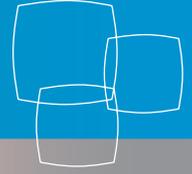




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# The State of Entrepreneurship in Canada

February, 2010



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## EXECUTIVE SUMMARY

This report provides a portrait of the state of entrepreneurship in Canada. The report charts entrepreneurial activity in Canada over time and in comparison with leading countries. It provides a profile of the owners of Canadian small and medium-sized enterprises (SMEs) because important entrepreneurial activity often takes place within these firms. Finally, the report identifies areas of strength, areas for improvement, and important areas that cannot currently be addressed because we do not yet have the relevant data to address them.

Entrepreneurship is a powerful force driving innovation, productivity, job creation and economic growth. Countries with a high level of entrepreneurial activity tend to be better off economically. Entrepreneurs have made fundamental impacts throughout the history of Canada, and today more and more Canadians from all walks of life are becoming, or thinking of becoming, entrepreneurs. Canadian entrepreneurs are celebrated in their communities and in the media, and, in an age where people are cynical about many public figures, they are becoming our new role models.

At the same time, entrepreneurship is challenging. Young firms face uncertain markets, unproven technology, and uneven organizational processes. The fate of entrepreneurial firms is at least partially determined by characteristics of the business environment, such as access to finance, access to international agreements and consumer spending power, that individual entrepreneurs have little control over. As a result, the survival rate of young firms throughout the world is low, and the growth rate is even lower. Given the significance of entrepreneurship to Canada, it is important to understand how well Canadian entrepreneurs are meeting these challenges.

The overall conclusion of this report is that the state of entrepreneurship in Canada is stable and relatively strong. Entrepreneurial activity has been largely stable since 2001, and the rate of business start-ups has increased. Canada's entrepreneurial performance compares well with that of the other countries considered for this report: Denmark, Finland, Hungary, the Netherlands, New Zealand and the United States.

Signs of strength of entrepreneurship in Canada, based on data covering the period 2001–06, include the following:

- The birth rate of new firms that have paid employees is consistently higher than the death rate, which means that the pool of businesses with entrepreneurial potential is being replenished regularly. The birth rate improved from 9 percent in 2001 to approximately 12 percent in 2006. Canada compares well in this regard with virtually every country examined here.
- New firms in Canada have high survival rates at both the one-year and the five-year point. Again, Canada compares well with the other countries examined here.
- The proportion of Canadian manufacturers that are rapidly growing rank among the best of the countries examined for this report.

There are also areas where entrepreneurship in Canada could be strengthened because of the following:

- Canada generates a lower proportion of fast-growing businesses in the service sectors than do most of the comparison countries considered here.
- The percentage of exports accounted for by Canadian SMEs is lower than that for European nations examined for this report.
- Canadian SME owners are aging and over the next decade or so a large proportion need to consider planning succession and the transfer of business ownership.

With respect to Canadian SMEs and their owners, this report provides evidence that:

- Between 2003 and 2008, there has been an increase in the percentage of working Canadians who are self-employed and own an incorporated business.
- Canadian SME owners are becoming more diverse and more educated, and this trend is likely to increase the number and the innovativeness of new businesses.

The report identifies a number of important aspects of entrepreneurial activity in Canada that need to be studied further when data is available. These include:

- **Variety of entrepreneurs** — Entrepreneurs exist everywhere and are diverse, including entrepreneurs in large corporations, immigrant entrepreneurs and serial entrepreneurs. Current data does not permit the study of the scope and diversity of entrepreneurship in Canadian businesses and communities.
- **Improving current indicators** — The empirical knowledge of Canadian entrepreneurship is limited largely to firms with fewer than 250 employees. Further, the importance of firm age as an important variable is generally absent in analysis of entrepreneurial activity and performance.
- **Process of firm growth and innovation** — While measures of firm growth and innovation have improved there is light shed on the processes by which entrepreneurial firms grow and innovate.
- **Links between entrepreneurial performance and determinants of entrepreneurship** — The current report describes the state of entrepreneurship performance in Canada, but makes no links with determinants of entrepreneurship. Understanding the relationships between determinants and performance would enable researchers and policy-makers to not only explain but also prescribe action to improve the environment to encourage entrepreneurial performance.
- **More international data** — Even though the number of international comparisons possible has increased, it would be useful to be able to compare Canadian data with that of major European countries, in particular, the United Kingdom, France and Germany.



## 1. INTRODUCTION

Entrepreneurs have always existed in Canada. From the earliest days, Aboriginal people traded among themselves, and when Europeans arrived on these shores, a lucrative global fur trade was launched. Vast fortunes were later amassed by Canadian entrepreneurs who have become household names, such as Roy Thomson, Timothy Eaton and John Molson.

But in recent years, more people than ever are becoming, or thinking of becoming, entrepreneurs. What are the reasons for this trend? Three stand out.

- The implicit understanding between employers and employees has changed. In the past, people expected to be retained as employees as long as they did their jobs. Recent economic downturns, though, have been accompanied by downsizing and people want to regain control over their pay cheques by starting their own business.
- People — especially younger people — increasingly prefer an independent lifestyle. They want to do work they like and have autonomy over their hours and working conditions.
- Entrepreneurs have become influential. Canadian entrepreneurs are celebrated in their communities and in the media, and, in an age where people are cynical about many public figures, they are becoming new role models.

Entrepreneurial activity, though, is not just good for entrepreneurs themselves. It benefits all Canadians. Entrepreneurship is a powerful force driving innovation, productivity, job creation and economic growth.<sup>1</sup> Countries with a high level of entrepreneurial activity tend to be better off economically.

At the same time, entrepreneurship is challenging. Young firms face uncertain markets, unproven technology, and uneven organizational processes. The fate of entrepreneurial firms is at least partially determined by characteristics of the business environment, such as access to finance, access to international markets and consumer spending power. Individual entrepreneurs have little control over these characteristics. As a result, the survival rate of young firms throughout the world is low, and the proportion of firms with high-growth rate is even lower. Given the significance of entrepreneurship to Canada, it is important to understand how well Canadian entrepreneurs are meeting these challenges.

How does Canada fare in comparison with other countries, and how is this changing over time? Opinion on the matter is divided. For example, while a recent study of Canadian competitiveness suggests that we lack “entrepreneurial ambition”<sup>2</sup> as a nation, a study published in 2006 by the Danish government identifies Canada as one of the top countries in terms of entrepreneurial activity.<sup>3</sup> Which of these assessments paints a truer picture of Canada’s entrepreneurial activity? This is the question that has prompted this report.

1. Zoltan J. Acs, *Entrepreneurship (what's the big deal) and the Macroeconomy in the 21st Century, Understanding Entrepreneurship: Issues and Numbers* (Paris: OECD, 2005). ([www.oecd.org/dataoecd/24/29/35579799.ppt](http://www.oecd.org/dataoecd/24/29/35579799.ppt))

Zoltan J. Acs, “How is Entrepreneurship Good for Economic Growth?” *Innovations*, 1.1 (2006), pp. 97–107.

2. Competition Policy Review Panel, *Compete to Win: Final Report June 2008* (Ottawa: Industry Canada, 2008). ([www.ic.gc.ca/eic/site/cprp-gepmc.nsf/eng/00057.html](http://www.ic.gc.ca/eic/site/cprp-gepmc.nsf/eng/00057.html))

3. National Agency for Enterprise and Construction, *Entrepreneurship Index 2006: Entrepreneurship Conditions in Denmark* (Copenhagen: Danish Enterprise and Construction Authority, 2006).



In order to paint this portrait of entrepreneurship in our nation, this report:

- identifies relevant entrepreneurial performance indicators by which we can judge the state of entrepreneurship in Canada;
- provides an overview of Canada's level of performance on these indicators over the recent past;
- compares Canada's performance on these indicators with the performance of other countries; and
- presents a profile of the key characteristics of Canadian SMEs and their owners, and how they are changing over time.

The latter point is included even though the goal of this report is to examine *entrepreneurship* in Canada, rather than small and medium-sized firms (SMEs). This is because SMEs drive much important entrepreneurial activity in all countries. This is particularly the case in Canada where there are a relatively small number of very large multinational corporations.

