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PERFORMANCE

Trends

■ Employment in small businesses (those with fewer than 100 employees) increased by more than 120 000 jobs in the fourth quarter of 2006 compared with the same quarter of 2005. This figure represented 37.8 percent of net new jobs in the Canadian economy, up from 32.7 percent in the previous quarter.

■ Total business insolvencies in the fourth quarter of 2006 came to 1955, a drop of 9 percent from the fourth quarter of 2005. Business bankruptcies shrank 6 percent, the 17th consecutive year-over-year quarterly decline. Business proposals declined 22 percent to the lowest quarterly level since 1997.

■ In the fourth quarter of 2006, 2.53 million people were self-employed, a 2.3-percent drop from the same period in 2005. This is the third consecutive year-over-year decrease following four years of growth.

■ Total business loans outstanding¹ from chartered banks continued to rise in the fourth quarter of 2006, reaching \$109.1 billion. This was an increase of 8.8 percent from the same quarter of 2005. Loans of less than \$1 million accounted for 50.2 percent of total business loans.

¹ Excluding non-residential mortgages, agricultural loans and customers' liability under acceptances.

FINANCING OF SME EXPORTERS:

Barriers Do Exist

In Canada, small and medium-sized enterprises (SMEs) make up 97 percent of all firms that sell goods and services abroad and SME exporters contribute far more than their proportional share of job creation.¹ However, the durability of small business exporting appears to be precarious — the probability of a Canadian establishment exiting a foreign market before 12 months is 42 percent.² Given the strong links between export growth and the welfare of Canada's economy, it is important to understand the obstacles that may limit SMEs' ability to export over the long term.

One potential barrier is access to financial capital. Financing is an essential ingredient in the growth and survival of businesses. If exporter firms have difficulty in obtaining debt financing, it can compromise their ability to develop markets and compete internationally. Using results from the *Survey on Financing of Small and Medium Enterprises, 2004*, a study entitled *Financing Canadian SME Exporters* was conducted to examine the extent to which Canadian SME exporter firms³ face difficulty in accessing debt financing from commercial lenders compared with non-exporters. The study focused on two key areas:

(continued on page 2)

CONTENTS

<i>Business Insolvencies</i>	3
<i>Financing</i>	4
<i>Job Creation</i>	4
<i>Self-Employment</i>	6
<i>Recent Developments</i>	8





(continued from page 1)

1. To what extent do overall market failures and imperfections limit access to capital by Canadian SME exporters?
2. What is the nature of any such imperfections and how best to remedy them?

The results of this study show that commercial lenders reject applications for operating loans from early-stage SME exporters at a rate more than four times that of the rejection rate for established firms. Early-stage SME exporters (those operating since 2002) are also more likely to be turned down for term loans than established firms (those operating prior to 2002).

The rapid pace of technological change and globalization has enabled companies to exploit more opportunities in international markets, so that many SMEs can export from inception. Such companies are known as international new ventures (INVs). INVs are important because they defy the widely-accepted “stage theory” of internationalization. This is where firms are thought to evolve to exporting after starting locally, expanding regionally and nationally, and only then gaining economies of scale necessary to enter international trade.

New SME firms (those operating since 2002) are less likely to be exporters, yet among those SMEs that export, start-ups are just as likely as more established firms to be intensive exporters (those that derive more than 25 percent of sales from exports). If, as noted

above, start-up exporter firms are less likely to get debt financing, then it will be increasingly difficult for INVs to prosper within Canada’s relatively small home market. Consequently, constraints on INVs’ ability to grow through export market development potentially compromise their ability to contribute to job creation and national prosperity.

While this study has provided new insights into the financing of SMEs and SME exporters, gaps in our understanding remain. Further research is also required on the impact of debt financing on business owners’ export decisions, such as the extent to which loan rejections may deter business owners from exporting. Other areas of research could include INVs and the types of financing they need to grow and survive in the global economy.

