
Nova Scotia  
1989-1995**

Firm Size (# of Employees)	Employment Distribution 1989		Employment Distribution 1995		Net Change in Employment 1989-1995	
	(000s)	%	(000s)	%	(000s)	%
<5	29	8.3	27.1	8.5	-1.9	-6.6
5-19	46.1	13.2	35.6	11.2	-10.5	-22.8
20-49	32.2	9.2	32.1	10.1	-0.1	-0.3
50-99	22.1	6.3	20.5	6.4	-1.6	-7.2
<b>Small Firms</b>	<b>129.4</b>	<b>36.9</b>	<b>115.3</b>	<b>36.2</b>	<b>-14.1</b>	<b>-10.9</b>
100-499	51	14.5	45.7	14.4	-5.3	-10.4
500+	170.3	48.6	157.5	49.5	-12.8	-7.5
<b>All Firms</b>	<b>350.7</b>	<b>100.0</b>	<b>318.5</b>	<b>100.0</b>	<b>-32.2</b>	<b>-8.2</b>

Source: *Employment Dynamics*

As with Canada as a whole and the Atlantic region, significant job losses occurred in the 5-19 employees category in every Atlantic province. This cannot be explained totally with the available data.

New Brunswick and Prince Edward Island present a somewhat different picture in that some increases in the small business sector were realized – 300 in New Brunswick and 1,700 in Prince Edward Island. Again, significant job losses occurred in the 5-19 employees category. In New Brunswick, any employment gains in small businesses were more than offset by losses in medium to large firms as this group lost 12,200 jobs (Table 2.7).

**Table 2.7**

**Employment Patterns by Size of Firm  
New Brunswick  
1989-1995**

Firm Size (# of Employees)	Employment Distribution 1989		Employment Distribution 1995		Net Change in Employment 1989-1995	
	(000s)	%	(000s)	%	(000s)	%
<5	25.4	9.4	27.0	10.4	1.6	6.3
5-19	36.1	13.3	32.9	12.7	-3.2	-8.9
20-49	26.2	9.7	27.5	10.6	1.3	5.0
50-99	16.4	6.1	17.0	6.6	0.6	3.7
<b>Small Firms</b>	<b>104.1</b>	<b>38.4</b>	<b>104.4</b>	<b>40.3</b>	<b>0.3</b>	<b>0.3</b>
100-499	33.3	12.3	28.1	10.9	-5.2	-15.6
500+	133.4	49.3	126.4	48.8	-7.0	-5.3
<b>All Firms</b>	<b>270.8</b>	<b>100.0</b>	<b>258.9</b>	<b>100.0</b>	<b>-11.9</b>	<b>-4.4</b>

Source: *Employment Dynamics*

In Prince Edward Island (Table 2.8), the net increase in employment was 1,900 and almost 90% of this increase occurred in small businesses (1,700 versus 200). Interestingly, there was a net gain of 1,600 jobs in the large firms (>500) and a net loss of 1,400 jobs in the medium-sized firms (100-499).

**Table 2.8**

**Employment Patterns by Size of Firm  
Prince Edward Island  
1989-1995**

Firm Size (# of Employees)	Employment Distribution 1989		Employment Distribution 1995		Net Change in Employment 1989-1995	
	(000s)	%	(000s)	%	(000s)	%
<5	6.0	13.0	6.5	13.5	0.5	8.3
5-19	8.4	18.2	8.1	16.8	-0.3	-3.6
20-49	4.7	10.2	5.9	12.3	1.2	25.6
50-99	3.3	7.14	3.6	7.5	0.3	9.1
<b>Small Firms</b>	<b>22.4</b>	<b>48.5</b>	<b>24.1</b>	<b>50.1</b>	<b>1.7</b>	<b>7.6</b>
100-499	7.5	16.2	6.1	12.7	-1.4	-18.7
500+	16.3	35.3	17.9	37.2	1.6	9.8
<b>All Firms</b>	<b>46.2</b>	<b>100.0</b>	<b>48.1</b>	<b>100.0</b>	<b>1.9</b>	<b>4.1</b>

Source: *Employment Dynamics*

**Employment Distribution by Sector**

As can be seen from Tables 2.9 and 2.10, the goods-producing sector suffered the greatest decline in employment in both Canada as a whole and in Atlantic Canada. In Canada, the gains in other sectors were more than offset by the 444,700 job losses in the goods-producing sector. The manufacturing industry represented 55.6% of the job losses. All other sectors lost ground with the exception of the funded sector which offset some of the losses by contributing 142,200 jobs.

**Table 2.9**

**Distribution of Employment by Industry/Sector  
Canada  
1989-1995**

Industry/ Sector	Employment Distribution 1989		Employment Distribution 1995		Net Change in Employment 1989-1995		% of Total Change in Employment
	(000s)	%	(000s)	%	(000s)	%	
Primary	153.9	1.3	128	1.2	-25.9	-16.8	7.1
Mining	202.8	1.8	170.5	1.5	-32.3	-15.9	8.9
Manufacturing	2,092.1	18.2	1,844.7	16.5	-247.4	-11.8	68.1
Construction	565.7	4.9	426.6	3.8	-139.1	-24.6	38.3
<b>Goods Producing</b>	<b>3,014.5</b>	<b>26.2</b>	<b>2,569.8</b>	<b>23</b>	<b>-444.7</b>	<b>-14.8</b>	<b>122.5</b>
Wholesale	613.8	5.3	601.1	5.4	-12.7	-2.1	3.5
Retail	1,431.0	12.4	1,414.8	12.7	-16.2	-1.1	4.5
<b>Trade</b>	<b>2,044.8</b>	<b>17.7</b>	<b>2,015.9</b>	<b>18.1</b>	<b>-28.9</b>	<b>-1.4</b>	<b>8.0</b>
T, C & U	817.7	7.1	789.8	7.1	-27.9	-3.4	7.7
FIRE	780.6	6.8	691.7	6.2	-88.9	-11.4	24.5
P & B Services	2,021.4	17.5	2,097.4	18.8	76	3.8	-20.9
<b>Market Services</b>	<b>3,619.7</b>	<b>31.4</b>	<b>3,578.9</b>	<b>32.1</b>	<b>-40.8</b>	<b>-1.1</b>	<b>11.2</b>
Community Services	1,762.6	15.3	1,907.6	17.1	145	8.2	-39.9
Public Administration	1,053.0	9.1	1,050.2	9.4	-2.8	-0.3	0.8
<b>Funded Sector</b>	<b>2,815.6</b>	<b>24.4</b>	<b>2,957.8</b>	<b>26.5</b>	<b>142.2</b>	<b>5.1</b>	<b>-39.2</b>
<b>Unclassified</b>	<b>34.5</b>	<b>0.3</b>	<b>43.6</b>	<b>0.4</b>	<b>9.1</b>	<b>26.4</b>	<b>-2.5</b>
<b>TOTAL</b>	<b>11,529.1</b>	<b>100</b>	<b>11,166.0</b>	<b>100</b>	<b>-363.1</b>	<b>-3.2</b>	<b>100</b>

Source: *Employment Dynamics*

Note: Abbreviations – Transportation, Communications and Utilities (T, C & U), Finance, Insurance and Real Estate (FIRE) and Personal and Business Services (P & B Services). Community Services include Education, Health and Welfare.

**Table 2.10**

**Distribution of Employment by Industry/Sector  
Atlantic Canada  
1989-1995**

Industry/ Sector	Employment Distribution 1989		Employment Distribution 1995		Net Change in Employment 1989-1995		% of Total Change in Employment
	(000s)	%	(000s)	%	(000s)	%	
Primary	20.2	2.4	18.3	2.4	-1.9	-9.4	2.7
Mining	14.2	1.7	12.3	1.6	-1.9	-13.4	2.7
Manufacturing	106.6	12.6	86.3	11.1	-20.3	-19.0	29.2
Construction	41.2	4.9	41.3	5.3	0.1	0.2	-0.1
<b>Goods Producing</b>	<b>182.2</b>	<b>21.5</b>	<b>158.2</b>	<b>20.4</b>	<b>-24.0</b>	<b>-13.2</b>	<b>34.5</b>
Wholesale	45.3	5.4	34.3	4.4	-11.0	-24.3	15.8
Retail	125.9	14.9	114.4	14.7	-11.5	-9.1	16.5
<b>Trade</b>	<b>171.2</b>	<b>20.2</b>	<b>148.7</b>	<b>19.1</b>	<b>-22.5</b>	<b>-13.1</b>	<b>32.4</b>
T, C & U	56.6	6.7	54.6	7.0	-2.0	-3.5	2.9
FIRE	43.7	5.2	35.2	4.5	-8.5	-19.5	12.2
P & B Services	132.3	15.6	124.7	16.0	-7.6	-5.7	10.9
<b>Market Services</b>	<b>232.6</b>	<b>27.5</b>	<b>214.5</b>	<b>27.6</b>	<b>-18.1</b>	<b>-7.8</b>	<b>26.0</b>
Community Services	114.5	13.5	119.4	15.4	4.9	4.3	-7.1
Public Administration	144.7	17.1	135.2	17.4	-9.5	-6.6	13.7
<b>Funded Sector</b>	<b>259.2</b>	<b>30.6</b>	<b>254.6</b>	<b>32.8</b>	<b>-4.6</b>	<b>-1.8</b>	<b>6.6</b>
<b>Unclassified</b>	<b>1.5</b>	<b>0.2</b>	<b>1.2</b>	<b>0.2</b>	<b>-0.3</b>	<b>-20.0</b>	<b>0.4</b>
<b>TOTAL</b>	<b>846.7</b>	<b>100.0</b>	<b>777.2</b>	<b>100.0</b>	<b>-69.5</b>	<b>-8.2</b>	<b>100.0</b>

Source: *Employment Dynamics*



The situation in Atlantic Canada<sup>1</sup> (Table 2.10) was somewhat similar but not as dramatic. All major sectors had a net decrease in employment. The goods-producing sector experienced a net decrease in employment of 24,000 or 34% of the 69,500 decrease. Manufacturing lost 20,300 jobs and this, as was the case in Canada as a whole, represented the largest number of jobs lost compared with other industries (29%). The only positive note for the region over the 1989-1995 period is that community services increased by 4,900 jobs.

Manufacturing employment was down in all the Atlantic provinces. The most notable decrease was in Newfoundland and Labrador (Table 2.11) where 9,300 jobs were lost in this industry representing 45.8% of the total Atlantic Canada decrease in this industry. In fact, manufacturing represented 60% of the total loss in employment (15,500) in Newfoundland and Labrador. Employment was helped somewhat by increases in the construction industry (2,600), probably as a result of the Hibernia project. Community services also experienced a net increase in employment (3,900).

The 1989-1995 period was not a positive one for the Nova Scotia economy (Table 2.12). All sectors registered a decline. The economy lost 32,400 jobs. This represents 46.6% of Atlantic Canada's total job losses and a disproportionate 8.9% of the Canadian job losses. Again, the manufacturing industry suffered, losing 7,400 jobs or 22.8% of the total.

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<sup>1</sup>There is a difference of 12,300 employees between Tables 2.10 and 2.4. This difference is explained by rounding and confidentiality restrictions in the New Brunswick and Prince Edward Island statistics.

**Table 2.11**

**Distribution of Employment by Industry/Sector  
Newfoundland and Labrador  
1989-1995**

Industry/ Sector	Employment Distribution 1989		Employment Distribution 1995		Net Change in Employment 1989-1995		% of Total Change in Employment
	(000s)	%	(000s)	%	(000s)	%	
Primary	2.2	1.2	2.0	1.2	-0.2	-9.1	1.3
Mining	3.9	2.2	3.3	3.0	-0.6	-15.4	3.9
Manufacturing	21.3	11.9	12.0	7.4	-9.3	-43.7	60.0
Construction	7.4	4.1	10.0	6.1	2.6	35.1	-16.8
<b>Goods</b>							
<b>Producing</b>	<b>34.8</b>	<b>19.5</b>	<b>27.3</b>	<b>16.7</b>	<b>-7.5</b>	<b>-21.6</b>	<b>48.4</b>
Wholesale	8.0	4.5	6.1	3.7	-1.9	-23.8	12.3
Retail	25.6	14.3	25.3	15.5	-0.3	-1.2	1.9
<b>Trade</b>	<b>33.6</b>	<b>18.8</b>	<b>31.4</b>	<b>19.2</b>	<b>-2.2</b>	<b>-6.6</b>	<b>14.2</b>
T, C & U	11.6	6.5	11.5	7.1	-0.1	-0.9	0.6
FIRE	7.8	4.4	6.3	3.9	-1.5	-19.2	9.7
P & B Services	31.1	17.4	27.8	17.0	-3.3	-10.6	21.3
<b>Market Services</b>	<b>50.5</b>	<b>28.3</b>	<b>45.6</b>	<b>27.9</b>	<b>-4.9</b>	<b>-9.7</b>	<b>31.6</b>
Community Services	21.6	12.1	25.5	15.6	3.9	18.1	-25.2
Public Administration	37.8	21.2	33.0	20.2	-4.8	-12.7	31.0
<b>Funded Sector</b>	<b>59.4</b>	<b>33.2</b>	<b>58.5</b>	<b>35.9</b>	<b>-0.9</b>	<b>-1.5</b>	<b>5.8</b>
<b>Unclassified</b>	<b>0.4</b>	<b>0.2</b>	<b>0.4</b>	<b>0.3</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>TOTAL</b>	<b>178.7</b>	<b>100.0</b>	<b>163.2</b>	<b>100.0</b>	<b>-15.5</b>	<b>-8.67</b>	<b>100.0</b>

Source: *Employment Dynamics*

**Table 2.12**

**Distribution of Employment by Industry/Sector  
Nova Scotia  
1989-1995**

Industry/ Sector	Employment Distribution 1989		Employment Distribution 1995		Net Change in Employment 1989-1995		% of Total Change in Employment
	(000s)	%	(000s)	%	(000s)	%	
Primary	6.7	1.9	5.8	1.8	-0.9	-13.4	2.8
Mining	6.0	1.7	5.2	1.6	-0.8	-13.3	2.5
Manufacturing	46.7	13.3	39.3	12.3	-7.4	-15.9	22.8
Construction	17.8	5.1	13.7	4.3	-4.1	-23.0	12.7
<b>Goods</b>							
<b>Producing</b>	<b>77.2</b>	<b>22.0</b>	<b>64.0</b>	<b>20.1</b>	<b>-13.2</b>	<b>-17.1</b>	<b>40.7</b>
Wholesale	15.8	4.5	13.0	4.1	-2.8	-17.7	8.6
Retail	53.1	15.1	49.6	15.6	-3.5	-6.6	10.8
<b>Trade</b>	<b>68.9</b>	<b>19.6</b>	<b>62.6</b>	<b>19.6</b>	<b>-6.3</b>	<b>-9.14</b>	<b>19.4</b>
T, C & U	22.0	6.3	20.2	6.3	-1.8	-8.2	5.6
FIRE	19.6	5.6	16.1	5.1	-3.5	-17.9	10.8
P & B							
Services	51.8	14.8	48.9	15.4	-2.9	-5.6	9.0
<b>Market</b>							
<b>Services</b>	<b>93.4</b>	<b>26.6</b>	<b>85.2</b>	<b>26.8</b>	<b>-8.2</b>	<b>-8.8</b>	<b>25.3</b>
Community							
Services	55.4	15.8	52.6	16.5	-2.8	-5.1	8.6
Public							
Administration	55.4	15.8	53.9	16.9	-1.5	-2.7	4.6
<b>Funded</b>							
<b>Sector</b>	<b>110.8</b>	<b>31.6</b>	<b>106.5</b>	<b>33.4</b>	<b>-4.3</b>	<b>-3.9</b>	<b>13.3</b>
<b>Unclassified</b>	<b>0.6</b>	<b>0.2</b>	<b>0.2</b>	<b>0.1</b>	<b>-0.4</b>	<b>-66.7</b>	<b>1.2</b>
<b>TOTAL</b>	<b>350.9</b>	<b>100.0</b>	<b>318.5</b>	<b>100.0</b>	<b>-32.4</b>	<b>-9.2</b>	<b>100.0</b>

Source: *Employment Dynamics*

The goods-producing sector as a whole lost 40.7% of the total job losses followed by the market services sector at 25.3%.