## 2. WHAT IS ENTREPRENEURSHIP?

Entrepreneurship is a process that starts with someone — the entrepreneur — recognizing an opportunity to create something new. More formally the definition used in this report follows that of the Organisation for Economic Co-operation and Development (OECD):

*Entrepreneurial activity is “enterprising human action in pursuit of the generation of value, through the creation or expansion of economic activity, by identifying and exploiting new products, processes or markets.”<sup>4</sup>*

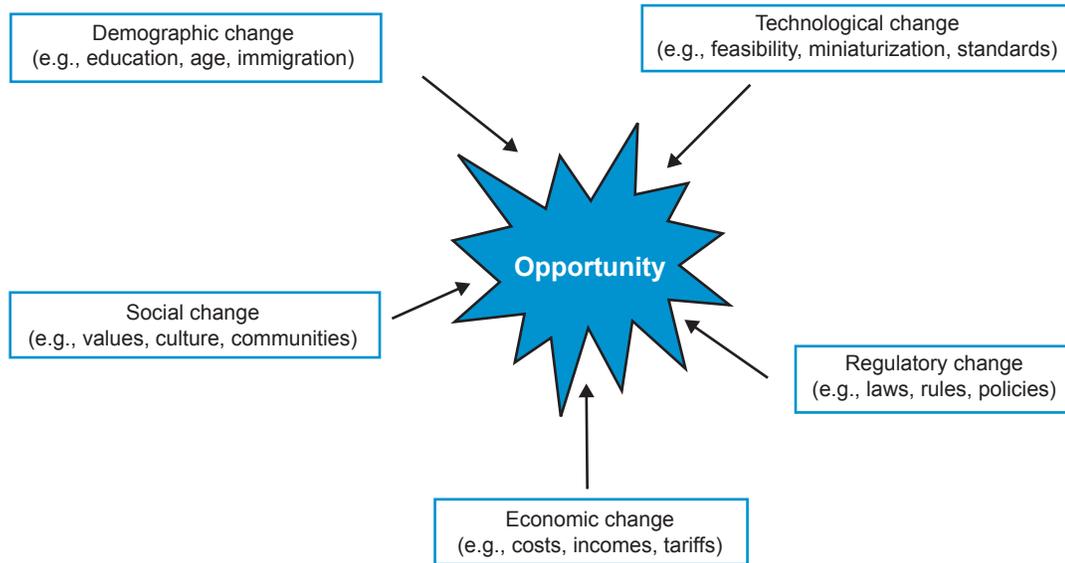
As shown in Figure 1, opportunities emerge from changing conditions, such as:

- **Demographic change** — opportunities have emerged because of Canada's aging population;
- **Social change** — opportunities have emerged because Canadians are becoming more environmentally conscious;
- **Economic change** — opportunities have emerged from economic downturns, which have resulted in Canadians becoming more interested in do-it-yourself projects;
- **Regulatory change** — opportunities have emerged from deregulation of the Canadian telecommunications industry; and
- **Technological change** — opportunities have emerged because of the ability to digitize music and video.

4. Nadim Ahmad and Anders Hoffman, *A Framework for Addressing and Measuring Entrepreneurship* (Paris: OECD, 2007). ([www.oecd.org/dataoecd/21/51/39629644.pdf](http://www.oecd.org/dataoecd/21/51/39629644.pdf))



Figure 1: Changing Conditions Lead to Entrepreneurial Opportunities



Entrepreneurial opportunities involve the creation of something new, and can range from a new:

- product or service;
- market;
- production process;
- raw material; or
- way of organizing processes or technologies.

Entrepreneurship involves the creation of something *new*.

Canadian entrepreneurs have been involved in all of these types of opportunities, as shown in Table 1.

Table 1: Examples of Entrepreneurial Opportunities Recognized by Canadians

Type of Entrepreneurial Opportunity	Examples
New product or service	BlackBerry®, snow blower, Trivial Pursuit® board game
New market	Five-pin bowling, Fuller Brush, pet insurance
New production process	Cobalt-60 cancer treatment, film animation techniques, instant food production
New raw material	Insulin, kerosene, plastic pellets from disposable diapers
New way of organizing	Instant replay, online auctions, standard time

### 3. MEASURING ENTREPRENEURIAL ACTIVITY

There are many facets of entrepreneurship and many ways to measure entrepreneurial activity. The OECD has provided a useful framework for thinking through these issues, which is shown in Figure 2. In this report, we are interested in the centre box — in entrepreneurial performance itself, and the survival and growth of individual businesses. In taking this focus, however, it is important to keep in mind that the fate of individual businesses is influenced by factors in the broader economy, and also that the performance of individual businesses can influence broader economic outcomes.

Examples of the *determinants* of entrepreneurship include:

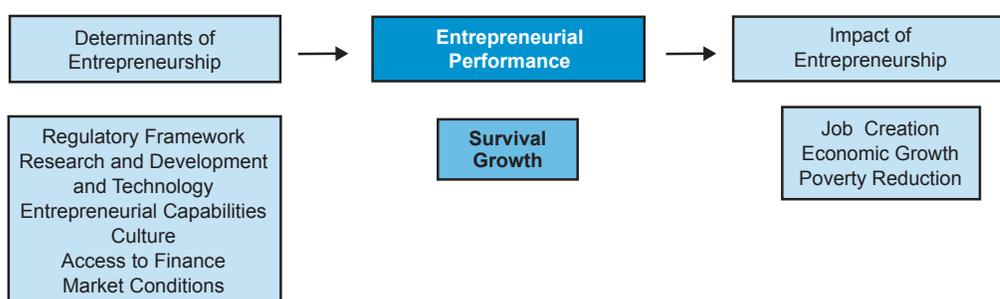
- access to skilled labour;
- the patent system;
- attitudes towards risk;
- the banking system;
- consumer spending; and
- business taxes.

Examples of the *impacts* of entrepreneurship include:

- more highly skilled jobs;
- more business creation;
- more volunteer activity;
- higher standard of living; and
- larger tax base.

Factors that influence the entrepreneurial activity in a country are called the determinants of entrepreneurial activity. These factors influence the performance of individual businesses by establishing the overall context in which the managers of firms acquire resources and make decisions. These factors can vary considerably among countries. Indeed, the World Bank produces annual reports on the process and conditions associated with doing business in about 140 countries.<sup>5</sup> In turn, when the extent of entrepreneurship is healthy in a country — and individual businesses are thriving — there are positive impacts on the whole economy. These businesses are hiring employees to fuel their growth, buying supplies from other companies, participating in their communities and paying taxes.

Figure 2: Aspects of Entrepreneurial Activity<sup>6</sup>



In examining the state of entrepreneurial performance in Canada, this report relies mainly on five types of indicators that can tell us how Canadian businesses are performing over time, and in comparison with businesses in other countries.<sup>7</sup> These indicators are described in Table 2.

The reason for examining a variety of indicators is that no single indicator can provide a full picture of entrepreneurship in Canada. For example, a high business survival rate is generally positive, but if it is accompanied by low growth, then businesses could be stagnant. As much as possible, this report compares performance indicators over different points in time because that tells us how stable they are. However, in many cases, data are available for only a single year.

5. World Bank, *Doing Business 2009: Comparing Regulation in 181 Economies* (Washington, DC: The World Bank, 2008). ([www.doingbusiness.org/Documents/FullReport/2009/DB\\_2009\\_English.pdf](http://www.doingbusiness.org/Documents/FullReport/2009/DB_2009_English.pdf))

6. Nadim Ahmad and Anders Hoffman, *A Framework for Addressing and Measuring Entrepreneurship* (Paris: OECD, 2007). ([www.oecd.org/dataoecd/21/51/39629644.pdf](http://www.oecd.org/dataoecd/21/51/39629644.pdf))

7. Ibid.



Table 2: Indicators of Entrepreneurial Performance

Indicator	Definition	Rationale for Using
Employer enterprise births	The proportion of all firms that are new enterprises in a given year. Includes only firms with employees.	This reflects the potential pool of new companies that might be entrepreneurial. Businesses that have employees at start-up are the ones with the greatest growth potential. <sup>8</sup>
Employer enterprise deaths	The proportion of all firms that are new enterprises in a given year. Includes only firms with employees.	Economies with healthy entrepreneurial performance generate new employers at a rate that more than replaces the businesses that have disbanded.
Survival rates for employer enterprises	The proportion of firms that had entered in a given year and that had not died at the end of each calculated year of business. Includes only firms with employees in the starting year.	The survival of businesses reflects their productivity, innovation and resourcefulness, as well as their adaptability to changing market conditions.
High-growth firm rates based on employment or sales growth	The proportion of firms with average annual growth in either employees or in sales greater than 20 percent a year, over a three-year period. Includes only firms with ten or more employees at the beginning of the three-year period.	The high-growth rate indicates exceptional innovativeness. Firms that have higher growth rates are more beneficial to the economy in terms of job creation and general economic growth.
“Gazelle” rates based on employment or sales growth	“Gazelles” are the subset of high-growth enterprises born five years or less before the end of the growth observation period.	The high growth rate indicates exceptional innovativeness at a very early age. These firms provide economic benefits to the economy even as they are becoming established.

#### 4. AN OVERVIEW OF CANADA'S ENTREPRENEURIAL PERFORMANCE<sup>9</sup>

Entrepreneurial activity can occur in organizations of any size. Unfortunately, we simply do not have data on the entrepreneurial activity that takes place in large organizations, so we can't address such basic questions as “how many entrepreneurial businesses are there in Canada?” What we can do, however, is examine indicators of entrepreneurial activity in new and growing firms. Encouragingly, the most recent available evidence on new and growing firms in Canada suggests that a great deal of productive entrepreneurial activity is happening here. Table 3 summarizes Canada's performance on the five performance indicators described in the previous section. Where there are available data, the table shows how the performance of Canadian businesses has changed over time, from 2001 to 2006.

8. Zoltan J. Acs, “How is Entrepreneurship Good for Economic Growth?” *Innovations*, 1.1 (2006), pp. 97–107.

9. Data for this section of the report were extracted online from OECD on May 15, 2009 *SDBS Business Demography Indicators* (Paris: OECD.Stat Extracts). (<http://stats.oecd.org/Index.aspx>)

Firms with less than \$30 000 sales per annum and with more than 250 employees are not included in the figures.

