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Business

QUARTERLY

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PERFORMANCE

Trends

■ Employment in small businesses (those with fewer than 100 employees) increased by 69 780 in the third quarter of 2006 compared with the same quarter of 2005. This number represented 29.0 percent of net new jobs in the Canadian economy, down from 36.7 percent in the previous quarter.

■ There were 2.33 million business establishments in June 2006, a 3.4-percent increase from June 2005.

■ Business bankruptcies numbered 1413 in the third quarter of 2006, a drop of 14.4 percent from the third quarter of 2005.

■ In the third quarter of 2006, 2.49 million people were self-employed, a 1.2-percent drop from the same period in 2005. This represents a second consecutive year-over-year decrease following four years of growth.

■ Total business loans outstanding¹ from chartered banks continued to rise in the third quarter of 2006, reaching \$109.6 billion. This represents an increase of 10.7 percent from the same quarter of 2005. Loans of less than \$1 million accounted for 49.5 percent of total business loans.

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

FIRM GROWTH:

A Complex Process

Recent work by Industry Canada (IC) on firm growth sheds some light on the complexities of the growth process. As with previous IC reports on firm growth, the current study used a database that covers the universe of firms. Firms were divided into four groups according to their employment growth over a four-year period: hyper (more than 150-percent growth), strong (growth between 50 and 150 percent), slow (positive growth but less than 50 percent), and no growth or declining (negative growth).

The report confirmed previous findings (reported in *Small Business Quarterly*, February 2004) that hyper- and strong-growth firms have a disproportionate impact on job creation. From 1993 to 2003, hyper-growth firms represented only 4.4 percent of all firms, but accounted for 45 percent of total job growth.

The study also examined job creation by age of firm, the relationship between growth and firm survival, as well as the durability of growth over the 10-year period. Analysis of job creation by firm age revealed that the youngest firms accounted for the bulk (55 percent) of net job creation, while the older firms (eight years and older), which made up half of all firms, tended to shed jobs. Although the contribution to net job creation declined with firm age, net job

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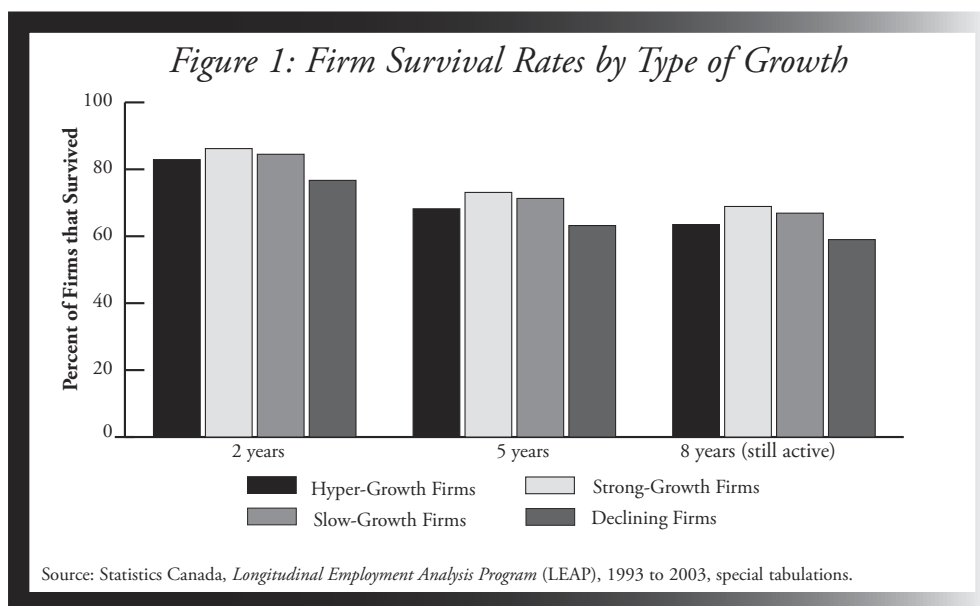
creation was positive for firms up to seven years old. This reflects the fact that most of the declining firms were more than eight years old. When the average number of jobs created per firm is examined by level of firm growth and age, however, the largest net creators of jobs were hyper-growth firms more than eight years old. Consequently, older firms can be important sources of job creation as well as job losses.

