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Business

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PERFORMANCE

Trends

- Employment in small businesses (those with fewer than 100 employees) increased by 84 423 in the first quarter of 2006 compared with the same quarter of 2005. This figure represented 33.5 percent of net new jobs in the Canadian economy, up from 17.6 percent in the previous quarter.
- There were 2.29 million business establishments in December 2005, a 3.9-percent drop from December 2004.
- Business bankruptcies numbered 1891 in the first quarter of 2006, a drop of 10.9 percent from the first quarter of 2005.
- In the second quarter of 2006, self-employment numbered 2.49 million, a 0.5-percent drop from the second quarter of 2005. This represents the first year-over-year quarterly decline in self-employment since 2002.
- Total business loans outstanding¹ from chartered banks amounted to \$105.1 billion in the first quarter of 2006, the highest level in 25 years. This represents an increase of 6.6 percent from the same quarter of 2005. Business loans of less than \$500 000 accounted for 18.3 percent of the total.

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

TOOLS TO ASSESS MANAGEMENT SKILLS:

Highlights of 2006 Workshops

The Small Business Policy Branch (SBPB) of Industry Canada recently conducted a series of four workshops with small business advisors across Canada to examine the state of management assessment tools and to gauge interest in the development of a new management competency tool.

Management skills are important in business success or failure and critical in moving entrepreneurial start-ups to profitable businesses. This is supported by studies showing that management weakness is a common reason for failure among small businesses. Research also shows that access to financing may be linked to managerial experience (see "Financing" on page 7). Furthermore, many small business owners are often unaware of the skills they lack. Existing tools to assess management competencies and any possible gaps tend to be generic in nature and geared toward less sophisticated or less developed enterprises. Therefore, the workshops were designed to address these issues.

Workshop participants agreed that business crises often occur because of a shortfall in the manager's skills. The ability of the business advisor to identify

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this skills gap and address it with appropriate and timely interventions is critical and may be enhanced by additional tools on management competencies.

The tools judged most useful by participants were those that guide, rather than replace, the advisor's expert judgment. They also had to be flexible enough to accommodate the wide range of entrepreneurial contexts, styles and success criteria, and help the advisor highlight a problem area for the client objectively. For this reason, tools intended for client self-assessment were considered less useful.

There was no indication from these workshops that the development of additional diagnostic tools is warranted. Participants strongly supported increased awareness of relevant research and current diagnostic tools rather than the development of new ones (Table 1 shows some examples of existing online management assessment tools). Tools for assessing shortcomings in management skills were valued, but many participants attached greater importance to an action plan that effectively puts managers and their businesses back on track.

Looking forward, the vast majority of participants indicated the value of networking and information sharing. They also believed that research that

demonstrates the link between improved management skills and "bottom line" performance would help demonstrate to small business owners the value in pursuing these skills. Further promotion of existing training programs for advisors, such as APEC-IBIZ,¹ would be useful.

The workshop findings confirm the importance of management skills in the success of small businesses and the need to assess the skill set of small business owners. They also point to the need to increase the awareness of business advisors of both relevant research and the range of diagnostic tools currently available.

For a copy of the workshop report, please visit: www.strategis.gc.ca/mgmt_skills.

¹ APEC-IBIZ is a training and certification program for small business counselors in the Asia-Pacific Economic Co-operation region (www.apec-ibiz.org).

Table 1: Some Examples of Online Management Assessment Tools

Agency	Name of the Tool	Website
Business Development Bank of Canada	BDC Entrepreneurial Self-Assessment	www.bdc.ca/en/business_tools
Atlantic Canada Opportunities Agency	ACOA Business Management Assessment Tool	www.acoa.ca/e/business/practices
Leadership and Management Development Council of British Columbia	LMDCBC Small Business Check-up	www.smallbusinesscheckup.com

JOB Creation

According to Statistics Canada's *Survey of Employment, Payrolls and Hours*, the number of payroll jobs increased by 251 814 in the first quarter of 2006 over the same period in 2005, reaching a total of 13 475 223 (Table 2). This figure corresponds to annual growth of 1.9 percent, the highest increase since the second quarter of 2003. Although this growth is primarily among large businesses,¹ the contribution of small businesses to job creation (33.5 percent) in the first quarter of 2006 was greater than that recorded in any of the previous seven quarters.

Provincially, the highest job increases in the first quarter of 2006 were in Alberta (4.7 percent) and Saskatchewan (4.9 percent). On the other hand, job losses were posted in Prince Edward Island (-3.8 percent) and Newfoundland and Labrador (-2.3 percent).