The New Brunswick statistics on employment distribution over the 1989-1995 period show a somewhat different pattern as compared to the other three provinces (Table 2.13).

**Table 2.13**

**Distribution of Employment by Industry/Sector  
New Brunswick  
1989-1995**

Industry/ Sector	Employment Distribution 1989		Employment Distribution 1995		Net Change in Employment 1989-1995		% of Total Change in Employment
	(000s)	%	(000s)	%	(000s)	%	
Primary	8.8	3.3	8.4	3.3	-0.4	-4.6	2.2
Mining	4.3	1.6	3.8	1.5	-0.5	-11.6	2.8
Manufacturing	34.4	12.7	31.0	12.2	-3.4	-9.9	19.1
Construction	13.3	4.9	12.5	4.9	-0.8	-6.0	4.5
<b>Goods</b>							
<b>Producing</b>	<b>60.8</b>	<b>22.4</b>	<b>55.7</b>	<b>22.0</b>	<b>-5.1</b>	<b>-8.4</b>	<b>28.7</b>
Wholesale	19.3	7.1	13.9	5.5	-5.4	-28.0	30.3
Retail	40.5	14.9	32.6	12.9	-7.9	-19.5	44.4
<b>Trade</b>	<b>59.8</b>	<b>22.1</b>	<b>46.5</b>	<b>18.4</b>	<b>-13.3</b>	<b>-22.2</b>	<b>74.7</b>
T, C & U	20.5	7.6	20.0	7.9	-0.5	-2.4	2.8
FIRE	14.3	5.3	11.0	4.3	-3.3	-23.1	18.5
P & B Services	41.4	15.3	40.1	15.9	-1.3	-3.1	7.3
<b>Market Services</b>	<b>76.2</b>	<b>28.1</b>	<b>71.1</b>	<b>28.1</b>	<b>-5.1</b>	<b>-6.7</b>	<b>28.7</b>
Community Services	30.7	11.3	34.6	13.7	3.9	12.7	-21.9
Public Administration	43.1	15.9	44.8	17.7	1.7	3.9	-9.6
<b>Funded Sector</b>	<b>73.8</b>	<b>27.2</b>	<b>79.4</b>	<b>31.4</b>	<b>5.6</b>	<b>7.6</b>	<b>-31.5</b>
<b>Unclassified</b>	<b>0.4</b>	<b>0.2</b>	<b>0.5</b>	<b>0.2</b>	<b>0.1</b>	<b>25.0</b>	<b>-0.6</b>
<b>TOTAL</b>	<b>271.0</b>	<b>100.0</b>	<b>253.2</b>	<b>100.0</b>	<b>-17.8</b>	<b>-6.6</b>	<b>100.0</b>

Source: *Employment Dynamics*

While manufacturing was down significantly in New Brunswick, with a net employment decrease of 3,400 (19.1% of the total), wholesale and retail trade registered the largest loss with a decrease in employment of 13,300 or almost 75% of the total employment loss in the province. The comparative percentages for Newfoundland and Labrador, Nova Scotia and Prince Edward Island were 14.2%, 19.4% and 18.4% respectively. The economy in New Brunswick was buoyed up by the funded sector which registered a net increase in employment of 5,600.

For the Prince Edward Island economy, some data may be suppressed because of confidentiality guidelines. It should be noted that large firms contributed 84% of the net increase in employment (Table 2.14) and the construction industry realized a 2,400 increase in jobs over the period, offsetting most of the job losses. This could be attributed to activity surrounding the fixed link project. The funded sector showed an increase of 5,000 jobs, more than offsetting total job losses. The rest of the sectors remained relatively flat in terms of employment movement.

In conclusion, it can be said that despite the volatility within and among provinces, the small business component of the economy has remained strong. The share of total employment distribution for small businesses in 1995 increased in Canada to 40.7% from 39.3% in 1989. In Atlantic Canada the small business share increased from 37.8% in 1989 to 38.5% in 1995. With the exception of Nova Scotia, all other provinces experienced similar employment distribution gains. The goods-producing sector showed significant decreases in employment in Canada and Atlantic Canada. In the case of both Canada as a whole and the Atlantic region, the manufacturing industry contributed significantly to employment loss.

*Table 2.14*

**Distribution of Employment by Industry/Sector  
Prince Edward Island  
1989-1995**

Industry/ Sector	Employment Distribution 1989		Employment Distribution 1995		Net Change in Employment 1989-1995		% of Total Change in Employment
	(000s)	%	(000s)	%	(000s)	%	
Primary	2.5	5.4	2.1	5.0	-0.4	-16.0	10.5
Mining	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Manufacturing	4.2	9.1	4.0	9.5	-0.2	-4.8	5.3
Construction	2.7	5.9	5.1	12.1	2.4	88.9	-63.2
<b>Goods</b>							
<b>Producing</b>	<b>9.4</b>	<b>20.4</b>	<b>11.2</b>	<b>26.48</b>	<b>1.8</b>	<b>19.2</b>	<b>-47.4</b>
Wholesale	2.2	4.8	1.3	3.1	-0.9	-40.9	23.7
Retail	6.7	14.5	6.9	16.3	0.2	3.0	-5.3
<b>Trade</b>	<b>8.9</b>	<b>19.3</b>	<b>8.2</b>	<b>19.4</b>	<b>-0.7</b>	<b>-7.9</b>	<b>18.4</b>
T, C & U	2.5	5.42	2.9	6.9	0.4	16.0	-10.5
FIRE	2.0	4.3	1.8	4.3	-0.2	-10.0	5.3
P & B							
Services	8.0	17.4	7.9	18.7	-0.1	-1.25	2.6
<b>Market</b>							
<b>Services</b>	<b>12.5</b>	<b>27.1</b>	<b>12.6</b>	<b>29.8</b>	<b>0.1</b>	<b>0.8</b>	<b>-2.6</b>
Community							
Services	6.8	14.8	6.7	15.8	-0.1	-1.5	2.6
Public							
Administration	8.4	18.2	3.5	8.3	-4.9	-58.3	128.9
<b>Funded</b>							
<b>Sector</b>	<b>15.2</b>	<b>33.0</b>	<b>10.2</b>	<b>24.1</b>	<b>-5.0</b>	<b>-32.9</b>	<b>131.6</b>
<b>Unclassified</b>	<b>0.1</b>	<b>0.2</b>	<b>0.1</b>	<b>0.2</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>TOTAL</b>	<b>46.1</b>	<b>100.0</b>	<b>42.3</b>	<b>100.0</b>	<b>-3.8</b>	<b>-8.2</b>	<b>100.0</b>

Source: *Employment Dynamics*

## Chapter Three

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# Entrepreneurial Start-Ups in Atlantic Canada

This chapter summarizes the results of a recently published research study<sup>1</sup> carried out by Dr. Helen Mallette of Mount Saint Vincent University and Dr. Norman McGuinness of Acadia University. The purpose of the research, which was jointly funded by the Atlantic Canada Opportunities Agency and the Acadia Centre for Small Business and Entrepreneurship, was to learn more about the entrepreneurial start-up process. Key elements of the process were integrated into a model which was tested with data from a survey of new entrepreneurs throughout Atlantic Canada. The study was designed specifically for the needs of counsellors and others who help people to become entrepreneurs, and investigated such issues as:

- Which aspects of the business start-up process are likely to have the most impact on success?
- How can counsellors intervene more effectively?
- Do high achievers go through business start-up differently than low achievers?
- How can counsellors adapt their services to meet the varying needs of different entrepreneurs?

Research questionnaires were sent out during late 1996 and early 1997 using client lists provided by business counselling centres throughout the Atlantic region. Some 912 usable responses were received from a total distribution of 7,083, a response rate of 12.9%.

### Overview of the Research Model

The research began with a review of the current literature on start-up processes. While several models of the start-up process exist, they

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<sup>1</sup> *Entrepreneurial Start-Ups: Help for Counsellors*, sponsored by the Atlantic Canada Opportunities Agency and the Acadia Centre for Small Business and Entrepreneurship.

were not deemed suitable for the following reasons. First, most of the models utilize theoretical constructs that have not been tested with empirical data. While such models provide good sources of ideas, they usually have to be changed considerably to be used for practical purposes. Second, existing models, including those that have been tested with data, are generally not helpful to business counsellors. The problem lies within the models themselves. Many use too general a view, thus lack detail. Others are too narrowly focussed on specific aspects of the entrepreneurship process.

As a result, it was decided that a new model was needed combining practical information for counsellors with key elements of the start-up process. The basic model consists of three components (Figure 3.1):

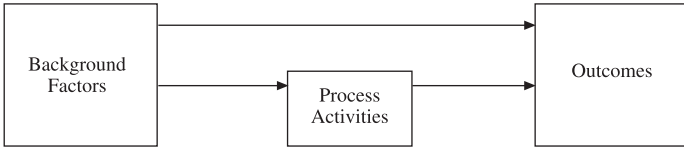
- Background Factors – such as the entrepreneur’s experience level, level of need for achievement and individual circumstances;
- Process Activities – variables linked to preparing for start-up; and
- Outcomes – variables reflecting the entrepreneur’s mental outlook just before making the decision to start a new business.

The report then details each part of the model.

### **Outcomes**

The study approaches the question of Outcomes of the entrepreneurial process through application of the Theory of Planned Behaviour which is based on the premise that the best predictor of behaviour is the intention to perform the behaviour. *Intention*, in turn, is the product of three variables. The first, *Attitude*, indicates the degree to which the person believes that the behaviour will lead to desired outcomes. The second, *Subjective Norm*, refers to how much the person believes that prominent referent people in his/her life will approve or disapprove of the behaviour. The third, *Perceived Control*, recognizes that a person seldom has complete control over all of the factors which affect successful performance. This concept captures the degree to which the person believes he/she can exercise control over behaviour.

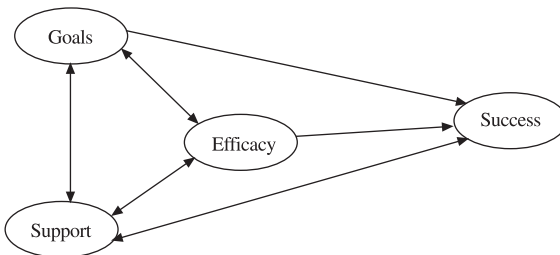


**Figure 3.1****Model - The Main Sections**

To apply the Theory of Planned Behaviour to the entrepreneurial start-up process, the authors found that, for various reasons, the concept of *Intentions* did not fit well with the final model. Instead, the concept of *Success* was substituted (Figure 3.2). *Success*, is comprised of two dimensions:

- Met Expectations – the degree to which the perceived business success of the start-up met the entrepreneur’s expectations; and
- Personal Success – the perception that life improved after start-up, e.g. enjoyable work, more balanced life and marital stress.

The other variables were also adapted to fit the entrepreneurship process. *Attitude Toward Behaviour* became *Goals*, *Subjective Norms* became *Support*, and *Perceived Control* became *Efficacy*. Several dimensions were identified regarding each of these variables.

**Figure 3.2****Expected Arrangement of the Outcomes Section**

*Goals* were described as what motivates one to become an entrepreneur. The study identified the following dimensions:

- Autonomy – the desire for control over one’s life;
- Quality of Life – desire to gain such things as job security, better financial situation, improved family life and a better future; and
- Status – recognition within the community.

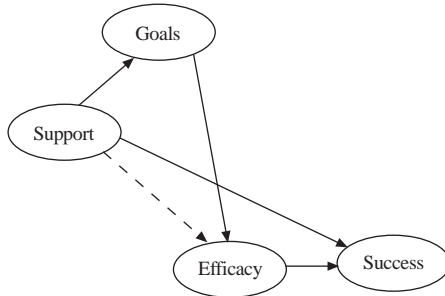
*Support* is the degree of encouragement the entrepreneur receives from family and friends during start-up. Identified dimensions were:

- Spouse or family support; and
- Friends – support provided by close friends and relatives.

*Efficacy* refers to the degree to which the entrepreneur believes that he/she can actually make the start-up happen. The identified dimensions were:

- Confidence – the perception of having control, of not being at the whim of circumstances;
- Opportunity – the degree to which the business was still perceived to be attractive just before start-up;
- Low Uncertainty – the entrepreneur’s perception of how low the uncertainties of start-up seem to be; and
- Ease – the perceived ease, or lack of difficulty, of starting the business.