Table 3: Canada's Performance from 2001 to 2006 on Key Indicators of Entrepreneurial Performance\*

Entrepreneurial Performance Indicator	2001	2002	2003	2004	2005	2006
Birth Rate	9%	10%	9%	10%	10%	12%
Death Rate		8%	9%	8%	9%	
1-year survival rate		87%	85%	86%	85%	85%
2-year survival rate			74%	73%	73%	70%
3-year survival rate				65%	63%	62%
4-year survival rate					58%	53%
5-year survival rate						51%
Proportion of high-growth firms (employment)				4%	4%	4%
Proportion of high-growth firms (sales)				7%	7%	8%
Proportion of gazelles (employment)						0.5%
Proportion of gazelles (sales)						1.1%

\* Includes only firms with paid employees.

## 4.1 BIRTH AND DEATH RATES

Having a healthy rate of creation of new businesses with employees is one sign that there are people within a country with the motivation, capabilities and resources to start new firms that have the potential to contribute to the economy. These new firms form the pool of businesses in which entrepreneurial activity can take place. At the same time, it is to be expected that competitive dynamics and other factors will lead to the demise of some established businesses. Entrepreneurship is healthy in economies where the number of new businesses exceeds those passing out of existence within a given time period. The first row of Table 3 presents the birth rate of new firms in Canada. The birth rate as a percentage of total employer enterprises improved from 9 percent in 2001 to approximately 12 percent in 2006. Within that period, the rate did diminish slightly in 2003, but has otherwise remained steady or improved slightly. During this same period the death rate held relatively constant, varying between 8 percent and 9 percent from 2002 to 2005. These numbers convey good news, in that the pool of potential entrepreneurial firms has been growing.

The birth rate of Canadian firms has consistently been higher than the death rate.

## 4.2 SURVIVAL RATES

Survival rates tell us what types of businesses are being established in a country. High survival rates suggest that businesses are productive, innovative and resourceful enough to have staying power in the face of changing market conditions. Fortunately, this is the case for Canadian businesses. The data on survival rates show that more than half of Canada's new firms survive at least five years, and that the rate of attrition drops each year.

Just over half of Canadian businesses survive their first five years of operation.

Specifically, between the early 2000's and 2006, there was a slight decrease in the percentage of Canadian businesses with employees that survived over the one-year, two-year, three-year and four-year time frames. For example, 87 percent of businesses with employees founded in 2001 survived until 2002,



whereas 85 percent of those founded in 2005 survived until 2006. This decrease appears slight and variable. More significant is that, for the years for which data are available, the rate of decline diminishes. Looking at firms founded in 2001 for example, shows that approximately 13 percent failed in the first year, another 13 percent failed in the second year, 9 percent failed in the third year, 7 percent in the fourth, and an additional 7 percent in the fifth year, leaving 51 percent of those firms founded in 2001 still functioning in 2006.

It's worth noting that a failure rate in the 50 percent range after five years is to be expected. Young organizations face many vulnerabilities and liabilities. They may lack sufficient financing, business networks and skilled employees in their early days. They may still be having problems ensuring consistent production quality. It takes time to develop a reputation in the market and a stable set of customers and suppliers.<sup>10</sup> The fact that as many as 50 percent of firms survive to the five-year mark suggests that Canadians are establishing businesses that are able to attain a competitive advantage in their markets.

### 4.3 HIGH-GROWTH FIRMS AND GAZELLES

Perhaps the most important indicator of the entrepreneurial activity associated with Canadian firms is how many of them are high-growth firms or “gazelles.” By definition, high-growth and gazelle firms consistently outperform other businesses in the economy in terms of growth in sales and/or growth in employment. Gazelles are the subset of high-growth firms that are very young (they are less than five years old at the end of the observation period). Generally, we consider rapidly growing firms to be truly entrepreneurial because there is something significantly novel about their products, their processes, or their markets that allows them to expand rapidly.<sup>11</sup> In other words, high-growth rates reflect innovativeness, a cornerstone of entrepreneurship. Further, high-growth firms are economically important to the Canadian economy because they contribute disproportionately to job creation.<sup>12</sup>

As Table 3 shows, about 4 percent of Canadian firms<sup>13</sup> classify high growth in terms of employment and nearly double that number qualify as high growth in terms of sales, in the years for which data are available. Further, about 0.5 percent of Canadian firms classify as gazelles in terms of employment, and over 1 percent qualified as gazelles in terms of sales. While the percentages of high-growth and gazelle firms are not large, the fact that there are a number of established and young businesses operating at this growth level is a good sign.

10. Arthur Stinchcombe, “Social Structure and Organizations,” in James G. March, ed., *Handbook of Organizations* (Chicago: Rand McNally, 1965), pp. 142–193.

11. Nadim Ahmad and Anders Hoffman, *A Framework for Addressing and Measuring Entrepreneurship* (Paris: OECD, 2007). ([www.oecd.org/dataoecd/21/51/39629644.pdf](http://www.oecd.org/dataoecd/21/51/39629644.pdf))

12. Chris Parsley and David Halabisky, *Profile of Growth Firms: A Summary of Industry Canada Research* (Ottawa: Industry Canada, 2008). ([www.ic.gc.ca/eic/site/sbrp-rppe.nsf/eng/h\\_rd02278.html](http://www.ic.gc.ca/eic/site/sbrp-rppe.nsf/eng/h_rd02278.html))

13. This represents about 6000 firms out of 150 000 employer businesses that have survived from 2001 to 2006 and have between 10 and 250 employees.

#### 4.4 RESEARCH AND DEVELOPMENT EXPENDITURES

In order to understand entrepreneurship, it is essential to understand innovation. As the renowned management scholar Peter Drucker stated, “Innovation is the specific instrument of entrepreneurship. It is the act that endows resources with a new capacity to create wealth.”<sup>14</sup> In other words, it is innovation that results in the creation of something new, the essence of entrepreneurship.

A traditional measure of innovation is the extent to which firms are investing in research and development (R&D). Firms that spend 20 percent or more of their total expenditures on R&D can be considered to be innovative. In 2007, about 5 percent of SMEs in Canada were doing so. Of these firms, 10 percent were wholesalers or retailers, 14 percent were professional services firms and 24 percent operated in knowledge-based industries.<sup>15</sup> Further, a recent report concludes that the more established Canadian businesses do not score highly on innovation in terms of their R&D expenditures: “Canada is having difficulty keeping pace with the best innovators ... Canada remains in the middle of the Organisation for Economic Co-operation and Development (OECD) pack of 30 countries and sixth in the G-7 in business R&D as a proportion of Gross Domestic Product (GDP).”<sup>16</sup>

It is difficult to know how to interpret these findings, because R&D expenditures are not a perfect measure of innovation. Innovations are outputs — products, services or processes that are novel to a sector, a nation, or even to the world.<sup>17</sup> R&D expenditures are clearly inputs to the innovation process, and it may not be the case that expenditures are always linearly and directly related to innovative outcomes. High-growth rates and the presence of gazelles suggest the presence of innovative outcomes, but do not measure them directly. At the present time, we simply lack reliable measures of actual innovation at the firm level, and should neither over- nor under-estimate the innovativeness of Canada’s businesses.

#### 5. HOW DOES CANADA COMPARE WITH OTHER COUNTRIES?<sup>18</sup>

This section examines how entrepreneurial activity in Canada compares with entrepreneurial activity in other countries. This comparison provides a point of reference for interpreting the results presented in the previous section. It is useful to understand the nature of entrepreneurship in Canada today and how it has changed over the recent past, but more insights about entrepreneurial performance in Canada can be discovered by understanding how Canadian businesses compare with their counterparts in similar economies.

14. Peter Drucker, *Entrepreneurship and Innovation: Practice and Principles* (Collins, 1993).

15. Statistics Canada, *Survey on Financing of Small and Medium Enterprises, 2007* (Ottawa: Statistics Canada, 2009).

16. Government of Canada, *Canada’s Science, Technology and Innovation System: State of the Nation 2008* (Ottawa: Science, Technology and Innovation Council, 2009).

17. Ibid.

18. Unless otherwise stated, the data in this section of the report are from OECD Measuring entrepreneurship: a digest of indicators (Paris: OECD-Eurostat Entrepreneurship Indicators Programme, 2008). ([www.oecd.org/statistics/measuringentrepreneurship](http://www.oecd.org/statistics/measuringentrepreneurship))



Despite the growing recognition that entrepreneurial activity can occur in firms of any size, no countries are yet examining entrepreneurship in large, established firms. Canadian data and data from all other comparable countries are primarily available for smaller, newer firms. Accordingly, this section of the report presents data for the same type of new and growing firms described in the previous section, and compares Canada's performance on the same five key performance indicators: birth rates, death rates, survival rates, high-growth firm rates and gazelle rates.

This section presents data on the relative rates of export contributions by SMEs. Internationalization is critical in a country like Canada that has small domestic markets, and, the OECD has suggested exporting as an important entrepreneurial performance indicator. This makes sense because firms that export are much more likely than those that don't to be high-growth firms, and they contribute proportionally more to job creation.<sup>19</sup>

A number of factors were considered in determining the countries Canada should be compared to. These factors include:

- geographic proximity;
- cultural similarity;
- similar population size;
- similar level of economic development; and
- the availability of comparable data.