Western Canada created most of the jobs among small businesses. In the first quarter of 2006, the number of small-business jobs in Alberta increased by 2.1 percent over the same period in 2005, the same increase as in British Columbia. Small businesses in Saskatchewan also performed well, posting annual job growth of 1.8 percent. In central Canada, small business employment in Ontario rose by 1.6 percent, whereas job growth in this category in Quebec was more restrained at 0.4 percent. In eastern Canada, job creation results were also relatively mixed — in fact, in the first quarter of 2006, the small business workforces shrank year over year in Prince Edward Island (1.7 percent) and Newfoundland and Labrador (1.4 percent).

¹ Small businesses are defined as having fewer than 100 employees, medium-sized businesses having 100 to 499 employees and large businesses having 500 or more employees.

Table 2: Year-Over-Year Change¹ in Payroll Employment,² by Province and Territory, 1st Quarter 2006

Quarter	Change		% Contribution to Total Change (Number of Employees)								
	%	Jobs	0-4	5-19	20-49	50-99	0-99	100-299	300-499	100-499	500+
Q1 2005	1.2	162 310	-7.4	32.3	-20.2	-29.6	-24.8	6.2	11.4	17.6	107.2
Q2 2005	1.2	160 817	-3.8	-5.4	12.2	10.4	13.5	24.3	-20.0	4.3	82.2
Q3 2005	1.4	186 005	3.8	-2.6	14.4	11.1	26.8	18.6	-8.4	10.2	63.1
Q4 2005	1.6	219 582	6.7	-3.7	5.8	8.8	17.6	11.3	-1.3	9.9	72.4
Q1 2006	1.9	251 814	11.2	2.0	10.2	10.2	33.5	7.8	-0.6	7.1	59.3
Province and Territory			Growth Rates (%)								
Newfoundland and Labrador	-2.3	-3 927	-1.0	-1.6	-1.5	-1.3	-1.4	-8.8	-32.5	-16.5	0.2
Prince Edward Island	-3.8	-2 187	-1.0	-4.4	2.3	-3.0	-1.7	28.7	-25.2	10.2	-10.3
Nova Scotia	3.6	12 893	1.5	-2.2	0.3	3.0	0.2	8.0	3.8	6.9	5.1
New Brunswick	2.2	6 131	1.3	-1.4	0.0	9.8	1.4	10.6	-10.7	5.3	2.1
Quebec	0.2	7 282	1.2	0.5	0.7	-0.9	0.4	-1.8	0.9	-1.1	0.6
Ontario	1.6	80 524	4.9	-0.5	1.3	2.9	1.6	1.3	-0.8	0.7	1.8
Manitoba	1.8	9 115	0.2	0.2	1.2	0.5	0.5	1.7	7.2	3.3	2.2
Saskatchewan	4.9	19 281	0.1	-0.3	2.8	6.4	1.8	-9.7	-15.9	-11.8	13.1
Alberta	4.7	69 034	2.9	1.6	3.5	2.9	2.1	2.3	10.2	4.5	6.7
British Columbia	3.3	54 463	4.5	1.7	4.7	6.1	2.1	6.8	-1.4	4.2	2.3
Yukon ³	5.0	754	2.3	-4.9	12.9	-17.6	-0.9	-1.5	—	—	—
Northwest Territories ³	-5.1	-1 105	-2.2	2.2	-5.2	-0.7	-1.1	12.6	—	—	—
Nunavut ³	-3.8	-443	3.6	11.1	3.2	-4.3	2.8	7.2	—	—	—
Canada Total	1.9	251 814	3.1	0.3	1.8	2.4	1.6	1.4	-0.3	0.9	2.5

Source: Statistics Canada, *Survey of Employment, Payrolls and Hours*, March 2006.

¹ Year-over-year 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.

³ Data for firms with 300 or more employees in the territories are suppressed due to confidentiality restrictions but are included in the size category and territorial totals.

BUSINESS

Bankruptcies

In the first quarter of 2006, Canada's business bankruptcies dropped by 10.9 percent over the same period in 2005 — from 2122 to 1891. This represents the 17th consecutive year-over-year quarterly decline. However, the first quarter of 2006 figure still represented a 9.6-percent increase over the 1726 bankruptcies recorded in the fourth quarter of 2005. Four sectors accounted for more than half the business bankruptcies in the first quarter of 2006: construction (330), retail trade (302), accommodation and food services (222), and transportation and warehousing (180).

