

A CONSIDERATION OF CANADIAN GOVERNMENT  
MEASURES FOR STIMULATING SMALL BUSINESS GROWTH

Raymond Wen-yuan Kao



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A B S T R A C T

As an introduction, Chapter I attempts to:

1. present an overview of Canadian economy and small business.
2. define the purpose and objectives of the study, and
3. outline the method used for the study.

The efforts of Chapter II are directed towards the definition of small business by examining three popular approaches for the definition: Structural Approach, Behaviourial Approach and Generic Consideration. Arguments of all three alternatives were analyzed. Consequently, from the operational point of view and the purpose of this study, the structural definition is adopted, nevertheless, it is assumed that business is normally managed by its owner or owners.

Chapter III concentrates its deliberation on the Economic Justification for Promoting Small Business. The argument presented in the chapter compares the relative efficiency of the smaller firm with that of larger company, its innovative activities and above all the resources consideration. It was concluded that there is no clear evidence that small firms are less efficient than large corporations, moreover, from the point of view of both the innovative activities and resources allocation, the performance of the smaller firms must be recognized. For this reason, the government's efforts in



promoting the growth of smaller firms is justifiable. However, the question of the extent to which the government should be involved in stimulating small business growth is yet to be examined.

Chapter IV establishes a set of general criteria relating to small business development policy. Essentially, it emphasizes the importance of understanding the behavioural characteristics of the owner/managers of small firms; the need of regional emphasis and above all, the self-sufficiency and self-reliance be the focal point of all government undertakings.

Chapter V examines Canadian government policies affecting small business growth in retrospect. The examination includes major protective policies, and the various government incentive programmes and grants. Finally, the chapter closely examines the establishment of the Industrial Development Bank; its objectives, operations and accomplishments.

Government measures to assist the small business since 1975 were assessed in Chapter VI. The first part of the assessment concentrates on the purposes and objectives of the Federal Business Development Bank and its first 2 years performance since its incorporation. A comparison is also made on the structural difference between the Industrial Development Bank and the Federal Business Development Bank.



The latter section of the chapter is devoted exclusively to recent government undertakings, including the inauguration of the Minister of State Small Business, the Enterprise Development Programme and Enterprise Canada '77.

As a general consideration for government measures in aiding the small business, Chapter VII analyzes the fundamental issues of the Canadian economy as related to small business development problems encountered by Canadians. The lack of an effective industrial strategy, strong government presence and government influence on entrepreneurship are thought to be experienced by the small business community in Canada.

Specific considerations are directed into inquiries of various crucial areas affecting Canadian small business growth (Chapter VIII). This includes a detailed assessment of the effectiveness of the operations of the Federal Business Development Bank, the government grants and incentive programmes on the basis of early established development criteria, taxation, the presence of crown corporations, legislation and regulations as well as the attitude of small business owner/managers towards the government.

To conclude the findings of the study, Chapter IX reveals some of the policy recommendations made by the Canadian Federation of Independent Business that have been implemented by the government. At the same time, it is re-emphasized that



should any attempt be made to resolve Canadian small business development problems, the need of adopting an effective industrial strategy must be taken into account, furthermore, the fundamentals of such a strategy must be based on self-sufficiency and self-reliance. The model used by Ryerson Polytechnical Institute is demonstrative of total involvement in promoting small business by an educational institution and other undertakings in the private sector on self-sufficiency projects. These are illustrated and recommended as a starting point to begin the search for an effective small business policy for Canada.



## I. INTRODUCTION

### I. 1. OVERVIEW - CANADIAN ECONOMY AND SMALL BUSINESS

During most of the 1960's and early 1970's, Canada - along with other industrial nations - experienced exceptional growth in output, employment and real incomes. Throughout most of that period, employment steadily gathered force, rising slowly and then preceeding to a frightening momentum after the turn of the decade. The rush of prosperity suffered a jarring reverse in 1974 as the world plunged into the worst recession of the post-war period, a recession which has now become a serious concern for both the government and private sector of the economy.

Inflation and unemployment in Canada were no more severe than in many other countries, but the impact of recession was less than that experienced by other industrial nations. Yet, the conviction has grown among many observers that the underlying problems confronting the Canadian economy are deep and pervasive. Rampant inflation, slow growth and rising unemployment are symptoms of a serious malaise in Canada - a malaise also characterized by bitterness between various groups and regions in Canada's once bright prospects for the future. The election of a government in Quebec in November 1976 committed to its separation from the



rest of Canada has created further major uncertainties.

What is wrong with Canada's economy? Various individuals and groups have attempted to diagnose and find a cure for the problem. One such individual is the Auditor General of Canada who puts the blame on government expansion. His comment on lavish government spending has caused great public concern and it is considered to be at least a partial cause of the problem. In his report to the legislature, Mr. J. J. MacDonell said that the government had come close to losing control over its spending.<sup>1</sup> His view was, subsequently, supported by the findings of the Royal Commission on Government Spending. Mr. A. Lambert, the Chairman of the Commission said:

" We must be prepared to concede that the enormous rate of growth of government - both in people and in cost - is surely not sustainable and, indeed past the question of whether a pause or freeze in the rate of growth is even action enough".