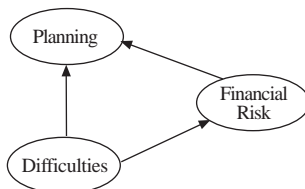
The authors point out that the results of this survey were not quite what they expected (Figure 3.3). However, *Efficacy* had its expected impact on *Success*. The more the entrepreneur was committed to the start-up, and the more the entrepreneur believed that the project was feasible, the higher the perceived success rating was likely to be. *Support* impacted on *Success* as expected, but to a greater degree than *Efficacy*. *Support* also impacted on *Goals*, indicating that family and friends provided understanding, advice and moral support for the goals of the entrepreneur. However, *Support* had no significant impact on *Efficacy*. *Goals* had no direct impact on *Success*, but did strengthen the entrepreneur’s perception of *Efficacy*, thus having an indirect impact on *Success*.

**Figure 3.3****Resulting Outcomes Section****Notes:**

1. Dashed line indicates a connection which is not statistically significant.
2. Solid, straight line indicates a significant relationship.

**Process Activities**

The report also addresses Process Activities – a serious part of getting ready to start a business. These activities take place over a period of time. At the beginning, there is often a good deal of vagueness about what needs to be done. There may be uncertainty about whether becoming an entrepreneur is a good idea. Over time, entrepreneurs usually become more committed to the project and develop clearer ideas of their goals. They are, however, mainly concerned with hands-on preparations for start-up.

**Figure 3.4****Process Activities Variables**

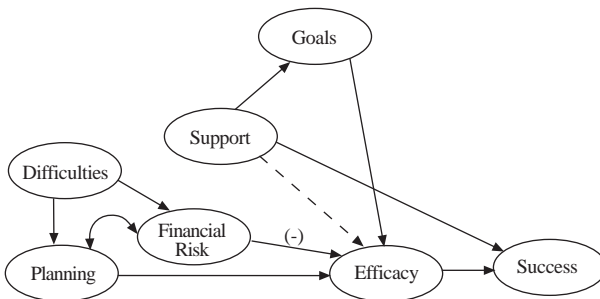
The process variables are *Planning*, *Difficulties* and *Financial Risk*, each of which influences the others (Figure 3.4). *Difficulties* refer to the unexpected difficulties encountered where the entrepreneur has to be persistent and resourceful. *Financial Risk* refers to the perceived risk levels and the impact that failure would have on the entrepreneur's financial situation. *Planning* consists of three dimensions:

- Advice sought from lawyers, accountants and other experts;
- Information gathered about the proposed business from a number of sources; and
- Planning effort – the degree to which the entrepreneur's plans were detailed, carefully done, and included specific operating goals.

The results of the Process Activities section of the model is linked to the Outcomes section in Figure 3.5.

**Figure 3.5**

### Process Activities and Outcomes Linked Together



**Notes:**

1. Dashed line indicates a connection which is not statistically significant.
2. Curved line indicates a correlation between two variables.
3. Solid, straight line indicates a significant relationship.

The three variables in the Process Activities part of the model seemed to behave as expected. *Difficulties* had a positive impact on both *Planning* and *Financial Risk*, in that the more difficulties perceived by entrepreneurs, the more they were driven to do more planning, and the higher degree of risk they perceived. *Planning* did not, however,

reduce *Financial Risk*. Instead, these variables were connected in a positive way – they increased and decreased together. *Financial Risk* also reduced *Efficacy* while *Planning* strengthened *Efficacy*, but not as much as anticipated.

### **Background Factors – Experience and Individual Circumstances**

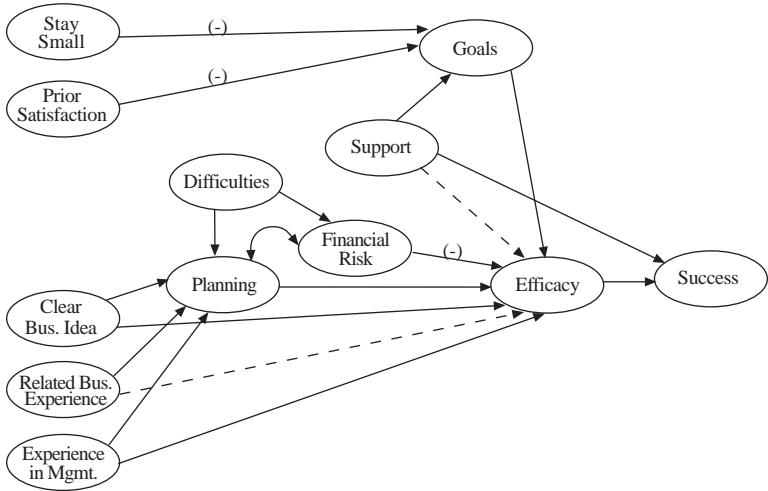
As indicated previously, Background Factors consisted of three elements. Two of these, Experience and Individual Circumstances, are discussed in this section. The third, Need for Achievement, is discussed in the next section. Experience and Individual Circumstances were identified as:

- Prior Satisfaction – satisfaction with personal employment or financial situation may demotivate people to become entrepreneurs;
- Stay Small – degree to which entrepreneur expected the business to remain small;
- Clear Business Idea – degree to which he/she had a clear business idea at the start and was strongly committed to starting;
- Related Business Experience – extent to which entrepreneur’s experience was relevant to the business being started; and
- Experience in Management – how much experience the entrepreneur had in management activities.

Figure 3.6 connects the Experience and Individual Circumstances variables to the remainder of the model. The *Stay Small* variable indicates that those entrepreneurs who expected their businesses to stay small had very little interest in goals. The *Prior Satisfaction* variable had a negative impact on goals. Entrepreneurs who have a *Clear Business Idea* tend to do more *Planning* and have a stronger sense of personal *Efficacy*. Both *Related Business Experience* and *Experience in Management* had a small but positive effect on *Planning*, but only *Experience in Management* had an impact on *Efficacy*.

**Figure 3.6**

### Results of Background – Experience and Individual Circumstances



**Notes:**

1. Dashed line indicates a connection which is not statistically significant.
2. Curved line indicates a correlation between two variables.
3. Solid, straight line indicates a significant relationship.

### Background Factors – Need for Achievement

The authors consider Need for Achievement (nAch) as a significantly different background factor from previous experience and individual circumstances. While those factors relate to the entrepreneur's life experiences and personal preferences, nAch is thought to be a trait acquired when very young. Research indicates that both entrepreneurs and managers generally have higher levels of nAch than others; however, the nAch of entrepreneurs does not necessarily exceed that of managers. A person with high nAch has three specific characteristics:

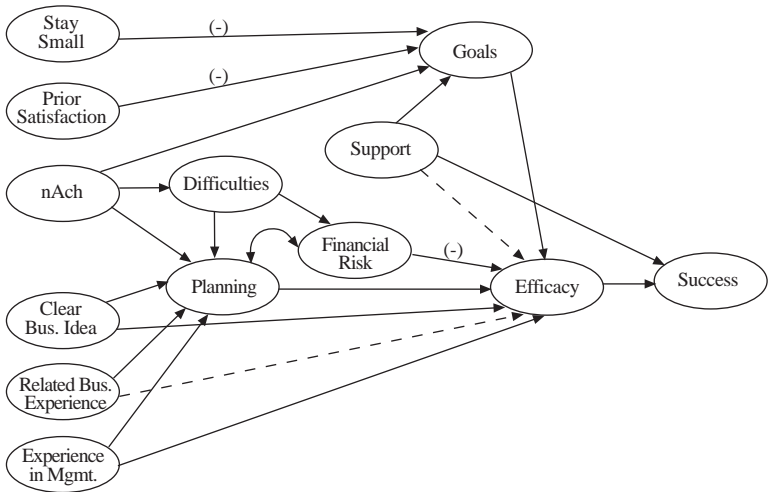
- The person likes situations where he/she takes personal responsibility for finding solutions to problems;
- The person has a tendency to set moderate achievement goals and take calculated risks; and
- The person wants concrete feedback on how well he/she is doing.

From a counselling perspective, one expects that people with high nAch will set relatively ambitious goals and will hate to fail, thus are likely to be careful planners. They will feel challenged by unexpected problems and will persist to find solutions. People with low nAch, on the other hand, will fear challenges and lack confidence to take risks. The challenge for counsellors is to help these people gain confidence by pointing out incremental successes throughout the start-up process.

nAch was measured using the Work and Family Orientation (WOFO) scale, which assesses individuals in terms of four dimensions:

- Mastery – a desire to master something before moving on to something else;
- Work Orientation – a positive attitude toward work;
- Competitiveness – a desire to win in competitive situations; and
- Personal Unconcern – a lack of concern with the negative reactions of others.

Based on the survey results, it appears that nAch can have considerable impact on the start-up process. The model (Figure 3.7) confirms that people with high nAch want and seek out challenging goals, and are challenged by difficulties. People with high nAch hate to lose and take special care to avoid mistakes by preparing carefully before acting.

**Figure 3.7****Results of the Full Model****Notes:**

1. Dashed line indicates a connection which is not statistically significant.
2. Curved line indicates a correlation between two variables.
3. Solid, straight line indicates a significant relationship.

**Conclusions**

According to the authors, the goal of the report was to provide new insight into the process of entrepreneurial start-ups. While the relationship of nAch to entrepreneurship has received much attention in the research literature, use of the WOFO scale is new. This scale may become a useful tool for counsellors. Instead of trying to assess the impact of nAch on eventual success, the research hypothesized that the major impact of nAch would be on certain elements of the process. The research was thus able to clarify how nAch can be used to help counsellors. Finally, the use of a large integrated model allows the real complexity of the business start-up process to emerge and facilitates a better understanding of the many interactions involved between variables.



## Chapter Four

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# Women-Owned Businesses in Atlantic Canada: A Profile

Over the past 20 years, a great deal of attention has been paid to women's issues in the workplace. Much of the attention has tended to focus on general issues such as employment discrimination, sexual harassment and blockages to promotion (the glass ceiling). This attention has led to greater public awareness and, no doubt, to changing public attitudes and even legislative changes.

With the growing interest in small business and entrepreneurship in recent years, many writers and researchers are addressing the role women play in entrepreneurship. This may not be surprising since women are now better educated in business and have more business experience than they did two decades ago. In the 1990s, there are two generations of business-educated and experienced women who are ready to seize the possibilities created by market niches and to gamble on their own strengths and efforts.<sup>1</sup> The 1992 edition of *The State of Small Business and Entrepreneurship in Atlantic Canada* emphasized the increasingly important role that women-owned business play in our economy. The report states that "...in 1964, 11% of Canadian businesses were owned by women, but by 1989 this figure had increased to 30%," and that "50% of new business start-ups in Canada were by women."

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<sup>1</sup>*What's Happening to Entrepreneurship*, 1994, Mona Brandeen, Canadian Women Studies, Vol. 15, No. 1.

The purpose of this chapter is primarily to report on a study<sup>2</sup> commissioned by Women's World Finance/Cape Breton Association (WWF/CBA) and authored by Jody Manley and Joanne Galliran.<sup>3</sup>

The study, supported with funding from the Atlantic Canada Opportunities Agency, the University College of Cape Breton, Nova Scotia Economic Development and Tourism, Department of Canadian Heritage and Air Nova, was designed to identify the economic contribution made by women-owned businesses in the region. In addition, several related issues are addressed. These include: factors affecting start-up, characteristics of women-owned business, financing, education and training, work and family, and growth and expansion.

The study surveyed 1,400 women from the four Atlantic provinces between September and December 1996, from which 351 usable responses were received.

Throughout this chapter, comparisons with data from other documents may be made to illustrate certain major points.

### **Factors Influencing Start-Up**

Figure 4.1 presents 10 factors (plus one category called "other") that influenced women to start their own businesses.

Not surprisingly, high earnings potential did not rate highly in the respondents' choices (13.7%) since, for entrepreneurs generally, this is not a major motivation. Lack of employment (26.8%), however, could suggest that there was a financial element reflected in their decisions to seek the entrepreneurial route. Generally, the major reasons for starting up a new enterprise were less economically motivated and more personal in nature. Opportunity to be one's own boss ranked highest at 42.5%. Related to this was the respondents' need for personal accomplishment (39.3%). Both of these are related to an individual's need to achieve, a well-known motivational characteristic displayed by entrepreneurs.

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<sup>2</sup>*Measuring the Economic Impact: Women Business Owners in Atlantic Canada*, Women's World Finance/Cape Breton Association, Sydney, 1997. Unless otherwise stated, data in this chapter were sourced from this report. Throughout the remainder of this chapter, this report will be referred to as the WWF study.

<sup>3</sup>Associate Professors, University College of Cape Breton (UCCB).

The third highest rating is the perceived opportunity in the marketplace (31.1%), followed by flexibility in working conditions (28.2%) and the desire to balance work and family (28.8%). The latter is a major issue since women historically have been perceived by society as the keepers of the household and, in this survey, 72.5% were married at the time of start-up.

**Figure 4.1**

### Factors Influencing Start-Up

Source: *Measuring the Economic Impact*

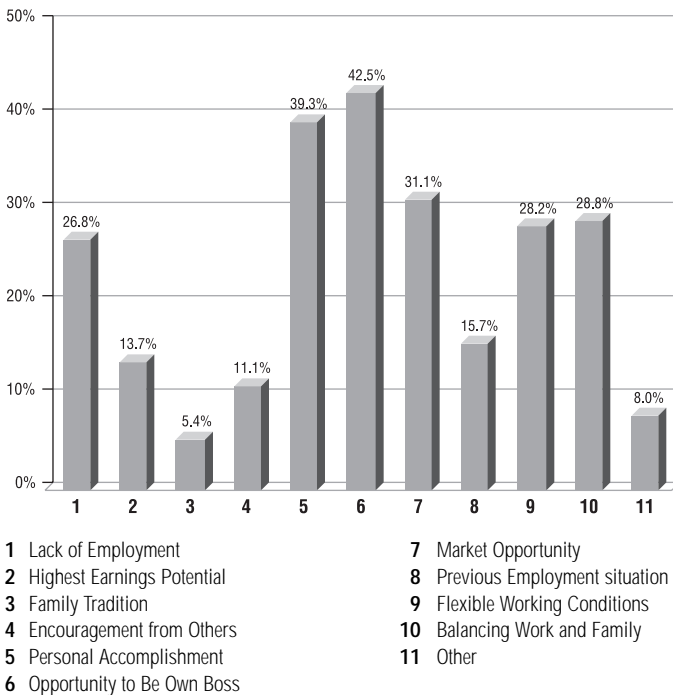
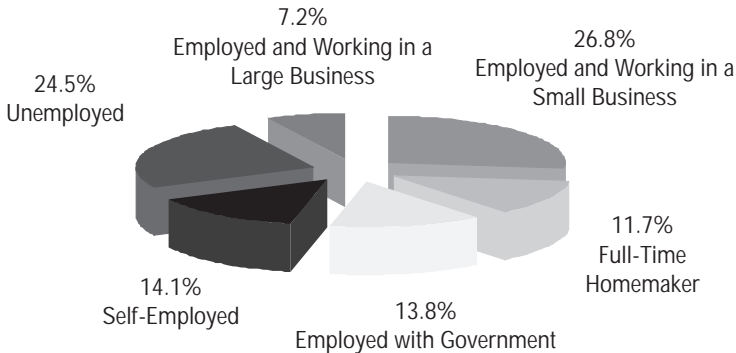
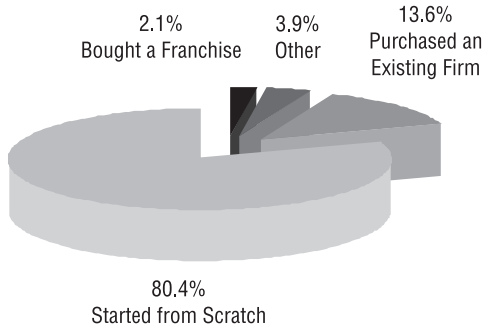


Figure 4.2 indicates the employment status of women entrepreneurs prior to starting their current business.