One area of critical concern is how firm survival varied across growth types. One might expect that survival would be positively related to growth. However, the results demonstrated that hyper-growth firms had lower survival rates than either strong-growth firms or slow-growth firms: 68 percent of hyper-growth firms survived five years after inception compared with 73 percent of strong-growth firms, 71 percent of slow-growth firms and 63 percent of declining firms. This pattern held for all durations of survival (Figure 1). Although hyper-growth strategies potentially yield higher rewards, they appear to be associated with higher risk. Previous work has shown that exporting was associated with firm growth (see *Small Business Quarterly*, February 2006), and this strategy may bring higher risks as well as growth.

Another concern about growth is its durability. A common perception of firm growth is that it follows an exponential path over time. The study compared the growth of firms at the beginning and at the end of the 10-year period to determine whether firms remained in the same growth category. The results clearly showed that firms' growth levels changed over the 10 years. Of the firms that were hyper-growth at the beginning, only 3.5 percent were also hyper-growth firms at the end; 12 percent were strong-growth firms at the start of the study period, but almost 50 percent had become declining firms by the end of the study period. By contrast, nearly 13 percent of firms that had declining employment at the start of the period were hyper- or strong-growth firms at the end. This indicates that many declining firms were able to address their weaknesses, likely by improving efficiency or reaching new markets. Although hyper-growth may be beneficial in the short term, it cannot necessarily be sustained over the longer term.

Further information on these aspects of firm growth is available at

www.strategis.ic.gc.ca/sbresearch/growthfirms.



JOB Creation

According to Statistics Canada's *Survey of Employment, Payrolls and Hours*, the number of payroll jobs increased by 240 833 in the third quarter of 2006 over the same period in 2005, reaching a total of 13 856 289 (Table 1). This figure corresponds to an annual growth of 1.8 percent, down from the three-year high of 2.1 percent in the second quarter of 2006. Although small business¹ employment rose by 1.2 percent in the third quarter of 2006, this increase was lower than employment growth in medium-sized businesses (1.3 percent) and in large businesses (2.4 percent). As a result, small businesses contributed only 29.0 percent of job gains, down from 36.7 percent in the second quarter of 2006.

Among the provinces, the highest job increases in the third quarter of 2006 were in Alberta (5.1 percent), followed by

British Columbia (3.7 percent). Western Canada also continued to create most of the jobs among small businesses. In the third quarter of 2006, the number of small business jobs in British Columbia increased by 3.3 percent over the same period in 2005 and by 3.1 percent in Alberta. In central Canada, job growth in small businesses was more restrained. Small business employment grew by 0.9 percent in Ontario and by only 0.4 percent in Quebec. On the East Coast, job creation results were also mixed — in the third quarter of 2006, the small business workforce shrank year-over-year in Prince Edward Island (3.7 percent) and Nova Scotia (1.4 percent).