Based on these considerations, Canada's performance on the five entrepreneurial indicators is compared with that of Denmark, Finland, Hungary, the Netherlands, New Zealand, Spain and the United States.<sup>20</sup> Unfortunately data for major European countries such as the United Kingdom, Germany and France were not available at the time of writing.

## 5.1 BIRTH AND DEATH RATES

Figure 3 shows the 2005 birth rates and 2004 death rates of *manufacturing* firms in Canada and the comparison countries. Figure 4 shows the same rates for *service* firms. Both are expressed as a percentage of the businesses with employees in each economy. The graphs show that the Canadian birth rates are slightly lower than those of most of the comparison countries, but that the numbers are close. For example, the Canadian birth rate for manufacturing firms is ranked fifth, at 6.5 percent, but the birth rate of the highest ranked country — the United States — is 7.8 percent. The birth rates for Canadian and U.S. service firms are closer: 10.0 percent (Canada) and 9.7 percent (U.S.).

19. David Halabisky, *Exporting Matters: Job Creation Performance of Exporters, 1993–2002, Further Results from the Growth Firms Project* (Ottawa: Industry Canada, 2005). ([www.ic.gc.ca/eic/site/sbrp-rppe.nsf/eng/h\\_rd01638.html](http://www.ic.gc.ca/eic/site/sbrp-rppe.nsf/eng/h_rd01638.html))

20. Since 2004–05 was the most recent year for which comparable data was available for a sizable set of economies, this portion of the report is largely confined to data from this period.

Figure 3: Birth and Death Rates in Manufacturing Firms

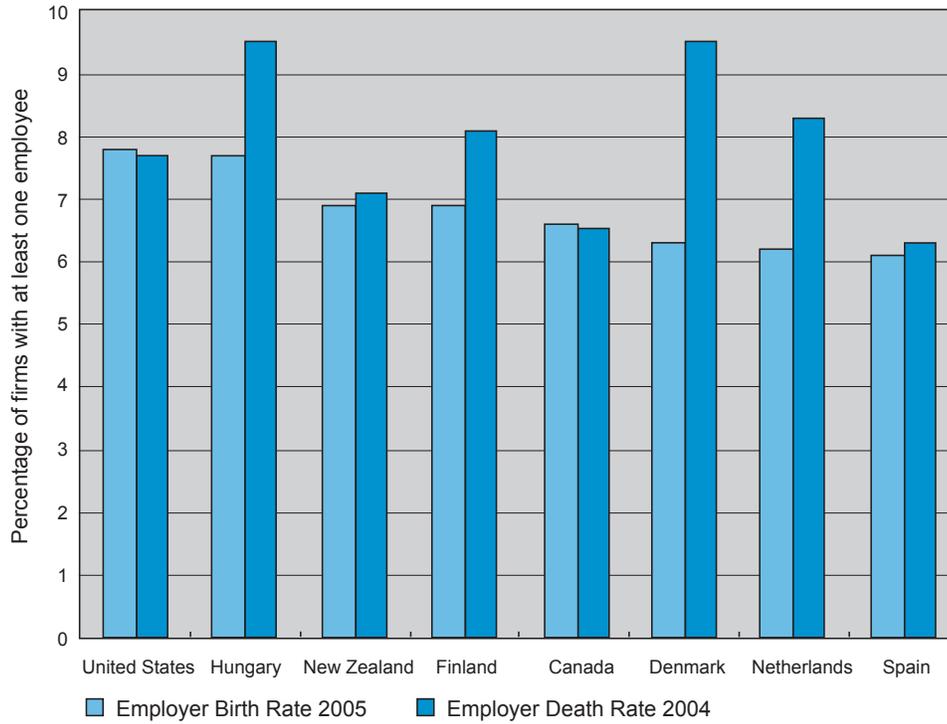
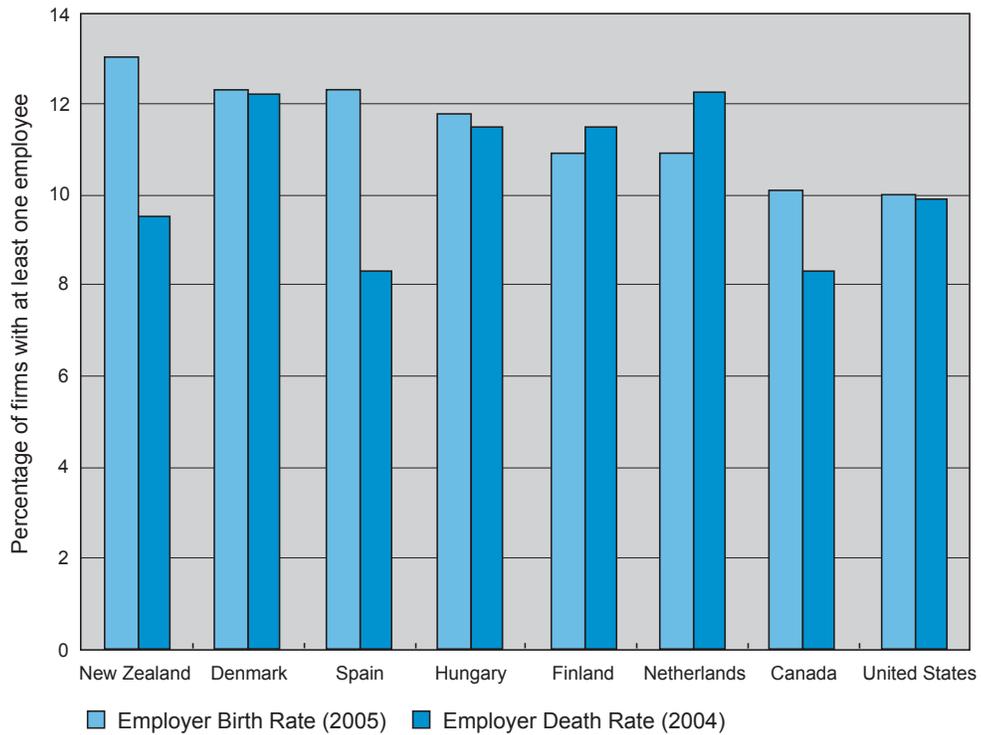


Figure 4: Birth and Death Rates in Service Firms



What is perhaps more striking, however, is that the death rates of businesses with employees in the Canadian economy are lower than that in most of the other countries examined. In Canada's manufacturing sector, the rate of births and deaths is effectively equal; in our service sector, the rate of birth exceeds the rate of deaths. The offsetting of deaths by births is comparable in the United States, but in Finland and the Netherlands, the number of firms disbanded exceeds the number of new firms created.

Canada's business birth and death rates compare favourably with other countries.

Overall, Canada's performance in terms of birth and death rates compares very favourably with that of the comparison countries. The percentage of new firm births is slightly lower than in some, but is within one or two points of most countries. At the same time, Canada's employer enterprise death rate lags that in most countries. If we consider services and manufacturing firms together, Canada outperforms most other jurisdictions for having new enterprises come into existence to replace those that cease to exist. This ratio highlights an important entrepreneurial strength of Canada. As long as the rate of new business creation outstrips that of business demise, Canada has the basis for sustaining entrepreneurially driven growth in the economy.

## 5.2 SURVIVAL RATES

Survival rates are an important indicator of the quality of new firms that are started. The OECD has suggested that the ideal time frame for examining the survival rates of employer enterprises is the three- and five-year marks. Unfortunately, very few jurisdictions report on the survival of firms with employees beyond one-year. For this reason, Figure 5 shows how Canada compares with the other countries in terms of its one-year survival rate.

Canada compares quite favourably with most of the comparison countries in terms of the survival rate after one year. For example, approximately 85 percent of manufacturing firms in Canada and the U.S. survived through their first year. The survival rate of Canadian service firms (85 percent) is higher than that for service firms in the U.S. (78 percent), and is the highest among the comparison countries.

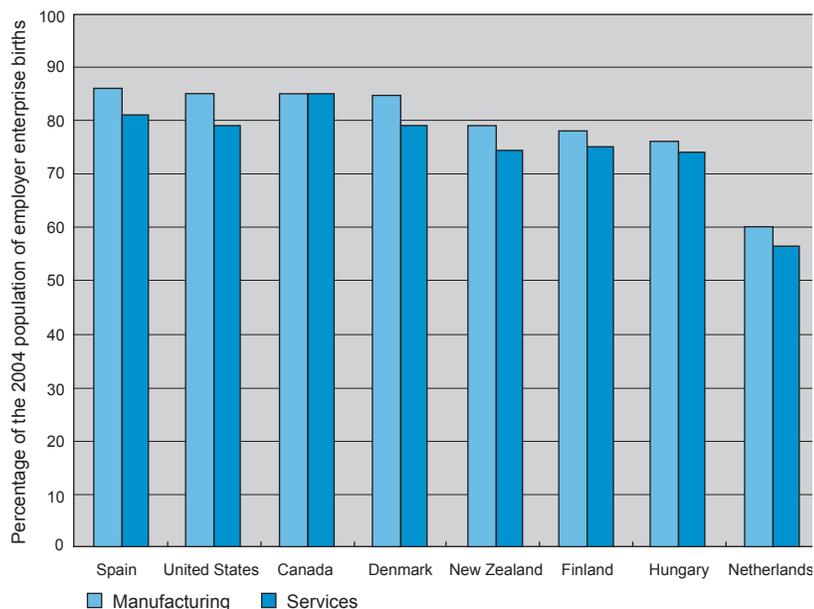
Canada's business survival rate compares favourably.

