Chapter 2

SME and entrepreneurship characteristics and performance in Canada

This chapter describes the structure and performance of SME and entrepreneurship activity in Canada. It presents information on numbers of enterprises and employment by enterprise size class and the productivity of SMEs in Canada. It examines the proportions of high-growth firms and gazelles in the business population, rates of R&D and innovation in SMEs and the level of SME exporting in Canada. It also presents evidence on entrepreneurial attitudes and the rate of early-stage entrepreneurial activity in the Canadian population, and indicators of business demography covering business entry and exit rates. It points to the importance of small business to employment, a relatively large productivity gap between small and large firms, rates of high-growth firms and gazelles that lag the leading countries and relatively low business entry-exit dynamism. It shows that a high proportion of Canadian SMEs engage in innovation-related activities but Canadian SMEs are not very active in international markets.

The structure of canadian businesses[1]

Enterprises by size class

Statistics Canada data indicate that there were slightly more than 1.1 million employer companies in Canada in 2014, of which nearly 94% had less than 20 employees (micro), 6% had between 20-99 employees (small), nearly 1% had between 100-499 employees (medium), and 0.2% had 500 employees or more (large).[2] Over the last four years for which data are available (2010-14), the number of employer enterprises increased by 3.7%, corresponding to nearly 40 000 additional firms in the economy. Moreover, in this period, there was a decline in the overall proportion of micro-enterprises and a rise across all other enterprise size bands. This suggests some degree of scaling-up among Canadian small and medium-sized enterprises (SMEs), whereby the share of enterprises in the small and medium size classes increased whereas that of micro-enterprises declined.

Table 2.1. **Canadian private-sector employer enterprises by firm size, 2010-14**

Absolute values and percentage shares

	2010	2011	2012	2013	2014
Micro (0-19 employees)					
Absolute value	989 190	1 003 620	1 006 040	1 011 280	1 023 030
Percentage share	93.01	93.00	92.92	92.74	92.72
Small (20-99 employees)					
Absolute value	63 190	64 070	64 990	67 210	67 990
Percentage share	5.94	5.94	6.00	6.16	6.16
Medium (100-499 employees)					
Absolute value	9 420	9 730	9 850	10 180	10 390
Percentage share	0.89	0.90	0.91	0.93	0.94
Large (500+ employees)					
Absolute value	1 710	1 730	1 790	1 830	1 900
Percentage share	0.16	0.16	0.17	0.17	0.17
Total	1 063 490	1 079 140	1 082 660	1 090 500	1 103 300

Source: OECD based on Statistics Canada database, CANSIM Table 527-0002 (Longitudinal Employment Analysis Program).

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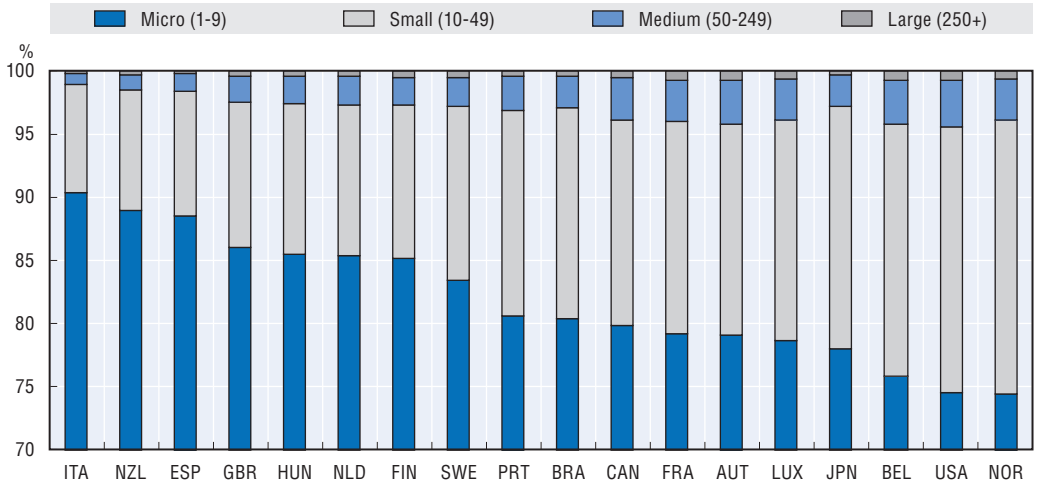
A recent Organisation for Economic Co-operation and Development (OECD) project using firm-level data from national business registers offers comparable information on SME numbers for Canada and another 17 countries (16 OECD countries plus Brazil) over the period 2001-11.[3] Based on this source, Figure 2.1 shows that the SME share in the total enterprise population was on average above 99% in Canada in that period, in line with other OECD countries. Micro-enterprises (employing less than 10 people) represented only 80% of all Canadian businesses, which was less than in most other countries though more than in other G7 economies such as the United States, Japan and France. Canada's proportion of medium-sized firms (50-249 employees) was significant by international standards (3% of total enterprises); although it was lower than in the United States.

Figure 2.1. **Distribution of enterprises by firm size class, 2001-11 average**

Percentage value



Note: The period covered is 2001-11 for Belgium, Canada, Finland, Hungary, the Netherlands, the United Kingdom and the United States; 2001-10 for Austria, Brazil, Spain, Italy, Luxembourg, Norway and Sweden; 2001-09 for Japan and New Zealand; 2001-07 for France; and 2006-11 for Portugal. The sectors covered are: manufacturing, construction, and non-financial business services. Owing to methodological differences, figures may deviate from officially published national statistics. For Japan data are at the establishment level, for other countries at the firm level. The percentage vales are averages across all available years.

Source: Criscuolo C., P. Gal and C. Menon (2014), "The Dynamics of Employment Growth: New Evidence from 18 Countries", *OECD Science, Technology and Industry Policy Papers*, No. 14, OECD Publishing, *http://dx.doi.org/10.1787/5jz417hj6hg6-en*.

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Sector-wise, in the period 2008-12, Canada experienced a contraction in the number of manufacturing SMEs, a trend common to most OECD countries, and an increase in the number of SMEs in services and construction (Figure 2.2).

A comparison of sector-level data for Canada and the United States provides further insights on the size structure of Canadian enterprises (Figure 2.3):

- Canada's share of large manufacturing companies (250+) is half that of the United States. This may undermine productivity in a sector of the economy where economies of scale are highly relevant;
- The firm size profile in the services industry is virtually the same in Canada and the United States, with firms of up to 50 employees making up 97% of the total stock of companies;
- Canada has a much larger percentage of medium and large companies in the construction sector than the United States.

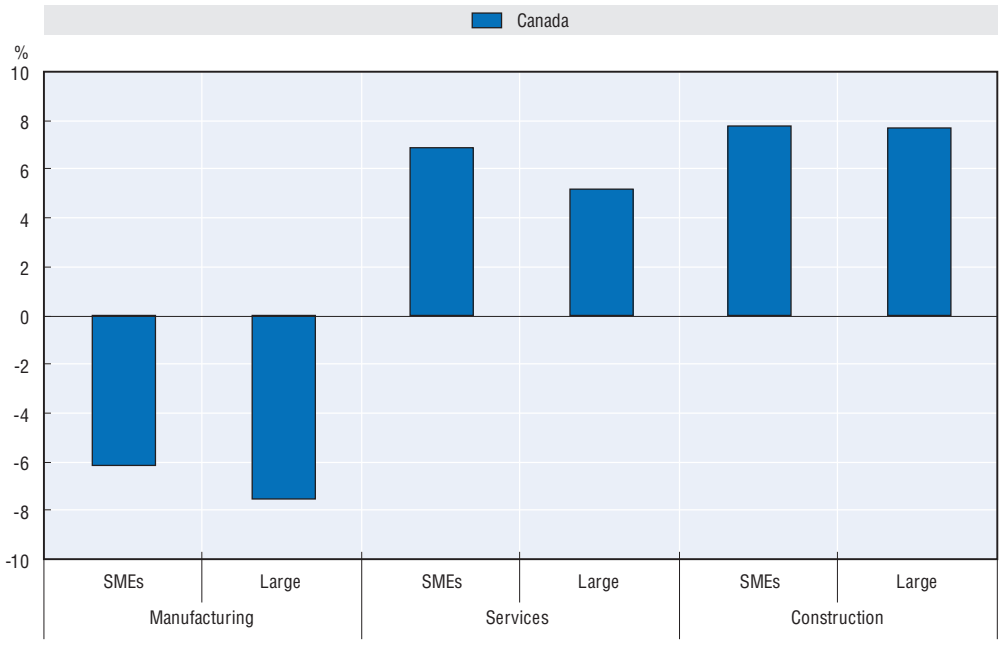
Employment by enterprise size class

Data from Canada's Survey of Employment, Payrolls and Hours (SEPH), which covers all businesses that have at least one employee, indicate that SMEs (1-499 employees) accounted for 57.7% of total employment in the business sector in 2015, compared with 57.0% in 2010. Within the SME business segment, all enterprise size bands experienced net job creation. However, the employment weight of micro-enterprises in the economy inched down by 0.6% over 2010-15, whereas that of SMEs in the small and medium size classes inched up by 0.7% and 0.6% respectively (Table 2.2).

Based on the OECD *Dynemp* project, SMEs (1-249) accounted for 60% of total employment in Canada on average over the period 2001-11 (Figure 2.4). This was the 12th largest value

Figure 2.2. **Change in the number of enterprises across three main sectors in Canada, 2008-12**

Percentage values



Note: The OECD definition of SME (1-249) is adopted in this graph.
Source: OECD based on OECD (2015), *Entrepreneurship at a Glance 2015*, OECD Publishing.