For further information about this article or to obtain copies of the report, email your requests to smefdi@ic.gc.ca.

¹ Halabisky, David, Bryon Lee and Chris Parsley, *Small Business Exporters: A Canadian Profile*, Industry Canada, Small Business Policy Branch, 2005.

² Bosco Sabuhoro, Jean and Yvan Gervais, “Factors Determining the Success or Failure of Canadian Establishments in Foreign Markets: A Survival Analysis Approach,” Statistics Canada, Analytical Studies Branch Research Paper, 220, 2004.

³ For the purpose of the study, *Financing Canadian SME Exporters*, SME exporters are defined as businesses with fewer than 500 employees and less than \$50 million in annual revenues that sold goods or services outside Canada during 2004.



BUSINESS *Insolvencies*

In the fourth quarter of 2006, business insolvencies, which include bankruptcies¹ and proposals,² totalled 1955 (Table 1), a 13-percent increase over the previous quarter. Bankruptcies were up 16 percent to 1637, while proposals shrank by 1 percent to 318. Despite the increase in the number of insolvencies in the fourth quarter, the overall trend was downward. The fourth-quarter figure was the second lowest quarterly number of insolvencies over the period 1993 to 2006. Compared with the same quarter in 2005, bankruptcies were down 6 percent and proposals were down 22 percent so that overall business insolvencies shrank 9 percent, the 12th consecutive year-over-year quarterly decrease.

The consolidated annual figures for business insolvencies in 2006 displayed the same trend. The total of 8171 was the lowest annual number of insolvencies over the period 1993 to 2006. The number of insolvencies in Canada has been falling since the high of 14 820 in 1996. This is true for both bankruptcies and business proposals. The number of bankruptcies in 2006 — 6747 — was about half the level registered in 1996. The 1424 business proposals for 2006 was 13 percent below the 2005 level, and the lowest annual number of proposals since 1997.

Liabilities

While the number of insolvencies is consistently dropping, the figures on liabilities, particularly average liabilities, have varied over time. Total liabilities of insolvencies in the fourth quarter of

2006 decreased 31 percent compared with the fourth quarter of 2005, bringing liabilities down to one of the lowest levels recorded over the 13-year time frame. The number of liabilities associated with bankruptcies decreased by 15 percent from the fourth quarter of 2005 to \$782 million, but total proposal liabilities dropped 53 percent to \$321 million, compared with the same quarter in 2005.

In contrast, consolidated annual total liabilities for insolvencies in 2006 grew 12 percent to \$5.6 billion, for an average insolvency liability of \$680 000. This is still well below the high of \$10.1 billion in total liabilities reported in 2002. The rise in insolvency liabilities was principally due to the 30-percent rise in bankruptcy liabilities to almost \$3.9 billion, bringing the average liability per bankruptcy to \$578 000. Proposal liabilities totalled \$1.7 billion, a 16-percent drop compared with one year ago. However, the average liability per business proposal was almost \$1.2 million, approximately double the bankruptcy average.

For more information on business insolvencies, visit the website of the Office of the Superintendent of Bankruptcy Canada at www.osb-bsf.gc.ca.

¹ Bankruptcy refers to the liquidation of the debtor's business assets and the end of the commercial entity's operations.

² Proposals involve the settling of debts between the debtor and its creditors while still allowing the business to continue operating.

Table 1: Total Insolvencies, Bankruptcies and Proposals and Associated Liabilities

	Insolvencies		Bankruptcies		Proposals	
	Volume	Liabilities (\$ 000)	Volume	Liabilities (\$ 000)	Volume	Liabilities (\$ 000)
Q4 2005	2 145	1 604 902	1 735	924 947	410	679 955
Q1 2006	2 311	1 499 008	1 892	878 821	419	620 186
Q2 2006	2 167	1 871 368	1 802	1 489 546	365	381 823
Q3 2006	1 738	1 078 563	1 416	747 026	322	331 537
Q4 2006	1 955	1 103 288	1 637	781 801	318	321 487
Consolidated Annual						
2005	9 180	4 959 658	7 537	3 001 101	1 643	1 958 557
2006	8 171	5 552 227	6 747	3 897 194	1 424	1 655 033

Source: Office of the Superintendent of Bankruptcy Canada (www.osb-bsf.gc.ca).