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

Table 1: Year-Over-Year Change¹ in Payroll Employment,² by Province and Territory, 3rd 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+	
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	
Q2 2006	2.1	281 016	13.6	4.2	8.8	10.1	36.7	4.9	5.3	10.2	53.1	
Q3 2006	1.8	240 833	13.1	1.2	5.8	8.9	29.0	3.2	8.5	11.7	59.3	
Province and Territory			Growth Rates (%)									
Newfoundland and Labrador	2.2	4 081	-0.8	-0.3	1.8	-0.3	0.1	-1.6	-7.3	-3.2	5.6	
Prince Edward Island	-4.5	-3 125	-6.0	-2.2	-7.9	2.6	-3.7	9.2	-21.7	2.3	-8.0	
Nova Scotia	0.9	3 335	0.2	-0.8	-1.5	-3.5	-1.4	3.8	3.1	3.6	1.8	
New Brunswick	0.2	566	0.7	-0.9	0.7	0.1	0.0	4.5	-1.8	3.0	-0.4	
Quebec	0.3	9 568	-0.2	0.1	1.0	0.7	0.4	-2.1	-1.0	-1.8	1.0	
Ontario	1.4	74 531	5.4	-0.5	-0.1	1.1	0.9	1.0	6.2	2.4	1.5	
Manitoba	0.6	3 286	2.2	1.2	-0.5	4.1	1.4	0.8	-9.9	-2.3	1.0	
Saskatchewan	2.1	8 504	4.0	-1.8	-2.4	1.7	-0.4	-8.4	-11.3	-9.2	8.1	
Alberta	5.1	77 282	5.6	0.8	3.8	3.8	3.1	2.0	18.5	6.6	6.6	
British Columbia	3.7	62 629	4.2	2.0	2.7	5.6	3.3	3.2	0.4	2.4	4.7	
Yukon ³	3.0	520	3.2	-5.4	22.4	2.7	4.3	-26.8	—	—	—	
Northwest Territories ³	-3.6	-820	0.4	-1.5	-5.1	14.8	0.5	-20.3	—	—	—	
Nunavut ³	4.2	476	3.1	6.2	2.6	-26.2	-7.3	48.9	—	—	—	
Canada Total	1.8	240 833	3.3	0.1	0.9	1.8	1.2	0.5	3.5	1.3	2.4	

Source: Statistics Canada, *Survey of Employment, Payrolls and Hours*, December 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 *Insolvencies*

Beginning with this issue, *Small Business Quarterly* will examine total business insolvencies, which include both bankruptcies and proposals. Bankruptcy refers to the liquidation of the debtor's business assets and the end of the commercial entity's operations. Business proposals involve the settling of debts between the debtor and its creditors while still allowing the business to continue operating. In 1992, one objective of reforming the *Bankruptcy and Insolvency Act* was to promote business proposals as an alternative to bankruptcy.¹ In 2005, business proposals represented 18 percent of business insolvencies compared with just 5 percent in 1995.

In the third quarter of 2006, the total number of business insolvencies was 1735, which represented a 13-percent drop compared with the same period in 2005, and the lowest number of insolvencies in a quarterly period between 1995 and 2006. Business insolvencies reached a high of 4228 in the last quarter of 1996.

Business Bankruptcies

In the third quarter of 2006, the number of business bankruptcies continued to fall, dropping by 14 percent year-over-year — from 1651 to 1413. There has not been a year-over-year increase in business bankruptcies in Canada since the fourth quarter of 2001. The current figure also represents a 22-percent drop over the second quarter of 2006 (1801 bankruptcies). The year-over-year drop in commercial bankruptcies can primarily be attributed

to three sectors: manufacturing (28-percent drop), construction (21-percent drop), and accommodation and food services (20-percent drop). These three sectors accounted for almost two thirds (63 percent) of the overall decline in the number of bankruptcies.

In the third quarter of 2006, liabilities associated with bankruptcies grew 9 percent to \$744 million compared with the same quarter in 2005. Compared with the previous quarter, however, liabilities were down 53 percent.

Business Proposals

Business proposals decreased 6 percent to 322 in the third quarter of 2006 compared with one year earlier, representing the fifth consecutive quarterly year-over-year decrease. Compared with the second quarter of 2006, the number of business proposals fell 12 percent.

Proposal liabilities totalled \$332 million in the third quarter, representing a year-over-year third-quarter decline of 38 percent. This decline followed three quarters of year-over-year increases in liabilities.

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

¹ Economic Analysis Group, Business Intelligence Centre, Office of the Superintendent of Bankruptcy, *Business Insolvency in Canada: A National and Regional Analysis for the Period 1987–2005*, November 2006.