There were a number of other elements at work which also compounded the Canadian economic problem. For example, the spread of collective

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1. Government Spending (Source: Statistics Canada)						
	1972	1973	1974	1975	1976	1977
Gov't Exp.	47,204	53,162	65,812	80,978	91,430	101,308
GNP	105,234	123,560	147,175	165,445	190,027	202,572
%	44.9	43.0	44.7	48.9	48.1	50.0



bargaining rights by a large public sector in the later 1960's, led by the federal government, resulted in substantial pay increases to public employees in certain areas that often served as pace setting targets for other workers. Increases in federal and provincial minimum wage scales to levels well above those in the United States and possibly other advanced industrial countries generally provided a further source of upward pressure on wages and salaries. At the same time, the great expansion in social and welfare programmes (including unemployment insurance) by the government caused a declining willingness to work, to take initiative and/or to accept responsibility in many individuals.

Although, generally, there were rapidly increasing wages and salaries, there was no corresponding increase in productivity. To cope with the problem, the large firms, particularly those with branched plants, pulled out their manufacturing processes and transferred them to low wage countries (such as the Far East), and imported the finished goods to the Canadian market.

Historically, most Canadian industries and commerce are owned by large foreign corporations and many markets are dominated by so few companies that the effective working of competition is



threatened. Canadian small companies were able to survive because branch operations of large corporations provided some jobs for Canadians and the smaller firms were able to serve the large corporations as marketers for their output and suppliers of their input. The transfer of the manufacturing process to other countries has, in fact, effectively decreased production activities but increased marketing function in Canada, thus increasing competitive pressure among manufacturers, particularly the regional small companies who are to terminate their businesses, being either forced into receivership or voluntary withdrawal from the competition.<sup>2</sup> The small surviving companies are facing mounting difficulties; they are experiencing a decline in sales, labour cost increase, an inability to obtain needed finance, a lack of financial incentive for themselves and difficulty in attracting competent workers and personnel due to low wages and salary payments and longer working hours.

2. Canadian Business Failure by Provinces, 1970-76

Source: Dun & Bradstreet Canada Ltd.,

Province	1970	1971	1972	1973	1974	1975	1976
Newfoundland	9	5	24	24	10	3	5
P. E. I.	1	2	2	-	3	-	4
Nova Scotia	13	19	30	37	29	62	75
New Brunswick	12	22	16	36	24	44	35
Quebec	1,155	1,092	988	961	872	971	966
Ontario	797	873	1,084	1,053	1,003	1,202	1,254
Manitoba	52	58	114	91	80	79	64
Saskatchewan	67	111	75	27	36	25	29
Alberta	78	145	227	185	177	193	192
B. C.	103	300	288	304	278	284	352
Total	2,287	2,627	2,848	2,718	2,512	2,863	2,976

Note: The above information does not necessary include all business failures, since many small firms were not incorporated, hence, information may not be publically available.



The competitive weakness of smaller firms and the increasing number of bankruptcies of smaller companies do not help the Canadian economy. On the contrary, they augment existing problems by increasing the elimination of job opportunities thus increasing unemployment, and adding recipients to the unemployment insurance benefits and welfare programme.

During the past several years, the government and various individuals attempted to find a cure for the problem by recommending cutting down government spending, a tax break, a lower rate of interest and others. No doubt, some of these recommendations can relieve the pressure temporarily, but the majority tend to agree that in the long run Canada must develop an industrial strategy on the basis of regional need. Therefore, the development of Canadian enterprises, particularly regionally based small firms, tends to be an important issue in Canada.

The development of regionally based small businesses as a form of industrial strategy is affirmed by the Liberal Government in Ottawa, in its working paper called "The Way Ahead", issued in October, 1976. The federal government took a long backward look at a wide variety of economic development



the cause of the problem so as to determine how best to prescribe a cure. However, its diagnosis may, in the opinion of many people contain contradictions and ambivalence. Nevertheless, it was made clear that there will be a major emphasis in aiding the small business. According to the paper:

"... the Government of Canada must pursue the elaboration of a consistent and comprehensive small business development strategy that will preserve and enlarge the role of small business in the Canadian economy"<sup>3</sup>.

#### I. 2. PURPOSE AND OBJECTIVES OF THE STUDY

During the last three or four decades, mounting small business aiding programmes and measures were undertaken by the Government of Canada; formative action goes as far back as the 1940's, however, it was not an important issue until the early 1970's. Although the need for stimulating small business growth has been recognized, there has not yet been a study to assess the effectiveness of government measures. The broad purpose of this study is, therefore, to analyze and, inquire into the effectiveness of government measures, under the assumption that the development of small business is one of the important

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3. "The Way Ahead" A Framework for Discussion." Government of Canada Working Paper, October 1976, p. 29.



issues in Canada. This assumption is verified by the speech from the throne, at the opening of the second session of the thirtieth Canadian Parliament, October 12, 1976.<sup>4</sup>

The specific objectives can be summarized as follows:

- 1) To establish fundamentals related to the issues of aiding small businesses, these include:
  - a. the definition of small business
  - b. the economic justification of promoting small business
  - c. the profile of small business operators<sup>5</sup>
- 2) To establish general criteria for a small business policy.
- 3) To examine government measures designed to protect and to stimulate small business growth, including policies undertaken prior to and after the establishment of the Federal Business Development Bank.

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4. The Government ... places a very high value on the contribution the small businesses make to the economic and social well-being of Canadians. Small owner-managed firms are a mainstay of employment in cities and towns across the countries. They supply goods and services essential to consumers and to other business, and they demonstrate the innovation and entrepreneurship from which successful enterprise must spring. More than that, small businesses, and the people who own them, and work in them, are the economic backbone of countless communities throughout Canada.
  5. As an appendix to the study.