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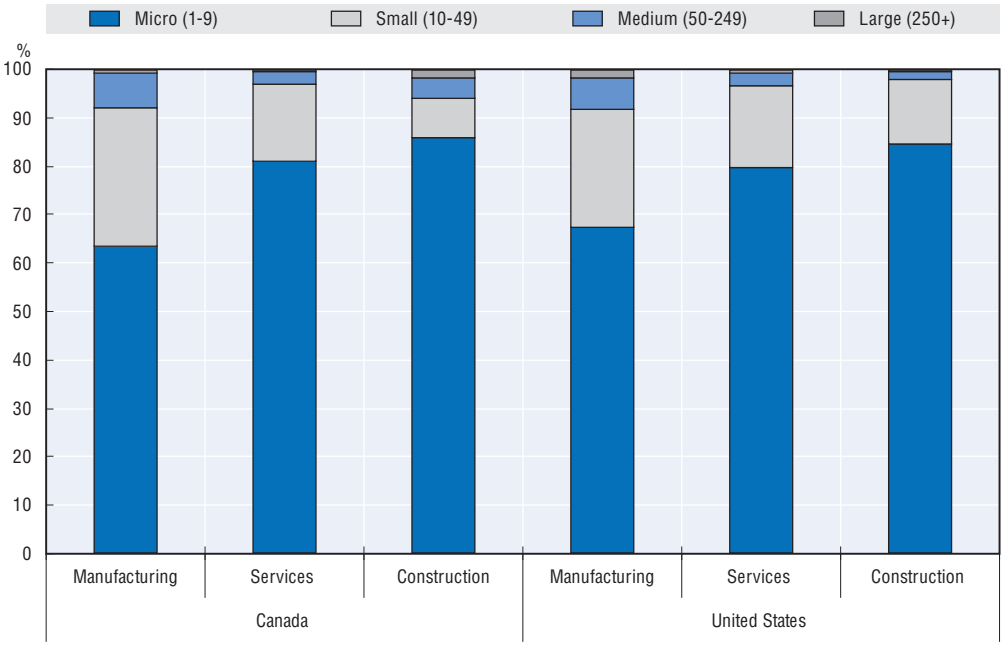
Figure 2.3. **Distribution of enterprises by size class in Canada and the United States, main sectors, 2012**

Percentage values



Note: Both Canada and the United States do not include non-employer enterprises.
Source: OECD based on OECD (2015), *Entrepreneurship at a Glance 2015*, OECD Publishing.

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Table 2.2. **Employment and employment weight by firm size in the Canadian business sector, 2010-15**

Absolute numbers and percentage values

	2010	2011	2012	2013	2014	2015
Micro (1-19)						
Absolute numbers	2 975 409	2 987 852	3 022 319	3 051 399	3 093 037	3 120 603
Percentage values	22.2	21.9	21.7	21.6	21.6	21.6
Small (20-99)						
Absolute numbers	2 653 006	2 705 616	2 783 548	2 872 005	2 914 785	2 962 628
Percentage values	19.8	19.8	20.0	20.3	20.3	20.5
Medium (100-499)						
Absolute numbers	2 015 987	2 079 807	2 127 012	2 189 537	2 244 484	2 264 650
Percentage values	15.0	15.2	15.3	15.5	15.7	15.6
Large (500+)						
Absolute numbers	5 776 028	5 868 127	5 988 373	6 027 370	6 084 714	6 125 489
Percentage values	43.0	43.0	43.0	42.6	42.4	42.3
Total	13 420 430	13 641 402	13 921 252	14 140 311	14 337 020	14 473 370

Note: Values are for all industries except Public Administration, NAICS Industrial Classification 11-81. Only employees are counted.

Source: OECD based on Statistics Canada, CANSIM Table 281-0042, Survey of Employment, Payrolls and Hours (SEPH).

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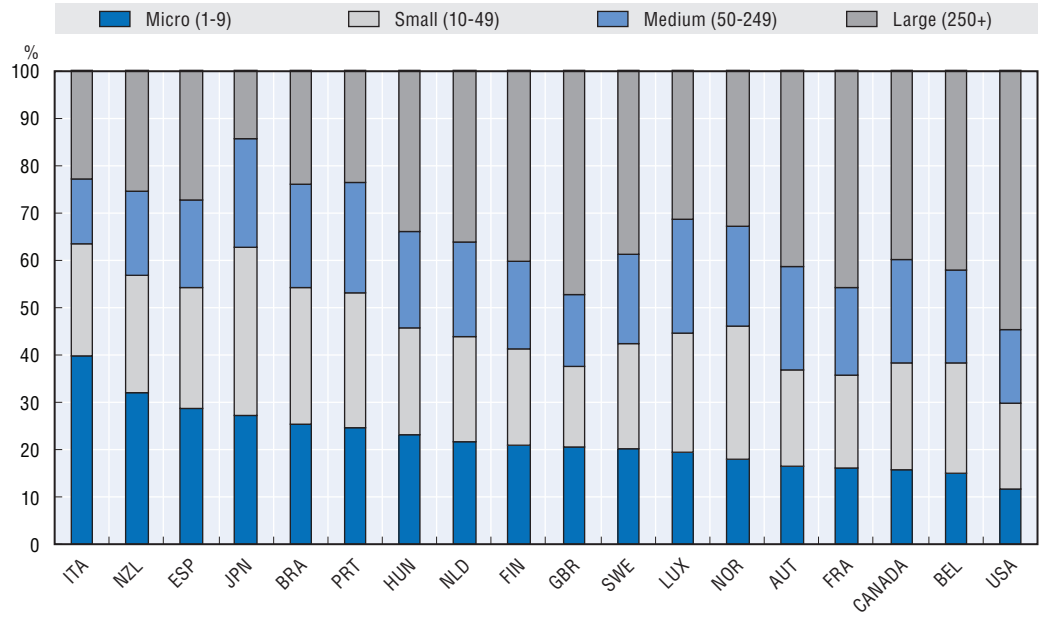
Figure 2.4. **Employment by firm size across selected economies, average 2001-11**

Percentage of total business sector employment



Note: The period covered is 2001-11 for Belgium, Canada, Finland, Hungary, the Netherlands, the United Kingdom and the United States; 2001-10 for Austria, Brazil, Spain, Italy, Luxembourg, Norway and Sweden; 2001-09 for Japan and New Zealand; 2001 07 for France; and 2006-11 for Portugal. Sectors covered are: manufacturing, construction, and non-financial business services. Owing to methodological differences, figures may deviate from officially published national statistics. For Japan data are at the establishment level, for other countries at the firm level. Average across all available years.

Source: Source: Criscuolo C., P. Gal and C. Menon (2014), "The Dynamics of Employment Growth: New Evidence from 18 Countries", *OECD Science, Technology and Industry Policy Papers*, No. 14, OECD Publishing, *http://dx.doi.org/10.1787/5jz417hj6hg6-en*.

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among the 18 benchmarked countries. Micro-enterprises (1-9 employees) generated 16% of total employment, the third smallest value in the group of 18 countries, small firms (10-49 employees) accounted for 23% of total employment, the 10th highest value, and medium-sized firms (50-249 employees) accounted for 22% of employment, the 5th highest value. These data indicate that medium-sized enterprises play an important role in the Canadian economy in international terms. However, compared to the United States, Canada has larger proportions of both micro-enterprises and SMEs as a whole.

High-growth enterprises and gazelles

High-growth enterprises, i.e. firms which grow rapidly over a short period of time, are a major source of job creation.[4] For example, the OECD finds that although high-growth firms represented only between 3.2% and 6.4% of the total stock of enterprises in several countries, they accounted for between 40% and 64% of all new jobs, depending on the country (Bravo-Biosca et al., 2013). High-growth enterprises also favour the entrepreneurial process of creative destruction and often generate knowledge spill-overs which other firms can harness (Bravo-Biosca et al., 2013; Mason and Brown, 2010).

Figure 2.5 shows that, on the employment measure, Canada rates of high-growth enterprises in construction (5.8%) and industry (4.6%) are relatively high. Canada's rank is second and third among OECD countries with comparable data for these measures. Canada is also one of the few countries where the incidence of high-growth enterprises is higher in construction than in services. This might be linked to the commodity price boom cycle, which stimulated demand for construction until 2014 and to booming house prices. Data based on the turnover definition confirms these patterns, except for industry where Canada is only an average performer.

Gazelles are a specific subset of high-growth enterprises, i.e. those aged less than 5 years at the beginning of the observation period. With the exception of construction, Canada's rate of gazelles does not compare as favourably to other countries as its rate of high-growth enterprises.[5] This might denote scale-up barriers facing young firms.

Canada's rate of high-growth enterprises generally increased over the period 2008-12 (Figure 2.6). This highlights the strength of the Canadian economy at a time when most OECD economies were grappling with the effects of the 2008-09 global recession.

The productivity, innovation and internationalisation performance of Canadian small businesses

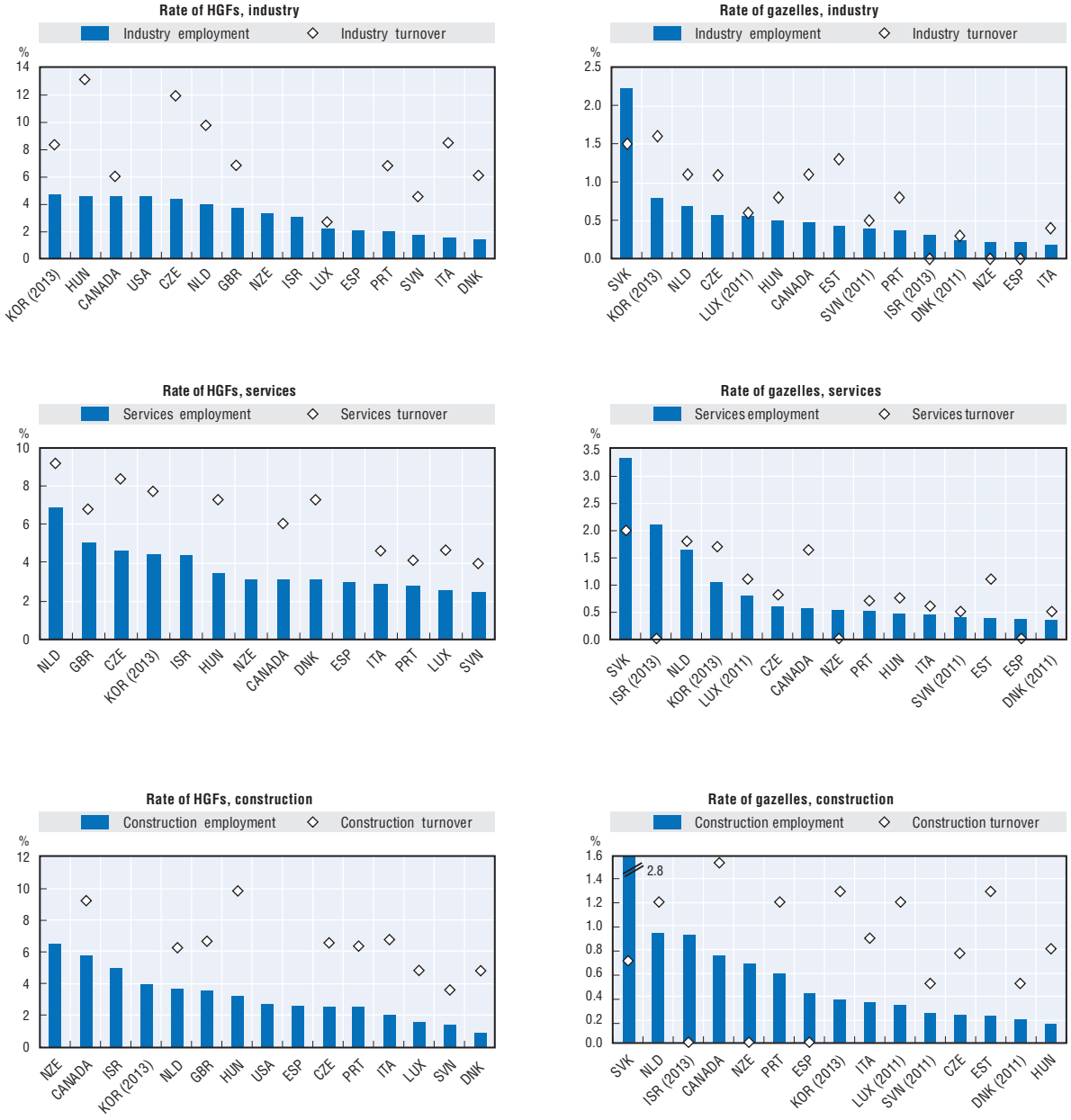
Productivity of canadian SMEs

An analysis by Statistics Canada found that in 2008 small businesses (employer enterprises with 1-99 employees) accounted for 40.6% of business-sector gross domestic product (GDP), medium-sized businesses (100-499) for 11.5%, and large businesses for nearly 47.9% (Leung et al., 2012). The total SME share of GDP (52.1%) was significantly below the SME share of employment indicated by the Statistics Canada SEPH database (57.2%). This is a standard finding in SME analysis, given that larger firms often benefit from greater economies of scale.