Unlike the trend for business bankruptcy numbers, the total value of liabilities involved in such bankruptcies in the first quarter of 2006 increased by 52 percent year over year to

\$872 million. This sharp rise is mainly owing to the finance and insurance sector, where total liabilities grew from \$8 million in the first quarter of 2005 to \$287 million one year later. As a result, average liabilities per bankrupt business increased by 70 percent over the first quarter of 2005 to \$460 000. The finance and insurance sector posted the biggest average liability at \$10.3 million per bankrupt business for only 28 bankruptcies. Average liability per business was also high in the manufacturing industry (\$817 000). On the other hand, the average liability in construction, which represented the largest share of business bankruptcies (17.5 percent), was only \$186 000, well below the average liability per bankrupt business for all sectors.

SELF-*Employment*

Statistics Canada's *Labour Force Survey* classifies five categories of self-employed workers:

- workers with incorporated businesses that employ paid help;
- workers with incorporated businesses that don't employ paid help;
- workers with unincorporated businesses that employ paid help;
- workers with unincorporated businesses that don't employ paid help; and
- unpaid family workers.

Using data from the 2005 *Labour Force Survey*, Industry Canada's Small Business Policy Branch examined the occupational profiles of self-employed workers in 1990 and

2005. Because of their small numbers, unpaid family workers were excluded from this analysis.

The occupational composition of employment for paid employees has remained fairly constant in recent years: the number of employees in the three occupations that have the greatest share of employees (business, finance and administration; sales and services; and trades, transport and equipment operation) remained stable around 60 percent of wage-and-salary employment (see Table 3).

In contrast, self-employed workers have increasingly pursued employment in service-oriented occupations in lieu of work in primary industries. Between 1990 and 2005, the proportion of self-employed workers in occupations unique to primary industry fell from 19.3 percent to 11.5 percent. This drop was

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especially pronounced among unincorporated businesses in primary industries, where the share of self-employed workers was roughly halved.

Over the same period, the proportion of self-employed workers also increased moderately in knowledge-based industries, including health; art, culture, recreation and sport; and natural and applied sciences. Management occupations, in particular, comprise a substantial portion of self-employment for all worker categories, notably among incorporated self-employed workers with paid help (40.9 percent in 2005). Moreover, while the overall number of self-employed workers increased by about

36.8 percent between 1990 and 2005, the level of self-employment increased dramatically in a number of service sectors: by 170.0 percent in natural and applied sciences; by 85.6 percent in health services; and by 53.1 percent in business, finance and administration. This trend is not surprising, given the increasing tendency toward higher education among the self-employed.¹

¹ According to the *Labour Force Survey*, the proportion of self-employed workers with at least a post-secondary certificate increased from 40.1 percent in 1990 to 58.7 percent in 2005.

Table 3: Self-Employment (Percentage) in Canada by Category¹ of Worker and Occupation, 1990 and 2005

Occupation	Employees		Self-Employed		Incorporated				Unincorporated			
					With Paid Help		No Paid Help		With Paid Help		No Paid Help	
	1990	2005	1990	2005	1990	2005	1990	2005	1990	2005	1990	2005
Business, finance and administration	21.3	19.4	8.9	9.9	11.7	9.6	12.2	14.6	5.8	7.0	6.8	8.9
Health	5.5	6.2	3.5	4.7	3.4	5.3	1.6	2.3	8.8	12.0	2.1	3.7
Management	7.4	6.9	20.3	20.1	40.8	40.9	21.6	16.4	22.7	26.8	8.9	10.2
Natural and applied sciences	5.6	7.0	3.0	5.9	4.3	4.5	5.7	12.1	1.4	2.2	2.7	5.5
Art, culture, recreation and sport	2.0	2.4	5.1	7.0	1.9	1.8	5.6	7.0	2.2	2.0	8.2	10.9
Social science, education and government	7.1	8.7	5.8	6.6	2.5	3.0	0.8	3.6	5.7	6.7	8.8	9.5
Primary industry	2.4	2.1	19.3	11.5	5.2	7.3	7.9	10.6	21.9	12.8	24.8	12.8
Sales and services occupations	24.0	25.3	15.7	15.8	12.2	9.3	15.7	13.5	11.5	12.6	19.9	20.4
Trades, transport and equipment operators	16.4	14.5	17.4	16.5	16.4	15.1	27.6	18.1	18.8	15.9	17.1	16.9
Total, all occupations	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Statistics Canada, *Labour Force Survey*, special tabulation.

¹ Unpaid family workers excluded due to their small number.



BUSINESS

Establishments

According to Statistics Canada's *Business Register*, there were 2 285 090 business establishments¹ in Canada in December 2005 (see Table 4), a 3.9-percent drop from December 2004. During this period, the number of businesses in the indeterminate category² fell by 102 059 in absolute terms, equivalent to a 7.6-percent decline. At the same time, the number of employer businesses increased by 10 042, or 1.0 percent.