- 4) To assess the effectiveness of government measures undertaken to stimulate small business growth.
- 5) To identify problem areas and recommend possible alternatives to the problem.
- 6) To test some of the alternatives offered on the basis of some experimental projects undertaken at the Small and Medium Enterprise Development Centre at Ryerson Polytechnical Institute and Project Self-Reliance.

### I. 3. SCOPE AND METHOD OF THE STUDY

In view of the constraint of resources and complexity of the nature of the problem and its involvement, it is necessary to define the area of the study as follows:

- 1) The study will concentrate its examination on federal government measures designed to stimulate small business growth in Canada, particularly, the objective and activities of the Federal Business Development Bank and the Enterprise Development Programme.
- 2) The provincial and municipal small business policies will also be discussed, if such policies affect small business growth and new venture formation. Any such discussion will be restricted to the Province of Ontario.



- 3) All primary investigations concerning the profile of small business operators and the effectiveness of government measures for achieving their objectives will be conducted in the Province of Ontario, although discussion and examination of overall business climate may include other provinces.
- 4) The investigation and examination will be confined within a period from 1973 to 1977. The study will also review the general background and development prior to this period.

In order to achieve a broad purpose and specific objectives, the study will undertake a twofold investigation. Part of the investigation will be the examination of obtainable government publications and documents, the publications of the Federal Business Development Bank, media and works of others. The other part of the investigation will consist of a primary study, the survey is an attempt to establish the fundamentals of the issue which includes the profile and behavioural aspect of the small business operators.

The samples selected for the survey consist of those answered



by participants attending small business conferences, small business management courses (continuing education programme), symposiums and seminars conducted by Ryerson Polytechnical Institute and twenty-two other post secondary educational institutions. The questionnaires were mailed to the participant's registered mailing address or handed out at the closing of various sessions. The results of the investigation were then compared with the studies conducted by other research institutions, such as Dun and Bradstreet, the Canadian Centre for Entrepreneurial Studies, private financial institutions, and official information released by the Department of Industry, Trade and Commerce, the Government of Canada. Where necessary, person - to - person interviews were conducted with owner/managers for the purpose of gaining some insight into the small business operators, the way they run their businesses and their responsiveness to government programmes.

The samples for the investigation were not taken at random but rather were self selected. However, respondents were owner/managers (the samples also included responses from employees and professionals but when inappropriate, were excluded from



the analysis) who either attended the seminars, courses or programmes or were clients of government services. Most were obviously interested in the subject matter.

The sample could have been different, if the investigation were extended to those who did not attend, but those who attended the different sessions and in different places showed that their attitudes and experiences are nonetheless valid - in fact, it could be argued that they were particularly pertinent in that these owner/managers were conscious of a need, at least, for information, and went out and sought it.

As an additional precaution to obtain honest and unbiased statements, as can be seen in the questionnaires, respondents remained anonymous.<sup>6</sup>

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6. All primary investigations (the questionnaire and personal interviews) are shown as an appendix to the study.



## II. THE DEFINITION OF SMALL BUSINESS

As the word "Small" implies, the definition of "Small Business" as used by most people, only suggests the structural definition. Hence, it could be defined on the basis of the amount of investment, the number of people employed or the size of annual sales (turnover). On the other hand, many agree that the assessment of a small firm should not be confined to its size of operation in terms of number of employees, amount of investment or the size of annual sales, as this does not always reflect the connotation "small" from the point of view of research objective or for legislative purposes. For example, a legal firm with 100 employees, could not be considered as having the same structure as a firm with 100 employees engaged in a manufacturing process. Equally true, it is misleading to use investment as the basis to define the size of a firm, since a labour intensive operation requires far less investment than those firms primarily engaged in capital intensive operations.

Those interested in the behavioural area, may prefer to define the "small business" on the basis of the firm's managerial



decision behaviour. Therefore, if a firm's managerial decision making is concentrated on one or two people, with little or no formal delegation for decision making, it should be considered a "small company". If this definition is adopted, then T. Eaton Company may be considered as a small firm, since all major decisions are made among the Eaton brothers, but, in fact, the T. Eaton Company is the largest department store in Canada, and its annual sales amount to approximately three billion dollars. Still, there are others, such as Dr. Perrigo, former Director of the Aston Small Business Centre who defines "small business" as a firm whose size of operation makes it uneconomical or incapable to adopt modern managerial technology. Professor John A. Welsh of Caruth Institute of the Owner-managed Business of Southern Methodist University, Dallas, Texas, U.S.A. uses the term "Owner-Managed Business" for their educational programme geared primarily for owner/managers of firms relatively small in size. Recently, similar generic usage was adopted by the Canadian Federation of Independent Business. Accordingly most owner/managed businesses are small in size and individuals operating the businesses normally have entrepreneurial behaviour - they make all things happen, they direct and control the performance, and they create order and



wealth out of chaos. This typifies the early stages of a new venture operation that certainly fits the structural definition of "small business". However, it must be understood that entrepreneurship has a greater connotation than owner/manager" of a small firm, and it has a far greater application in all sectors of our economy. At the Federal Business Development Bank Symposium held in Toronto, June 1975, a definition never used officially was discussed by a group of participants who considered that a firm cannot be a "small business" when it reaches the stage that enables it to obtain its financial needs from institutional financing sources or the stock exchange.

