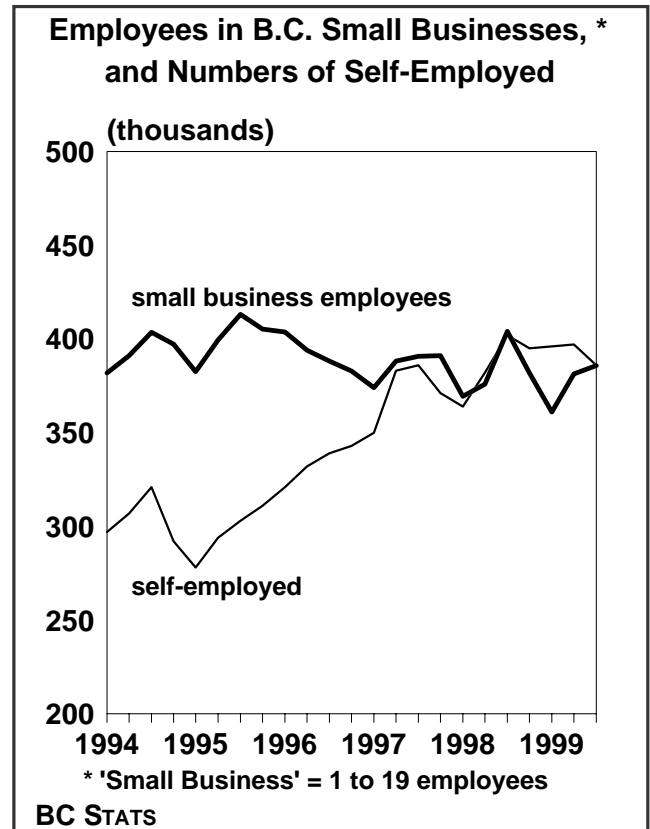


## Small Business Quarterly ♦ Third Quarter 1999

- The number of self-employed British Columbians with employees rose 13 thousand in third quarter over the same period of 1998, an increase of 10%. The number of self-employed without employees declined 29 thousand, a drop of 11%.
- Any increase in the number of self-employed with paid employees is a positive indicator. Changes in the numbers of self-employed people without paid workers are less easily interpreted. Included in this group are people who become self-employed because they could not find suitable employee jobs. A drop in their numbers can indicate that some have given up self-employment to work as employees. Others may still be self-employed but could have hired employees.
- The number of employees in companies with payrolls of one to 19 people shrank 5% in third quarter. Those in companies with 20 to 49 people shrank 2%. Offsetting these declines was an increase of 3% in the number of people employed in companies of 50 or more employees. The net effect was that overall employment remained virtually unchanged in third quarter, from the same quarter of 1998.
- The total number of employer businesses operating in the province was up by a slight 0.3%. This indication of modest growth in the stock of companies was consistent with the 3% rise in business incorporations processed during third quarter.
- Another positive indicator was the 6% increase in registrations of extraprovincial companies. These are businesses operating in British Columbia but incorporated in another jurisdiction.
- Business bankruptcies fell 5% in third quarter. However, consumer bankruptcies rose 10%.
- The value of outstanding chartered bank business loans of less than \$200,000 was down 5 per cent. Those in the \$200,000 to \$500,000 range were down 7 per cent.



# 755 Thousand British Columbians Rely On Small Businesses For Jobs

**Notes on definitions and data:**

'Small businesses' as described here are private sector businesses with fewer than 20 employees. These should be distinguished from the larger category of 'small and medium sized businesses' - those with less than 50 employees. Small businesses include many with only a working owner or owners and no employees. They may operate at more than one location, but employ less than 20 people at all locations combined. All self-employed people are counted as working in small businesses. It is assumed that self-employed people operating businesses with 20 or more people constitute a negligible proportion of the 393 thousand self-employed people in the province.

Unless otherwise noted, statistics in this report are based on custom tabulations from Statistics Canada's Labour Force Survey.

Small businesses, those with fewer than twenty employees, employ a substantially larger portion of the private sector workforce in British Columbia than in other parts of Canada.