FINANCING

New Business Ownership Transition Product Launched by the BDC

Succession planning and intergenerational business transfer have become important issues as the baby-boom generation of business owners fast approaches retirement age. Baby boomers, or those born between 1946 and 1966, accounted for approximately 7 out of 10 SME business owners in 2004.¹ Older boomers (born 1946 to 1956) accounted for more than one third of SME owners. Succession planning is important for entrepreneurs because the firm's value constitutes the largest part of the owner's retirement savings.

Estimates vary as to the magnitude of the situation. In a joint study, the Business Development Bank (BDC) and the Canadian Federation of Independent Business (CFIB) surveyed the CFIB membership and found that over the next 10 years, 71 percent of Canadian small-business owners plan to retire and 52 percent of them do not have a succession plan. According to the BDC, a major obstacle to succession planning is financing. While established firms typically have little difficulty accessing financing, business succession can change that pattern. A firm's past performance may not indicate the

relative risk of the potential buyer. Replacing the exiting owner's equity with the incoming owner's debt drastically changes the financial picture of a firm.

Business owners also report struggling with legal and fiscal issues associated with the transfer of a business. Resources such as legal advisers and accountants can help to develop proper succession plans so that the retiring entrepreneur can reap the full value of his or her investment, while protecting the business for the future.

To help ensure that viable businesses are not lost because of a lack of financing, the BDC has developed its new Business Ownership Transition product, with financing of up to \$500 000 per potential buyer. This product will provide potential buyers with access to financing and to BDC consulting services to facilitate the transaction. Existing BDC clients can access consulting services to help develop a succession plan and timeline for transition.

For more information, visit www.bdc.ca/en/my_project/Projects/growth/succession_planning.htm.

¹ Statistics Canada, *Survey on Financing of Small and Medium Enterprises*, 2004, special tabulations.

JOB Creation

According to Statistics Canada's *Survey of Employment, Payrolls and Hours*, the number of payroll employees increased by 320 298 in the fourth quarter of 2006 compared with the same quarter of 2005, reaching a total of 13 751 892 (Table 2). This figure corresponds to an annual growth rate of 2.3 percent, which is slightly lower than the year-over-year growth rates for the first three quarters in 2006. The bulk of new jobs — nearly 160 000 jobs — continued to be created by large businesses. However, small businesses created more than 120 000 jobs, which represented 37.8 percent of all jobs

created and was the second highest contribution that small businesses made in 2006, and also second highest since the first quarter of 2004. Microbusinesses (fewer than five employees) created 37 000 jobs or 11.6 percent of all jobs, the highest contribution by microbusinesses since the first quarter of 2005.

Between the fourth quarters of 2005 and 2006, three sectors were responsible for 44 percent of job creation: retail trade (58 709 jobs), accommodation and food services (44 472 jobs), and construction (37 082 jobs). However, the highest annual rate of growth occurred in

(continued on page 5)

(continued from page 4)

mining and oil and gas extraction, with an 11.0-percent increase (18 555 jobs) between the fourth quarters of 2005 and 2006. Among small businesses, the construction sector created the most jobs (30 166 jobs), followed by accommodation and food services (18 731 jobs) and health care and social assistance (17 835 jobs).

Three sectors lost jobs over the year: manufacturing (28 065 jobs), forestry (5327 jobs) and management of companies and enterprises (1865 jobs). Small businesses shed the bulk of jobs in forestry and management of companies and enterprises, while jobs lost in manufacturing were concentrated in large businesses.