There is no official definition given by Canadian legislation. Although Bill C14 is an Act specifically designed to erect the Federal Business Development Bank whose prime objective is to stimulate and assist small business growth in Canada, it provides no definition within the Act for "small business". The bank sets its own working guide on the basis of the number of people employed (70 or less) and/or annual sales (2 million dollars or less). Although, the government (Department of Industry, Trade and Commerce) tends to use the terms "Small



and Medium Size Business", not even with the appointment of a Minister of Small Business in the Federal Cabinet. does the government have any firm idea how a small business is to be defined. Accordingly one opposition member of Parliament commented, "You don't know what is a small business, how can you have a Minister of Small Business"?<sup>1</sup> Nevertheless, later, in a white paper issued by Mr. Marchant, Minister of State, Small Business, he remarked:

" Just as there is a wide range of variation in the types of small business enterprises operating in Canada, so there is no "typical" small entrepreneur. Small business people do, however, tend to share certain common attributes and characteristics. These include: a pride in their work and in their position in the community; an activist or "take charge" mentality; a strong desire for independence and dislike of hierarchical structure; a strong belief in the profit motive and the value of profit as a measure of efficiency and success; and a belief that hard work will always yield concrete and tangible rewards."<sup>2</sup>

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1. Paraphrase of a direct quotation.
  2. Small Business in Canada, Perspectives, Minister of State, Small Business, Ottawa, Canada.



Then, Mr. Marchand concluded: "Small business is defined as firms which are independently owned, and which have not developed the managerial structure typical of a large, mature corporation. Generally, this applies to firms with fewer than 100 employees in the manufacturing sector, and fewer than 50 employees in other sectors".<sup>3</sup>

The Bolton Report (HMSO London, 1971) adopts 200 employees as the definition of a small manufacturing firm; Section 3 of the United States Small Business Act also defines various sized limitations; and the Small Firms Association of the Republic of Ireland, specifies that it represents the interest of firms employing less than 100 people.

From the operational point of view, it is deemed appropriate to adopt a structural definition of "small business". On the other hand, merely to consider the size of operation tends to overlook the generic and behavioural characteristics of small business operators. Therefore, while adopting the structural definition of "small business" for the purpose of this study, it does not preclude the generic and behavioural characteristics of the owner/manager or the operator of the

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3. Small Business in Canada: Perspectives, Minister of State Small Business Ottawa, 1977. pp. 8,9.



firm. Accordingly, "small business", as it will be used therefore, will refer to a business limited to 100 employees or less normally managed by the owner of the business. This definition is in congruence with the Canadian practice, as it is defined by the Minister of State, Small Business as a working definition for small businesses in Canada.



### III. ECONOMIC JUSTIFICATION FOR PROMOTING SMALL BUSINESS

While recognizing the importance of the small business's contribution to the Canadian economy, it is also a concern as to whether or not, the smaller scale of production and marketing is in fact viable in the competitive market that presses for continuing and rapid technology change. This section of the study examines factors that relate to these areas, particularly, the efficiency, innovation and the consideration for resources allocation.

#### III. 1. ECONOMIES OF SUPPLY VERSUS ECONOMIES OF DEMAND

(1) Production and productivity - In contradistinction of consumption, production is the process of integrating or converting various resources for human use. Since the process of conversion merely increases economic wealth of various resources, but is not an addition to the quantity of any given resource, the availability of consumer goods and services for use will always be subject to the availability of existing resources. A greater rate of consumption would impose greater pressure on the resources available, consequently, causing a drain on resources, unless there has been



a greater rate of innovation than the rate of consumption, an adoption of a recycle process, a change in consumption habit and/or the presence of discovery of resources.

Traditionally, productivity is a term used to measure the rate of conversion process. In the private sector of the economy, productivity is determined by output in relation to the amount of input employed. Generally, a high degree of productivity signifies a conversion process in relationship with amount of input employed. In most cases, the difference between input and output value is expressed in monetary terms or some other quantitative expression. In the public sector, productivity represents numerous values of goods and services through the conversion process and the term GNP is used for measurement. Both private and public section measurements concern only the amount of output at a given time, with no efforts to relate the rate of utilization and the availability of the resources.<sup>1</sup> Such an approach appears

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1. The official publications of Statistics Canada, Bank of Canada and Central Mortgage Housing Corporation concerning only Gross National Product (GNP), per Capita Gross National Product. Production Indexes, Productivity Indexes, Population Civilian Labour Force, Earnings, Housing, Prices and Purchasing Power.



to concern only the availability of goods and services for consumption.<sup>2</sup>

(2) Creative Destruction - The thought of creative destruction was perhaps first advanced by J. A. Schumpeter. In his "Capitalism, Socialism and Democracy"<sup>3</sup>, he claimed Capitalism to be an evolutionary process, a form and method of economic change needed for competition and to satisfy consumers. Many have considered that the idea of creative destruction stimulates creative activities; destroying the old so as to create new and better ones. Although much of the research and development of large oligopolists are considered to be the direct influence of such economic thought, the latter is also due to the driving force of large corporations to produce their products with built-in (planned) obsolescence.