Thirty one per cent of British Columbia private sector employees worked in small businesses in 1999, as compared to 25 per cent for the rest of Canada.

Employees are only one part of the small business workforce. Most small businesses comprise only a single self-employed person, so that working owners make up over half of all people employed in small business.

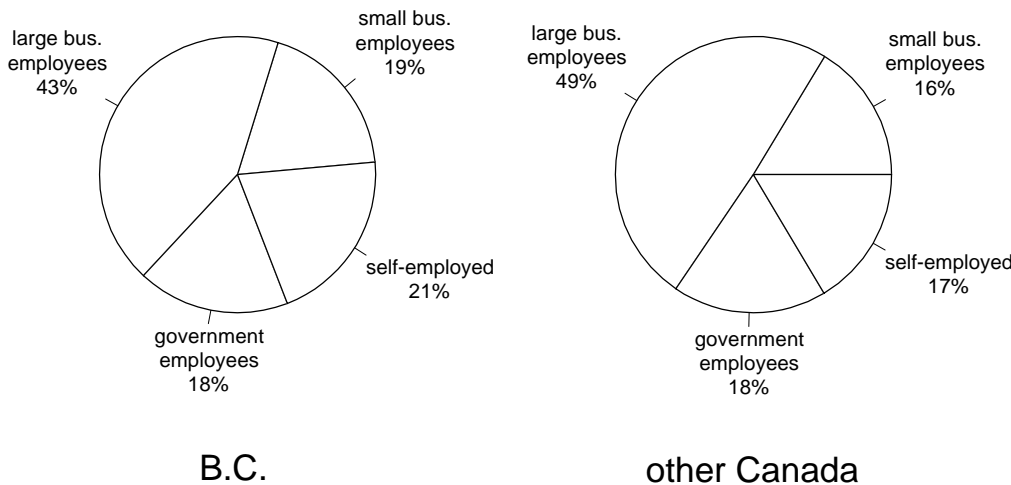
When self-employed people and small business employees are counted together, they amount to 48 per cent of all private sector workers in British Columbia. This is a higher small business employment ratio than in the rest of Canada, where small business workers (employees plus self-employed) make up 40 per cent of the private sector workforce.

In actual numbers, there were 362 thousand British Columbia small business employees

in 1999, and 393 thousand self-employed people. Together, these amounted to 755 thousand British Columbians relying on small businesses for their livelihood. Employees of larger businesses numbered 814 thousand.

The other major employment group were the 338 thousand people working for the federal, provincial, or local governments.

**1999 Employment By Major Employment Categories**



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## Why Do So Many British Columbians Rely On Small Business For Employment?

British Columbia has more than its share of Canada's small business employment. With a population that is 13 per cent of the Canadian total, the province was home to 15 per cent of all Canadian small business employees in 1999, and 16 per cent of all self-employed Canadians.

John Winter, President of the British Columbia Chamber of Commerce, sees some historical reasons for this. 'For so long British Columbia has been reliant on resource based industries as the main source of employment,' he says, 'but slow growth or downsizing in those industries has meant that few new jobs have been created.'

He adds that 'not enough emphasis was placed on secondary industries in the past (to compensate for weak labour demand from resource industries) so that people have turned to small business out of necessity.'

Statistics Canada's Employment Dynamics database ranks British Columbia along with Saskatchewan and Prince Edward Island as the provinces with the largest proportions of their workforces employed in small businesses throughout the 1990s. The importance of small businesses in Saskatchewan and Prince Edward Island is largely explained by the extensive agricultural industries in those provinces. Agriculture everywhere in Canada is traditionally comprised mainly of small businesses. But British Columbia's agriculture industry is small in relation to the size of its overall economy. The special importance of small business in this province is explained by other economic and demographic features.

One such feature is the relatively small size of the manufacturing sector in British Columbia. Still Lacking the large scale secondary manufacturing base of Ontario or Quebec, British Columbia's non-resource based manufacturing industries are small and made up largely of small companies. Manufacturing accounted for just 9 per cent of 1998 gross domestic product in British Columbia, compared to 24 per cent in Ontario, 21 per cent in Quebec, and 18 per cent for Canada as a whole.