There is a lack of internationally-comparable data for Canada set against other OECD countries on the relative size of the productivity gap between SMEs and large firms. However, a study by Statistics Canada (Baldwin et al, 2014) provides some potentially interesting insights through a comparison of the gap in productivity performance between

Figure 2.5. **The rate of high-growth enterprises and gazelles (employment and turnover definition) across OECD countries, 2012 or latest available year**

Percentage values (total out of employer enterprises with at least ten employees)



Note: High-growth enterprises, as measured by employment (or turnover), are enterprises with average annualised growth in employees (or turnover) greater than 20% a year, over a three-year period, and with ten or more employees at the beginning of the observation period. Gazelles are a subset of high-growth enterprises, i.e. those which have been employers only for a period of up to five years. The rates are calculated on the total number of employer enterprises with at least 10 employees at the beginning of the observation period. The category "industry" includes ISIC4 sectors 05-39, i.e. mining and quarrying; manufacturing; electricity, gas, steam and air conditioning supply; water supply; sewerage, waste management and remediation activities.

Source: OECD based on OECD (2015), *Entrepreneurship at a Glance 2015*, OECD Publishing.

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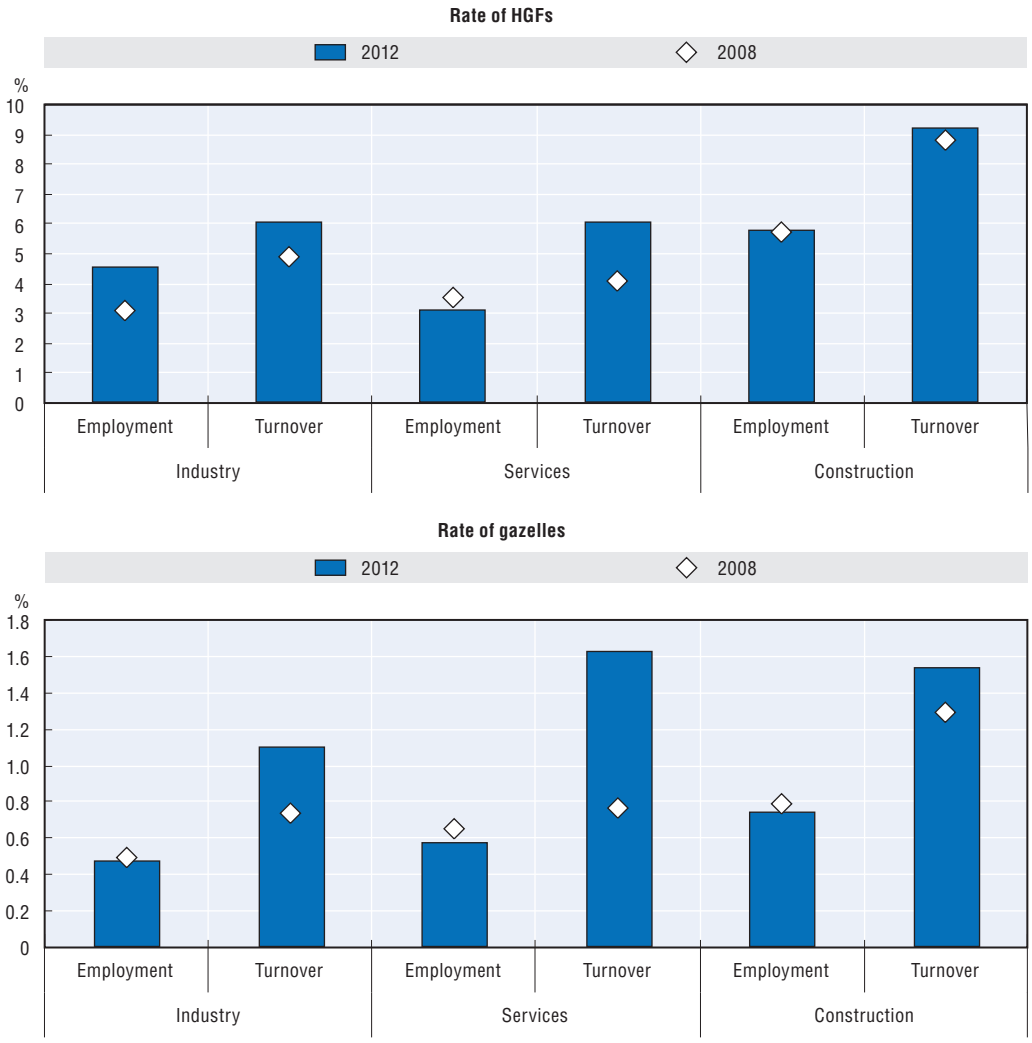
small and large businesses in Canada vis-à-vis the United States.[6] That study found that GDP per hour worked in SMEs was only 47% that of large firms in Canada in 2008, compared with 67% in the United States. It was estimated that bringing the productivity of SMEs

Figure 2.6. **Evolution in the rates of high-growth firms and gazelles in Canada, 2012 and 2008**

Percentage values



Source: OECD based on OECD (2015), *Entrepreneurship at a Glance 2015*, OECD Publishing.

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relative to large firms up to the level of the United States would increase aggregate Canadian labour productivity by 11%.[7] Approaching the productivity performance of SMEs in the United States could be expected to require further scale-up of Canadian SMEs, increased efficiency gains in existing SMEs, and higher business entry and exit rates.

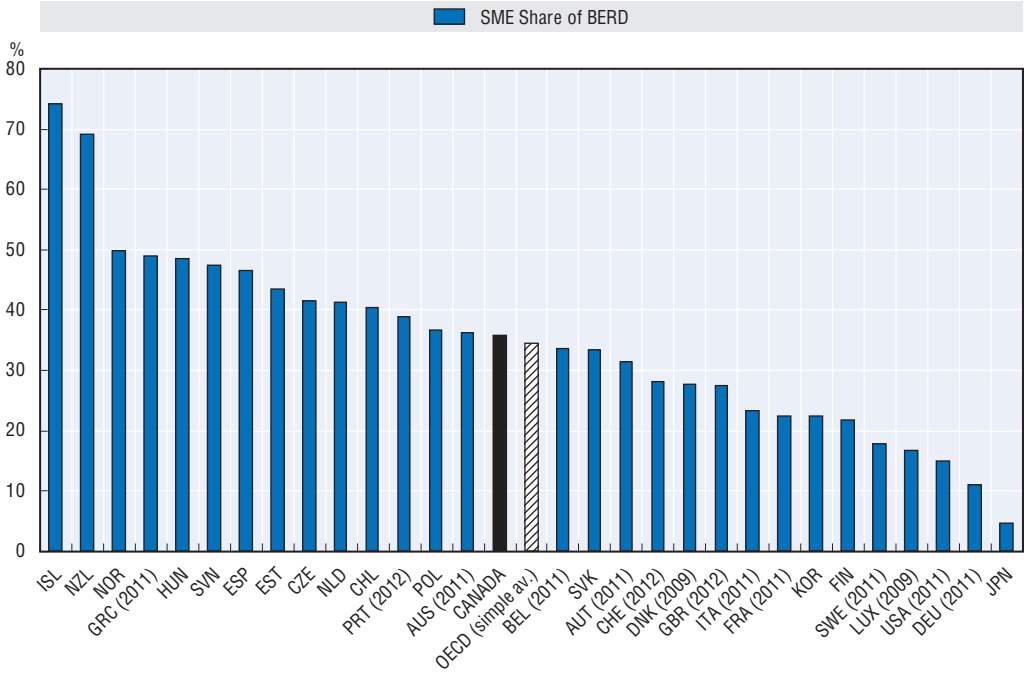
R&D and innovation in Canadian SMEs

Canadian business expenditure on research and development (R&D) was 0.82% of GDP in 2013, back to the levels of the early 1990s after having climbed in the early 2000s to reach 1.26% of GDP in 2001. The SME (1-249 employees) share of business expenditure on R&D in Canada was 36% in 2013, which is in line with the OECD un-weighted average for the 30 OECD countries for which data are available (Figure 2.7). It should nonetheless be recognised that Canadian SMEs represent a somewhat smaller share of GDP than the average, which affects the SME share in R&D. Other estimates by Innovation, Science and

Economic Development Canada (ISED) reveal that when the Statistics Canada's definition of SME is used (1-499 employees), SMEs accounted for 49% of total business expenditure on R&D in 2009; 31% by small enterprises (1-99 employees) and 18% by medium-sized enterprises (100-499 employees).

Figure 2.7. **Business R&D by firm size, 2011 or latest available year**

Percentage of R&D performed in the business sector



Note: For a number of countries, methodological improvements were adopted over the period 2003-13, which may hinder data comparisons over time. For Japan, firms with less than JPY 10 million in capital are excluded from the scope of R&D surveys. This leads to overstating the share of R&D accounted for large firms

Source: OECD based on OECD (2015), *OECD Science, Technology and Industry Scoreboard 2015*, OECD Publishing.