It seems noteworthy that none of these economies have markedly superior one-year survival rates. While missing data precludes any analysis of five-year survival rates, it is possible to compare the five-year survival of Canadian and U.S. firms. In the period 2001–06, the five-year survival rate for Canadian businesses with employees was just over 50 percent. This is similar to the 53 percent five-year survival rate for U.S. firms in the period 2000–05.<sup>21</sup>

In summary, in terms of business survival, Canada is again at least on par with most other countries examined, and outperforms the majority. This is good news indeed, as it means that Canadians are effective not merely at starting businesses. Many Canadian entrepreneurs are establishing firms that are sufficiently innovative in the products they offer, the processes they use, and/or the markets they target to survive the many challenges all new organizations face and the inevitable competition from established firms.

21. OECD, *SDBS Business Demography Indicators* (Paris: OECD.Stat Extracts). ([www.stats.oecd.org/Index.aspx](http://www.stats.oecd.org/Index.aspx))  
In the case of Canadian data, firms with less than \$30 000 sales per annum and with more than 250 employees, are excluded.

Figure 5: One-Year Survival Rate for 2005



### 5.3 HIGH-GROWTH FIRMS AND GAZELLES

Figures 6 and 7 illustrate the proportions of high-growth firms based on employment and revenue definitions respectively. They both demonstrate that the proportion of Canada's manufacturing firms, which are high-growth, is among the best of the comparison countries. The two graphs also show that the comparison is slightly less favourable for Canadian firms in the service sector.

The proportion of high-growth firms in the Canadian manufacturing sector is comparably high, while the proportion of high-growth firms in the services sector is comparably low.

Figure 6 shows the proportion of firms that can be considered high-growth firms in the manufacturing and service sectors (about 900 and 3100 firms respectively<sup>22</sup>), where high growth is defined in terms of growth in the number of employees the firms have. Canadian manufacturers rank third among the comparison countries, but Canadian service firms rank at the bottom.

Figure 7 also shows the proportion of high-growth firms for both sectors, but uses the growth in total annual sales. Canada manufacturers rank second among the comparison countries, but again, Canadian service firms rank at the bottom.

These relative rankings should, however, be interpreted carefully given the low magnitude of the differences in rates. In the United States, which reports the highest rates of high-growth firms based on employment for both sectors, the rate for manufacturing is slightly above 5 percent while the rate for

22. For the entire period between 2002 and 2005 there were about 20 000 enterprises that operated in the manufacturing sector and more than 80 000 in services sector (only firms with 10 to 249 employees were considered: dead, amalgamated, bankrupt or dissolved businesses were not included). Out of those, 900 were high-growth firms in manufacturing and 3100 were in services. It should be noted that firms with fewer than 10 employees account for about 75 percent of firms in the economy.



service is slightly greater than 4.5 percent. Canada’s rate for manufacturing is slightly below 4.5 percent and its rate for service is 3 percent. The differences in percentages are, in all cases, relatively small. However, given the potency of growth firms generally, such small differences can translate into very significant impacts on employment creation and economic growth.

Together with the results from Section 5.1 Birth and Death Rates, the results suggest that overall Canada does a good job in creating firms in both manufacturing and services, but that it does a much better job in creating growth firms in manufacturing.

Figure 6: Share of High-Growth Firms (Based on Employment Growth) in 2005

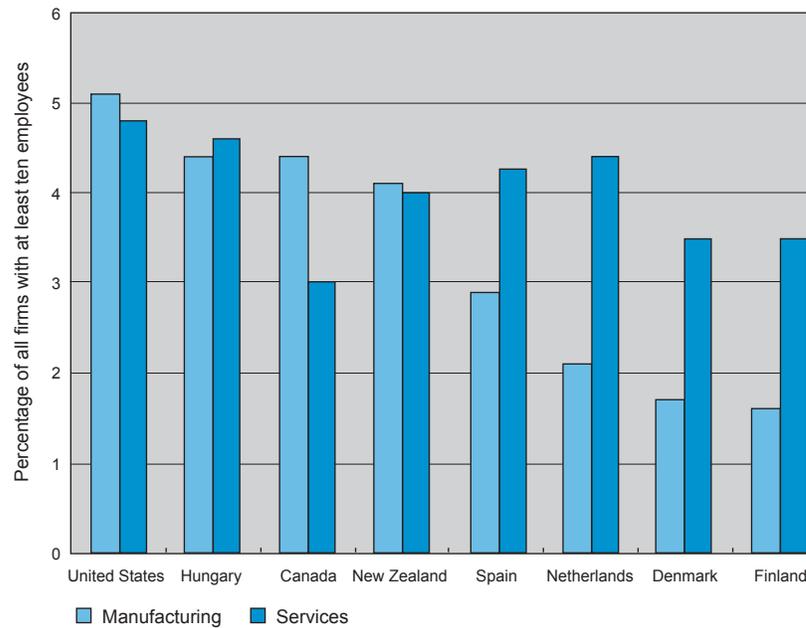
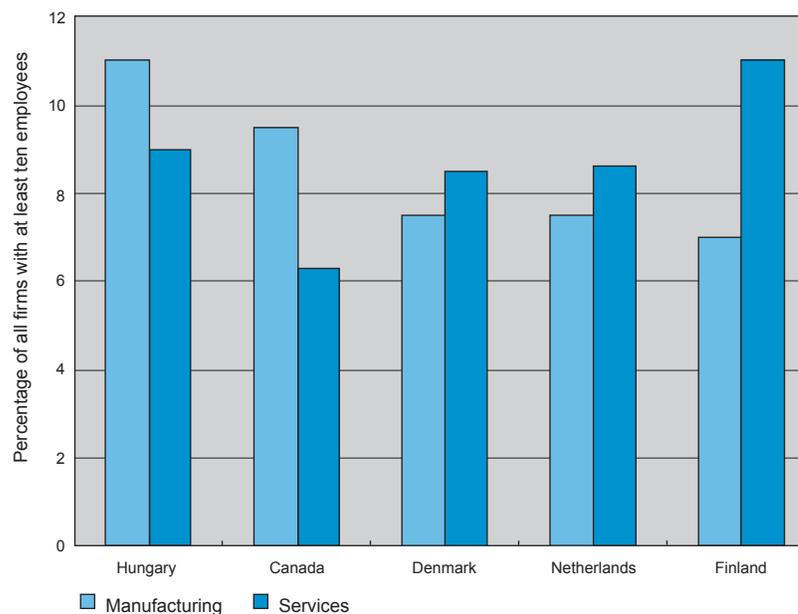


Figure 7: Share of High-Growth Firms (Based on Sales Growth) in 2005



A comparison of Canada's share of gazelles with those of other countries yields similar results. Figure 8, where the share of gazelles is defined in terms of employment growth, and Figure 9, where it is defined in terms of sales growth, both show that Canada ranks second in the proportion of gazelles among manufacturing firms but ranks second last in the proportion of gazelles among service firms.