**Figure 4.2****Employment Status Prior to Starting Current Business**Source: *Measuring the Economic Impact*

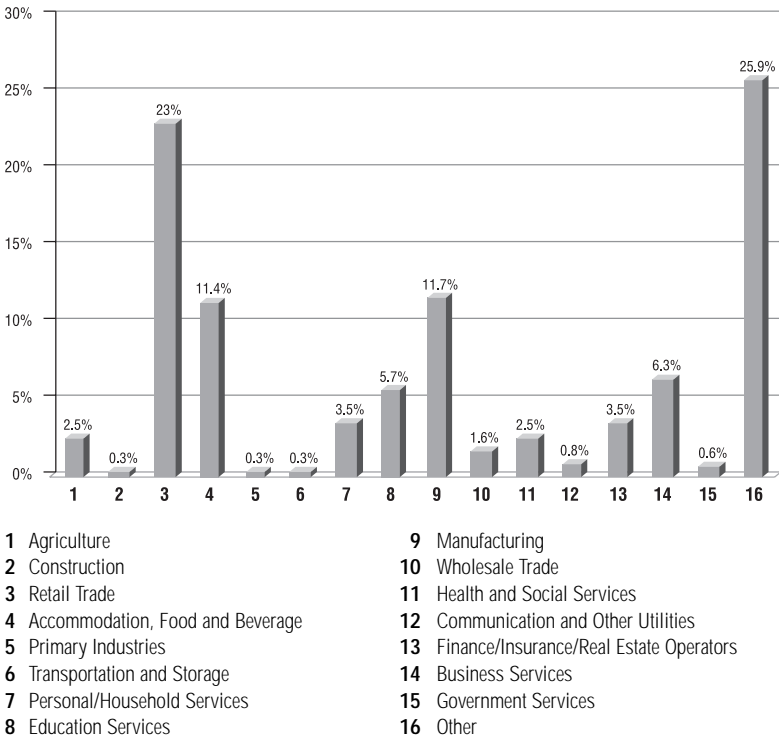
The 33.9% of women entrepreneurs who were working in small or large firms before start-up clearly had some business experience. The spin-off effect in the case of small businesses might be “if she can do it, so can I.” In the case of large businesses, a woman might be motivated by lack of flexibility, opportunity to be her own boss, or other reasons identified in Figure 4.1. In any case, the sources of women entrepreneurs are wide and varied. As can be seen in Figure 4.3, some 80.4% of women started their businesses from scratch, 13.6% bought existing businesses and 2.1% bought franchises.

**Figure 4.3****How Current Business Was Started**Source: *Measuring the Economic Impact***Characteristics of Women-Owned Businesses in Atlantic Canada**

An effort was made to identify the percentage of respondents involved in the various industry sectors (see Figure 4.4). Because of the number of industry categories, the percentage responses in each are relatively small. When the various service sectors<sup>4</sup> are combined, the majority of women-owned businesses operate in this sector. Retail/wholesale is the second most common form of business for women at 24.6%. Interestingly, the percentage of the respondents operating in the “non-traditional” sectors appears to be growing.

The survey indicates that 11.7% of the respondents are in the manufacturing industry, while 3.1% are in construction, agriculture and primary industries. The 1992 edition of *The State of Small Business and Entrepreneurship in Atlantic Canada* indicated that 2.7% of self-employed women operated in the manufacturing industry while 3.5% were in the construction, agriculture and primary industries. While these percentages are not exactly comparable because of definitions, there appears to be an upward trend in the percentage of self-employed women operating in the manufacturing industry.

<sup>4</sup> The percentage reported for services includes businesses in the following sectors: Business Services; Government Services; Accommodation, Food and Beverage; Personal/Household Services; Education; and, Health and Social Services.

**Figure 4.4****Key Sectors Where Women Operate Businesses**Source: *Measuring the Economic Impact*

It should be noted that some of the true percentages reported above may be distorted because of the large percentage in the “other” category.

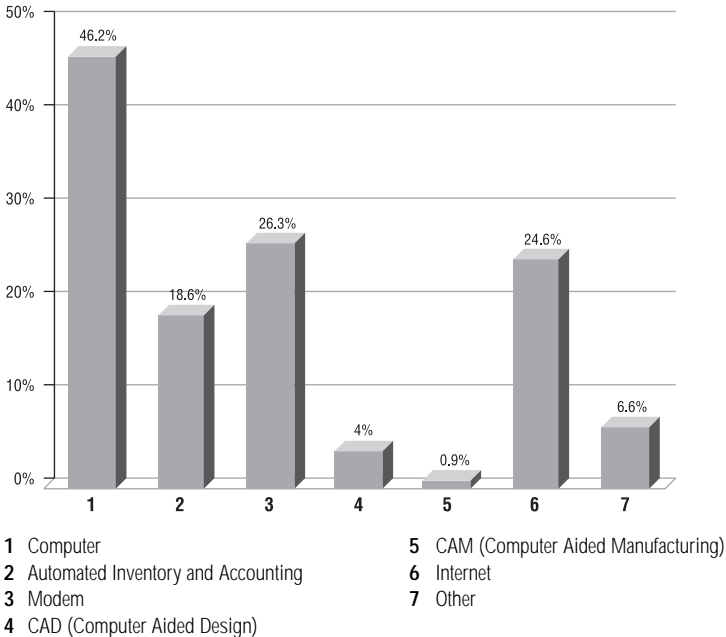
Figure 4.5 shows the degree to which women use various forms of technology in their business. This is important because of the changing nature of business operations and the need to embrace high technology in order to compete. One-fifth of the respondents considered their business to be “high tech.” While this is self-described, it does indicate a mind-set toward high technology. Thirty-eight per cent indicated that they use high technology in their business operations (see Figure 4.5).

Almost 50% of all respondents use a computer in their business. Therefore, not surprisingly, 26.3% use modems and 24.6% use the Internet as at least one means of communication. *The State of Small Business and Entrepreneurship in Atlantic Canada - 1996* reported on the use of technology by home-based businesses (men and women). By comparison, just 32% of home-based businesses used computers and 8.5% used a modem at that time (1995). Home-based business represents 51.9% of respondents in this study (see Figure 4.8).

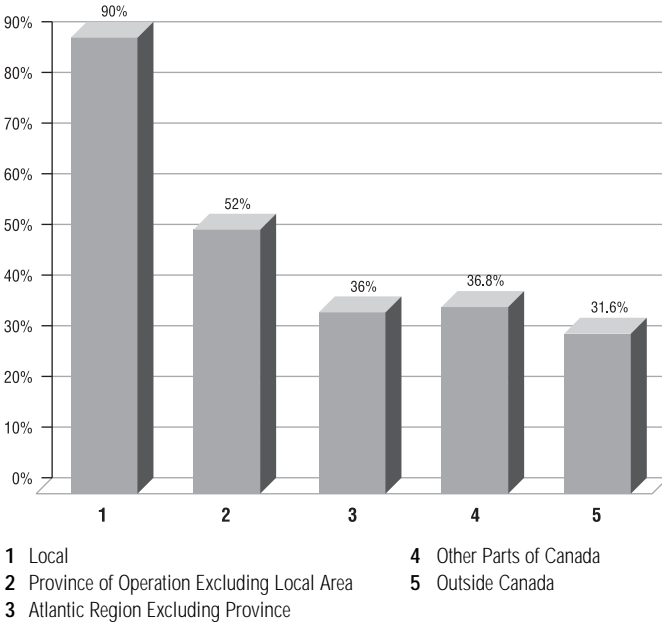
**Figure 4.5**

### Forms of Technology Used

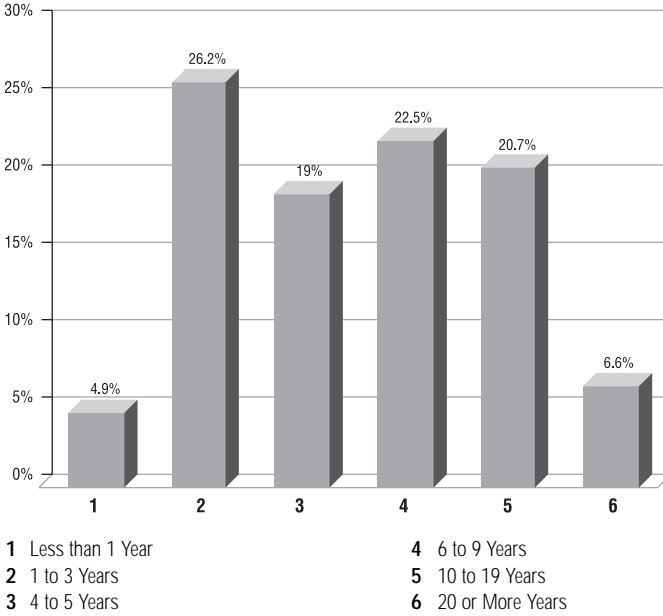
Source: *Measuring the Economic Impact*

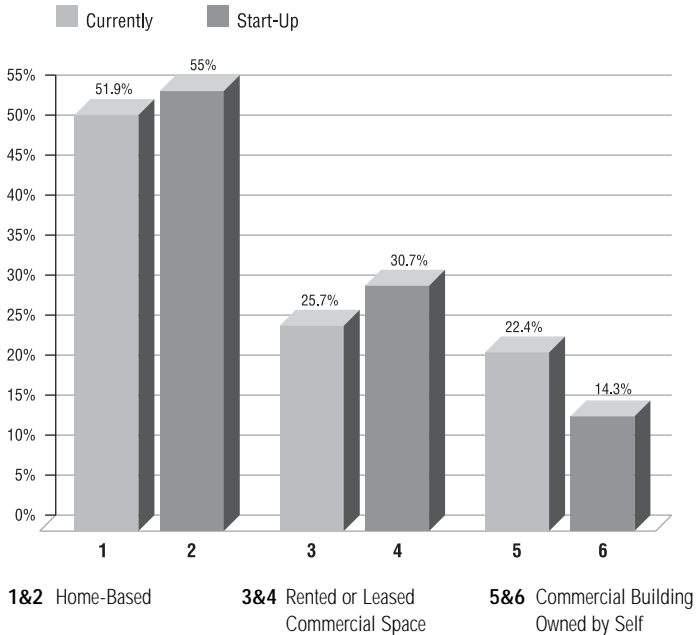


The WWF study also endeavoured to capture a profile of women-owned businesses with respect to markets served, age and location of business (see Figures 4.6, 4.7 and 4.8).

**Figure 4.6****Markets Served**Source: *Measuring the Economic Impact*



**Figure 4.7****Age of Business**Source: *Measuring the Economic Impact*

**Figure 4.8****Business Locations at Start-Up and Currently**Source: *Measuring the Economic Impact*

Not surprisingly, the major market for 90% of the respondents was local. A high percentage of business (92.5%) are very small (less than 5 employees, see Figure 4.10), with 56.2% having sales of less than \$25,000 (Figure 4.9). However, women-owned businesses in this sample appear to be expanding their markets beyond their local area with 52% operating provincially, 36% regionally, 36.8% nationally and a surprising 31.6% operating internationally (Figure 4.6). The latter is impressive given that only 9.6% of these businesses had sales of more than \$500,000.

A survey<sup>5</sup> by the Business Development Bank of Canada (BDC) reported that, across Canada, 28% of women-owned businesses (with fewer than 99 employees) presently export their products or services.

<sup>5</sup> *Canadian Women Entrepreneurs in Growing Sectors: A Survey, 1997*, Business Development Bank of Canada.

This would indicate that Atlantic Canadian women business owners are “staying with” their Canadian counterparts in terms of the new “global economy.”

While 31.1% of firms surveyed are relatively young (less than four years, see Figure 4.7), there is a good indication that a high percentage have staying power with 49.8% in business for more than five years.

Figure 4.8 and Tables 4.1 and 4.2 clearly show the relationships between business size and location of the business as it grows and develops. More than 50% of the businesses in this study are home-based. There is a tendency for younger firms to be home-based and, as sales increase, many firms move to leased or owned premises out of necessity or preference (Table 4.2).

**Table 4.1**

### Firm Age and Location of Business Operation

Business Location			
Age of Business	Home-Based	Rent or Lease Space	Own Building
New (in business less than 3 years)	61.0%	29.5%	9.5%
Growing (in business 4 to 9 years)	51.1%	26.2%	22.7%
Mature (in business 10 years or more)	43.0%	20.4%	36.6%

Source: *Measuring the Economic Impact*

**Table 4.2**

### Location of Business Operation and Firm Size

Annual Sales			
Location of Operation	Less than \$50,000	Between \$50,000 and \$200,000	More than \$200,000
Home-Based	72.0%	22.1%	2.3%
Rent or Lease Space	26.0%	39.6%	32.0%
Own Building	22.3%	31.6%	44.7%

Source: *Measuring the Economic Impact*

As a business gets older (Figure 4.8, Table 4.1), there is a tendency to leave the home base and either move into leased space or buy a building in some commercial or industrial zone. Likewise, as businesses grow both in terms of sales and, particularly, number of employees, the ability to sustain a home-based location becomes more and more difficult. The home, therefore, is quite often suitable for micro-firms that remain small. In fact, some 35% of home-based businesses operate there for more than 10 years.<sup>6</sup> For the growing firm, the home serves as an incubator, allowing the enterprise to become established and to develop markets at relatively low risk. Furthermore, 48.3% of home-based businesses have sales of less than \$50,000 and would likely be unable to afford leased premises.