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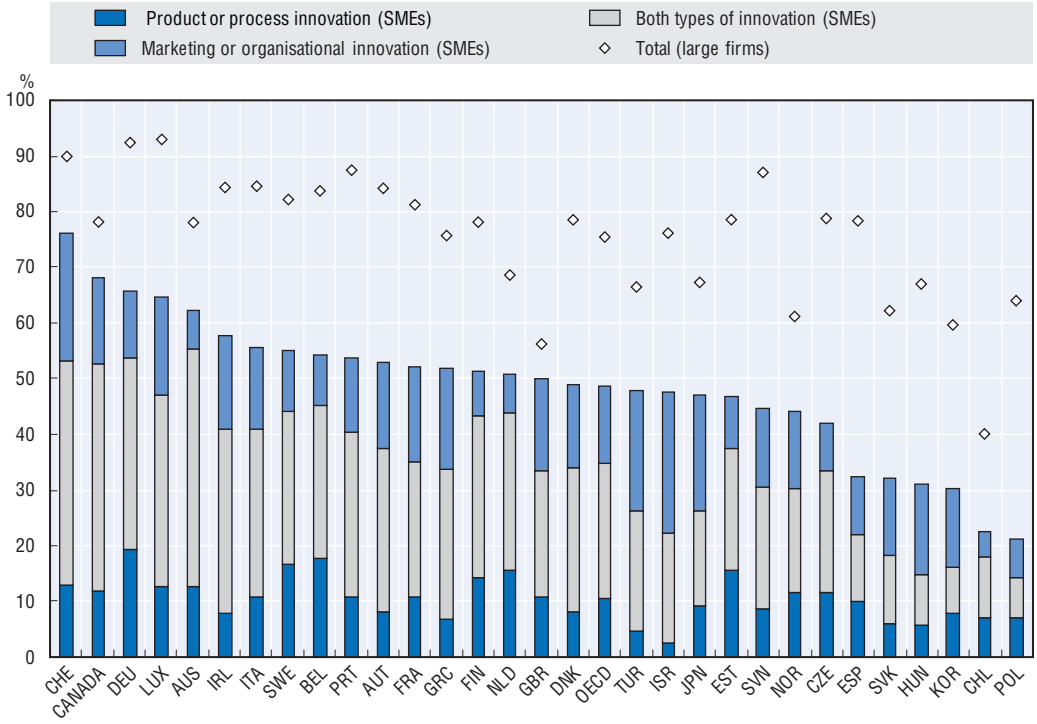
Canadian SMEs are active in many aspects of innovation in addition to R&D. Figure 2.8 presents comparisons with other countries, although full comparability is partially undermined by the use of different entry-thresholds between Canada's survey and, for example, the EU Community Innovation Survey (CIS).[8] Sixty-eight per cent (68%) of Canadian SMEs reported involvement in some form of innovation, a result only second to Switzerland's 76%. In particular, 12% of Canadian SMEs had introduced at least one product or process innovation in the 2010-2012 period, 15% had introduced a marketing or organisational innovation, and 41% had done both. The evidence indicates that most Canadian innovative SMEs are taking a complementary approach to innovation in which they embark on both technological and non-technological innovation.

Policy-wise, direct government funding of business enterprise R&D is generous to SMEs in Canada;[9] the proportion accounted for by SMEs (1-499 employees) varied between 58% of the total in 2009 and 48% in 2013.[10] More generally, innovation survey data show that more than fifty per cent (52%) of innovative SMEs in Canada (i.e. companies that have introduced either product or process innovation) had received some form of government support during 2008-10. This is the second largest figure across OECD countries and only

Figure 2.8. **Types of innovation undertaken by SMEs and total "large firm" innovation, 2010-12**

Percentage of all SMEs and large firms



This graph is also proposed as Figure 1.2.

Note: Data are from the Eurostat Community Innovation Survey (CIS-2012) and other national innovation surveys' data sources. For Canada, data come from the Survey of Innovation and Business Strategy (SIBS) 2012 and refer to 2010-12. The survey covered firms with 20 or more employees and with at least CAD 250 000 annual revenue in 2009. The industries covered are NAICS (2007) 31-33, 41, 48, 49, 51, 52 and 54.

Source: OECD based on OECD (2015), *OECD Science, Technology and Industry Scoreboard 2015*, OECD Publishing.

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10 percentage points less than the proportion of large firms that benefited from government support (Figure 2.9).

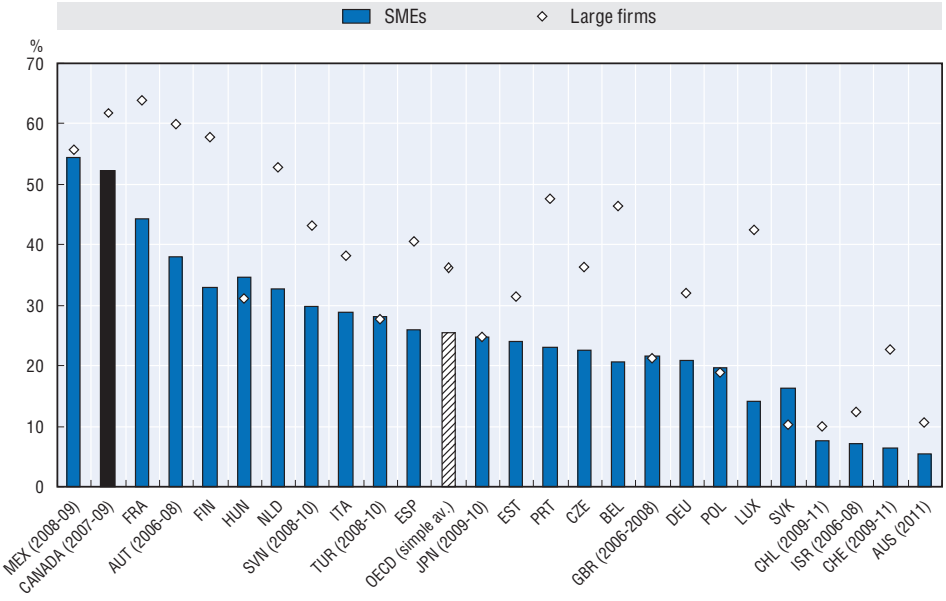
Internationalisation in Canadian SMEs

The direct contribution of SMEs to national export activity is not as strong in Canada as in other OECD countries.[11] Data from Statistics Canada show that while about 90% of exporters are small businesses (1-99 employees), only 10% of small businesses are exporters, with the proportion growing to 34% among medium-sized enterprises (100-499 employees) (ISED, 2013). As shown in Figure 2.10, approximately one-quarter (26%) of Canada's total export volume is accounted for by the ten largest exporters and slightly more than half by the fifty largest exporters (53%). Only smaller economies such as Luxembourg, Ireland and Finland have more concentrated direct export activity than Canada.

Export activity is also primarily directed to one main foreign partner country (the United States), which is the natural consequence of the geography of Canada. As shown in Figure 2.11, among a group of OECD countries, Canada has the highest share of export volume (26%) produced by enterprises that export to only one country and, conversely, the smallest share generated by worldwide exporters that export to 10 or more partner

Figure 2.9. **The share of SMEs receiving public support for innovation compared to large firms, 2008-10**

Percentage of product/process innovative firms



Note: For Canada, data refer to 2007-09 and firms with 20 or more employees and with at least CAD 250 000 of annual revenues in 2009. Firms with ongoing/abandoned innovation activities are not identified. Data refer only to grants and tax credit programmes across all levels of government. The industries covered are NAICS (2007) 31-33, 41, 48, 49, 51, 52 and 54 for 2007-09 and manufacturing only for 2002-04.

Source: OECD based OECD (2013), *OECD Science, Technology and Industry Scoreboard*, OECD Publishing.

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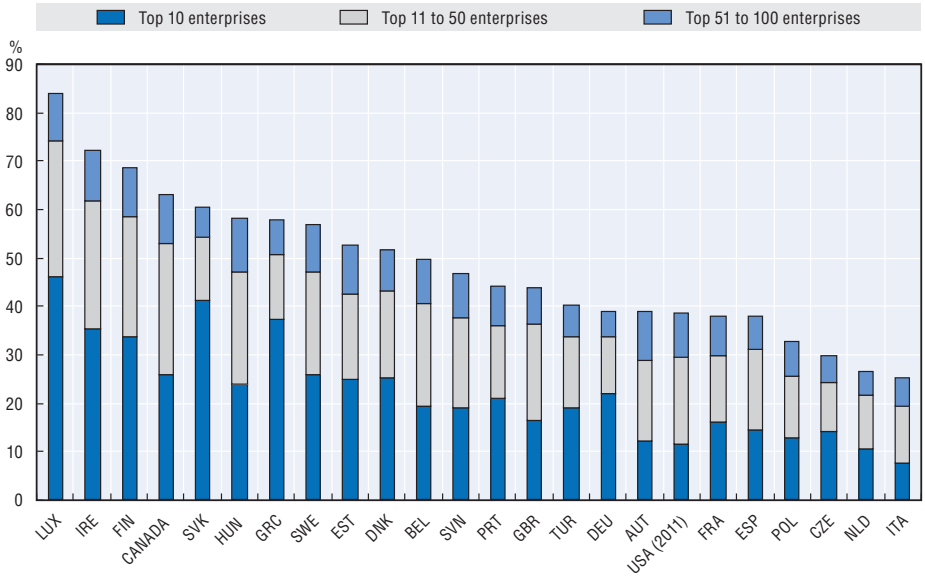
Figure 2.10. **Concentration of exports by exporting enterprises, total economy, 2012 or latest available year**

Percentage of export volume



Note: The concentration of exports by exporting enterprises is calculated as the ratio of the value of exports by each rank (top 10, top 11 to 50, and top 51 to 100 exporting enterprises) divided by the total value of exports.

Source: OECD based on OECD (2015), *Entrepreneurship at a Glance 2015*, OECD Publishing.