In December 2005, small businesses (those with fewer than 100 employees) accounted for 97.6 percent of employer establishments. Of these, microfirms (fewer than five employees) constituted 57.2 percent of employer businesses. Medium-sized enterprises (100–499 employees) represented 2.2 percent, while large firms (500 employees or more) accounted for 0.3 percent. These proportions have historically remained fairly stable.

As of December 2005, most business establishments were located in Ontario (37.2 percent) and Quebec (20.7 percent). The four western provinces accounted for 36.1 percent of the total, and Atlantic Canada for 5.7 percent. While there have been no major changes in this geographic distribution since 2002, the proportion of Quebec business establishments of total Canadian businesses fell by 1.3 percent from its December 2004 level.

¹ For an individual business establishment to be included in Statistics Canada's *Business Register*, the company to which it belongs must meet one of the following criteria: have at least one paid employee (with payroll deductions remitted to the Canada Revenue Agency), have annual sales revenues of \$30 000, or be incorporated and have filed a federal corporate income tax return at least once in the previous three years. Some business establishments can belong to the same company and each company owns at least one business establishment.

² The indeterminate category consists of incorporated or unincorporated businesses that do not have a Canada Revenue Agency payroll deductions account. The workforce of such businesses may consist of contract workers, family members and/or owners.

Table 4: Business Establishments by Firm Size and Province or Territory, December 2005

Province or Territory	Grand Total	Indeterminate ¹	Employer Businesses										
			Total	Firm Size (Number of Employees)									
				1–4	5–9	10–19	20–49	50–99	100–199	200–499	500+		
Newfoundland and Labrador	25 684	8 872	16 812	10 015	3 056	1 786	1 242	375	182	100	56		
Prince Edward Island	10 225	3 884	6 341	3 615	1 120	767	546	168	69	43	13		
Nova Scotia	53 053	22 851	30 202	16 653	5 422	3 812	2 675	909	462	184	85		
New Brunswick	42 244	16 334	25 910	15 092	4 489	3 026	2 123	666	319	137	58		
Quebec	472 475	233 511	238 964	151 028	37 475	23 575	16 348	5 778	2 752	1 378	630		
Ontario	850 778	500 572	350 206	187 160	59 883	44 846	34 733	12 851	6 208	3 245	1 280		
Manitoba	75 015	39 779	35 236	18 492	6 239	4 902	3 467	1 211	527	290	108		
Saskatchewan	95 464	56 590	38 874	22 233	7 059	4 771	3 190	952	388	206	75		
Alberta	308 433	165 275	143 158	81 403	24 572	17 215	12 203	4 267	2 120	1 009	369		
British Columbia	345 227	182 495	162 732	94 748	28 003	19 140	13 076	4 487	1 962	950	366		
Yukon Territory	2 838	1 283	1 555	787	315	202	180	44	14	11	2		
Northwest Territories	2 756	1 019	1 737	679	348	308	267	78	37	16	4		
Nunavut	898	267	631	181	151	136	110	33	12	7	1		
Canada Total	2 285 090	1 232 732	1 052 358	602 086	178 132	124 486	90 160	31 819	15 052	7 576	3 047		
Share of employer businesses			100.0%	57.2%	16.9%	11.8%	8.6%	3.0%	1.4%	0.7%	0.3%		

Source: Statistics Canada, *Business Register*, December 2005.

¹ The indeterminate category consists of incorporated or unincorporated businesses that do not have a Canada Revenue Agency payroll deductions account. The workforce of such businesses may consist of contract workers, family members and/or owners.

FINANCING

Management Skills and Access to Financing by SMEs

The performance of a small or medium-sized business depends on the competence and capability of its management. In 2003, a study conducted by the RBC Financial Group and others examined the role of management capacity in firm growth and suggested that “managers of Canadian SMEs with the capacity for profitable growth who fail to achieve commercial success often lack the organizational and leadership skills to respond to business challenges.”¹ The report identified nine internal challenges faced by SMEs growing their businesses, including access to financing.