### **Economic Impact**

The increasing economic impact of women-owned businesses was the major finding of the WWF study. It suggests that “total annual sales generated by all women-owned firms in Atlantic Canada is estimated to exceed two billion dollars.” Clearly, this is a significant contribution to the regional economy.

The majority of respondents to the WWF study are small by any measure. For example, 63.4% have sales of \$100,000 or less (Figure 4.9) and 78.5% have fewer than five employees (Figure 4.10). Employment distribution for all firms in Atlantic Canada in 1995 shows that approximately 80% of all Atlantic Canadian firms fall into the category of fewer than five employees. The average number of employees for firms in the WWF study was 3.5.

What is interesting about the results of this study is the dynamics of growth over the period between start-up and 1997. It has to be noted here that the survey is dealing with “successful” firms that have survived over a number of years and does not address failures.

Figure 4.9 shows how the successful firms have grown in terms of sales. This figure shows that some surviving firms emerged from the very small enterprise (<\$10,000) to one of the other larger categories while 25.2% remained very small. In fact, some firms may have started business in a larger sales category and slipped to a smaller

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<sup>6</sup> *The State of Small Business and Entrepreneurship in Atlantic Canada - 1996*, p. 63.

sales category. Collectively, however, Figure 4.9 suggests that surviving firms grew in size and the most significant growth range appears to be in the \$50,000-\$500,000 range. For example, 6.9% of respondents reported sales of \$100,001-\$200,000 at start-up, compared to 13.6% currently. In all sales categories above \$10,000, the respondents reported on in the WWF study collectively show growth.

**Figure 4.9**

**Annual Sales at Start-Up and Currently**

Source: *Measuring the Economic Impact*

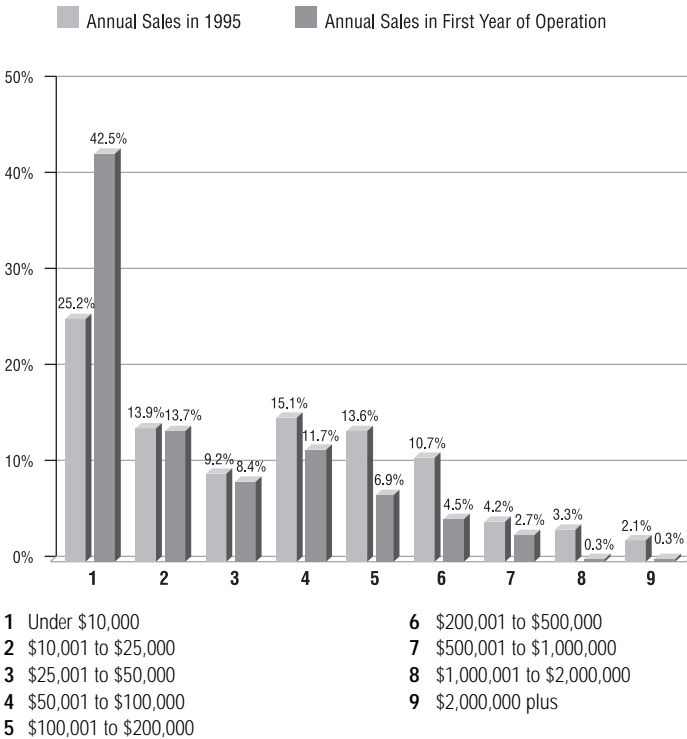


Table 4.3 shows a cross-tabulation between size (in sales) and age of the respondent firms. This table shows that, as businesses mature in age, they tend to grow in terms of sales volume. Furthermore, firms tend to start small – 55.9% of firms less than three years old have sales of less than \$50,000. On the other hand, 61.4% of mature firms (>10 years) have sales greater than \$50,000.

Data presented in the WWF study indicate that the respondent group had a relatively good three years. Only 17.9% indicated that sales had declined, while 54.1% reported that sales had increased (41.3%) or increased significantly (12.8%). This indicates that survivors are doing reasonably well.

**Table 4.3**

**Business Tenure and Firm Size**

Age of Business	Annual Sales			
	Less than \$50,000	Between \$50,000 and \$200,000	Between \$200,000 and \$500,000	More than \$500,000
New (in business less than 3 years)	55.9%	28.5%	7.8%	3.0%
Growing (in business 4 to 9 years)	50.7%	28.2%	13.0%	6.5%
Mature (in business 10 years or more)	36.6%	30.1%	10.8%	20.5%

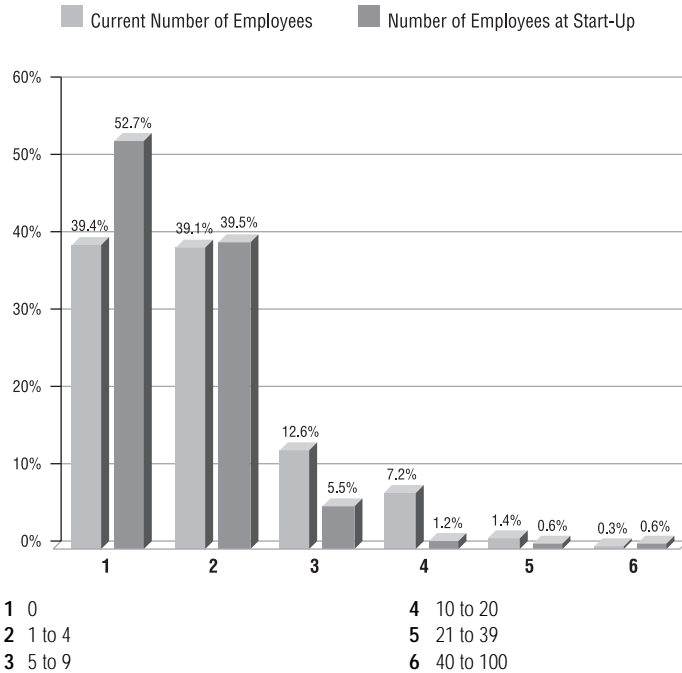
Source: *Measuring the Economic Impact*

Figure 4.10 shows the growth in employment by women-owned businesses over their tenure.

**Figure 4.10**

**Number of Employees at Start-Up and Currently**

Source: *Measuring the Economic Impact*



This figure shows a similar pattern to sales growth. For example, 52.7% had no employees at start-up compared to only 39.4% at the time of the survey. On the other hand, 7.2% of respondents had 10-20 employees currently, as compared to only 1.2% of the businesses at start-up. Not surprisingly, there is a direct relationship between the age of the business and the number of employees. This is illustrated in Table 4.4.

**Table 4.4****Business Tenure and Number of Employees**

Age of Business	Number of Employees		
	Less than 5 Employees	Between 5 and 9 Employees	10 or More Employees
New (in business less than 3 years)	86.9%	7.5%	5.6%
Growing (in business 4 to 9 years)	78.0%	12.0%	9.8%
Mature (in business 10 years or more)	68.5%	20.0%	11.6%

Source: *Measuring the Economic Impact*

Of those firms in business less than three years, 86.9% employ fewer than five people and only 5.6% employ more than 10 people. There is evidence, however, that a significant proportion of mature firms, those in business for more than 10 years, have remained small. Of the mature firms, 68.5% still employ fewer than five people and just 11.6% of these firms employ more than 10 employees. It can be said, therefore, that while there appears to be growth over time in both sales and employment for the group surveyed, a high percentage of the respondent-firms remain small (<5 employees) at any age.

It appears that the size of women-owned businesses in Atlantic Canada is getting smaller. In 1990, 29% of women-owned businesses had no employees.<sup>7</sup> According to the WWF study, this proportion jumped to 39.4%. Furthermore, the percentage of women-owned businesses with more than five employees dropped from 28% in 1990<sup>8</sup> to 21.5% in 1996. Some of this structural change could be explained by the degree to which small companies contract work out rather than hire extra staff. This restricts internal growth. The WWF study reports that 27.7%<sup>9</sup> of all firms in the survey contract out more than \$10,000 annually to other firms and of this, 15.1% provide contract work worth more than \$20,000 per year. Such managerial decisions could reflect a conservative approach to expansion during a period of economic uncertainty, while only 36% report using contract work.

<sup>7</sup> *The State of Small Business and Entrepreneurship in Atlantic Canada - 1992*, p. 99.

<sup>8</sup> Ibid.

<sup>9</sup> WWF study, p. 20, figure 17.



Another indication of the conservative nature of the respondents in this survey is reflected in the level of salary or drawings from the business. The relatively low level of salary is also a manifestation of the incubative nature of small women-owned businesses. Table 4.5 shows the relationship between the level of salary and the age of the business.

**Table 4.5**

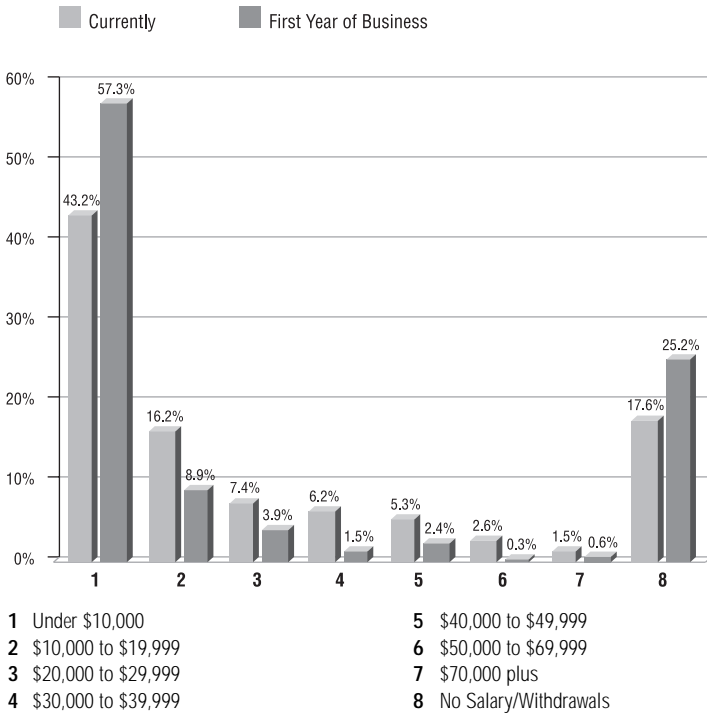
**Business Tenure and Salary/Withdrawals from the Business**

Salary/Withdrawals				
Age of Business	No Salary/ Withdrawal	Less than \$20,000	Between \$20,000 and \$50,000	More than \$50,000
New (in business less than 3 years)	25.0%	64.5%	10.5%	0.0%
Growing (in business 4 to 9 years)	17.1%	60.7%	17.8%	4.3%
Mature (in business 10 years or more)	8.7%	54.5%	29.4%	7.6%

Source: *Measuring the Economic Impact*

It is interesting to note that 25% of business owners of young firms (<3 years) took no salary at all. This would clearly suggest that these enterprises were part-time operations and the owners were not dependent on the business for financial support. As the business matured, this percentage dropped to 8.7%. Only 10.5% of the owners of young firms drew salaries of \$20,000-\$50,000. This percentage grew to 29.4% as the business reached the mature stage.

When one looks at the aggregate sample at the time of the survey (Figure 4.11), over 43% of the women were taking salaries of less than \$10,000, and 17.6% were taking no salary at all. Only 23% were taking salaries of \$20,000 or more.

**Figure 4.11****Salary/Withdrawals at Start-Up and Currently**Source: *Measuring the Economic Impact*

Such low salary/withdrawals by women in this sample suggests that: (a) the business sales could not support more; (b) women tend to be conservative and would rather nurture the business by retaining profits for growth; (c) they are operating the enterprise as a part-time venture; or, (d) they are undercapitalized initially and have difficulty in the growth stage.

**Financing**

Getting start-up and ongoing capital for small enterprises, whether owned by men or women, has been an issue for years. Most businesses rely on personal investment and, almost always, the commercial banking system to support their operations. Many studies have tried to see if small business has been discriminated against compared to larger business. The most notable was the

Wynant-Hatch study in 1991.<sup>10</sup> While much of the evidence is anecdotal, women still seem to face discrimination in their efforts to get financing.<sup>11</sup> “Women business owners come away from a banking experience with much less of a sense of having been treated respectfully and are less comfortable with such an experience.”<sup>12</sup>

The WWF study reports specifically on the experience of women in the region with respect to start-up capital, other financing, collateral requirements and their general relationships with lenders. Figure 4.12 presents the sources of start-up capital for survey respondents.

The major source of start-up capital is from personal sources. These essentially include personal savings (66%), sale of personal assets (8.3%), and loans from family and friends (20.3%). While government agencies are a factor (12%), commercial banks were used by 34.3% of respondents. These percentages for women are similar to those contained in the 1992 edition of *The State of Small Business and Entrepreneurship in Atlantic Canada* (p. 104). In 1990, comparable percentages were: personal savings (58.5%), family (25.7%), government (17.6%), and banks (39.4%). In other words, there appears to be little change in the mix of financing sources used by women at the start-up stage over a seven-year period.

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<sup>10</sup> *Banks and Small Business Borrowers*, 1991, L. Wynant and J. Hatch, The Western Business School, The University of Western Ontario, London, Ontario.

<sup>11</sup> *Giving Credit Where It's Due: Women Business Owners and Canadian Financial Institutions*, Allan L. Riding and Catherine S. Swift, in Proceedings of the Fifth Canadian Conference of the International Council for Small Business, 1988.

<sup>12</sup> *Gender and Banking with the Small Business Client*, 1994, L. Fabowale, B. Orser, A. Riding and C. Swift, *Canadian Women Studies*, Vol. 15, No. 1.