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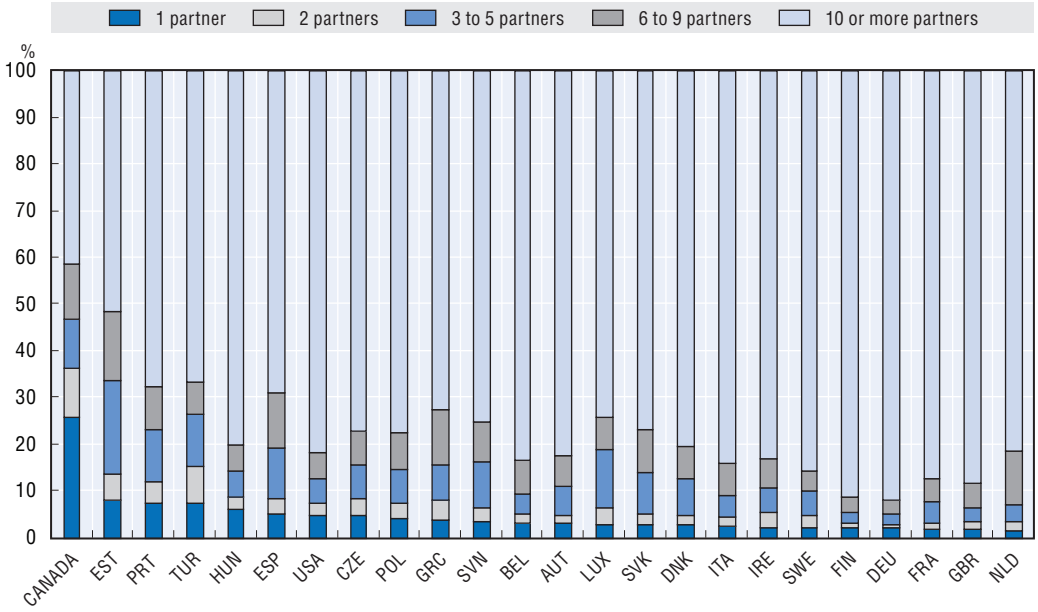
Figure 2.11. **Concentration of the value of exports by number of partners, total economy, 2012 or latest available year**

Percentage of total export value

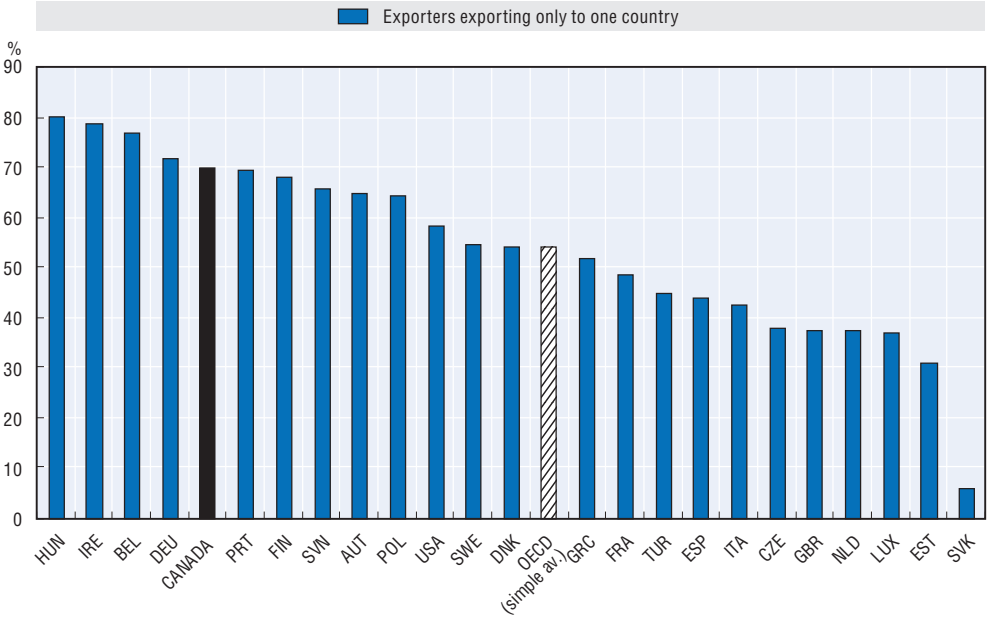


Note: The concentration of the value of exports by number of partners is calculated as the ratio of the value of exports by enterprises who have x partner countries to the total value of exports. Data are presented in descending order from the one, Canada, where most export value is accounted for by enterprises which only export to one partner country.
Source: OECD based on OECD (2015), *Entrepreneurship at a Glance 2015*, OECD Publishing.

StatLink http://dx.doi.org/10.1787/888933553651

Figure 2.12. **Proportion of exporters exporting to only one country, total economy, 2012 or latest available year**

Percentage of total exporting enterprises



Note: The OECD simple average is the unweighted average of the country values for which data are available.
Source: OECD based on OECD (2015), *Entrepreneurship at a Glance 2015*, OECD Publishing.

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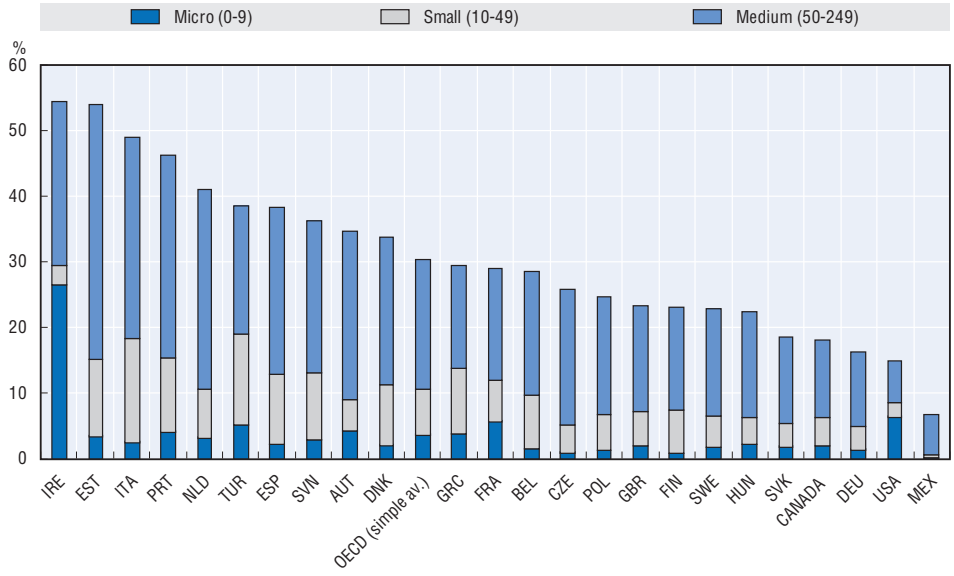
Figure 2.13. **Share of export value by enterprise size, 2012 or latest available year**

Percentage of total export value



This graph is also proposed as Figure 1.3.

Note: The shares of exports by enterprise size are calculated as the ratio of the value of exports by each size class over the total value of exports.

Source: OECD based on OECD (2015), *Entrepreneurship at a Glance 2015*, OECD Publishing.

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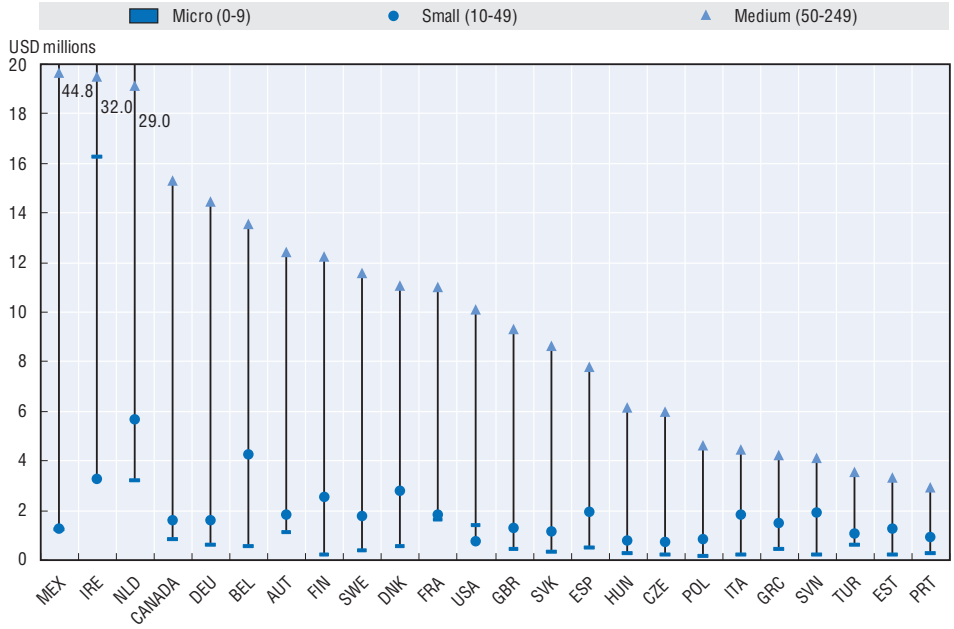
Figure 2.14. **Average value of export by size class and total, 2012 or latest available year**

Millions US dollars



Note: Average value of exports per enterprise is defined as the value of exports divided by the number of exporting enterprises.

Source: OECD based on OECD (2015), *Entrepreneurship at a Glance 2015*, OECD Publishing.

StatLink http://dx.doi.org/10.1787/888933553689

countries. In terms of number of enterprises (rather than export volumes) 70% of Canadian exporters export to only one country, which is a higher proportion than in most other OECD countries (Figure 2.12).

SMEs (1-249 employees) accounted for only 18% of the national direct export value in 2012; less than the OECD un-weighted average of 31% (Figure 2.13 and Figure 2.14). Within the SME segment, Canadian small enterprises (up to 50 employees) generated 6% of the total export value, compared with the OECD un-weighted average of 11%. The average direct export value (USD million) of Canadian small enterprises (10-49 employees) is also not high in comparison with several other OECD countries (Figure 2.14).

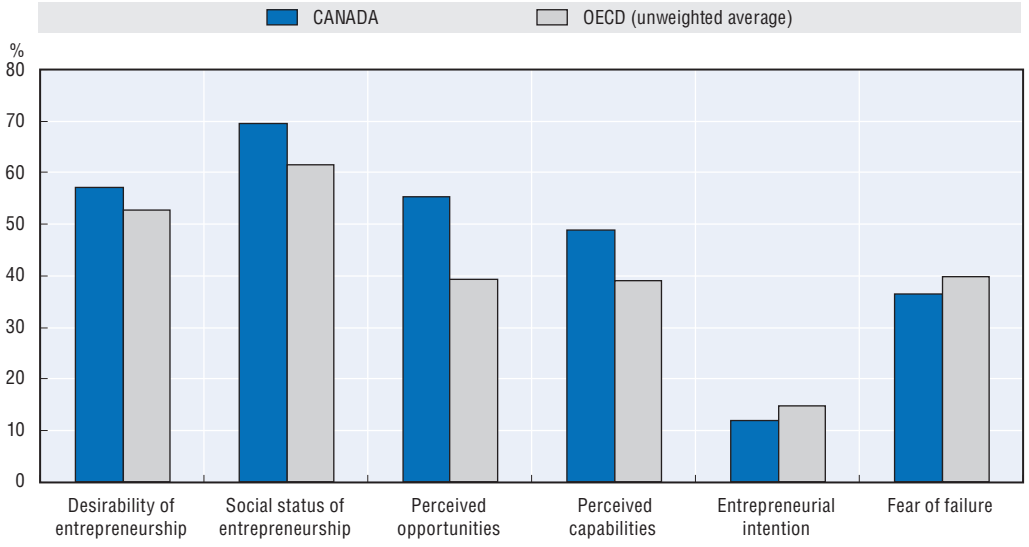
Entrepreneurship performance in Canada

Entrepreneurial attitudes

Positive entrepreneurial attitudes (e.g. self-confidence, risk assessment, team building and strategic thinking) are important drivers of successful entrepreneurship. Adult population survey data from the Global Entrepreneurship Monitor (GEM) research consortium show that entrepreneurial attitudes in the Canadian adult population (aged 18-64) are generally quite strong (Figure 2.15 and Figure 2.16).[12]

Figure 2.15. **Entrepreneurial attitudes in the Canadian adult population, 2014**

Percentage values



This graph is also proposed as Figure 1.4.