### III. 2. A CONSIDERATION FOR THE ECONOMIC VIABILITY OF LARGE AND SMALLER FIRMS

#### (1) Relative Efficiency between larger and smaller firms -

The arguments in favour of large companies in a demand oriented economy are various, but the noted argument

- 
2. The Manufacturing of capital goods is considered here as a form of deference for the near future consumption.
  3. Harper-Row, New York, N. Y. 1950.



well acquainted with by many researchers and economists is the question of the relative efficiency between larger and smaller firms with an established belief that economies of scale cannot be obtained in a smaller scale of production. On the other hand, the issue seems to be an unsettled dispute, and the economic theory on the relative efficiency between the larger and smaller firms is not clear. In recent years, a number of different but plausible hypotheses have emerged on the subject of profitability, advocating that the growth and size of the firm are the indicators of efficiency.

At least three hypotheses can be discussed:<sup>4</sup>

a) There is no relationship between the size of the firm and rate of return. Briefly, the supporters of this argument tend to stress that economies of growth exist for all sizes and types of firms, and in the process of growth the firms find that their organizations must change in order to adapt to their new size. Economies of scale provide growth opportunities for any firm partaking in its advantages, hence managerial capacity sets the limit to expansion.

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4. The Committee of Inquiry on Small Firms (Bolton Report)  
Report No. 18, London



b) In a competitive world where firms aim to maximize profits, it is expected that some firms will be above or below their optimum. Hence it follows that on the average the very small and very large firms will be less profitable than the medium sized firms.

c) Some economists argue that as a firm grows larger, profit maximization is replaced by revenue maximization subject to some minimum profit constraint.<sup>5</sup> In other words, from their point of view, the firm's objective is to seek a long term growth in sales hence maximizing its share of the market.

The hypotheses differ quite sharply and lead to different predictions about industrial and market structure. However, it must be realized that the validity of each of these hypotheses is largely dependent on the result of empirical studies.

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5. One such example is the General Electric Company, whose decentralization philosophy reflects this type of thought. The corporation requires a capital charge, more or less equivalent to normal interest rate. A division profit must deduct a capital charge before deriving division residual income. This division residual income is used for managerial performance measurement. The system tends to motivate G.E. managers to maximize revenue hence greater residual income. Capital charge serves as a minimum profit constraint.

Source: Management Control Systems, by R. Anthony and John Dearden, Irwin, Homewood, Ill. 1976, pp. 159-167.



In two studies by Scherer et al, on paints and automobile batteries, statistical evidence was uncovered which suggested that a small business in very limited product-mix operations in which a single entrepreneur serves simultaneously as production foreman, chief salesman, and deliveryman, can experience quite modest unit costs. But as the scale of operations rises beyond approximately 100,000 gallons or 50 batteries per year, a one-man show is no longer possible and specialization becomes necessary:

" In the battery industry, the small-scale operator might actually enjoy lower unit production cost than his much large rivals if he can employ strongly motivated non-unionized help and imputes to himself modest opportunity cost ..."<sup>6</sup>

Evidence collected by T. Jones in England and Wales also strongly suggests that the same kind of economies of scale arguments apply to other sectors.<sup>7</sup> When farm performance

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6. M. Scherer, Alan Beckenstein, Erich Kaufer, R. Dennis Murphy and F. Bougeon-Massen, *The Economics of Multi-Plant operation: An International Comparisons Study*. Cambridge, Mass., Harvard University Press, 1975, pp. 79, 84, 236.

7. T. Jones, "Where Smallness Pays," *Management Today*, July 1976, pp. 60-63.



was measured by the ratio of the market value of output to the cost of inputs (land rents, labour, and machinery costs, fertilizers, feeding stuffs, etc.) very small farms, as a group, were generally less efficient. But once the three-man unit was reached, beyond the point where the farmer could still remain in very close contact with his employees, further improvements in performance were small or non-existent. Evidence also indicates that the larger organizations are often less efficient; when factors such as the number of deaths in large hospitals are examined; absenteeism, turnover and output rates in factories; strikes in coal mines; or sales volume in retail establishments.<sup>8</sup>

Several other formal studies can likewise be used to verify some of these hypotheses.<sup>9</sup> A study by H. O. Stekler in the U. S. for the mid-nineteen fifties showed the profitability in positive profit earning firms. Overall, profits were observed to decline as the size of the firms enlarged, and between the large and small firms the latter's profits were more viable.

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8. T. Jones, op cit., p. 60.

9. The Committee of Inquiry on Small Firms, Report No. 18, London.



Hall and Weiss drew a sample of 341 firms from the Fortune's 500 largest industrial corporations over the period 1956-62; their result was based on an examination of relationships between the return on equity capital and net assets which support hypothesis c). For example, the absolute dollar profit increases with size and decreases in rate. Hart, in a later study, found that, provided the deficit companies are included, profitability and size are independent. The findings of the Bolton Commission in the U. K. deduced that:

" The general conclusions are that given the basic source of information, and the techniques chosen, the evidence does not suggest that small firms on the Committee's definition are more or less efficient than large units, ..." <sup>10</sup> In addition, the Commission also concluded that smaller firms have two distinctive functions (eight functions in all ) in the U. K. economy: The significant innovation and the injection of a general dynamism into economic life.