Figure 8: Share of Gazelles (Based on Employment Growth) in 2005

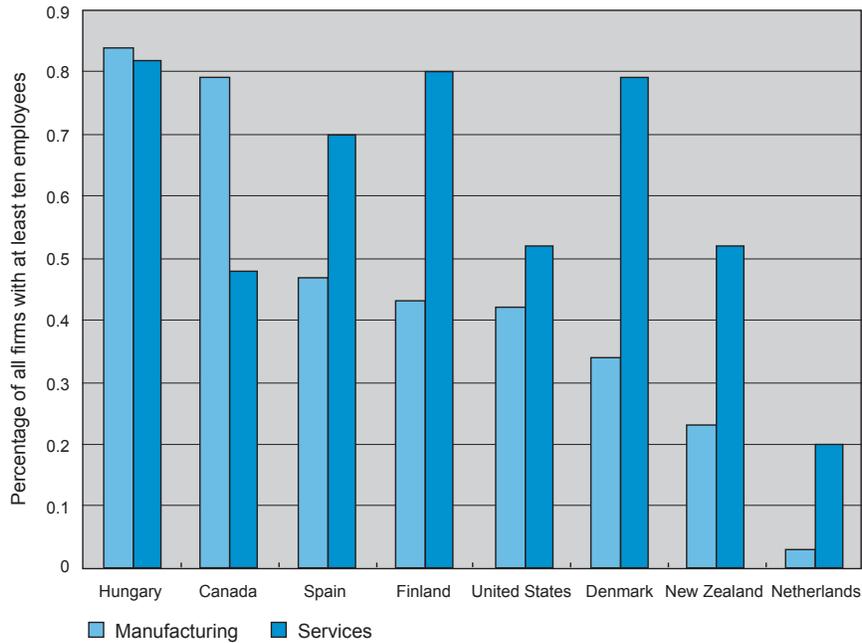
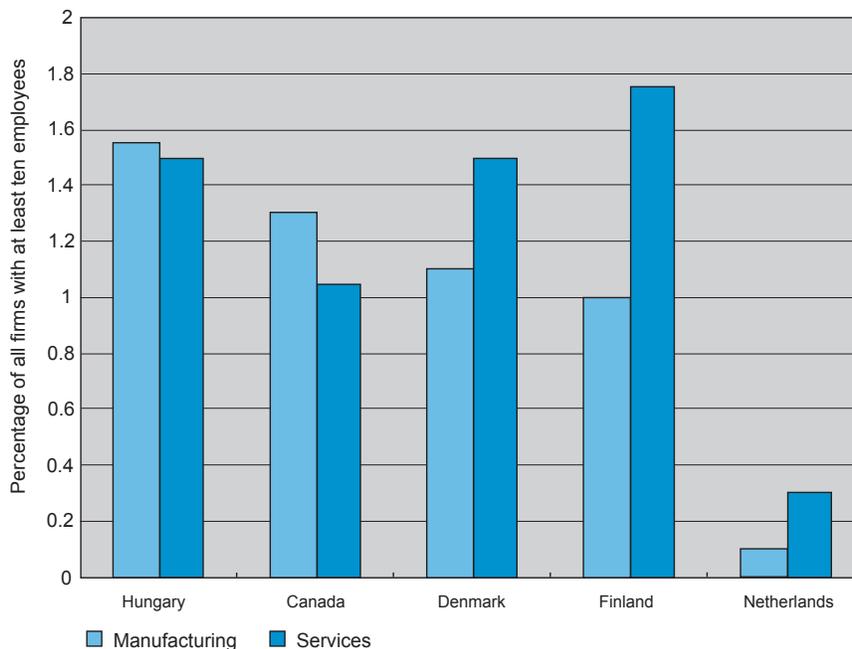


Figure 9: Share of Gazelles (Based on Sales) in 2005



Once again it should be noted that these rankings need to be interpreted keeping in mind the magnitude of the differences. For example, Hungary ranks first in terms of the proportion of manufacturers that are gazelles, and its share of just over 1.5 percent is only slightly higher than Canada's share of approximately 1.3 percent. Finland ranks first in terms of the proportion of service firms that are gazelles. Its share of roughly 1.7 percent is just over half a percentage point greater than Canada's share of approximately 1.1 percent.

What, then, should we conclude about Canada's relative performance on the entrepreneurial indicators relating to firm growth? The safest interpretation of these data is that Canada is doing well overall, but has room for improvement in the service sector. Canada's share of high-growth and gazelle firms in the manufacturing sector is among the best. Its share of high-growth and gazelle firms in the service sector is less than that of many comparable nations, although it is within a relatively close range. If there is an area of weakness for Canada's entrepreneurial performance, it is the paucity of high-growth and gazelle service sector firms.

#### 5.4 EXPORT CONTRIBUTIONS BY SMALL AND MEDIUM-SIZED ENTERPRISES<sup>23</sup>

Exports play a critical role in Canada. Canada has a small domestic market for many goods and services. Exporting has a crucial link to entrepreneurship because innovative, expanding firms often need to target international buyers in order to access markets of sufficient size to fuel their growth objectives. Exports have at times accounted for more than 40 percent of the Canadian gross domestic product.<sup>24</sup> Table 4 reports the export performance of SMEs in Canada relative to the selected countries for which data are available.

This table indicates the percentage of the value of all exports in the economy that are carried out by firms with fewer than 250 employees. Cross country comparisons however, need to consider specific circumstances. For instance both Canada and the United States appear to lag behind other nations in the percentage of exports accounted for by SMEs. However, this may not be a result of a lack of international entrepreneurial capability in North American firms. Rather it should be noted that the comparison countries have lower barriers to trade because they are all members of the European Union. Comparing trade with non-European Union countries may be more appropriate. It is consistent with this explanation to note that SMEs in Australia, which is also not part of the European Union, have even lower export contributions than comparable North American businesses. In 2007–08, medium-sized businesses in Australia accounted for only 6 percent of the total value of that country's exports while small businesses contributed a mere 1 percent of the total value of goods exports.<sup>25</sup>

23. While the OECD does not consider exporting a key indicator of entrepreneurial performance, it does list export contributions by SMEs as one of a range of alternative indicators that could be considered.

24. Statistics Canada, *Gross domestic product by income and by expenditure: Fourth quarter 2008* (Ottawa: Statistics Canada, 2008). ([www.statcan.gc.ca/pub/13-010-x/2008004/ie-rd-eng.htm](http://www.statcan.gc.ca/pub/13-010-x/2008004/ie-rd-eng.htm))

It should be noted that the recent economic downturn has dampened Canadian exports markedly.

25. Australian Bureau of Statistics, *Characteristics of Australian Exporters, 2007–08* (Canberra: Australian Bureau of Statistics, 2009). ([www.abs.gov.au/AUSSTATS/abs@.nsf/Latestproducts/5368.0.55.006Main%20Features22007-08?opendocument&tabname=Summary&prodno=5368.0.55.006&issue=2007-08&num=&view](http://www.abs.gov.au/AUSSTATS/abs@.nsf/Latestproducts/5368.0.55.006Main%20Features22007-08?opendocument&tabname=Summary&prodno=5368.0.55.006&issue=2007-08&num=&view))

Table 4: Percentage Contributions of Small and Medium-Sized Enterprises' Exports to Total National Exports (2005)

	Spain	Denmark	Netherlands	Hungary	Finland	Canada	United States
Percentage of Total Exports	66	62	55	50	50	34 <sup>26</sup>	34

Furthermore, in a North American context the smaller size of domestic markets in Canada, compared to those of the U.S., means that Canadian firms are driven to be more export-focused in order to achieve the same levels of sales as their U.S. counterparts. Consequently, the fact that Canadian SMEs account for the same percentage (34 percent: 20 percent for small businesses and 14 percent for the medium ones) of total export value as U.S. means SMEs may be a source of concern for Canadian policy makers. It is certainly true that a very small proportion of Canadian small businesses (2 percent, according to the Exporter Registry) engage in exporting activity.

## 5.5 ISSUES IN COMPARING ENTREPRENEURSHIP ACROSS COUNTRIES

This section has presented comparisons across countries. There are two issues inherent in such comparisons that should be taken into account when interpreting these findings and making conclusions about the relative strengths and weaknesses of Canada's performance.

- The assessments of Canada's performance relative to that of other countries are based on a single point in time. It is entirely possible that when multi-year comparisons between countries become available, there will be variability in how Canada performs relative to other nations, just as there is some variability in its absolute performance on key indicators from one year to the next, as reported in Section 4 of this report. Although it is expected that the performance on key indicators for all countries will be weaker for 2008–09 than in the years immediately prior, there is no evidence suggesting Canada will be uniformly worse in terms of its entrepreneurial performance than any country with which we might choose to compare ourselves. Indeed, this report suggests that we ought to conclude that the “state of entrepreneurship” in Canada is stable and relatively strong.
- It is important to recall that the size of the different economies results in different overall entrepreneurial efforts across different countries. This is particularly true in Canada–U.S. comparisons. While Canada compares well with other countries in terms of most of the performance indicators reported here, these measures are only relative, i.e., expressed as a percentage of the total number of enterprises. Because Canada's population — of both people and businesses — is small relative to the United States and of Spain, the total absolute numbers of entrepreneurial firms (of any size) that contribute to Canada's economy is likewise smaller than the number of such firms in the U.S. and Spain. In the U.S. and Spain, the total number of employer businesses is 3.8 million and 1.4 million, respectively, whereas in Canada the total is slightly above one million. While the rates of entry may be the same, the number of new entrepreneurial firms is correspondingly less in Canada. This can have implications for the ability to build critical entrepreneurial mass in a broad range of sectors. On the other hand, Canada's population of employer enterprises is larger than some of other countries examined here,

26. Calculation based on Statistics Canada International Trade Division Exporter Register.



and so there is expected to be a correspondingly larger volume of entrepreneurial activity. Such differences imply that the size of the economy itself affects the absolute magnitude and scope of the entrepreneurial activity within that economy.

## 6. PROFILE OF SMALL AND MEDIUM-SIZED ENTERPRISE OWNERS AND HOW THEY FINANCE THEIR BUSINESSES<sup>27</sup>

Because important entrepreneurial activity in Canada is carried out by small and medium-sized enterprises, this report provides a profile of the characteristics of these firms and their owners. A first basic question to ask is how business ownership is changing among Canadians. Table 5 below shows that in 2003 over one in 20 working Canadians (5.5 percent) was self-employed and had an incorporated business. By 2008, 6.3 percent of working Canadians were self-employed with an incorporated business, which is an increase of 15 percent. While there are a lower number of women business owners compared with men, there has been a larger increase in the number of women business owners over this five-year period: an increase of 17.2 percent for women compared with an increase of 12.8 percent for men.

Roughly one in 15 working Canadians owns an incorporated business.

Equivalent figures for the U.S. are available only for 2003, and are also shown in Table 5. Compared with working Americans, a larger percentage of working Canadians were self-employed and had an incorporated business. In total, and for both men and women, the figures for Canada are approximately one-and-a-half times those for the U.S.