FINANCING

Debt Load of Canadian Business Increases for the Second Year in a Row

The debt load of Canadian businesses, overall, increased 11 percent from 2004 to \$411.5 billion in 2005. According to the *Survey of Suppliers of Business Financing*,¹ the vast majority of the increase was attributed to larger businesses (those with loan authorizations of more than \$5 million) whose outstanding debt rose 14.3 percent in 2005 or by about \$27 billion. In comparison, firms with loan authorizations of less than \$1 million (often considered a proxy for lending to small and medium-sized enterprises) saw their debt increase by only 4.3 percent to \$100.8 billion. This significant difference may be a reflection of a decade-long decline in demand for debt financing by SMEs, as noted in the Canadian Federation of Independent Business banking surveys and the SME FDI Survey on Financing of SMEs.

The principal source of debt financing for business continues to be domestic banks, but other suppliers have seen increasing market share. In 2005, debt outstanding from domestic banks

to small and medium-sized businesses accounted for 43 percent of debt financing to them. Finance companies reported the largest year-over-year percentage increase in debt financing authorized to businesses (22.6 percent), while their market share of debt outstanding has been steadily increasing over the 2003 to 2005 period. The debt was mainly in the form of loans, mortgages and lines of credit as interest rates, rising commodity prices and increased capital investment raised business financing requirements.

For more information on the SME FDI and the research prepared under the Initiative, please visit www.sme-fdi.gc.ca.

¹ The *Survey of Suppliers of Business Financing* is part of the Small and Medium-Sized Enterprise Financing Data Initiative (SME FDI) — a partnership between Industry Canada, Statistics Canada and the Department of Finance. The survey provides data from various financial service providers with more than \$5 million in assets on debt and lease financing by amounts authorized, amounts outstanding and losses. Excluded from the survey were government programs, private not-for-profit organizations, and foreign and informal suppliers such as business “angels” and family members.

BUSINESS *Establishments*

According to Statistics Canada’s *Business Register*, there were 2 325 543 business establishments¹ in Canada in June 2006 (see Table 2), an increase of 3.4 percent from June 2005. Over this period, the number of businesses in the indeterminate category² grew by 55 529, a rise of 4.6 percent. At the same time, the number of employer businesses increased by 21 853 over the 1 048 286 registered in June 2005. This overall change was the result of increases of 2.1 percent in the number of small businesses (those with fewer than 100 employees), 2.7 percent in the number of medium-sized businesses (those with 100–499 employees) and 8.1 percent in the number of large businesses (those with 500 employees or more).

In June 2006, small businesses accounted for 97.6 percent of employer establishments. Of these, microbusinesses (those with fewer than five employees) constituted 57.4 percent of the total number of employer businesses, up from 56.5 percent in June 2005. Medium-sized establishments represented

2.1 percent, while large firms accounted for 0.3 percent of employer businesses.

More than one third of small establishments were active in three sectors: professional, scientific and technical services (11.6 percent); construction (11.3 percent); and retail trade (12.6 percent). Medium-sized businesses were most heavily concentrated in manufacturing (18.8 percent), retail trade (13.1 percent), and health care and social assistance (9.3 percent).

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. Several 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.

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Table 2: Business Establishments by Size of Employment and Industry, June 2006