It should be noted that in West Germany, for example, the population and geographical area is the same as in Britain,

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10. The Committee of Inquiry on Small Firms, Report No. 18, London.



there are nine times the number of bakeries and ten times the number of breweries. Yet German productivity in these industries is three times that of Britain.<sup>11</sup>

Bernholtz and Rives, two University of Toronto Professors, using Canadian data, have shown that a small-sized firm may go through many "stages of growth". Using data from fifty firms engaged in commercial printing, they were able to demonstrate empirically that companies during growth apparently go through alternating phases. They experience phases where they perform well economically then undergo critical phases where they perform poorly and have a high probability of failing.

" Our study suggested that a small business does not have to grow to remain successful. Indeed it may grow and die if the owner is not prepared to deal with the problem he will encounter (as growth may take the company into a critical stage). Thus growth should be considered as only one of various policies open to a company".<sup>12</sup>

The study illustrates a relatively simple theoretical concept

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11. Private unpublished study.

12. B. Bernholtz and J. P. Rives, "The Stage Model of Growth and Small Firms - An Alternative Hypotheses". Working Paper No. 77-002, Department of Industrial Engineering, University of Toronto, Feb. 1977.



of scale effect expounding that efficiency is possible in every stage of a small firm 's growth. Hence, the argument of favouring large firms merely on the basis of scale effect cannot be substantiated.

It is also interesting to note that in a discussion paper published by Manchester Business School, B. R. Cant uses a generalized model which illustrates that, judged on the basis of profit on sales, the small company is more efficient than the larger one ( as a percent of selling price, the small company's profit before taxes is 8% as compared with 5% of the large company) as it watches costs closely and does not permit heavy expenditure on overheads. However, he argues that if percentage elements of selling price is expressed in money terms (for example, the small company has a sales turnover of £ 3,000,000 per annum, and the larger company has a sales turnover of £ 15,000,000 per annum, in the same product range), the difference in absolute money values in what they can spend on any of the various elements of overhead expenditure could be very significant. According to his argument and in his illustration, the disposable margins which the



larger company is able to allocate to such activities as marketing, product engineering, administration and research and development, places it in an entirely different order of capability in a world of accelerating technical change and open international marketing competition. He suggests that the size of the firm should not be constructed for the sake of size in that it no longer provides balance for a small business run by the entrepreneur with an idea. "It is, however, increasingly important to distinguish between mere size and effective concentration of resources, between the company that must export a substantial proportion of its products to survive and the one that can find a satisfactory niche in the home market. It follows that it is also increasingly necessary to appreciate the difference between the spearhead role of the major exporter and the support role of his sub-contractors."<sup>13</sup>

Although it is debatable whether the role of the small business should be supportive to large firms, it is clear that in Cant's analysis the question of size, scale

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13. B. R. Cant, Britain's Economic Problems in International Historical Perspective, Manchester Business School, 1972, pp. 17-20.



and industrial logic do not necessarily support the supposition that larger companies are more efficient than smaller firms; nor that the smaller firms' contribution alone is sufficient to meet the need of the economy. Goderez, a senior officer at the World Bank, expressed his reaction to Schumacher's book, entitled: "Small is Beautiful":

... As I read,... I found myself getting uneasy... If what Schumacher was saying is true... (We should) dismantle large factories and go over to what he calls "Buddhist Economics" Could this be feasible? ... (Then) buried in the latter half of the book, I ran across this important passage: "That the developing countries cannot do without a modern sector is hardly open to doubt"... Schumacher, despite my first impression, and I might add, the impression I had gathered from others who had earlier read the book is not fanatically advocating 'small' to the exclusion of 'medium' or 'big'. Rather he is calling for a better balance ...<sup>14</sup>

It may be concluded that there is no clear evidence that it is more justifiable to promote large firms in our economy, or

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14. Carl D. Coderez, "The World Bank in Small Business Development", a paper presented at the International Symposium on Small Business, Washington, D. C. November 15-18, 1976.



that large firms/<sup>are</sup>more efficient than smaller firms. It should also be realized that in any healthy economy, small businesses and large businesses are both needed. Both their inter-dependency and the need to treat them separately from a policy standpoint is evident.

(2) Innovation - Economists seem to hold different views about the innovations of small firms. They appeal to case studies or indirect evidence in support of this view without any satisfactory resolution of the controversy.

To one extreme, some economists regard the contribution of small firms to innovation as being relatively insignificant, whilst others regard them as being the main source; if not wholly responsible then they are at least the most important industrial innovators. Typical of the first school of thought is the approach of those who have derived the "small man" theory:<sup>15</sup> "There is no more pleasant fiction than that technological change in the product of the matchless ingenuity of the small man ... . Technical development has long since

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15. Presumably this school of thought was originated by J. K. Galbraith. - Based on Bolton Report.



become the preserve of the scientist and the engineer. Most of the cheap and simple inventions have, to put it bluntly, been made."

Arguing this approach, other economists have attributed key innovation such as bakelite, the ball-point pen, insulin and the radio, to be the results of the initiative of individual inventors establishing small innovative firms. Many have also argued that a substantial number of the most important twentieth century inventions have originated with university or private inventors.

It is recognized that the matter of innovation requires heavy development and research costs, which seem to be the "hang-ups" for smaller firms. However, evidence has often been cited which justifies that small firms make a disproportionately large contribution to industrial innovations. The large corporate structure is unfavourable to innovative thought because of standardization since cost wise, without standardization, the large scale operations cannot be justified. One may find a large variety of differentiated menus and good food from smaller and independent



restaurants, but never anything different from McDonald Hamburgers or Howard Johnson, In fact, as a form of market and industrial strategy, smaller firms must continuously seek new products, new services or new approaches in business in order to compete whereas large companies tend to lean heavily on their advertising budgets.