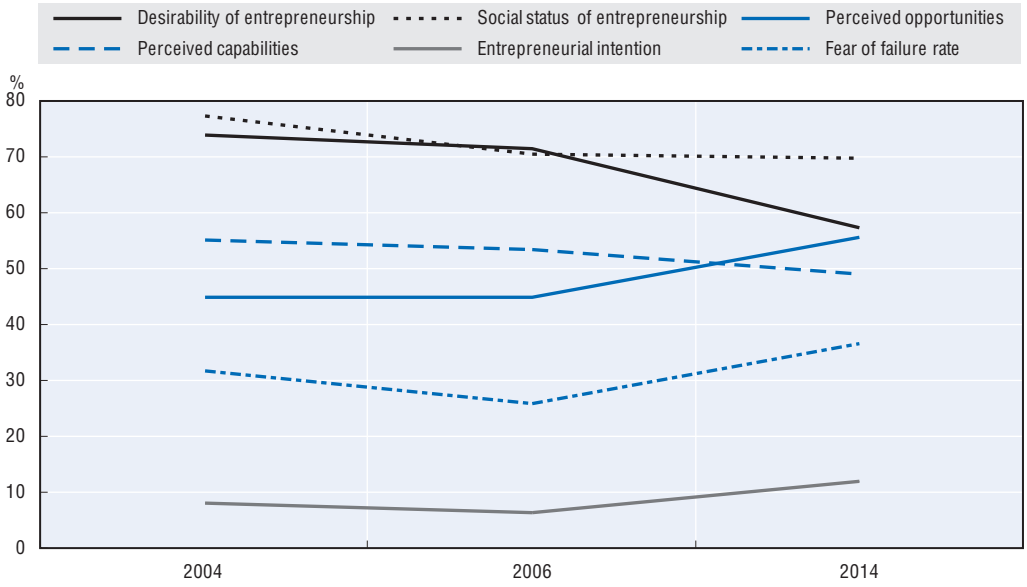
Note: Percentage values are shares of the total adult population (18-64), except for "fear of failure" which expressed as a proportion of those who "perceive a market opportunity". This is the exact definition for each indicator: i) Desirability of entrepreneurship: Percentage of 18-64 population who agree with the statement that in their country, most people consider starting a business as a desirable career choice; ii) Social status of entrepreneurship: Percentage of 18-64 population who agree with the statement that in their country, successful entrepreneurs receive high status; iii) Perceived opportunities: Percentage of 18-64 who see good opportunities to start a firm in the area where they live; iv) Perceived capabilities: Percentage of 18-64 population who believe to have the required skills and knowledge to start a business v) Entrepreneurial intention: Percentage of 18-64 population (individuals involved in any stage of entrepreneurial activity excluded) who intend to start a business within three years; vi) Fear of failure: Percentage of 18-64 population with positive perceived opportunities who indicate that fear of failure would prevent them from setting up a business.

Source: OECD based on data supplied by the Global Entrepreneurship Monitor (GEM) research consortium.

StatLink http://dx.doi.org/10.1787/888933553366

Figure 2.16. **Evolution of entrepreneurial attitudes in Canada, 2004-14**

Percentage values



Note: Canada did not participate in the GEM survey from 2007 to 2013, so data for these years are not available. Percentage values are shares of the total adult population (18-64), except for "fear of failure" which is expressed as a proportion of those who "perceive a market opportunity".

Source: OECD based on data supplied by the Global Entrepreneurship Monitor (GEM) research consortium.

StatLink http://dx.doi.org/10.1787/888933553708

Some 57% of Canadian adults considered entrepreneurship a desirable career option in 2014 and 70% of them held successful entrepreneurs in high esteem. Some 56% perceived a market opportunity to start a business in the area where they live and 49% of them considered that they had the right set of skills to start a business. These figures are all above the OECD area un-weighted averages. On the other hand, only 12% of Canadian adults expressed the intention to start a business in the coming three years, which was below the OECD average (15%). This is surprising given the large proportions of Canadians who saw a market opportunity and believed they have the right skills set to succeed in business. An explanation could be that a strong labour market has made wage employment more attractive and increased the opportunity cost of entrepreneurship, a hypothesis which seems to be confirmed by declining self-employment rates and business birth-rates (see the business demography section below). Fear of failure was slightly below the OECD average, at 37% of those who perceived a market opportunity.

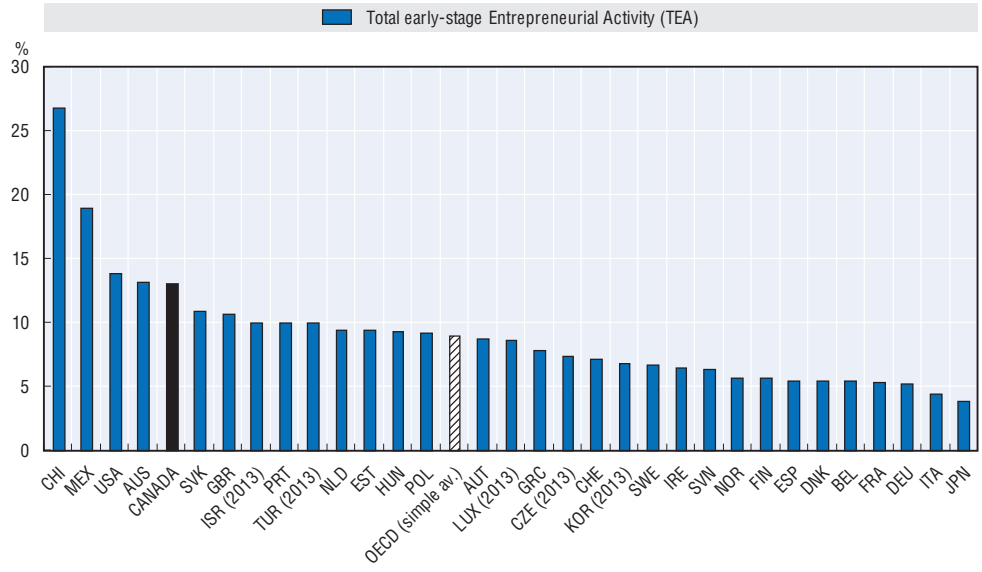
Overall, entrepreneurial attitudes in the Canadian population are generally stronger than in the rest of the OECD area. On the other hand, Canada's entrepreneurial attitudes worsened with regard to the "desirability of entrepreneurship", the "social status of entrepreneurship", "perceived capabilities" and "fear of failure" during the period 2004-14, although they improved with respect to "perceived opportunities" and "entrepreneurial intentions" (Figure 2.16).

Early-stage entrepreneurial activity

There is healthy early-stage entrepreneurial activity in Canada, as measured by the GEM Total early-stage Entrepreneurial Activity (TEA) rate. Canada's TEA rate was 13% in 2014, the 5th highest rate among the OECD countries for which recent data are available (Figure 2.17).

Figure 2.17. **Total early-stage Entrepreneurial Activity (TEA) rate across OECD countries, 2014 or latest available year**

Percentage of the adult population (18-64)



Note: The GEM TEA rate provides estimates of the proportion of the adult population (aged between 18 and 64) who have either been involved in a start-up process for less than three months (i.e. nascent entrepreneurs) or who have been business owners for less than three-and-a-half years (i.e. new business owners).

Source: OECD based on data supplied by the Global Entrepreneurship Monitor (GEM) research consortium

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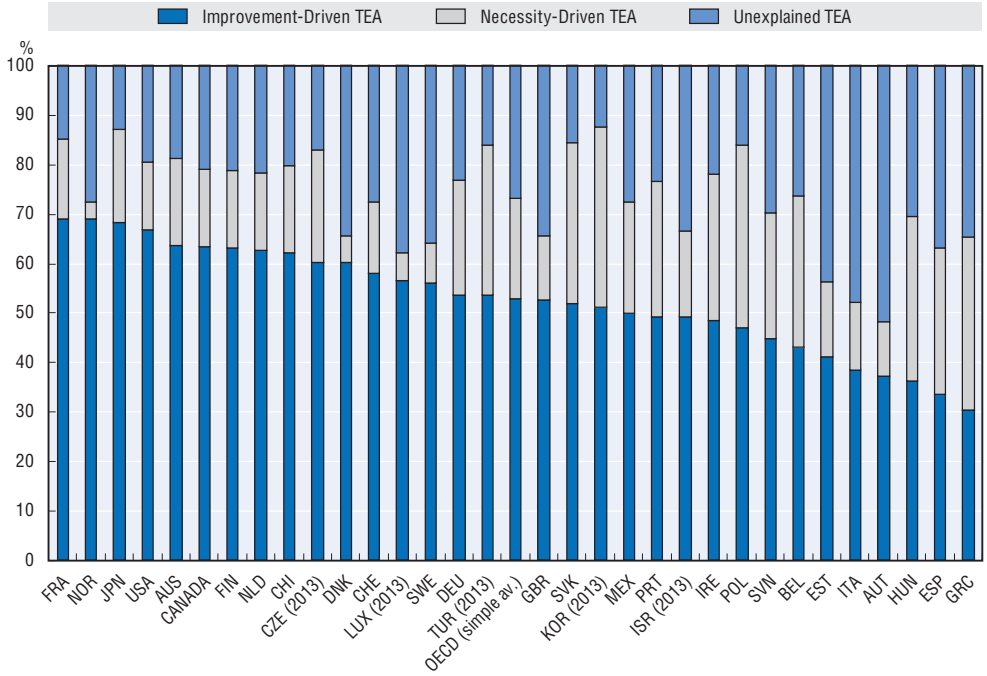
Figure 2.18. **Improvement-driven and necessity-driven prevalence in TEA across OECD countries**

Percentage of total population involved in TEA



Source: OECD based on data supplied by the Global Entrepreneurship Monitor (GEM) research consortium.