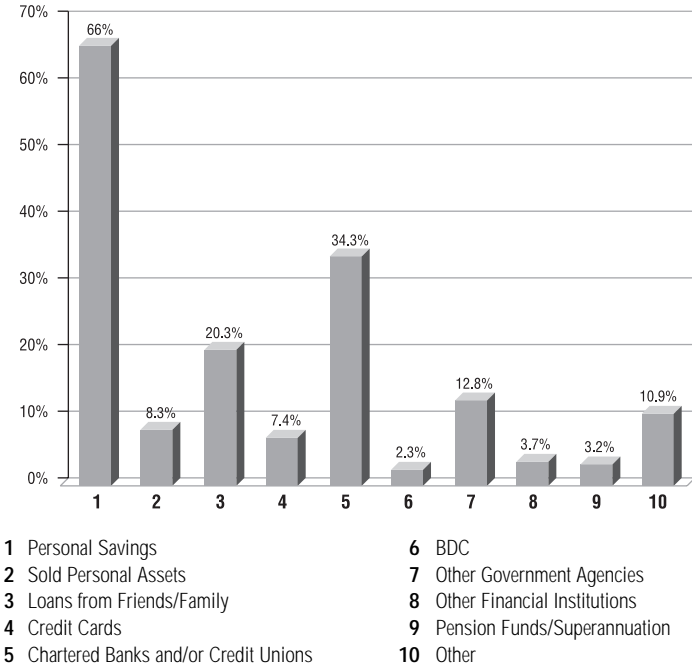
**Figure 4.12****Sources of Start-Up Capital**Source: *Measuring the Economic Impact*

Table 4.6 presents a comparison of the data from the WWF study with various groups with respect to sources of start-up capital.

When one looks at all SMEs in Canada and Atlantic Canada where both men- and women-owned businesses are included, it would appear that collectively men and women were able to leverage their personal investment into debt financing to a much greater degree than women owners only, both in Atlantic Canada and in Canada as a whole.

**Table 4.6****Sources of Financing: A Comparative Analysis**

<b>Current Financing</b>	<b>WBOs Atlantic Canada</b>	<b>All SMEs Atlantic Canada</b>	<b>All SMEs Canada</b>	<b>Women SMEs Canada</b>
Personal Savings	66.0%	45.0%	39.0%	46.0%
Chartered Banks/ Other Financial Institutions	38.0%	65.0%	51.0%	39.0%
Government Loans/BDC	14.9%	22.0%	15.0%	11.0%
Loans from Friends/Relatives	20.3%	12.0%	12.0%	12.0%

Source: *Measuring the Economic Impact*

The WWF study reported on the percentage of women business owners who had difficulty obtaining financing at start-up and on an ongoing basis. During the start-up stage, 35.1% of respondents reported having problems accessing financing, while 31.7% had problems later in the development of the business. The requirement of a co-signer was more prevalent at time of start-up. In 55% of cases, women entrepreneurs had to pledge personal property.

Surprisingly, the relationship between lending institutions and the respondents of this study appears to be reasonably good. At start-up, 66.2% indicated that they had no problem dealing with lenders, in all likelihood because two-thirds of the start-up funding came from personal sources and the need to deal with lending institutions was limited. Furthermore, 89.2% of respondents had average to good working relationships with lenders at the time of the survey versus 83.3% at the start-up stage of their ventures.

In general, it can be said that the good lender relationships may be a function of the degree to which personal sources are used to support the business venture (66%); the use of co-signers (spouse and friends); or, pledges of personal assets to support any debt. Such collateral provides a comfort zone to lending institutions which tend to be balance-sheet lenders.

## Education and Training

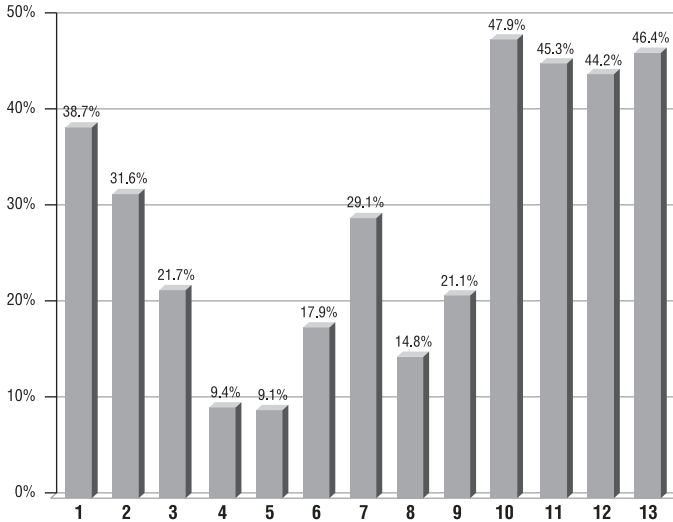
In 1986, 12.8% of the self-employed women in Canada had less than a high school education, while 43.1% had some post-secondary education (including undergraduate and graduate degrees).<sup>13</sup> In the WWF study, 82.9% of women entrepreneurs had some post-secondary education. While the comparison is not strictly valid, it does indicate that women entrepreneurs are generally becoming more educated.

In addition to the rather substantial general education to start with, respondents indicated that they pursued other training (either courses or seminars) specific to their business operations. Most of the areas of training are associated with business management, as can be seen from Figure 4.13.

**Figure 4.13**

### Management Skills Acquired by Training

Source: *Measuring the Economic Impact*



1 Computer

2 Financial Management

3 Time Management

4 Bookkeeping/Accounting

5 Managing Employees

6 Marketing and Promotion

7 Business Planning

8 Market Research

9 Quality Control

10 Inventory Control

11 Production Management

12 Sales/Product Development

13 Securing Financing

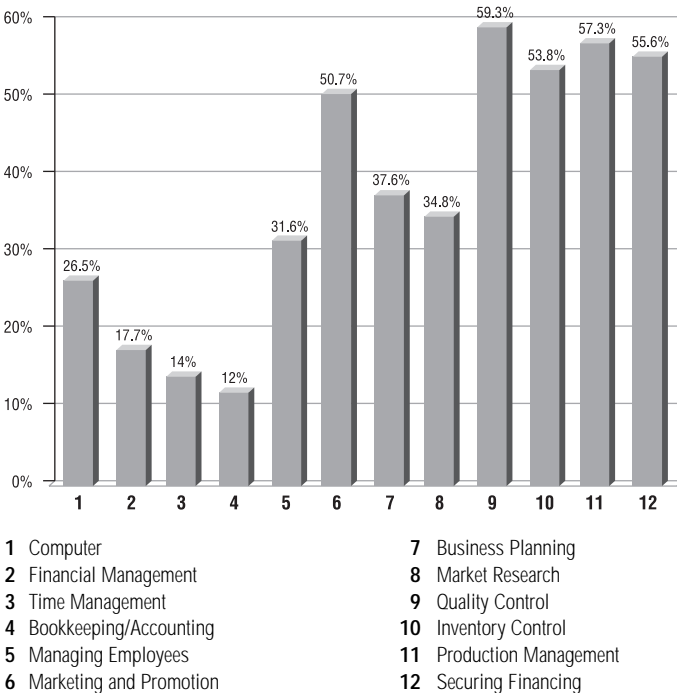
<sup>13</sup> *The State of Small Business and Entrepreneurship in Atlantic Canada - 1992*, p. 96.

The areas where training appeared to be most needed were in inventory control (47.9%), production management (45.3%), sales/product development (44.2%) and financing (46.4%). Training on computers was also important (38.7%). These same areas tend to be the same management areas for which women entrepreneurs seek advice and assistance from others (Figure 4.14).

**Figure 4.14**

### Areas in Which Advice and Assistance from Others Are Used

Source: *Measuring the Economic Impact*



Interestingly, 47.3% of women entrepreneurs rely on their own knowledge and skill in areas of business management, such as managing employees. Only 9.1% relied on additional training to compensate for any shortcomings in this area. This is consistent with the generally accepted belief by women entrepreneurs that one of their strengths is dealing with people.

When asked about future training needs, managing employees ranks close to the bottom of the list, while areas such as planning and marketing rank at the top. However, there could be a direct correlation between the small number of employees in the businesses surveyed and their seemingly low interest in human resource issues.

It has to be noted that these women entrepreneurs have been in business for varying lengths of time and are probably starting to realize that marketing planning, and planning in general are important long-term components of managing a successful enterprise.

### **Work and Family**

When considering women entrepreneurs, a number of issues come to mind, including marital status, children and household responsibilities, as well as the role conflicts inherent in the various relationships. The WWF study indicates that 72.5% of this sample of women entrepreneurs were married and an additional 7.2% were “partnered”. Of this group, 50.8% had children living in the household. Women entrepreneurs have to balance the demands of work outside the home with housework and care of the children and, in most cases, the spouse.

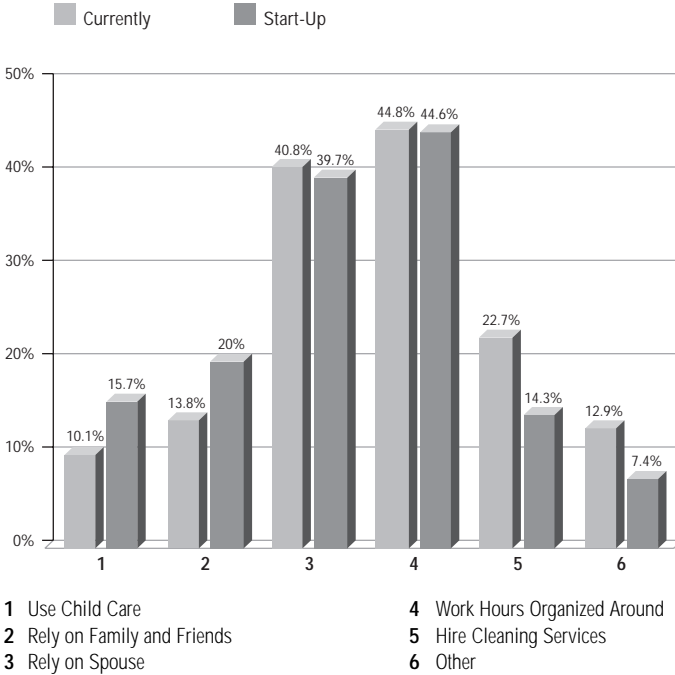
Women entrepreneurs see themselves as “more determined, having more initiative, being more independent, more diligent and more creative”<sup>14</sup> than their male counterparts. Over 70% of the respondents indicated that family responsibilities did not present a major obstacle to running a business.

Figure 4.15 indicates the strategies used by women entrepreneurs to balance work and family responsibilities. While various strategies were sometimes used together, the two major strategies were to rely on the spouse (39.7%) and to organize work hours around family commitments (44.6%). Outside help such as child care, family and friends and cleaning services were used to a lesser extent (15.7%, 20.0% and 14.3% respectively).

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<sup>14</sup> *The State of Small Business and Entrepreneurship in Atlantic Canada - 1992*, p.111.



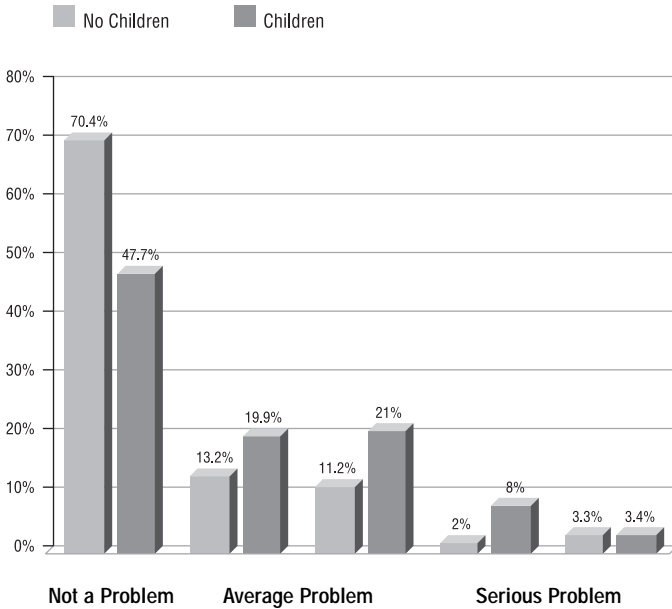
**Figure 4.15****Strategies for Balancing Work and Family**Source: *Measuring the Economic Impact*

For some women entrepreneurs, children present a special challenge. Figure 4.16 shows the perception of family as an obstacle to business operations. For those women without children, 83.6% see very little problem. For those with children in the household, 67.6% perceive the problem as relatively minor. Only a very small percentage (3.4%) of women entrepreneurs see the whole issue of family and children as a serious problem. The low percentage may reflect the fact that women have developed strategies to successfully cope with the issue of balancing work and family responsibilities.

**Figure 4.16**

### Children and Perceptions of Family as an Obstacle to Business Operation

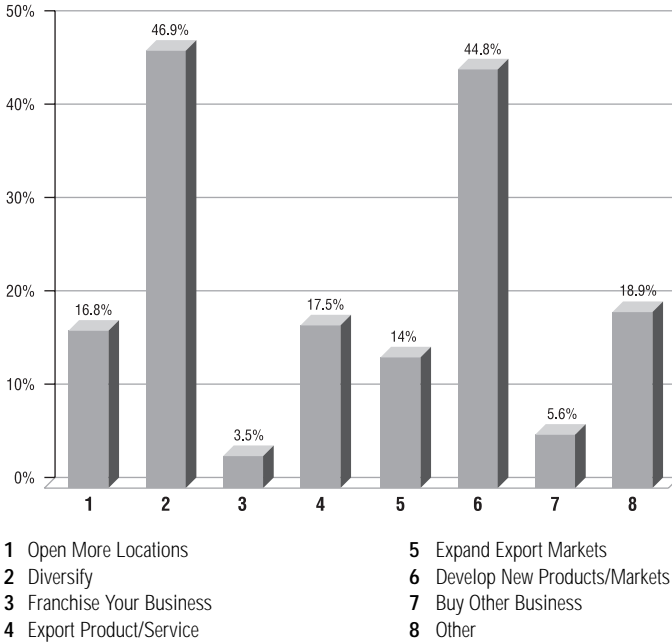
Source: *Measuring the Economic Impact*



### Growth and Expansion

The final chapter in the WWF study focuses on growth and expansion. The future of small, women-owned businesses will depend on (a) the desire to grow, (b) the ability to grow (quite often out of a home-based environment) and, (c) the opportunity to grow (markets/products). A study by Judith Potts<sup>15</sup> indicates that “fewer women-owned businesses than men-owned or men- and women-owned businesses grew in gross business income.” What is encouraging about the WWF study is that almost 42% of the respondents plan some kind of expansion and, of those “growth-oriented” entrepreneurs, 69.8% plan to do so within the next two to three years. Of those planning to grow, 76.2% anticipate increased sales and 65% expect to employ more people. Most expect that incremental profits will follow (81.4%). Figure 4.17 presents the planned expansion strategies of those who want to grow.