It is important to point out that like many large companies, smaller firms of various industries are also heavily engaged in research and development. The following statistical information concerning research activities of selected Canadian industries should be of some importance:

Rankings of Research as per cent of value added to manufacture<sup>17</sup>

Aircraft	8.1%
Petroleum and Coal Products	6.6
Electrical Products	6.4
Drugs and Medicines	5.9
Rubber	1.9
Average for all manufacturing	1.5

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17. The method of ranking system is developed by OECD (Organization for Economic Co-operation and Development). Accordingly, to measure research intensity of an industry is to divide Research and Development by value added to manufacture.



The distinctive point of the above information is in the Drugs and Medicines (pharmaceutical) industry where no single firm in the industry holds as much as 7 per cent of the Canadian pharmaceutical market. Most of the firms in the industry are small and compete amongst themselves in areas such as quality, service and price. Moreover, its research activities rank fourth amongst the selected manufacturing firms.<sup>18</sup>

In view of the specific features of the Canadian economy, the innovative activity of smaller Canadian owned firms are perhaps playing a far more important role than those of foreign owned large corporations. Consider one of the characteristics of branch economy; the subsidiaries must be standardized in order to facilitate parental control, hence permitting very little innovation. However, clear evidence in recent years indicates that most research and innovative works are done in the U. S. parent companies. Like many other imported goods and services, technology importation is also an important business in Canada. It is unfortunate, nonetheless inevitable that few branch plants conduct any research or development of new products in Canada.

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18. Published by the Pharmaceutical Manufacturers Association of Canada, 1973.



Research and product determination are the prerogatives of the parent company; the branch plant exists to overcome tariff walls, not to compete with the home office.

(3) Resources Consideration - The growth of corporations is the result of a very basic urge on the part of many businessmen to succeed by expanding their firms. Therefore, a long term growth. This an industrial logic applicable to most companies in the market system. Such an urge will have a greater impact on the large company's resource wastage than on that of the smaller firm. The argument is based on the following assumption:

a) The capital structure of a large corporation consists mainly of investments from the public. Since the investor's interest is primarily profit, and the directors are elected by the stockholders, therefore, a corporation's goal must be set by directors on the basis of satisfying the investor's interest. Hence, profit is the corporation's goal and any other goal other than profitability must be in



congruence with profit.<sup>19</sup>

b) The manager's performance in a large corporation must be in congruence with the corporation's goal. Although he is measured by his planning ability, in the short run, he is also measured by his past profit contribution and not necessarily for the improvement of society or the future consumers' need. To some extent, not even the company's long term profitability is taken into consideration in this particular assessment.<sup>20</sup>

c) In order to satisfy a corporation's long term profit objective, a company would generally seek continuous growth. As the corporations grow larger, rivalry between

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19. Barry Richman in his article published by the Business Quarterly (University of Western Ontario) argued:  
"... In the foreseeable future two classes of corporate ownership may evolve - one, long term with voting rights, and the other, short term for market speculation. ... What may develop is a kind of "free market for social responsibility" within the stock market and among individual investors. Some will be more concerned with maintenance of their capital and adequate long term gains. Some will prefer to maximize short term gains". However, the argument merely suggests a different profit expectation (long and short term) among stockholders, it did not suggest that profit is not stockholders' objective.
20. Henderson & Dearden: New System for Divisional Control in Alfred Rappaport, Information for Decision Making, Prentice-Hall, Englewood Cliffs, N. J., 1970, pp. 330,331.



them and other institutions require growth and concentration in a countervailing power. As retailing chains grow larger, their enormous buying power stimulates manufacturers to merge in order to increase their own bargaining power. The trade unions grow in the same manner. Such enormous growth would necessitate corporate policies to focus on creating greater consumption, through such methods as mass public media for advertising, consumer education, pricing, employee motivation and, to some extent, sponsoring educational institutions to do research and teach the ways and means to create consumer need.

d) Assuming that the satisfaction of the consumers' need and the creation of a new need for consumers are directly related to the profit goal of the corporation, then it would be equally true that the cost factors are directly related to profit. In a growth model, it is preferable to substitute fixed cost for variable cost and since labour is a variable cost factor, per unit cost can be reduced if there is a greater substitution of manual labour for mechanization.

e) In order to reduce unit cost, it is necessary to



standardize production, packaging and other related functions. Greater material wastage will take place as the result of standardization.

f) A large corporation has a comparatively higher administrative cost than the smaller company.<sup>21</sup>

Admittedly, many of the above assumptions could also occur in small firms. For example, there is no real difference between smaller firms and larger companies in cost function where a cost reduction requires a substitution of machine for manual labour. The only difference lies in the extent of the substitution. The large corporation tends to invest in machinery equipment and distribution more extensively. Such an increase, both in cash outlay and its opportunity cost, would be normally compensated by reduction in labour cost and standardization. Small companies, on the other hand, though possessing high production costs (especially labour cost), may still enjoy a production and distribution cost advantage over larger plants. Therefore, the large corporation may claim that it has lower unit production cost, but such lower unit production

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21. B. R. Cant, op, cit., pp. 17-19.



cost is derived at the expense of decreased employment opportunity and excessive wastage caused by standardization.