Table 5: The Extent of Business Ownership Among Canadians and Americans

Self-employed people with incorporated businesses, as a percent of total employment			Self-employed men with incorporated businesses, as a percent of total male employment			Self-employed women with incorporated businesses, as a percent of total female employment		
U.S.	Canada	Canada	U.S.	Canada	Canada	U.S.	Canada	Canada
2003	2003	2008	2003	2003	2008	2003	2003	2008
3.6%	5.5%	6.3%	4.9%	7.8%	8.8%	2.0%	2.9%	3.4%

Sources: Steven Hipple, "Self-employment in the United States: An update," *Monthly Labor Review*, 127.7 (2004), pp. 13–23. Statistics Canada, *Labour Force Survey* (Ottawa: Statistics Canada, 2008).

27. The Canadian data in this section are taken from two sources:

(1) *Labour Force Survey*. Statistics Canada collects information on the labour market activities of Canada's working age population. The data are collected from a sample of 53 000 households each month, representing all persons in the population 15 years of age and over, but excluding persons living on Indian reserves, residents of institutions (prisons, hospitals and nursing homes), and full-time members of the Canadian Armed Forces. [Extracted on July 10, 2009]  
 (2) *Survey on Financing of Small and Medium Enterprises*. Statistics Canada conducted this survey in 2004 and 2007 on behalf of Industry Canada and Finance Canada. The data were collected from a sample of roughly 35 000 businesses representing for-profit businesses that operate in the private sector, with fewer than 500 employees and gross revenues of less than \$50 million in Canada.

## 6.1 THE DEMOGRAPHICS OF CANADIAN SMALL AND MEDIUM-SIZED ENTERPRISE OWNERS

The following six tables provide a snapshot of Canadian SME owners with respect to their gender, education, age and experience, diversity, wealth and how they acquired their business.

### Gender

Table 6 shows the percent of Canadian SMEs that were fully or partially owned by a woman in 2004 and 2007. The numbers for the two years are quite similar, although there is a slight decrease in female ownership in 2007. In both years, 35–37 percent of SMEs are half- or majority-owned (50 percent or more) by a woman. This is significantly higher than in the United Kingdom where a similar study showed that in 2004 only 25 percent of SMEs were 50 percent or more owned by women.<sup>28</sup>

Just over one-third of Canadian SMEs are owned by women.

Table 6: The Percent of Canadian SMEs that are Fully or Partially Owned by a Woman

The extent to which the business is owned by a woman	2004	2007
No portion of the business is owned by a woman.	52%	53%
A woman owns between 0% and 50% of the business.	11%	11%
A woman owns half of the business.	20%	19%
A woman owns between 50% and 100% of the business.	2%	2%
A woman owns 100% of the business.	15%	14%

Note: Numbers may not add up to 100 percent because of rounding.

Sources: Statistics Canada, *Survey on Financing of Small and Medium Enterprises, 2004* (Ottawa: Statistics Canada, 2005).

Statistics Canada, *Survey on Financing of Small and Medium Enterprises, 2007* (Ottawa: Statistics Canada, 2009).

Industry Canada, *Key Small Business Statistics* (Ottawa: Industry Canada, 2009).

### Education

Over the ten-year period from 1997 to 2007, Canadian business owners have higher education levels, as shown in Table 7. The proportion of college and university graduates has increased — from 58 percent of the incorporated self employed with paid help in 1997 to 63 percent in 2007. This is a promising trend because people with more education tend to be better able to recognize and pursue opportunities. As a result, they tend to start more businesses<sup>29</sup> and their businesses tend to perform better.<sup>30</sup>

Canadian SME owners are acquiring higher education levels.

28. Stuart Fraser, *Finance for Small and Medium-Sized Enterprises: A Report on the 2004 UK Survey of SME Finances* (University of Warwick, 2005).

29. Johan Wiklund and Dean A. Shepherd, "Portfolio Entrepreneurship: Habitual and Novice Founders, New Entry, and Mode of Organizing," *Entrepreneurship Theory and Practice*, 32.4 (2008), pp. 701–725.

30. Javier Gimeno, Timothy B., Folta, Arnold C. Cooper and Carolyn Y. Woo, "Survival of the Fittest? Entrepreneurial Human Capital and the Persistence of Underperforming Firms," *Administrative Science Quarterly*, 42.4 (1997), pp. 750–783.



Table 7: The Educational Achievement of Canadian Business Owners (Self-Employed Individuals with an Incorporated Business and Paid Help)

Highest educational achievement of self-employed Canadians with incorporated businesses and paid help	1997	2002	2007
No high school	4%	4%	3%
Some high school	11%	9%	8%
High school graduate	20%	21%	20%
Some post-secondary	7%	8%	6%
Post-secondary diploma	32%	33%	35%
University degree	26%	25%	28%

Note: Numbers may not add up to 100 percent because of rounding.

Sources: Statistics Canada, *Labour Force Survey* (Ottawa: Statistics Canada, 1997, 2002 and 2007). (Special calculations)  
 Industry Canada, *Key Small Business Statistics* (Ottawa: Industry Canada, 2009).

### Age and Experience

Over the period 2004 to 2007, there has been an increase in the age and the experience of Canadian SME owners, particular those over 50 years and those with more than 5 years experience, as shown in Table 8. This trend reflects the aging of the Canadian population as a whole. It suggests that over the next 10–15 years a substantial proportion of current business owners will be seeking retirement and want to transfer business ownership to family members or outside purchasers. Succession planning is therefore an issue for many business owners, and the evidence suggests that the majority do not have a plan in place. For example, a 2006 study by the Canadian Federation of Independent Business indicates that only 10 percent of SME owners have a formal, written succession plan; 38 percent have an informal, unwritten plan and the remaining 52 percent do not have any succession plan at all.<sup>31</sup>

Canadian SME owners are becoming older and need to start planning for succession. We will soon see a greater transfer of businesses to next-generation family members or to outside buyers.

Table 8: The Percent of Canadian SMEs Whose Owner Fits the Following Age and Experience Categories

Age of majority owner	2004	2007
Less than 30 years	3%	3%
30 to 39 years	15%	12%
40 to 49 years	35%	28%
50 to 64 years	37%	45%
65 years and over	10%	13%
Total	100%	100%
Experience of majority owner in owning or managing an SME	2004	2007
Less than 5 years	12%	8%
5-10 years	18%	20%
More than 10 years	69%	71%
Total	100%	100%

Note: Numbers may not add up to 100 percent because of rounding.

Sources: Statistics Canada, *Survey on Financing of Small and Medium Enterprises, 2004* (Ottawa: Statistics Canada, 2005).  
 Statistics Canada, *Survey on Financing of Small and Medium Enterprises, 2007* (Ottawa: Statistics Canada, 2009).

31. Doug Bruce, *SME Succession: Update* (Toronto: Canadian Federation of Independent Business, 2006.)  
 ([www.cfib-fcei.ca/english/research/canada/224-business\\_issues/309-sme\\_succession\\_update.html](http://www.cfib-fcei.ca/english/research/canada/224-business_issues/309-sme_succession_update.html))

## Diversity

Over the period 2004 to 2007, aboriginal persons, people from visible minorities and recent immigrants have become the majority owners of a larger proportion of Canadian SMEs, as shown in Table 9. This trend is also reflected in the increase in the percentage of business owners whose first language is not English or French. However, there has been a decrease in the proportion of Canadian SMEs majority-owned by a person with a disability over this three-year period.

Canadian SME owners have become more diverse, reflecting a greater diversity in the Canadian population.

Table 9: The Percent of Canadian SMEs Whose Owner Fits The Following Categories

Characteristics of majority owner	2004	2007
Persons with a disability	3.5%	2%
Aboriginal persons	1.5%	2%
Visible minorities, other than aboriginal persons	7.2%	10%
Persons residing in Canada for less than 5 years	1.4%	3%
First language of majority owner	2004	2007
English	67%	67%
French	19%	18%
Other	13%	15%
Total	100%	100%

Note: Numbers may not add up to 100% because of rounding.

Sources: Statistics Canada, *Survey on Financing of Small and Medium Enterprises*, 2004 (Ottawa: Statistics Canada, 2005).  
 Statistics Canada, *Survey on Financing of Small and Medium Enterprises*, 2007 (Ottawa: Statistics Canada, 2009).

## Wealth of business owner

Canadian SME owners with larger businesses tend to be wealthier. Table 10 shows, for five different categories of firm size, the proportion of SMEs owners in each net worth category, in 2007.

Owners of larger businesses are wealthier.

Table 10: The Net Worth of Canadian SME Owners, by the Size of their Firms

Size of Firm	Net Worth of SME Owner				
	Less than \$25 000	\$25 001 to \$100 000	\$100 001 to \$500 000	\$500 001 to \$1 million	Over \$1 million
0 employees	11%	30%	28%	16%	14%
1 to 4 employees	5%	20%	43%	17%	15%
5 to 19 employees	4%	15%	34%	19%	27%
20 to 99 employees	0%	5%	16%	22%	56%
100 to 250 employees	0%	2%	9%	16%	73%

Source: Statistics Canada, *Survey on Financing of Small and Medium Enterprises*, 2007 (Ottawa: Statistics Canada, 2009).