StatLink http://dx.doi.org/10.1787/888933553746

Most early-stage entrepreneurial activity (63%) in Canada is improvement-driven, i.e. fuelled by perceived opportunities in the market or the desire to improve one's own conditions in terms of income and/or independence. Only 16% is necessity-driven (compared with an OECD un-weighted average of 20%), i.e. motivated by lack of other employment opportunities (Figure 2.18). This is an indication of relatively good quality of entrepreneurial activity in Canada.

TEA rates have been increasing significantly in Canada in recent years. The share of the population involved in total early-stage entrepreneurial activity increased by four percentage points between 2004 and 2014.

Business demography

Business demography indicators – i.e. business entry (birth) and exit (death) rates – offer an overview of entrepreneurial dynamics and are of great relevance for both job creation and productivity growth. The OECD finds, for example, that young firms (5 years old or less) accounted for about 20% of non-financial business sector employment over the past decade, but generated nearly half of all new jobs across a range of OECD countries (OECD, 2013). Moreover, across OECD countries, an increase in the share of young firms (aged 6 years or less) relative to old firms (aged 12 years or more) is associated with an increase in multifactor productivity (MFP) growth, which can be primarily ascribed to start-ups (aged 3 years or less) (OECD, 2015c).

In Canada, the employer enterprise birth rate and death rate both appear to be quite low (Figure 2.19).[13] As a result, Canada now has one of the lowest employer enterprise churn rates among OECD countries, i.e. the sum of entries and exits, a commonly used proxy for entrepreneurial dynamics. Canada has also experienced a quite strong fall in its churn rate in the period 2006-12 compared with various other OECD countries (Figure 2.19 and Figure 2.20). Furthermore, recent analysis by the Bank of Canada shows that entry and exit rates have declined considerably in Canada over the last thirty years; the firm entry rate falling from 24.5% to 12.7% and the firm exit rate falling from 16.5% to 11.6% between 1984 and 2013 (Cao et al., 2015). While this is a pattern which is common to many OECD countries since 2000 (Criscuolo et al., 2014), the recent decline appears to have been somewhat greater.

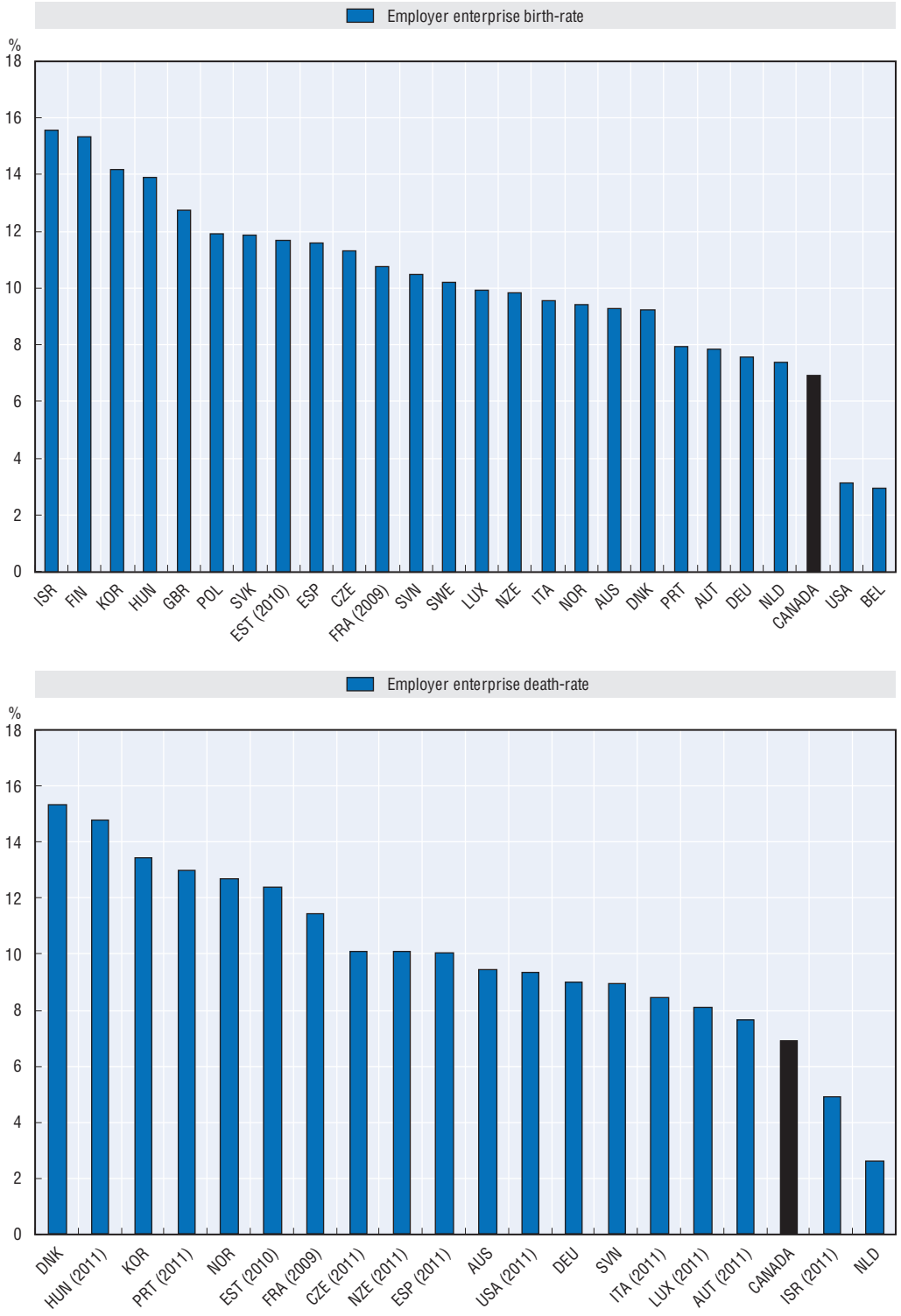
A US-Canada comparison of churn rates additionally reveals that these are constantly higher in the United States than in Canada over time and across sectors, with the gap especially marked in industry (Figure 2.21).

Comparatively weak entrepreneurial dynamics in Canada are also identified in Criscuolo et al. (2014). This study shows that Canada had a relatively small share of start-ups (0-2 years old) and young firms (3-5 years old) and a large share of old firms (10 years or older) among its small businesses (up to 50 employees) in the period 2001-11 (Figure 2.22). Moreover, young SMEs (aged 0-5 and with up to 249 employees) accounted for relatively smaller shares of job creation (38%) and job destruction (21%) than in most other OECD countries. This is primarily the result of the lower share of Canadian employment accounted for by young SMEs (14%) (Figure 2.23).

The low enterprise churn is likely to adversely affect productivity growth in the economy, given a more restrained contribution of young SMEs to resource allocation from less productive firms.

Figure 2.19. **Employer enterprise birth and death rates, 2012 or latest available year**

Percentage of active enterprises with at least one employee



Source: OECD based on OECD (2015), *Entrepreneurship at a Glance 2015*, OECD Publishing.

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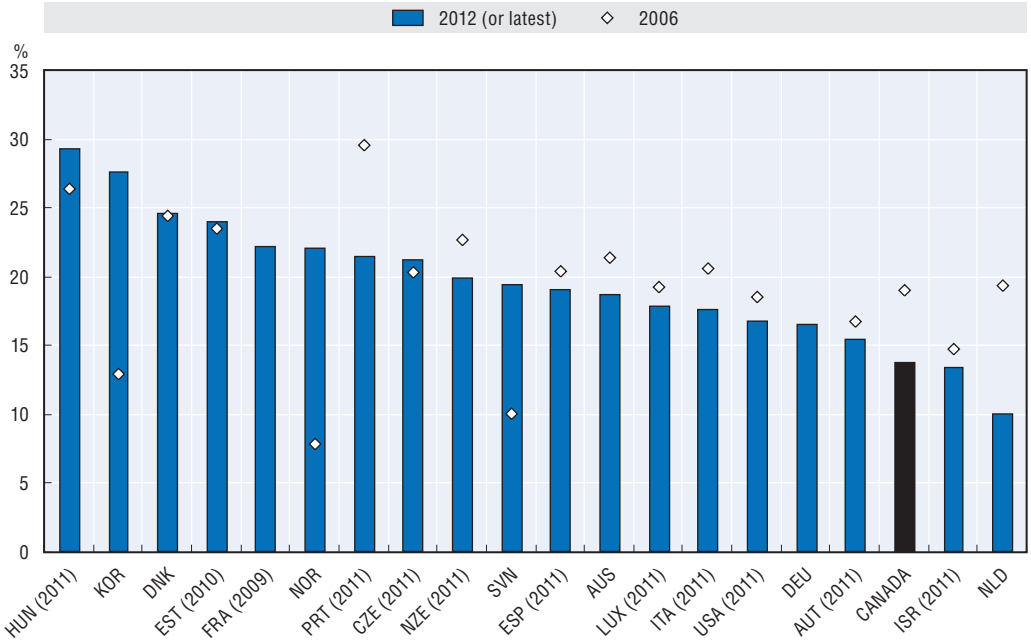
Figure 2.20. **Employer enterprise churn rate, total economy, 2012 (or latest available) and 2006**

Sum of the employer enterprise birth rate and death rate



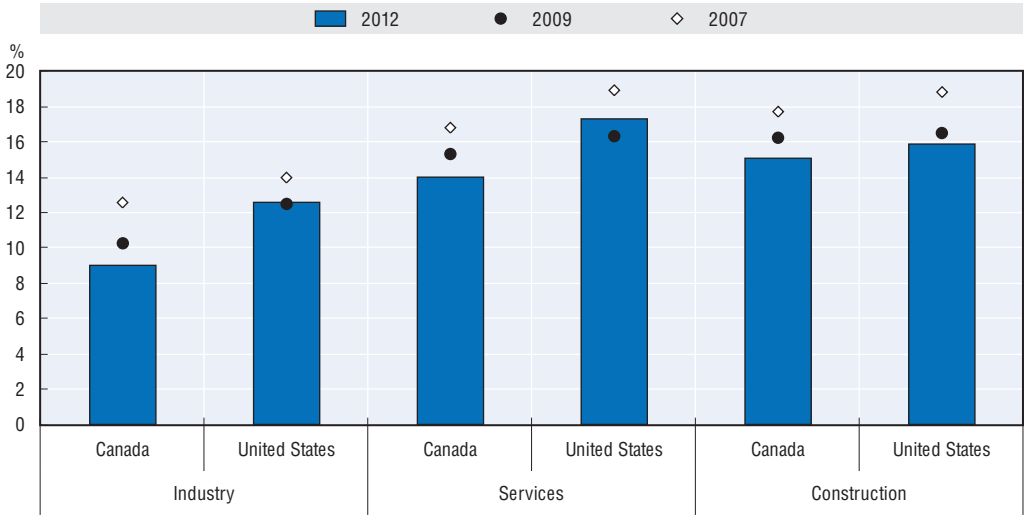
Note: This graph is also shown in Figure 1.5.