In 2004, the top three barriers to business growth and development cited in a Statistics Canada survey of SMEs² included levels of taxation, finding qualified labour and instability of consumer demand (Figure 1). Although obtaining financing was ranked low as an obstacle to growth regardless of management capacity, those with less than five years’ experience

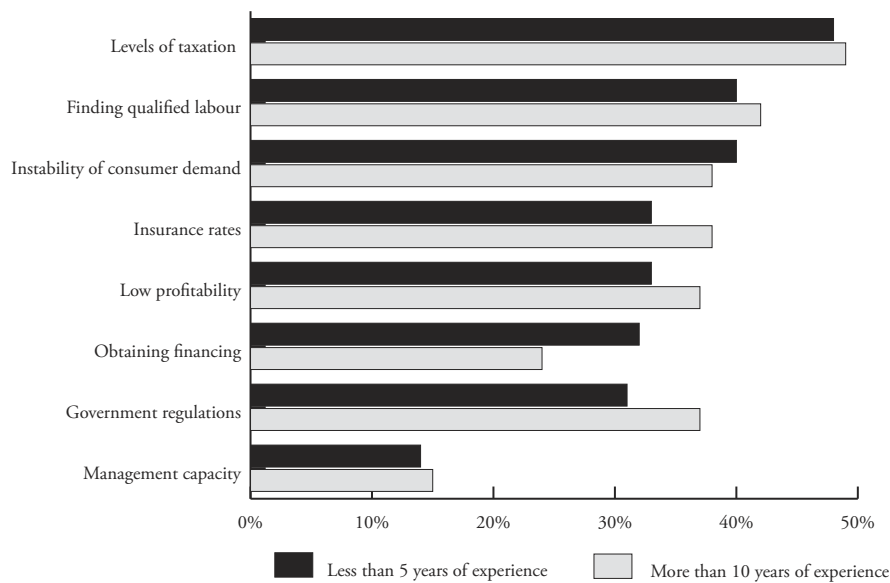
were more likely to report it as an obstacle (32 percent) than those with more years of experience (24 percent).

In terms of access to financing for debt, those firms with more than 10 years of experience had a lower turndown rate (11 percent) compared with firms with less than five years of experience (16 percent). This difference in turndown is not substantial and bears further investigation, but it suggests that management capacity is a factor in a firm’s ability to access financing for business growth.

¹ RBC Financial Group, Queen’s School of Business, Canadian Manufacturers & Exporters, and the Canadian Federation of Independent Business, *Managing for growth: Enabling sustainable success in Canadian SMEs*, 2003: www.rbc.com/newsroom/pdf/20031022sme_full.pdf.

² The 2004 SME Financing Data Initiative ranked obstacles to business growth identified by Canadian entrepreneurs.

Figure 1: Perceived Obstacles to Business Growth and Development by Management Capacity (Percentage), 2004



Source: SME Financing Data Initiative, Statistics Canada, *Survey on Financing of Small and Medium Enterprises*, 2004.

RECENT *Developments*

International Council for Small Business 2006 Conference

The International Council for Small Business (ICSB) held its annual conference from June 18 to June 21 in Melbourne, Australia. The conference theme was “Entrepreneurship: Unique Solutions for Unique Problems,” and it brought together academics, policy-makers, economic development officers and non-governmental organizations from all over the world to share research and to discuss small business and entrepreneurship issues.

Research was presented in several tracks, including case studies in entrepreneurship; e-commerce/technology; family business; finance (micro/angel/venture); economic development; globalization; growth, exit and development; policy; and research and research methodologies.

For more information on the ICSB and the conference, please visit www.icsb2006.org.

OECD Global Conference on Better Financing for Entrepreneurship and SME Growth

The OECD Global Conference on Better Financing for Entrepreneurship and SME Growth was held from March 28 to March 30 in Brasilia, Brazil. The participants examined how governments can help entrepreneurs obtain funding to develop their businesses.

The Canadian delegation attended the credit workshop, which examined a range of issues pertaining to the credit financing of SMEs, including the conditions and characteristics of the regulatory and institutional framework that can assure the functioning of a debt market responsive to SME needs, as well as issues related to the evaluation, mitigation and sharing of risk.

For more information on the OECD conference, please visit www.oecd.org.

The 23rd Conference of the Canadian Council for Small Business and Entrepreneurship

The 23rd Conference of the Canadian Council for Small Business and Entrepreneurship (CCSBE) will be held from September 28 to September 30 in Trois-Rivières, Quebec. Under the theme “Entrepreneurship, SMEs and Local Economic Development,” academics, policy-makers, business support professionals and economic development officers will examine, among other issues, the potential strategies in Canada for the stakeholders of local economic development in the face of increasing competition from countries whose advantage lies in an abundant labour force.

For more information on the CCSBE and the September conference, please visit www.ccsbe.org.

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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Rova Rabemananjara
E-mail: rabemananjara.rova@ic.gc.ca
Small Business Policy Branch
Industry Canada
235 Queen Street
Ottawa ON K1A 0H5
Tel.: (613) 941-1462
Fax: (613) 946-1035
Website: www.strategis.gc.ca/sbresearch

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