The British Columbia furniture manufacturing industry, for example, is small by comparison with the furniture industries of Ontario, Quebec, Manitoba or Alberta. It mainly comprises small operators serving local markets, as is reflected in its 51 per cent small business employment ratio – the proportion of all workers who are either employees of small business or self-employed. The ratio for the rest of Canada as a whole is 28 per cent.

These figures do not mean that British Columbia has attracted more than its share of small scale furniture manufacturing jobs. It is more that there are few jobs available with large furniture manufacturers in the province.

Ten per cent of all Canadian furniture manufacturing jobs in companies with fewer than twenty people were in British Columbia, less than the province's 13 per cent share of the Canadian population. And only 5 per cent of Canadian jobs with large furniture manufacturers were located in British Columbia.

Most of British Columbia's small business workers were employed in services. This sector has traditionally included many small businesses, and makes up a larger part of the economy here than in any other province except Nova Scotia. For several important service industries small business employment ratios have been markedly higher in British Columbia than in the rest of Canada.

British Columbia architectural, engineering and design services, for example, showed a 68 per cent small business employment ratio, as compared to a 51 per cent ratio for the industry in the rest of Canada. The British Columbia industry provided work for 14 thousand self-employed individuals, 7 thousand employees of small companies, and 10 thousand employees of large businesses.

Seventeen per cent of all Canadians working as employees for small firms in architectural, engineering and design services were located in British Columbia, as were 19 per cent of self-employed individuals. But only 10 per cent of the industry's large business employees were located in British Columbia.

A similar pattern was apparent for advertising and related services, where a 74 per cent small business employment ratio in British Columbia compared to a 47 per cent in the rest of Canada. Again, a relatively small proportion of the industry's large business employees (7 per cent) were located in British Columbia. But a disproportionately large share of small business employees (20 per cent) and self-employed individuals (19 per cent) were located in British Columbia.

Mr. Winter feels that one reason for the relatively low ratio of British Columbia service industry employees working in large businesses may be that 'British Columbia has not attracted its share of corporate head offices.'

### **Demographics and Labour Market Conditions**

Additional explanation for the large proportion of British Columbia workers employed in small businesses can be found in the province's demographic characteristics and labour market conditions.

Most small business workers are self-employed and high levels of self-employment have long been a distinctive feature of the workforce in British Columbia. In 1999, 25 per cent of all private sector workers in the province were self-employed. This was the second highest proportion in Canada after Saskatchewan, where 32 per cent were self-employed. For Canada as a whole, the ratio was 21 per cent.

The unusually high level of self-employment in British Columbia is partly attributable to the large numbers of retirees and immigrants who have been attracted to the province. Some retirees establish small businesses to supplement retirement income, or simply as a retirement hobby. Working age immigrants, both from other provinces and from other countries, have been identified in some studies as more likely to establish businesses than people who live in the same province in which they were born.

Economic conditions could also be a factor. The poor employment market in British Columbia through most of the 1990s has sometimes been cited as one cause for the rapid growth of self-employment.

There is some evidence of this 'push' incentive in the pattern of self-employment growth. Self-employment grew strongly during the last decade mainly because large numbers of people set up as 'own account' workers with no employees of their own. Any reluctant entrepreneurs are likely to be in this category.

Between 1990 and 1999, the number of these 'own account' workers in British Columbia increased by 130 thousand, accounting for 88 per cent of the total net increase in all self-employment. The number of self-employed people employing paid workers grew by a relatively small 17 thousand over the same period.

### **Small Businesses Provide Over Half The Jobs In Some Industries**

In British Columbia, as in other provinces, the agriculture and construction industries are made up mainly of small businesses.

Sixty per cent of British Columbia agricultural employees and 78 per cent of all agricultural workers (including both employees and self-employed) were employed by small businesses in 1999. The prevalence of small business units in agriculture reflects the continuing importance of family farms, among other factors. Workers in the industry included an estimated 9 thousand employees of small businesses, 15 thousand self-employed people, and 6 thousand employees of large businesses.

