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IN BRIEF

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Improving our Understanding of SMEs

There are a large number of small and medium-sized enterprises, or SMEs, in all sectors of the Canadian economy. They form a diversified group with multiple characteristics and needs. They are employers that public policy makers are trying to understand better.

SMEs AND EMPLOYMENT

According to Statistics Canada's *Business Register*, there were 2,190,278 businesses in Canada in December 2001. Almost half (1,046,870) maintained a payroll of one person (likely the owner) or more, hence the term *employer businesses*. The rest were businesses that did not issue a payroll and that had annual sales revenue of at least \$30,000 or were incorporated and had filed a federal corporate income tax return at least once in the previous three years. Self-employed people can be included in the registry if they meet these sales and filing requirements.

In Canada, SMEs (employers with fewer than 500 employees) account for about 54% of total employment. Data compiled by Statistics Canada based on T4 slips show that from 1994 to 1999, the number of SMEs with employees increased from 922,000 to about 975,000. Table 1 presents data from 1999 that compare the payroll and the approximate number of employees of different sizes of business.

Micro-enterprises (with fewer than five employees) account for approximately three-quarters of employer businesses, but their share of the total payroll is relatively small (approximately 7%). While the number of micro-enterprises has increased steadily over the past few years, they have lost ground in relative terms. Graph 1 shows that the proportion of micro-enterprises dropped from 78% to 75% during the 1990s.

Small enterprises (from 5 to 49 employees) account for less than one-quarter of employer businesses and almost one-fifth of the total payroll. Unlike micro-enterprises, small businesses have increased not only their numbers but also their share of the payroll since 1994.

Altogether, businesses with fewer than 50 employees represent a stable proportion of the number of businesses and the payroll. Their relative importance in the labour market has also remained constant.

Table 1: Number, Payroll and Employment by Employer Size in Canada* (1999)

Business Type	Number of Firms	Number (%)	Payroll (\$000 000)	Share of Payroll (%)	Approx. Total Number of Employees (000)	Share of Approx. Total Number of Employees (%)
Micro	734,069	75.1	30,483	6.8	1,063	8.3
Small	217,037	22.2	86,575	19.3	3,020	23.6
Medium	23,601	2.4	97,336	21.7	2,816	22.0
SMEs (subtotal)	974,707	99.8	214,394	47.8	6,900	53.9
Large	2,315	0.2	233,998	52.2	5,912	46.1
Total	977,022	100.0	448,392	100.0	12,812	100.0

Source: Statistics Canada, CD-ROM, *Employment Dynamics*.

* *Micro-enterprises* have fewer than 5 employees, *small enterprises* have between 5 and 49, and *medium-sized enterprises* have from 50 to 499 employees. (Data from private- and public-sector employers.)

Medium-sized enterprises (from 50 to 499 employees), which, according to some observers, generate one-quarter of all private-sector income, represent about 2% of employers. Despite their smaller numbers, they are comparable with small businesses in terms of their payroll and approximate number of employees.

REGIONAL AND SECTORAL ASPECTS

There are SMEs in all sectors and all regions, with variable entry and exit rates. For example, recent data show that, in comparison with the national average, the fastest growth in small business formation was in Alberta and Ontario, whereas it was slower in Atlantic Canada. Small enterprises were formed more quickly in cities than in rural communities: in fact, 60% of small enterprises are located in large urban centres. Over the past few years, particularly high growth in the number of small enterprises was observed in Calgary, Oshawa, Edmonton, Kitchener, Toronto and Ottawa.

According to CIBC World Markets, the events of 11 September 2001 had an impact on small enterprises in the tourism and accommodation sector, where revenues were down 40%. Revenues of small enterprises in the protection services industry, however, rose almost 15%.

Small businesses still occupy a predominant place in retail trade, personal services, tourism or construction, but they are no longer confined as they once were to these sectors. Greater numbers of small enterprises are now getting into the big three industries: transportation, wholesale trade and business services. They are also increasingly doing business on export markets, sometimes using the international networks of large enterprises.

A firm's propensity to export is directly related to its size. Forecast studies predict that globalization, the Internet and immigration will boost small business export activities. However, the results of a survey conducted in 2000 indicate that, overall, only 10.6% of SMEs were involved in exporting; results of 1998 surveys had put the figure closer to 15%. Future surveys will show whether a downward trend is beginning, or whether the difference can be explained by the statistical variations inherent in different survey techniques.

In terms of SME competitiveness, it should be noted that Canada tends to have a higher proportion than the United States of enterprises with fewer than 250 employees in industrial sectors where our productivity is lower, such as publishing. Canada tends to have a lower proportion of SMEs in sectors where our productivity is comparable with that of the United States, such as softwood lumber and primary metals.

Canadian business owners identify barriers such as the tax burden, labour/skills issues, availability of financing and regulations to explain their growth difficulties.

A BETTER DEFINED PROFILE

Over the past decade, in-depth studies have been conducted into SME financing requirements. These include the *2002 Status Report* of the Auditor General of Canada, Chapter 5 of which deals with Industry Canada's management of the Canada Small Business Financing Program. Recently, after much effort and the realization that a common conceptual framework would be necessary to examine SME financing across the country, data collection was broadened to make it easier to understand the behaviour and the specific needs of very small enterprises. As the research effort continues, public policy makers will likely benefit from an in-depth knowledge of SMEs' characteristics and needs.

- The first set of data from the *Survey on Financing of Small and Medium-sized Enterprises* (released in January 2002) shows that 82% of SMEs who asked for a loan or some other kind of credit in 2000 were successful in obtaining it.
- The Survey data released in October 2002 indicated that entrepreneurs' personal savings are twice as important as bank loans in financing the start-up of new enterprises. However, once a company is operational, commercial bank loans become the single most important source of financing.

In 1999, in response to the Task Force on the Future of the Canadian Financial Services Sector (the MacKay Task Force), the government "mandated Industry Canada, the Department of Finance and Statistics Canada to work together to gather data on SME financing and report regularly to the House of Commons Industry Committee on the state of SME financing in Canada."

Initial consultations on the SME Financing Data Initiative (SME FDI) were held in 2000 to set out the data collection regime. The first surveys and data collection activities began the following year.

The first report on the state of financing for SMEs is now available. It includes an in-depth analysis of surveys by Statistics Canada and Industry Canada, and public- and private-sector research reports. It also provides an analysis of the research conducted on various financing instruments, as well as an overview of the SME marketplace and details of the specific conditions faced by women entrepreneurs, youth, Aboriginal and minority groups.

FDI partners have given themselves five years, until 2004-2005, to complete the data collection and the research program.