Source: OECD based on OECD (2015), *Entrepreneurship at a Glance 2015*, OECD Publishing.

StatLink http://dx.doi.org/10.1787/888933553784

Figure 2.21. **Employer enterprise churn rate over time and across sectors in Canada and the United States**

Sum of the employer enterprise birth rate and death rate in each sector

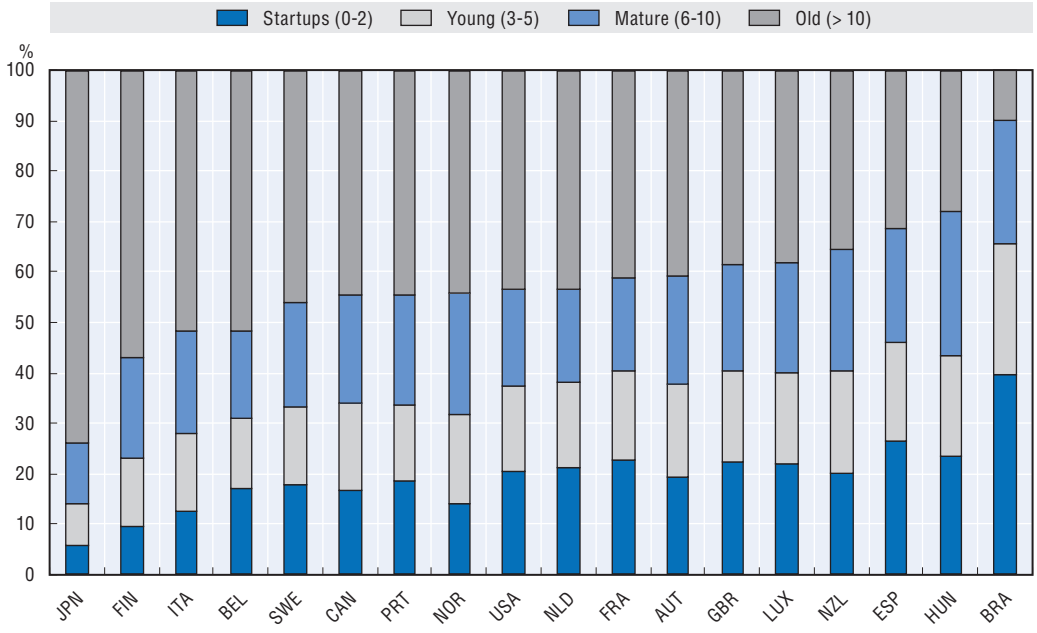


Source: OECD based on OECD (2015), *Entrepreneurship at a Glance 2015*, OECD Publishing.

StatLink http://dx.doi.org/10.1787/888933553803

Figure 2.22. **Age composition of small businesses in selected OECD and non-OECD economies**

Average over time 2001-11, firms with less than 50 employees

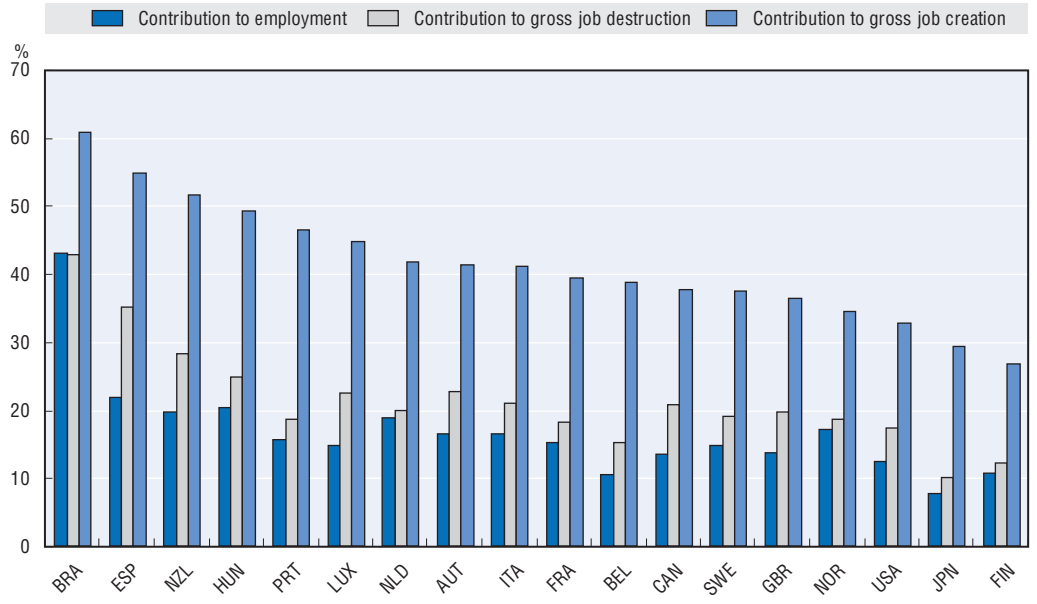


Source: Criscuolo et al. (2014), "The Dynamics of Employment Growth: New Evidence from 18 Countries", *OECD Science, Technology and Industry Policy Papers*, No. 14, OECD Publishing, *http://dx.doi.org/10.1787/5jz417hj6hg6-en*.

StatLink http://dx.doi.org/10.1787/888933553822

Figure 2.23. **Young SME shares of total employment, gross job creation and gross job destruction in selected OECD and non-OECD economies**

Young SMEs (0-5 years old), Average 2001-11



Source: Criscuolo et al. (2014), "The Dynamics of Employment Growth: New Evidence from 18 Countries", *OECD Science, Technology and Industry Policy Papers*, No. 14, OECD Publishing, *http://dx.doi.org/10.1787/5jz417hj6hg6-en*.

StatLink http://dx.doi.org/10.1787/888933553841

Conclusions and policy recommendations

SMEs are important players in the Canadian economy, making up approximately 60% of total employment. SMEs in Canada are somewhat less likely to be micro-enterprises (up to 9 employees) than in most other OECD countries and the proportion of employment that these enterprises generate is also smaller in Canada than in most other OECD countries. Canada's proportions of high-growth firms and gazelles (i.e. young high-growth firms) are in line with the averages for the OECD countries for which data are available, but not up with the levels of the top performing countries.

The productivity performance of Canadian SMEs does not appear to strong, particularly when comparing the relative productivity gap between small businesses and large businesses in Canada with that of the USA. The direct export activity of Canadian small businesses is also rather limited, with only 10% of small businesses (1-99 employees) and 34% of medium-sized businesses (100-499 employees) with direct exports. On the other hand, nearly 70% of Canadian SMEs (with at least 20 employees) engage in innovation-related activities, which is high by international standards.

Entrepreneurial attitudes in the Canadian population are generally positive, although "risk aversion" has increased in the last ten years, and a high share of the adult population is involved in efforts to start a business or run a new business. Positive entrepreneurial attitudes and early-stage entrepreneurial activity, however, do not lead to equally strong entrepreneurial dynamics, as shown by Canada's comparatively low business entry-exit rates, small shares of young firms in the SME population, and small rates of job creation by young SMEs. Weak entrepreneurial dynamics have not had a negative impact on employment creation, but they are a likely cause of slow productivity growth in the country.

Based on this analysis, the following recommendations are advanced to strengthen SME and entrepreneurship structure and performance in Canada.

Key recommendations on SME and entrepreneurship structure and performance

- Reinforce measures to increase the productivity levels of existing SMEs.
- Promote small business access to foreign markets.
- Strengthen programmes to stimulate high-growth SMEs and gazelles.
- Promote policies that favour the entry and exit of small businesses.

Notes

1. In this chapter, two different definitions of SMEs are used in order to incorporate statistical information from both OECD and Statistics Canada databases. For OECD data, the breakdown giving the most international comparability classes SMEs as enterprises with 1-249 employees, where micro-enterprises have 1-9 employees, small have 10-49, and medium have 50-249. Unlike most other countries, the OECD data for Canada do not include non-employer enterprises. The official SME definition of Statistics Canada refers to companies with 1-499 employees, where small companies have 1-99 employees and medium have 100-499 employees. Within the Statistics Canada's definition, a further unofficial subcategory for micro-enterprises (1-19 employees) has also sometimes been used to further disaggregate the analysis.
2. Canada also counts about 2.5 million of non-employer enterprises, based on information from Statistics Canada's CANSIM table 553-0001.

3. This analysis is based on a project called Dynemp. This project aggregates firm-level data for employer enterprises from the business registers of 18 countries, including Canada. Its advantage for the specific case of Canada is that comparability with other countries is strengthened through the use of only employer-enterprise information and the same size classes for all 18 countries covered by the project.
4. The OECD defines high-growth enterprises based on employment or turnover. High-growth enterprises are enterprises with average annualised growth in employees (or in turnover) greater than 20% a year, over a three-year period, and with ten or more employees at the beginning of the observation period.
5. It should be noted that for Canada the estimated proportion of gazelles is reduced relative to other OECD countries by the removal of mergers, acquisitions and reorganisations from the count of new firms.
6. This study does not account for the large variation in labour productivity by industry nor the productivity gap between Canadian and American large businesses.
7. Increasing the employment share of large firms in Canada to United States levels would increase aggregate Canadian labour productivity by a further 6%.
8. Canada's national innovation survey only includes firms with at least 20 employees and CAD 250 000 in annual revenues, while the EU CIS's entry threshold is 10 employees. A higher participation threshold is likely to inflate the estimated proportion of SMEs which undertake innovation by taking out from the SME population smaller companies that are less likely to innovate.
9. Direct government funding refers to grants and payments for R&D contracts for procurement, but not R&D tax incentives, repayable loans or equity investments.
10. Information on direct government funding of BERD is based on CANSIM Tables 358-0207 and 358-0208.
11. Figures in this section reflect only direct export activity and, as a result, may underestimate the real scale of integration of local SMEs within global value chains. For example, some SMEs may produce intermediate products and services for larger exporters, while others (especially small-sized enterprises) may export through intermediary wholesalers (OECD, 2015a).
12. GEM is a research consortium which carries out population surveys across more than 100 countries, including most OECD countries, on entrepreneurial attitudes and entrepreneurial early-stage activity (*www.gemconsortium.org/*). Data from Iceland (2010) and New Zealand (2005) have not been included because they are considered too old to be compared with 2014 and 2013 data.
13. It should be noted that for Canada business demography indicators (business birth rate, business death rate, and business churn-rate) may be artificially deflated relative to other OECD countries by the removal of mergers, acquisitions and reorganisations from the count of new firms and of ceased firms.

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