Small business accounted for an even larger part of agricultural employment in other provinces. In the rest of Canada as a whole, 68 per cent of agricultural employees and 91 per cent of all workers in the industry were employed by businesses with fewer than twenty employees.

Construction is another large industry in which most workers are employed by small businesses. Seventy-six per cent of the 113 thousand people working in British Columbia construction were employed by small businesses, either as employees or as self-employed individuals. The ratio for the rest of Canada was 64 per cent.

Employment in many British Columbia service industries is concentrated mainly in small businesses. In 1999, these included, for example:

- real estate with 22 thousand workers in small businesses, 68 per cent of the total industry workforce,
- legal services with 12 thousand, 67 per cent of the industry workforce,
- accounting and tax preparation with 15 thousand, 69 per cent of the industry workforce,
- building services with 25 thousand, 82 per cent of the industry workforce, and
- management, scientific and technical services with 17 thousand, 77 per cent of the industry workforce.

For each of these service industry examples and in most others that could be cited, small business ratios in British Columbia were higher than in the rest of the country. The British Columbia small business employment ratio for the service producing sector as a whole was 49 per cent.

## **But Most Workers In Manufacturing or Retail Are Not In Small Businesses**

In manufacturing industries, where economies of scale are more important, small businesses employed only 24 per cent of British Columbia workers in 1999.

Examples of small business employment ratios for important manufacturing industries in British Columbia included:

- 15 per cent for wood product manufacturing,
- virtually 0 per cent for paper manufacturing,
- 17 per cent for primary metal manufacturing, and
- 21 per cent for machinery manufacturing.

The retail sector, with its many owner operated stores, employed more small business workers than any other sector in 1999. These included 45 thousand employees of small businesses and 41 thousand self-employed, together amounting to 86 thousand people.

But an even greater number of people (140 thousand) worked as employees of large retail businesses. The result was a 38 per cent small business employment ratio for the sector.

Small business employment ratios varied considerably from one retail industry to another.

For food and beverage retailing, it was only 21 per cent. The industry employed 4 thousand self-employed people, 8 thousand employees of small businesses, and 43 thousand employees of large businesses.

Similarly in the motor vehicle and parts retailing, the number of large business employees far exceeded the number working in small businesses. There were 14 thousand employees of large businesses and only 3 thousand self-employed, and 4 thousand employees of small businesses. The industry's small business employment ratio was 34 per cent.

On the other hand, there were some retail industries in which the numbers of workers in small businesses greatly exceeded those in large businesses.

In the hobby, book and music store industry, 61 per cent of the workforce was employed in small businesses. The actual numbers of workers were small, amounting to 4 thousand employees of small businesses and 4 thousand self-employed. Five thousand were employed in large businesses.

Similarly, workers in British Columbia furniture and furnishings stores were largely concentrated in small businesses. The industry had a 66 per cent small business employment ratio in 1999, based on an estimated 2 thousand self-employed people, 3 thousand employees of small businesses, and 3 thousand employees of larger businesses.

## **New Economy Industries Create More Small Business Jobs**

Some of the fastest employment growth over the past decade has been in new economy service industries with large percentages of their workforces employed in small businesses.

Employment in the British Columbia professional, scientific and technical services industry, for example, grew 51 per cent between 1990 and 1999, much faster than the 17 per cent rate of employment growth for all private sector industries as a whole. The industry's small business employment ratio was 66 per cent. The 38 thousand net increase in professional, scientific and technical service jobs in British Columbia amounted to 17 per cent of total growth in private sector employment over this period.

Another example was management, administrative and other support services, in which total employment grew 52 per cent. Sixty-four per cent of workers in this industry were employed in small businesses.

Similar patterns were observed for the health care and social assistance industries, educational services, and the important miscellaneous category of 'other services', which includes many new economy businesses. All had small business employment ratios of over 60 per cent, and 1990 to 1999 total employment growth well above the average for all industries.