<sup>15</sup> *Gender of Owner Plays a Role in Business Growth*, 1994, Judith Potts, *Canadian Women Studies*, Vol. 15, No. 1.

**Figure 4.17****Expansion Strategies**Source: *Measuring the Economic Impact*

A very high percentage have a visionary mind-set in that 46.9% wish to diversify and 44.8% would like to develop new products/services and new markets. Exports appear to be important as well, since 31.5% have exports as a component of their expansion strategies.

**Conclusions**

In this chapter, an effort was made to highlight the major findings of the WWF study on the economic impact of women business owners in Atlantic Canada. Quite apart from the purely economic impact, some of the other important issues related to women-owned businesses are discussed. The study shows that women-owned businesses in Atlantic Canada make a significant contribution to the economy, that women entrepreneurs have a high degree of determination and tenacity, and that they are optimistic despite the obstacles they have to encounter in the process of creating and developing a business.



## Chapter Five

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# Regional Competitiveness

Competitiveness is defined by the Organization for Economic Co-operation and Development (OECD) as “the degree to which a country can, under free and fair market conditions, produce goods and services that meet the test of international markets while simultaneously maintaining and expanding the real incomes of its people over the long term.”<sup>1</sup> Although not a country, the Atlantic region competes within Canada and internationally both in terms of the sale of goods and services and in terms of attracting investment dollars. As such, it is critical to understand the factors and indicators that underlie and determine competitiveness in Atlantic Canada.

The present chapter summarizes the results of recently completed research on Atlantic Canada’s competitiveness, discusses the challenges facing the region in this area and outlines potential strategies to improve its competitive position. The basis for much of the discussion comes from five studies commissioned by ACOA, and from a roundtable co-hosted by the Atlantic Provinces Chamber of Commerce (APCC) and ACOA. The first study<sup>2</sup> examines location-sensitive cost factors and quality of life indicators. The second study<sup>3</sup> compares the socio-economic status of Atlantic Canada with G-7 nations. The third study<sup>4</sup> compares the economic performance and

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<sup>1</sup> *Atlantic Canada and the World: A Development Comparison*, 1996, North American Policy Group, Dalhousie University, Halifax, Nova Scotia, p. 3.

<sup>2</sup> *A Comparison of 1996 Business Costs in Atlantic Canada and the United States*, 1996, KPMG Management Consulting in association with Business Development Information Incorporated (BDI Inc.), Halifax, Nova Scotia.

<sup>3</sup> *Atlantic Canada Human Development Index Study*, 1996, Informetrica Limited, Ottawa.

<sup>4</sup> *Atlantic Canada and the 50 States: A Development Comparison*, 1996, North American Policy Group, Dalhousie University, Halifax, Nova Scotia.

development potential of Atlantic Canada to the 50 U.S. states. The fourth study<sup>5</sup> compares Atlantic Canada's competitiveness with the world's leading economies. The final study<sup>6</sup> is an update and expansion of the 1996 KPMG Management Consulting (KPMG) study which compared the costs of doing business in Atlantic Canada to those in the United States. This 1997 report provides an updated comparison to the United States and includes a comparison of the costs of doing business in Atlantic Canada with five European countries.

Together, these five studies present a comprehensive picture of the competitiveness of the economy of Atlantic Canada. The report<sup>7</sup> on the ACOA/APCC roundtable provides a summary of the strengths and weaknesses of the Atlantic region as well as suggestions on how to improve Atlantic Canada's competitive position in the global economy.

The remainder of this chapter provides an overview of the research on competitiveness in Atlantic Canada, a framework for understanding competitiveness, a discussion of the challenges to achieving increased competitiveness in the region, and a discussion of suggested strategies to improve the competitiveness of Atlantic Canada.

### **Overview of Research**

The ACOA-commissioned studies discussed in this chapter represent the first attempt to apply national and international models of competitiveness at a regional level. As such, they were intended to achieve the following objectives:

- show Atlantic Canada in a North American and global perspective, using internationally recognized standards of measurement;
- demonstrate that Atlantic Canada has a real basis for competitiveness and growth, particularly vis-à-vis the United States;
- identify the region's strengths as a basis for promoting opportunities and attracting investment;
- identify specific areas of weakness requiring policy and program initiatives; and

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<sup>5</sup> *Atlantic Canada and the World: A Development Comparison*, 1996, North American Policy Group, Dalhousie University, Halifax, Nova Scotia.

<sup>6</sup> *The Atlantic Canada Advantage: A comparison of business costs in Atlantic Canada, Europe and the United States*, 1997, KPMG Canada and Prospectus Inc.

<sup>7</sup> *A Shared Economic Vision for Atlantic Canada*, 1996, The Atlantic Canada Chamber of Commerce.

- respond to the myth that Atlantic Canada is not a competitive location for investments.<sup>8</sup>

Following is a brief discussion of the background, methodology and key findings of each study dealing specifically with the issue of regional competitiveness. This discussion is organized and presented under the following key determinants of competitiveness: business costs, human development, and economic performance and development potential.

**Business Costs.** As indicated previously, ACOA commissioned two studies that focussed on capital and operating costs that are considered to be location-sensitive. The first, a 1996 KPMG/BDI study<sup>9</sup>, compares the financial and non-financial costs of establishing and operating a business in 28 cities – 12 in the United States and 16 in Atlantic Canada. Seven of the U.S. cities are located in the east. Seven industries are represented in the study including frozen foods, medical devices, software, telecommunications, plastics, metal fabrication and electronics and instrumentation. The industries were chosen to ensure representation from a mix of established and emerging industries, those with a variety of capital and operating cost requirements, and those representative of Atlantic Canada's economic potential.

Location-sensitive capital and operating costs examined in the study include industrial land costs, construction costs, labour costs, electricity costs, transportation and distribution costs, interest costs and income taxes. These costs represent approximately 36% of all costs for the types of businesses analysed. The remaining costs, such as raw materials, are assumed to be equal for the purpose of the research. The study briefly addressed the following non-financial factors which influence the site location choice: workforce characteristics, including educational and labour considerations; economic indicators, including government debt and current inflation levels;

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<sup>8</sup> *A Shared Economic Vision for Atlantic Canada*, 1996, The Atlantic Canada Chamber of Commerce, p. A1.

<sup>9</sup> *A Comparison of 1996 Business Costs in Atlantic Canada and the United States*, 1996, KPMG Management Consulting in association with Business Development Information Incorporated (BDI Inc.), Halifax, Nova Scotia.

personal financial factors, including the cost of housing, cost of living and taxation levels; and, safety and security issues, including personal and property crime rates.

The study employs a computer model that forecasts costs and projects financial information for a model business operation in each location over a 10-year period from start-up. The standard specifications used for each model operation, such as sales revenue, investment in machinery and equipment and working capital and staffing requirements, were developed in consultation with industry representatives and have been held constant for all study areas. Key findings of the study include:

- initial investment costs are lower in Atlantic Canada for every industry, largely as a result of lower land acquisition costs and lower construction costs;
- operating costs are lower in Atlantic Canada for every industry, primarily as a result of lower labour and benefits costs;
- Atlantic Canada's cost advantage holds over a wide range of exchange rates;
- wages are lower in Atlantic Canada than in the U.S.; however, the cost-of-living index and housing prices are also lower; and
- crime rates and homicide rates are lower in Atlantic Canada than in the U.S. jurisdictions.

The second study<sup>10</sup>, completed by KPMG in 1997, extends the comparative analysis of business costs from the 1996 study to include five European countries, as well as additional cities in the United States and Canada. A total of 42 locations are included, 27 in North America and 17 in Europe. Two notable differences exist between the two studies. First, the pharmaceutical industry is included in the 1997 analysis. Second, non-financial factors are given less attention in the second study.

In order to make comparisons at the international and regional levels, costs are analysed on the basis of an average of three to four representative cities in each country and an Atlantic Canadian average. In addition, individual data are reported for each of the 42

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<sup>10</sup> *The Atlantic Canada Advantage: A Comparison of Business Costs in Atlantic Canada, Europe and the United States*, 1997, KPMG Canada and Prospectus Inc.



cities. The results of the international comparison reinforce the findings of the 1996 study. Atlantic Canada demonstrates lower initial investment costs than all other locations, again as a result of lower land and construction costs. The Atlantic region also has the lowest operating costs, reflecting the lower labour and benefits costs. Overall, Atlantic Canada ranked first, just ahead of Canada, for each of the industries surveyed. Finally, the Atlantic region is home to the four lowest-cost cities of the 42 covered by the study.

**Human Development.** This study<sup>11</sup>, completed by Informetrica Limited, is an attempt to analyse economic and social development indicators in the Atlantic region and to make comparisons to G7 nations. The information obtained from this study is intended to complement the research on business costs outlined previously and thus add to the information base on Atlantic Canada available to potential domestic and foreign investors.

The methodology employed in the study was to develop measures for Atlantic Canada based on the United Nations' (UN) Human Development Index (HDI) and the United Nations Development Programme's Human Development Report (HDR). The HDI combines measures of longevity, knowledge and standard of living into a more comprehensive measure of human development or socio-economic status. The HDR, while dealing with components of the HDI, includes additional aspects of human development and other socio-economic concerns. The combination of the two provides a more complete assessment of human development. Utilizing these measures, the region was then compared to Canada and to other industrialized countries.

The results of the analysis indicate that if Atlantic Canada had been integrated into the United Nations' HDI rankings for 1992, the region would have placed second behind Canada. In addition, the report identifies the following strengths and challenges for the region:

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<sup>11</sup> *Atlantic Canada Human Development Index Study*, 1996, Informetrica Limited, Ottawa.

**Major Strengths:**

- health and long life expectancy
- commitment to education
- more equitable distribution of income
- abundant internal renewable water resources
- low inflation performance
- above-average economic growth
- strong growth in employee earnings

**Major Challenges:**

- low rate of industrialization
- high rates of unemployment, especially among youth
- decelerating population growth
- low investment effort
- few scientists and technicians and low tertiary science enrolment
- high rate of energy usage per capita

**Economic Performance and Development Potential.** The final two studies dealing specifically with regional competitiveness were undertaken by the North American Policy Group (NAPG), a university-based research and consulting organization located in the Faculty of Management at Dalhousie University in Halifax. The first<sup>12</sup> of the NAPG studies was designed to measure the development of the Atlantic region in comparison to the 50 U.S. states. This study utilized measures developed by the Corporation for Enterprise Development (CfED) to measure and compare the development of the U.S. states.

NAPG developed statistics for Atlantic Canada on 58 criteria used by CfED and graded the region in three areas based on these measures: economic performance, business vitality, and development capacity. In addition, although not graded, the tax and fiscal systems as well as environmental, social and health conditions were included in the analysis. Using the CfED model, and computing a simple average of scores in these areas, NAPG estimates that Atlantic Canada would place 33rd overall in relation to the 50 states.

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<sup>12</sup> *Atlantic Canada and the 50 States: A Development Comparison*, 1996, North American Policy Group, Dalhousie University, Halifax, Nova Scotia.

On the positive side, the Atlantic region derives considerable advantage from national programs and institutions and, as a result, performs well in areas such as social and health systems, the environment and the banking system. The region also demonstrates a strong entrepreneurial spirit, as evidenced by the accelerating rate of growth of new business formation. However, the small entrepreneurial base in Atlantic Canada and the reliance on new companies to provide the majority of new job growth in the region are noted as challenges to be addressed. The study cited additional barriers to economic growth and development in Atlantic Canada including: low innovation and technology adoption, preparedness of the workforce, and lack of diversity in export industries.

The second NAPG study<sup>13</sup> was designed to measure the competitiveness of the Atlantic region in comparison to 48 countries of the world. This study utilizes a model developed for the 1995 World Competitiveness Report (WCR) published annually by the World Economic Forum and the International Institute for Management Development in Switzerland. The model includes 378 criteria, however, only 294 factors are utilized in the ranking process. These measures are ultimately grouped into the following eight categories: domestic economic strength, internationalization, government, finance, infrastructure, management, science and technology, and people.

When Atlantic Canada is inserted into the model using data developed by NAPG, the results indicate that the region ranks 27th out of the 49 economies in terms of world competitiveness. As with the first NAPG study, the findings suggest that many of the positive aspects of the region's performance derive from being a part of Canada, including the financial system and free trade with the U.S. Additional strengths reported for the region include low inflation and cost of living, strong infrastructure and general education capacity, high energy production, and positive workforce attitudes. Weaknesses are noted in the areas of export performance, energy consumption, manufacturing productivity, research and development, innovation and technology adoption, local capital markets and management skills.

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<sup>13</sup> *Atlantic Canada and the World: A Development Comparison*, 1996, North American Policy Group, Dalhousie University, Halifax, Nova Scotia.

Overall, the study suggests that Atlantic Canada has a strong basis on which to develop its competitive position and that many of the weaknesses are in areas that can be addressed by effective economic policies, such as entrepreneurship, trade, science and technology and management and labour skills.

### **A Framework for Understanding Competitiveness**

At the roundtable<sup>14</sup> held in December 1996, Michael McCracken, Chairman of Informetrica, stressed the need to differentiate among levels of competitiveness. He argued that the economic objectives of competitiveness are different in the workplace, the marketplace and society. In the workplace, the objective is productivity. In the marketplace, competitiveness is key. The objective for society, on the other hand, is prosperity. Of course, increased productivity should lead to increased competitiveness which, in turn, should enhance prosperity. The challenge is to determine how to make progress at all three levels.

McCracken suggests that productivity improvements result from efforts on a number of fronts and he identifies the following general approaches to improving productivity:

- improve human resources;
- increase investment effort;
- adopt new technologies;
- enhance infrastructure; and
- shift resources to high productivity industries from lower ones.

The environment that must be created in order to effectively implement these strategies requires: low inflation, better macroeconomic performances, appropriate framework policies, better education and training, improved capacity to utilize skills, and appropriate organizational structures.

At the level of the marketplace, the intent is to improve the efficiency and effectiveness of Canadian firms by providing appropriate infrastructure and government support and by enhancing our ability

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<sup>14</sup> *A Shared Economic Vision for Atlantic Canada*, 1996, The Atlantic Canada Chamber of Commerce.

to compete internationally. McCracken suggests the following general approaches to improve competitiveness:

- improve the regulatory process;
- reduce internal barriers to trade;
- improve access to international markets;
- expand the information infrastructure on domestic markets and international economies; and
- assist Canadian firms to enter new markets.