Table 2: Year-Over-Year Net Change¹ in Payroll Employment² by Industry, 4th Quarter 2006

Quarter	Change		% Contribution to Total Net Change (Number of Employees)								
	%	Jobs	0-4	5-19	20-49	50-99	0-99	100-299	300-499	100-499	500+
Q4 2005	1.9	258 247	1.2	8.2	8.2	10.0	27.5	12.1	2.3	14.4	58.0
Q1 2006	2.7	351 389	5.2	10.7	11.7	9.6	37.1	14.4	0.7	15.1	47.8
Q2 2006	2.8	379 019	6.2	11.2	11.4	9.9	38.7	10.3	2.8	13.0	48.2
Q3 2006	2.5	332 268	4.9	8.1	10.0	9.7	32.7	8.6	4.0	12.5	54.8
Q4 2006	2.3	320 298	11.6	1.0	13.0	12.2	37.8	7.2	5.3	12.6	49.6
Industry			Absolute Change (Jobs)								
Forestry	-8.5	-5 327	-615	-700	-1 166	-595	-3 076	-1 158	81	-1 077	-1 173
Mining and Oil and Gas Extraction	11.0	18 555	390	1 326	2 166	241	4 123	-290	2 787	2 497	11 935
Utilities	0.5	585	107	221	-126	190	392	-765	1 183	418	-226
Construction	5.1	37 082	26 447	-8 078	5 659	6 138	30 166	1 655	3 352	5 007	1 910
Manufacturing	-1.5	-28 065	-2 904	1 037	-2 999	-4 316	-9 182	-3 171	511	-2 660	-16 223
Wholesale Trade	1.9	14 148	1 194	1 145	1 373	241	3 953	-1 542	6 548	5 006	5 189
Retail Trade	3.4	58 709	1 446	-2 816	3 600	4 251	6 481	3 448	1 618	5 066	47 161
Transportation and Warehousing	1.8	11 259	425	839	1 154	839	3 257	-1 794	855	-939	8 942
Information and Cultural Industries	2.6	8 870	134	-104	-261	2 010	1 779	-733	179	-554	7 643
Finance and Insurance	3.6	21 434	4 680	170	1 561	324	6 735	2 047	1 835	3 882	10 817
Real Estate and Rental and Leasing	2.5	5 949	1 206	396	2 080	1 617	5 299	1 073	789	1 862	-1 212
Professional, Scientific and Technical Services	4.4	29 792	5 319	1 886	1 590	4 425	13 220	6 130	-571	5 559	11 013
Management of Companies and Enterprises	-1.9	-1 865	-1 599	-684	-162	-191	-2 636	907	-136	771	-1
Administrative and Support, Waste Management and Remediation Services	4.4	30 105	4 628	2 074	2 853	1 015	10 570	1 078	5 274	6 352	13 182
Educational Services	2.3	25 241	73	958	1 571	-111	2 491	-4 683	-3 990	-8 673	31 423
Health Care and Social Assistance	1.7	24 310	2 570	4 620	5 887	4 758	17 835	2 480	-5 109	-2 629	9 105
Arts, Entertainment and Recreation	2.7	5 854	889	64	46	1 535	2 534	1 089	109	1 198	2 120
Accommodation and Food Services	4.6	44 472	-10 398	2 251	14 641	12 237	18 731	14 470	2 937	17 407	8 335
Other Services (Excluding Public Administration)	3.0	15 221	3 051	-1 453	2 725	2 427	6 750	2 734	-1 080	1 654	6 817
Public Administration	0.5	3 969	-7	34	-443	2 025	1 609	128	-40	88	2 272
Canada Total	2.3	320 298	37 036	3 182	41 750	39 062	121 030	23 107	17 132	40 239	159 027

Source: Statistics Canada, *Survey of Employment, Payrolls and Hours*, March 2007.

¹ Year-over-year net change in payroll employment is calculated as the variation between the level of employment in a given quarter and the level in the same quarter a year before.