Industry	Employer Businesses												
	Grand Total	Indeterminate ¹	Total	Number of Employees							Distribution (%)		
				1-4	5-9	10-19	20-49	50-99	100-199	200-499	500+	1-99	100-499
Agriculture, Forestry, Fishing and Hunting	193 590	136 629	56 961	43 587	6 727	3 748	2 115	529	172	72	11	5.4	1.1
Mining and Oil and Gas Extraction	16 859	7 485	9 374	5 352	1 175	1 017	986	429	217	144	54	0.9	1.6
Utilities	2 312	943	1 369	584	223	219	154	61	45	43	40	0.1	0.4
Construction	269 177	149 718	119 459	77 775	18 256	11 354	7 721	2 693	1 065	458	137	11.3	6.6
Manufacturing	98 138	37 372	60 766	25 667	9 062	8 186	8 597	4 469	2 850	1 514	421	5.4	18.8
Wholesale Trade	118 385	54 453	63 932	31 835	11 812	9 381	7 282	2 253	926	370	73	6.0	5.6
Retail Trade	217 943	83 571	134 372	61 365	31 786	21 381	12 334	4 366	2 191	850	99	12.6	13.1
Transportation and Warehousing	125 415	77 353	48 062	31 680	6 001	4 363	3 637	1 283	571	389	138	4.5	4.1
Information and Cultural Industries	32 895	18 954	13 941	7 288	2 122	1 643	1 672	586	353	185	92	1.3	2.3
Finance and Insurance	111 933	72 702	39 231	20 232	6 218	5 120	5 246	1 157	663	373	222	3.6	4.5
Real Estate and Rental and Leasing	188 579	145 729	42 850	26 378	6 893	4 549	3 224	1 024	485	225	72	4.0	3.1
Professional, Scientific and Technical Services	326 331	204 084	122 247	85 346	16 208	10 152	6 871	2 152	920	457	141	11.6	5.9
Management of Companies and Enterprises	67 294	53 889	13 405	7 623	1 985	1 440	1 250	496	321	194	96	1.2	2.2
Administrative and Support, Waste Management and Remediation Services	109 478	59 504	49 974	28 540	8 312	5 842	4 269	1 596	783	444	188	4.7	5.3
Educational Services	23 641	11 451	12 190	6 435	1 891	1 490	1 082	417	242	201	432	1.1	1.9
Health Care and Social Assistance	98 731	14 136	84 595	48 047	15 996	10 180	5 785	2 030	1 329	819	409	7.9	9.3
Arts, Entertainment and Recreation	43 404	24 796	18 608	9 772	3 296	2 398	1 891	686	340	160	65	1.7	2.2
Accommodation and Food Services	106 525	32 385	74 140	29 418	14 132	13 434	11 638	4 094	1 033	314	77	7.0	5.8
Other Services (Excluding Public Administration)	166 850	70 162	96 688	64 651	16 531	9 053	4 648	1 150	417	182	56	9.2	2.6
Public Administration	8 063	88	7 975	2 245	1 521	1 116	1 238	681	471	375	328	0.7	3.7
Total All Industries	2 325 543	1 255 404	1 070 139	613 820	180 147	126 066	91 640	32 152	15 394	7 769	3 151	100.0	100.0
Share of Employer Businesses			100%	57.4%	16.8%	11.8%	8.6%	3.0%	1.4%	0.7%	0.3%		

Source: Statistics Canada, *Business Register*, June 2006.

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.

SELF-Employment

Older Self-Employed Workers

According to Statistics Canada's *Labour Force Survey*, the number of self-employed workers in Canada rose from 2.08 million in 1995 to 2.51 million in 2005 — an average annual growth of 1.9 percent.

Table 3 shows the distribution and the growth of self-employed workers by age group. The most impressive growth — 4.8 percent per year — is among self-employed workers over the age of 55 between 1995 and 2005. These older workers accounted for 25.4 percent of total self-employment in 2005, up from 19.3 percent in 1995. While there was moderate average growth in the number of self-employed workers aged from 25 to 29 (0.5 percent) and those aged from 30 to 54 (1.5 percent), the number of younger self-employed workers (aged from 15 to 24) dropped by 3.4 percent per year.

This increase in the average age of self-employed workers likely reflects the aging of the Canadian population as a whole rather

than older workers being more interested in entrepreneurship than younger people. In 2005, self-employed individuals represented 27.4 percent of the labour force over the age of 55, down from 29.5 percent in 1995 (not shown here). For self-employed workers overall, this ratio remained relatively stable over the 10-year period: 14.2 percent in 1995 and 14.5 percent in 2005. Nevertheless, the fast growth in the number of senior self-employed workers raises the important question of business succession.

A growing number of self-employed individuals, even in the younger group (15 to 24 years), have chosen to incorporate to benefit from lower tax rates, limited liability and greater access to capital. Over the past 10 years, the number of incorporated self-employed workers grew by 3.9 percent per year compared with 1.0-percent growth for those who are not incorporated. In all age groups, the growth was especially high in the incorporated self-employed workers without paid help category.