Finally, at the level of society, McCracken suggests that prosperity is determined by our ability to provide rising real incomes, sustainable development, safety nets, contributions to world economies, improvements in regional economies, social amenities, and opportunities for citizen participation in processes. Achieving these goals and thus improving prosperity can be accomplished through a number of approaches as follows:

- redistribute incomes from a growing pie;
- ensure access to an efficient health care system;
- ensure access to high quality education;
- encourage voluntarism and charity; and
- involve citizens in determining goals.

McCracken summarizes the challenges facing Atlantic Canada, and the country as a whole, as being the ones linked to developing policies and implementing action plans which will lead to increased productivity, competitiveness and prosperity in future.

### **Challenges Facing Atlantic Canada**

In order to address the issue of Atlantic Canada's competitiveness and the specific challenges facing this region, participants in the roundtable were presented with a summary of the findings from the studies previously described. The findings, in the form of strengths and weaknesses, are grouped into six areas and are presented here as a basis for subsequent discussion in the next section of strategies to improve the competitiveness of the Atlantic region. The six areas are: technology, capital, education, human resources, trading patterns, and business investment. Although not singled out for specific attention at the roundtable, the category of management practices has been added to the list.

**Technology.** The research results indicate that Atlantic Canada has some excellent science and technology resources and infrastructure, as well as a favourable tax regime, especially by comparison to the U.S. The weaknesses in this area consist of the small number of scientists and technicians, low tertiary science enrolment, low private sector investment in research and development and personnel, and a low rating in technology management.

**Capital.** The Atlantic region benefits from a strong domestic financial system that provides access to much needed debt capital. However, the associated drawback appears to be an over-reliance on debt. In addition, Atlantic Canada suffers from a lack of an organized equity capital market, four separate securities regimes, slow take-up on available venture capital, and a reluctance on the part of businesses to go public.

**Human Resources.** Atlantic Canada's advantages in this area consist of comparatively lower wage costs, positive workforce attitudes and ethics, job creation by new businesses, and quality of life benefits including health, life expectancy and the environment. Unfortunately, the region suffers from a high rate of unemployment, especially for youth, decelerating population growth and an out-migration of highly educated and trained individuals.

**Education.** In terms of the educational system and associated resources, the strengths of the Atlantic region consist of a commitment to higher education, a high per capita supply of post-secondary institutions, high enrolment per capita in secondary and post-secondary institutions, and an available supply of highly-skilled workers. The weaknesses in this area include lower education levels than the U.S., a brain drain, failure of businesses to provide training to employees, and a disconnect between the post-secondary educational system and workplace demands.

**Trading Patterns.** Relatively free domestic trade and the competitive advantage offered through the North American Free Trade Agreement represent the strengths of the region in this area. The drawbacks consist of a lack of diversity in export industries, low growth rate in volume of merchandise exports, over-dependence on resource and manufacturing industries, and low job growth in larger enterprises.

**Business Investment.** Atlantic Canada has some distinct advantages in terms of a location for investment including: lower costs for industrial land, construction and labour than found in the U.S.; competitive costs for electricity, transportation and interest; above average economic growth; strong earnings-per-employee growth; and a high rate of manufacturing investment. On the other hand, the region suffers from low investment effort, low rate of industrialization and a small base from which to grow new businesses.

**Management Practices.** A recent study<sup>15</sup> by Statistics Canada indicates the importance of management practices to business success, hence to the region's competitiveness. Unfortunately, the area of management is noted<sup>16</sup> as one of the most critical challenges facing the Atlantic region. Results from the competitiveness studies suggest that Atlantic Canada suffers from a shortage of competent senior managers and management skills which, in turn, affects the workforce in the region. This is, in part, a function of a lack of management and employee training.

### **Strategies to Improve the Region's Competitiveness**

The findings of the various competitiveness studies indicate that Atlantic Canada possesses a number of assets and characteristics that generally take a long time to develop. As a result, by comparison to many other jurisdictions, the region has a solid foundation on which to build and maintain its competitive position. Nonetheless, the challenges facing the Atlantic region point to the need to develop a broad strategy that addresses identified structural weaknesses and capitalizes on identified strengths. The following review outlines the strategies which emerged from the roundtable discussions and subsequent initiatives designed to improve the competitiveness of the region. The format for this discussion follows from the previous section on the challenges facing the Atlantic region.

**Technology.** The roundtable participants expressed concern that Atlantic Canada has not been very effective in transferring technologies out of the research facilities in the region, especially universities. Considerable attention was devoted to a discussion of

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<sup>15</sup> *Failing Concerns: Business Bankruptcy in Canada*, 1997, Statistics Canada.

<sup>16</sup> *Atlantic Canada and the World: A Development Comparison*, 1996, North American Policy Group, Dalhousie University, Halifax, Nova Scotia, p.27.

measures that would improve technology transfer. Specific suggestions included more partnering between business and academic institutions, increased market orientation combined with a greater focus on profitability, fostering entrepreneurship among the scientific community, and establishing more technology transfer units within universities.

In addition, participants felt the banks need to be more sensitive to the needs of small- and medium-sized enterprises (SMEs) in the area of research and development. Closely related to the issue of bank support is the need to provide more effective support structures for firms with high growth potential. The key to making progress in these areas is to establish more effective incubation mechanisms that include mentorship and management advice components.

**Capital.** Gaps in knowledge and understanding are more problematic than any capital market gaps in the region, with the possible exception of the lack of available equity for small business start-ups. Participants believed that entrepreneurs do not know how to source investment capital and do not understand lending and investing criteria. Similarly, lenders do not understand the needs of SMEs, especially those in the knowledge-based sectors. In terms of capital market structure, there appeared to be agreement that the region lacks the critical mass necessary to establish a regional stock exchange. However, much can and should be done to harmonize securities regulations in order to support the market for informal risk capital in the region.

**Human Resources and Education.** The underlying problem for participants in this area was the lack of dialogue between industry and post-secondary educational institutions. Such dialogue is critical to identifying the needs of industry and the willingness of the educational sector to meet those needs. In addition, the lack of commitment to employee training by industry reflects a problem of attitude that has been changing only recently and, indeed, quite slowly toward a greater recognition of the value of human resources to business success. While job creation was seen as an essential part of a strategy in this area, participants again pointed to the need for increased collaboration to identify industry training needs and to ensure more effective delivery mechanisms. Establishing training networks within industry sectors and sub-sectors to share the responsibility for training was cited as one such example of collaboration.



**Trading Patterns.** The underlying trade challenge facing the region appears to be one of developing sustainable export-based job growth. In the view of roundtable participants, the keys to attaining that goal involve enhanced export preparedness, greater diversity in products and services exported, and external markets served. This issue is closely related to the challenge of capitalizing on the competitive advantages associated with the region's natural resources. Networking, strategic alliances, partnering and business/government collaboration were all suggested as strategies to pool resources and, thereby, capitalize on export market opportunities. The Industry Canada – Chamber of Commerce flexible business networks initiative and the Atlantic Canada – New England Partnership Conference were mentioned as two excellent examples of pooling resources and partnering.

In addition, participants suggested the need to develop an exporting attitude in the region and to more aggressively promote the region's goods and services in export markets. Finally, it was recommended that those efforts be organized around sectors and sub-sectors, as in the case of the human resources and education strategy referred to earlier.

**Business Investment.** As indicated previously, Atlantic Canada offers some distinct advantages as a location for new business investment. Recently, there has been an increased effort to aggressively promote the region as an ideal investment area. With this stepped up effort, it will be important to strike a proper balance between attracting investment and supporting large firms as well as SMEs. The latter require support in export marketing and in accessing the resources and market knowledge of firms that have succeeded in international markets. The importance of the large firm appears to have been overlooked in the new economy and the need for renewed focus on this segment was expressed. Finally, participants felt that Atlantic Canada should build on export opportunities in the service sector, especially in the areas of health care and education, where the region has significant advantages over the competition, especially in the U.S. market.

**Management Practices.** Recent research<sup>17</sup> reinforces earlier findings that enhancing management skills and increasing the use of formal

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<sup>17</sup> *Successful Entrants: Creating the Capacity for Survival and Growth*, 1997, Statistics Canada.

business management practices can result in increased survival, growth and productivity rates for SMEs. As a result, the area of management practices is considered to be an essential component of an Atlantic Canada strategy to improve competitiveness.

Improving the performance of the regional economy through the creation of more competitive, growing enterprises has been the focus of a recent initiative fostered by ACOA and a number of public and private sector partners. This Business Management Practices (BMPs) initiative is intended to achieve the following objectives: to enhance the skills of business managers and owners; to increase their understanding of the benefits of BMPs; and, to stimulate increased use of BMPs by SMEs in Atlantic Canada. As a first step to achieving these goals, ACOA commissioned research<sup>18</sup> to document strategies and approaches used by leading nations to instill the best management practices in small- and medium-sized firms. The results of this study have confirmed that the approach and direction proposed for Atlantic Canada is in line with the strategies developed by leading nations in the pursuit of these goals.

Other studies will improve our understanding of the core business skills needed to successfully run a business and of the level of business skills and management practices currently in use. More specifically, the findings from these best management practices studies will provide the foundation for a partners' agreement on vision, action plans and next steps to implement the strategy, including the following three essential elements:

- a methodology for measuring improvements to the baseline;
- a database for use by companies to benchmark their operational results or to confirm areas where changes can provide the most impact; and
- a database of training and educational resources designed to help businesses identify and better understand their training needs and to assist SMEs in selecting the right trainer and the right training program.

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<sup>18</sup> *Methods Used by Leading Nations to Engender Best Management Practices in Small and Medium-Sized Enterprises and the Application to Atlantic Canada*, 1997, The ATi Consulting Corporation, Inc., Halifax, Nova Scotia.

## Summary

Results of the research on the competitiveness of the Atlantic region indicate that Atlantic Canada has strengths that should provide long-term sustainable competitive advantages. In particular, the region offers advantages in the areas of initial investment and operating costs that reflect lower industrial land and construction costs and lower labour costs, which hold over a wide range of exchange rates. In addition, human development indicators, including measures of longevity, knowledge and standard of living, place the region second only to Canada. While Atlantic Canada's strengths in this area are derived, in part, from its position within Canada, the region also offers its own distinct advantages, such as abundant renewable water resources and excellent educational infrastructure. Further, in terms of economic performance and development potential, the Atlantic region possesses advantages in areas such as health, social systems and the environment, and demonstrates a strong entrepreneurial spirit.

Notwithstanding the many positive aspects of Atlantic Canada as an investment location and its demonstrated performance in the areas noted above, the region faces a number of challenges to improving its competitive position in the global marketplace. Specifically, a high rate of unemployment, decelerating population growth and the out-migration of highly educated young people have a negative impact on the region's human resource potential. These problems are compounded in the technology area by comparatively low rates of innovation and technology adoption and a low level of private sector investment in research and development and related human resources. In addition, Atlantic Canada needs to diversify its export products, services and markets, to increase access to equity capital and to improve the preparedness of the workforce in the region, including those in management positions. Addressing the challenges related to the region's natural resources is considered essential to increasing the competitiveness of Atlantic Canada.

Suggested strategies to improve the region's competitiveness must be based on a well articulated and shared vision emanating from both public and private sector stakeholders. Partnering, collaboration, networking and strategic alliances are consistent themes underlying the implementation of specific strategies which should include the following: educational and training programs targeted to the needs of

industry; enhanced efforts to increase technology transfer from the universities to the private sector; more effective support structure for SMEs with high growth and export potential; and, implementation of best management practices. Finally, the vision and the strategies must reflect an overriding positive attitude about the prospects for Atlantic Canada.



# About ACOA

## Building a Stronger Economy Together

*Updated March 1999*

### **ACOA's mandate**

The Atlantic Canada Opportunities Agency (ACOA) is a federal government economic development organization mandated to work with businesses, business organizations, provincial governments and other federal departments to help create new and lasting jobs and raise earned incomes in Atlantic Canada.

### **Our strategy**

Because new employment is the direct result of business growth, particularly among small- and medium-sized enterprises (SMEs), ACOA seeks to provide people with the encouragement, advice, access to capital and information, and the technology they need to start and expand their own businesses.

### **Our objectives**

- 1 To ensure that a wide variety of business development tools and resources are available to help more small businesses start up, survive, prosper and create good, long-lasting jobs.
- 2 To ensure that all federal economic development programs and activities in Atlantic Canada are coordinated and designed to improve the climate for business growth.

### **Our priorities**

ACOA helps small firms create jobs, and generally works to improve the environment for business development, by focussing on the following:

- Entrepreneurship – because of the 142,593 jobs created by new firms over the 1989 to 1995 period, 70.9% or 101,150 were created by small firms.
- Trade – because every \$1-billion increase in exports creates 11,000 jobs.
- Innovation and Technology – because innovative companies are growing companies, and growing companies create jobs.
- Business Management Practices (BMP) – because formal BMP makes companies more productive and resilient.
- Access to Capital and Information – because adequate access stimulates business start-ups, expansion and job creation.
- Tourism Development – because tourism is one of the fastest-growing industries in the world and a significant source of revenues and jobs in Atlantic Canada.

### **Our services**

To meet its objectives in each economic development area, ACOA administers, or is involved in, a number of key programs and activities:

- Business Development Program – designed to help SMEs establish, expand or modernize by offering access to capital in the form of interest-free loans.
- ACF Equity Atlantic Inc. – a \$30-million venture capital fund, designed to address the deficiency in venture capital availability in Atlantic Canada.
- Community-Based Economic Development – grassroots efforts by communities, with ACOA's support, to improve their economic conditions.
- Canada Business Service Centres – a network of centres providing business-related services and products to SMEs and aspiring entrepreneurs in the region.
- Bilateral Economic Development Agreements – federal/provincial cost-shared programs designed to improve the environment of economic growth in each of the Atlantic provinces.

- Pan-Atlantic Economic Development Agreements – comprehensive, initiatives designed to strengthen and support economically significant activities such as international trade and tourism on a region-wide basis.
- Advocacy, Coordination and Procurement – continuous efforts to represent the region’s interests, while securing more federal government contracting opportunities in the Atlantic provinces.

ACOA is also involved in a number of other activities designed to improve the region’s general economic health, such as:

- Canada Infrastructure Works Program
- DND Base closure adjustment activities
- Borden-Cape Tormentine redevelopment programs

### **The Industry Portfolio**

ACOA operates within the Industry Canada Portfolio, which includes 13 departments and agencies that report through the Minister of Industry to Parliament, to enhance employment opportunities for Canadians through SME development; trade and foreign investment; innovation and technology; and employment opportunities for young people.





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