² *Survey of Employment, Payrolls and Hours* data exclude self-employed workers who are not on a payroll and employees in the following industries: agriculture, fishing and trapping, private household services, religious organizations and military personnel of defence services. The data breaking down employment by size of firm also exclude unclassified industries.



SELF- *Employment*

According to Statistics Canada's *Labour Force Survey*, the number of self-employed workers in Canada rose at an annualized rate of 0.9 percent to 2.5 million between 2000 and 2006 (Table 3). Growth rates were slightly stronger over the 1990 to 2006 time frame (1.2 percent). Expansion in self-employment in the services sector contributed to most of the increases over the 1990 to 2006 period, with the number of self-employed individuals working in services increasing 1.7 percent, compared with just 0.1 percent growth for the goods sector.

For several decades, there has been a shift in employment from the goods sector to services. This trend has been most noticeable among self-employed workers, where in 1990 over one third (36.1 percent) worked in goods compared with 27.5 percent by 2006. A huge drop in the proportion of self-employed workers in agriculture has contributed to this trend. In fact, as of 2006, just 8.3 percent of self-employed individuals worked in agriculture, compared with double that in 1990. As a result of this decline in the goods sector, 72.5 percent of self-employed workers found opportunities in the services sector in 2006, up from 63.9 percent in 1990.

The professional, scientific and technical services industries represented the largest concentration of self-employed workers in 2006 (14.8 percent). Also well represented among the self-employed were the construction industry (13.3 percent) and trades industry (12.1 percent).

The largest percentage increases in self-employment over the 1990 to 2006 time frame were in educational services (3.4 percent), management of companies and administrative and other support services (3.3 percent), and professional, scientific and technical services (3.1 percent). The overall growth in self-employed workers in professional, scientific and technical services contributed most to the net absolute increase in the number of self-employed individuals between 1990 and 2006 (30.9 percent). Only two industries experienced losses in the number of self-employed over the same period — agriculture (-1.5 percent) and trade (-0.04 percent).

(continued on page 7)

(continued from page 6)



Table 3: Self-Employment in Canada, Share by Category of Worker and Industry, 1990, 2000 and 2006

Industry							Annualized Percentage Change				Percentage Distribution					
							Employees		Self-Employed		Employees		Self-Employed		Employees	
	1990	2000	2006	1990	2000	2006	1990–2006	2000–2006	1990–2006	2000–2006	1990	2000	2006	1990	2000	2006
	(Thousands)						(Percent)				(Percent)					
Goods-Producing Sector	3 086	3 163	3 298	663	659	688	0.3	0.7	0.1	0.7	27.4	25.5	23.6	36.1	27.8	27.5
Agriculture	132	124	139	307	248	207	0.2	1.9	-1.5	-2.9	1.2	1.0	1.0	16.7	10.4	8.3
Forestry, Fishing, Mining, Oil and Gas	258	229	274	46	47	56	0.2	3.1	0.8	3.0	2.3	1.8	2.0	2.5	2.0	2.2
Utilities	140	115	122	0	0	0	-0.5	1.0	0	0	1.2	0.9	0.9	0.0	0.0	0.0
Construction	590	536	737	226	274	333	0.9	5.5	1.5	3.3	5.2	4.3	5.3	12.3	11.6	13.3
Manufacturing	1 966	2 159	2 026	85	90	92	0.1	-1.1	0.3	0.3	17.5	17.4	14.5	4.6	3.8	3.7
Services-Producing Sector	8 164	9 228	10 688	1 173	1 715	1 810	1.0	2.5	1.7	0.9	72.6	74.5	76.4	63.9	72.2	72.5
Trade	1 772	1 982	2 331	306	311	303	1.1	2.7	-0.04	-0.5	15.7	16.0	16.7	16.7	13.1	12.1
Transportation and Warehousing	565	633	666	81	139	136	0.6	0.8	2.0	-0.3	5.0	5.1	4.8	4.4	5.9	5.5
Finance, Insurance, Real Estate and Leasing	764	730	863	92	128	178	0.5	2.8	2.6	5.6	6.8	5.9	6.2	5.0	5.4	7.1
Professional, Scientific and Technical Services	412	612	721	165	320	369	2.2	2.7	3.1	2.4	3.7	4.9	5.2	9.0	13.5	14.8
Management of Companies and Administrative and Other Support Services	251	381	539	65	156	152	3.0	6.0	3.3	-0.5	2.2	3.1	3.9	3.5	6.6	6.1
Educational Services	823	929	1 109	21	45	50	1.2	3.0	3.4	1.6	7.3	7.5	7.9	1.1	1.9	2.0
Health Care and Social Assistance	1 154	1 319	1 570	130	195	215	1.2	3.0	2.0	1.6	10.3	10.6	11.2	7.1	8.2	8.6
Information, Culture and Recreation	451	568	638	64	94	107	1.3	2.0	2.0	2.1	4.0	4.6	4.6	3.5	4.0	4.3
Accommodation and Food Services	699	846	926	74	92	90	1.1	1.5	0.7	-0.5	6.2	6.8	6.6	4.0	3.9	3.6
Other Services	433	455	490	175	233	211	0.5	1.2	0.7	-1.7	3.9	3.7	3.5	9.5	9.8	8.4
Public Administration	840	773	837	0	0	0	0.0	1.4	0	0	7.5	6.2	6.0	0.0	0.0	0.0
All Industries	11 250	12 391	13 986	1 837	2 374	2 498	0.8	2.0	1.2	0.9	100.0	100.0	100.0	100.0	100.0	100.0