Table 3: Distribution and Growth of Self-Employed Workers (percentage) by Age, Canada, 1995 and 2005

Age	Self-Employed			Incorporated						Unincorporated						Unpaid Family Workers	
	Average Growth		Proportion	With Paid Help			Without Paid Help			With Paid Help			Without Paid Help			1990	2005
	1995–2005	1995		1995	2005	1995–2005	1995	2005	1995–2005	1995	2005	1995–2005	1995	2005			
15 years and over	1.9	100.0	100.0	1.5	100.0	100.0	9.0	100.0	100.0	-1.5	100.0	100.0	1.7	100.0	100.0	18.2	21.0
15–24 years	-3.4	6.7	3.9	-0.5	1.1	0.9	6.1	2.3	1.8	-2.1	1.6	1.5	-4.2	10.5	5.8	34.4	27.3
25–29 years	0.5	6.6	5.8	-0.3	4.4	3.7	7.1	6.5	5.4	-2.9	5.8	5.0	0.6	8.0	7.2	22.1	20.8
30–54 years	1.5	67.3	64.8	0.7	75.1	69.5	8.1	72.1	66.7	-2.3	73.0	66.8	1.7	62.2	62.1	7.8	6.1
55 years and over	4.8	19.3	25.4	4.6	19.2	25.8	12.4	18.9	25.9	1.7	19.4	26.5	4.3	19.3	24.9	15.6	17.0

Source: Statistics Canada, *Labour Force Survey*, 2005, special tabulations.

RECENT *Developments*

Survey of Regulatory Compliance Costs

Statistics Canada recently released data from the *Survey of Regulatory Compliance Costs*. The survey produces statistics on the costs of compliance with key government requirements for information, such as payroll remittances and provincial sales tax instalments. It also provides a baseline to track the government's progress in reducing burden resulting from these obligations. The main survey collects data on the costs of compliance incurred internally by businesses and on their perceptions of paperwork burden. A supplementary survey collects data on the costs incurred by external service providers, such as accountants or payroll companies, who undertake compliance activities on behalf of their business clients.

For more information on the survey and the Paperwork Burden Reduction Initiative, please visit

www.statcan.ca/Daily/English/061212/d061212d.htm and www.reducingpaperburden.gc.ca.

The International Consortium on Entrepreneurship

The International Consortium on Entrepreneurship (ICE) recently released a report containing 63 indicators of the entrepreneurship environment in up to 30 industrial countries. Canada is a member of the ICE, whose goal is to develop objective and consistent evidence on entrepreneurship, including specific topic areas that can be benchmarked across countries. The ICE currently has nine member countries as well as academic researchers from three other countries. The 2006 version of the indicators report is available at www.foranet.dk/upload/quality_assessment_of_entrepreneurship_indicators_004.pdf.

Federal Contracting Opportunities for SMEs

Small and medium-sized enterprises (SMEs) sell about \$6 billion of goods and services every year to Public Works and Government Services Canada (PWGSC), the procurement arm of the federal government. PWGSC is working to provide open, fair and transparent competition, and to give SMEs greater access to federal government contracts. Through its Office of Small and Medium Enterprises (OSME), the department has already eliminated the fees to access documents on all federal opportunities. Among other initiatives under way are removing possible access barriers to joint ventures, and simplifying the language in bid solicitations and contracts. For more information on the OSME's services, contact the OSME InfoLine at 1-800-811-1148 or visit the OSME website at www.pwgsc.gc.ca/acquisitions/text/sme/osme-e.html.

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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Laurie McDougall
E-mail: mcdougall.laurie@ic.gc.ca
Small Business Policy Branch
Industry Canada
235 Queen Street
Ottawa ON K1A 0H5
Tel.: 613-954-3588
Fax: 613-946-1035
Website: www.strategis.gc.ca/sbresearch

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