**1999 Concentrations of Small Business Employment \*  
In Selected Private Sector Industries  
British Columbia**

	(A)	(B)	(C)	(D)	(B+D)	(B/C)	(B+D)/(C+D)
	Employees in firms with			Self-	Total	Small Bus.	Small Bus.
	20 plus	under 20	all sizes	employed	Small Business	Employees as % of all employees	Employed as % of all Employed
	(' 000)	(' 000)	(' 000)	(' 000)	(' 000)		
Agriculture	6	9	15	13	22	60%	78%
Forestry & Logging with support activities	16	6	22	6	12	28%	43%
Mining & Oil & Gas Extraction	12	2	13	2	3	12%	22%
Prime Contracting	11	12	23	16	28	53%	72%
Trade Contracting	17	23	40	34	57	58%	78%
Wood prod Manufacturing	36	4	39	3	6	9%	15%
Furniture & Related Manufacturing	4	2	6	2	4	33%	51%
Food, Beverage & Tobacco Wholesaler-Distributing	8	2	9	2	4	16%	33%
Personal & Household Good Wholesale-Distributing	4	2	6	2	4	30%	49%
Motor Vehicle & Parts Wholesaler-Distributing	4	2	6	2	3	27%	41%
Building Material & Supplies Wholesaler-Distributing	9	3	12	2	5	24%	36%
Machinery, Equip & Supp Wholesalers, Distributing	13	3	16	3	6	21%	32%
Miscellaneous Wholesaler-Distributors & Brokers	6	4	10	8	11	35%	63%
Motor Vehicle & Parts Dealers	14	4	18	3	7	23%	34%
Furniture & Home Furnishings Stores	3	3	5	2	5	50%	66%
Electronics & Appliance Stores	7	2	9	2	4	24%	39%
Building Material & Garden Equip & Supplies	8	4	12	2	5	30%	39%
Food & Beverage Stores	43	8	51	4	12	15%	21%
Health & Personal Care Stores	12	2	13	2	3	11%	21%
Clothing & Clothing Accessories Stores	11	7	18	4	12	39%	51%
Sporting Goods, Hobby, Book & Music Stores	6	4	10	4	9	44%	61%
Truck Transportation	9	7	16	12	19	43%	68%
Transit & Ground Passenger Transportation	5	0	5	3	3	0%	39%
Scenic & Sightseeing Trans & Support Activities	11	3	14	2	5	23%	32%
Couriers & Messengers	5	2	7	4	5	24%	51%
Securities, Commodity Contr, & Other	9	2	11	5	6	17%	41%
Insurance Carriers & Related Activities & Other	9	4	13	4	8	29%	46%
Real Estate	10	7	18	15	22	41%	68%
Legal services	6	8	14	5	12	56%	67%
Accounting & tax preparation	7	4	11	11	15	40%	69%
Architectural, Engineering & Design services	10	7	17	14	21	42%	68%
Computer System Design & Services	14	3	17	11	14	19%	50%
Management, Scientific & Tech Services	5	3	8	15	17	33%	77%
Advertising & related serv	2	2	4	4	6	52%	74%
Other professional serv	2	2	4	3	5	46%	69%
Business services	2	2	4	2	4	49%	67%
Building services	6	9	14	17	25	61%	82%
Educational Services	8	5	13	11	16	37%	67%
Ambulatory Health Care serv	11	23	34	15	37	68%	77%
Nursing & Residential Care Facilities	14	3	17	2	5	18%	28%
Social Assistance	17	10	27	12	22	36%	56%
Motion Picture & Sound Recording Industries	4	2	6	5	7	33%	62%
Performing Arts, Spectator Sports & Related	4	2	5	11	12	32%	77%
Amusement, Gambling & Recreation Industries	11	6	17	2	8	35%	43%
Accommodation services	24	6	30	6	12	20%	34%
Food serv & Drinking Places	68	39	107	10	49	36%	42%
Repair & Maintenance	9	12	20	14	26	58%	75%
Personal & Laundry services	8	11	19	13	24	59%	76%
other	277	76	353	52	128	21%	32%
<b>All Private Sector Industries</b>	<b>814</b>	<b>362</b>	<b>1,176</b>	<b>393</b>	<b>755</b>	<b>31%</b>	<b>48%</b>

\* Note: 'Employed' include employees plus self-employed.

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