Source: Statistics Canada, *Labour Force Survey*, 1990, 2000 and 2006.

Note: 0.0 = data equal 0; 0 = estimate less than 1.5 for Canada.



RECENT *Developments*

Reducing Paperwork Burden

As announced in Budget 2007, the Government of Canada is committed to reducing the paperwork burden for small businesses by:

- requiring key federal regulatory departments and agencies to establish by September 2007 an inventory of their administrative requirements and information obligations with which businesses must comply; and
- reducing those requirements by 20 percent by November 2008.

For information on Budget 2007, go to www.budget.gc.ca/2007.

For more information on the Government of Canada's efforts to reduce paperwork burden or the Statistics Canada *Survey of Regulatory Compliance Costs*, go to www.reducingpaperburden.gc.ca.

SBQ Readers —

We want to hear from you

The Small Business Policy Branch at Industry Canada is committed to providing readers of the *Small Business Quarterly* with a high-quality product. We would like your opinion about the content and your particular uses of the *Small Business Quarterly*. Please take a few minutes to answer a short online survey at www.strategis.gc.ca/sbqsurvey.

The International Consortium on Entrepreneurship

The International Consortium on Entrepreneurship (ICE) recently announced the launch of its new website, which contains information on ICE projects and relevant policy documents. The ICE is devoted to developing objective and consistent evidence on entrepreneurship across countries of the Organisation for Economic Co-operation and Development. ICE currently has nine member countries — including Canada — as well as academic researchers from three other countries. It is expected that over time the site will become a rich and diverse source of internationally comparable information on entrepreneurship. For more information, visit the ICE website at <http://ice.foranet.dk>.

Annual Conference of the Administrative Sciences Association of Canada in Ottawa, June 2–5, 2007

The 2007 annual conference of the Administrative Sciences Association of Canada (ASAC), hosted by the University of Ottawa School of Management, will be held at the Ottawa Marriott and Crowne Plaza Hotel on June 2–5. The conference theme will be “50 Years of Leadership in Management.”

For further information about ASAC and the June conference, please visit the association's website at www.asac.ca.

Small Business Quarterly Small Business Policy Branch

The *Small Business Quarterly* (SBQ) provides a quick and easy-to-read snapshot of the recent performance of Canada's small business sector. The SBQ is published by the Small Business Policy Branch of Industry Canada.

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