## How the business was acquired

Three-quarters of Canadian SME owners started their business from scratch, rather than acquiring it from a family member or from someone outside their family. As Table 11 indicates, this proportion has changed little between 2004 and 2007. However, although fewer than 10 percent of business owners acquired the business from a family member, past research has found a strong family influence on self-employment. Having parents who are self-employed can provide financial capital to start a business, but more significantly, such a family background provides business skills that are important even when the business is in a different industry than that of the parents.<sup>32</sup>

Most SME owners started their business from scratch.

Table 11: Means of Business Acquisition in 2004 and 2007

How the current owner acquired the business	2004	2007
Acquired or bought from a family member	9%	9%
Acquired or bought from a person outside the family	13%	14%
Started from scratch	75%	76%
Other	2%	1%
Total	100%	100%

Note: Numbers may not add up to 100 percent because of rounding.

Sources: Statistics Canada, *Survey on Financing of Small and Medium Enterprises, 2004* (Ottawa: Statistics Canada, 2005).  
 Statistics Canada, *Survey on Financing of Small and Medium Enterprises, 2007* (Ottawa: Statistics Canada, 2009).

## 7. CONCLUSIONS

This report provides an optimistic portrait of the state of entrepreneurship in Canada. This final section summarizes its findings in terms of areas of strength and areas for improvement, comments on how and why this largely positive assessment might differ from those that have been more negative, and identifies some remaining questions that could not be addressed here because the relevant data were not available.

### 7.1 AREAS OF STRENGTH

#### *Pool of entrepreneurial ventures*

The birth rate of new firms with paid employees is higher than the death rate, which means that the pool of businesses with entrepreneurial potential is being replenished regularly. Canada compares well in this regard with virtually every country examined here.

#### *Sustainability of entrepreneurial ventures*

New firms in Canada have high survival rates at both the one-year and the five-year point. This implies that the businesses created by Canadians have desirable characteristics that enable them to attain and

32. Thomas Dunn and Douglas Holtz-Eakin, "Financial Capital, Human Capital, and the Transition to Self-Employment: Evidence from Intergenerational Links," *Journal of Labor Economics*, 18.2 (2000), pp. 287–305.

maintain a competitive advantage in their markets. Without further study we cannot specify exactly what characteristics help businesses in Canada to survive the early years, but they are likely to include market orientation, innovativeness, productivity, operational capability and advantageous cost structures.

### ***High-growth rates for manufacturers***

The growth rates and gazelle rates achieved by Canadian manufacturers rank among the best of the countries examined for this report. These indicators of growth suggest that Canadian manufacturers are developing innovative products, processes and/or markets.

## **7.2 AREAS FOR IMPROVEMENT**

### ***Growth of service firms***

Canada generates a lower proportion of high-growth and gazelle businesses in the service sectors than do most of the comparison countries considered here. It is beyond the scope of this report to determine why Canada's service sector performs relatively more weakly than our manufacturing sector, but investigating the reasons underlying this relative weakness is a priority for further study, given the increasing prominence of the service sector in most economies.

### ***Exporting***

The percentage of exports accounted for by Canadian SMEs is lower than in European nations examined for this report and comparable to that of the U.S. Investigating the reasons behind Canada's ranking in this regard is also a priority for further study, given the small Canadian domestic market size in many sectors and the general increasing globalization of business. An important aspect of further research in this area should involve the impact of trade agreements on the young and small firms.

## **7.3 COMPARISONS WITH OTHER ASSESSMENTS**

The largely positive tone of this report differs somewhat from those implied in recent reviews of the state of Canada's competitiveness<sup>33</sup> and the innovativeness of Canadian firms,<sup>34</sup> as well as some opinions expressed in the media. There are two key reasons for this.

### ***Performance indicators***

The indicators used here to assess our entrepreneurial performance are different than those used in other reports. The indicators chosen here reflect an emerging consensus among OECD nations as to how entrepreneurial performance should be measured. The indicators used in other recent reports draw on various traditional measures of innovation and national productivity or resources that look at inputs to entrepreneurial performance rather than actual entrepreneurial achievements. While these indicators are useful, it is important that interpretations of performance, which are based on inputs, not lead to an unbalanced account of Canada's entrepreneurial strengths.

33. Competition Policy Review Panel, *Compete to Win: Final Report June 2008* (Ottawa: Industry Canada, 2008). ([www.ic.gc.ca/eic/site/cprp-gepmc.nsf/eng/00057.html](http://www.ic.gc.ca/eic/site/cprp-gepmc.nsf/eng/00057.html))

34. Heather Munroe-Blum and Peter MacKinnon, "Canada's Innovation Deficit," *Policy Options*, (June 2009), pp. 8–10.



### ***The nature of “entrepreneurial culture”***

Some negative assessments of entrepreneurship in Canada are based on solicited opinions about Canada’s “entrepreneurial culture.” These negative assessments are often accompanied by a call for improvement of this culture through public policy initiatives. However, “entrepreneurial culture” is a term that bears close scrutiny because it is ill-defined. Sometimes it refers to entrepreneurial skills, and these are possible to improve through education. Sometimes it refers to the availability of start-up funds, and these are possible to provide through specialized financial institutions. However, such efforts are primarily directed at increasing the competencies and financial strength of individuals who already wish to become (or already are) entrepreneurs.

Some countries have tried to increase the number of entrepreneurs in a society by changing the entrepreneurial mindset. This notion is more tenuous for two reasons:

- There is little evidence that entrepreneurs possess such a special mindset, and even if they did, that policy initiatives could increase its prevalence throughout a population<sup>35</sup>
- Entrepreneurs exist in every society, and their activities are affected by perceptions of risks and payoffs<sup>36</sup> Policies designed to encourage people to undertake significantly riskier activities than they are currently engaged in or to lower their perceptions of risk could have adverse consequences such as an increase in bankruptcies and liabilities. In many ways, this is what occurred with the recent mortgage crisis in the U.S.

Nevertheless government can still play a role by reducing barriers, improving the reward of entrepreneurship through tax system, and providing access to resources such as better information, entrepreneurship education and entrepreneurship centres. The task of policy makers is to set the rules of the game so that productive entrepreneurship is the rational and informed choice for individuals with entrepreneurial talent.<sup>37</sup>

## **7.4 ADDITIONAL QUESTIONS**

In addition to the areas for further study identified in Section 7.2, the process of collecting data for this report has identified a number of important aspects of entrepreneurial activity in Canada that need to be studied further. These include:

### ***Variety of entrepreneurs***

Entrepreneurs exist everywhere and are diverse. There are entrepreneurs in multinational corporations and small, local businesses; among immigrant and fifth generation Canadian families; and in rural and urban communities. Some entrepreneurs are serial entrepreneurs, starting and selling multiple businesses,

35. Council of Canadian Academies, *Innovation and Business Strategy: Why Canada Falls Short? The Expert Panel on Business Innovation* (April 2009).

William B. Gartner, “Who is an entrepreneur? is the wrong question,” *American Journal of Small Business*, 12.4 (1988), pp. 11–32.

36. William Baumol, “Entrepreneurship: Productive, Unproductive and Destructive,” *Journal of Political Economy*, 98.5 (1990), pp. 893–921.

37. Francis Greene, Kevin Mole and David Storey, *Three Decades of Enterprise Culture: Entrepreneurship, Economic Regeneration and Public Policy* (New York: Palgrave Macmillan, 2008).

while others start a single business that might last multiple generations. We simply do not have the data today to allow us to document the scope and diversity of entrepreneurship everywhere in Canadian businesses and communities.

### ***Improving current indicators***

Even though entrepreneurial activity occurs in Canadian firms of all sizes, the preponderance of entrepreneurial-related data have been collected on small firms, and so our empirical knowledge of Canadian entrepreneurship is limited largely to firms with fewer than 250 employees. Further, the focus on firm size in data collection and reporting has resulted in a neglect of firm age as a meaningful categorization, and corresponding limits to our understanding of entrepreneurial activity and performance. Starting a business is a key entrepreneurial action, and decisions in the early years of a firm's life can set it on a long-lived path, and so it would be useful to have a greater scope of data classified by firm age, in general, and about the activities and performance of young firms, in particular.

### ***Process of firm growth and innovation***

While we have some measures of firm growth and innovation, we have little data on the processes through which entrepreneurial firms grow and innovate. For example, we cannot say whether these processes tend to be constant over time, characterized by peaks and valleys, or associated with growth periods and plateaus, and whether different trajectories are associated with greater survival prospects.

### ***Links between entrepreneurial performance and determinants of entrepreneurship***

Current data allow us to describe the state of entrepreneurship in Canada, in terms of its performance. If there were greater data on the probable determinants of entrepreneurship, researchers and policy-makers would be able to investigate the links between specific determinants and specific performance outcomes. Understanding these relationships better would enable us to explain and predict entrepreneurial performance, rather than simply to describe it.

### ***More international data***

Only a limited number of international comparisons can be made at the present time because of the inconsistencies in the ways in which data are collected, recorded and disseminated across countries. While we can compare Canadian entrepreneurial performance with that of the U.S. and certain European countries to some extent, it would be useful to be able to compare Canadian data with that of major European countries, in particular, the United Kingdom, France and Germany.



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