The resource wastage of large companies may incur from the production process and the consumer end of consumption. In the conversion process, wastage is incurred due to the production of unusable goods where standardization is necessary. At the consumers' end, large corporations' efforts are directed towards the encouragement of greater consumption, which results in greater sales volume on standardized products. Waste is incurred both as excessive consumption and direct wastage. In a recent report published in the Toronto Star, many restaurant operators claim that a majority of their customers, consume only one half of the food they are served. In a survey conducted through Toronto's houseware and hardware retail stores, nearly all small items such as screws, nuts, bolts and nails come as standard packages from the manufacturers. A customer needing one nut and one bolt is forced to purchase a package of 12 each; probably the remaining bolts and nuts will never be used. Similarly, consumers often discard unused garments or useful goods and dispose of vehicles in good condition simply because they are



out of fashion, a successful conclusion of deliberate attempts on the part of large companies to produce goods with built-in (planned) obsolescence.

There are many facts verifying the existence of human resource wastage in large corporations. In nine testing cases for the aged between 45 to 50 seeking employment in large companies, eight of the nine were refused accommodation. The reasons given were that either the company's pension plan provided no flexibility or that some job requirement could not be suitably filled. In at least two incidents the companies gave no reason at all. The lamentable attitude towards old and loyal employees is reflected in the determination of corporate manpower policy which has been the concern of many middle and even upper managers with regard to their companies. The situation is created by the corporation policy of the so called "silver handshake"; some large companies often offer a cash settlement to terminate their employment, even though the employees are only in their 40's. Some companies simply make a request for their resignations because the top management feels that they are not young enough to cope with the demands of a new



generation and progressive society.<sup>22</sup> There are also ample cases of mass lay-offs incurred due to the transfer of production processes from Canada to other countries,<sup>23</sup> or to poor corporate planning and over-expansion.<sup>24</sup> Since man's ability to produce is subject to his life constraint, any interruption of continuous employment represents a permanent loss in manpower in the society and a direct waste of human resources.

Contrary to popular belief, large corporations do not provide greater opportunities for those seeking employment. Evidence clearly indicates that smaller firms provide more employment for society than large corporations. Canada is a nation that traditionally favours the intensive capital of the multi-national company in the areas of policies and taxation, tariff policy and even policies on regional development have encouraged the activity and prosperity of the large corporations. However, according to the Canadian Taxation Statistics, smaller firms

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22. Information was obtained through a personal interview with officers of Ontario Human Right Commission. However, in view of confidentiality, names of the company cannot be revealed.
23. For example, Telephone equipment, T. V. Tubes, Electronic consumer products.
24. Christie-Brown Company (Bread Manufacturing Company), International Nickel Company.



are providing more jobs for Canadians than the large companies. In the information obtained from Hansord, January, 1973,<sup>25</sup> 60% of Canada's labour force of 9,000,000 are employed by enterprises whose assets are less than one million dollars, whilst 40% of the 9,000,000 or 3,600,000 Canadians are employed by businesses with 15 or fewer people.

(4) Economic Justification for Promoting Small Business

Despite the fact that economic justification for promoting small business is found in the areas of its relative efficiency and its innovative activities, the key argument in favour of small firms lies in the consideration of the utilization of resources.

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25. The information disagrees with the information provided by the Minister of Small Business (Small Business in Canada: Perspectives, 1977, Ottawa). According to the Minister, "... Applying the definition to the statistical data available on small business, it can be determined that there are 600,000 small firms in business in Canada. Of these, approximately 240,000 are incorporated businesses, and some 360,000 are unincorporated partnership and proprietorships where the owners are substantially dependent on income from the business. ... In terms of total national employment and production, the small business community plays a substantial role in the working of the economy. In 1974, small firms employed 1,850,000 Canadians." The employment figure provided by the Minister is substantially less than the information obtained from Hansord. Assuming that both reports are reliable, the discrepancy (from January, 1973 to December 1974) could be interpreted as a decline of number of small firms in operation in Canada.



In the words of Schumacher, "The most striking thing about modern industry is that it requires so much and accomplishes so little."<sup>26</sup> Consideration must be given to a balanced development in both large and small businesses. Evidently, the runaway demand oriented economy and the encouragement of an economic, educational and social system in favour of only the big business have threatened the life support of future generations. Even in our time, we are experiencing the high rate of unemployment and uncontrollable inflation occurring in nearly all Western nations; a shortage of food, paper, drinking water, clean air and of particular importance, the non-renewable resources is becoming an alarming reality. These symptoms reflect the deficiency of the demand oriented economic system. Its seriousness implies a detrimental effect to future generations as well as to our immediate future. While accepting the blessing of materialistic satisfaction given by the large corporations, we must prepare to assess the consequences which the system implicates.

While large companies must operate within a built-in resource wastage structure due to the corporate's long and short term

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26. E. F. Shumacher, *Small is Beautiful*, Abacus, London, 1973, p.97.



profit objectives, a small business man operates his business on the basis of integrating his personal interest, devotion to innovation, community service and profit. Undoubtedly, the small firm's philosophy differs from that of the large companies. Instead of creating wasteful new needs, a small business-man must be sensitive to the need of the individual consumer, leaving little chance for goods to be unused. He certainly cannot afford to produce with planned obsolescence. On the human side, people over 65 would not have to waste the remaining years of their life collecting a pension in idleness. In a society oriented towards a healthy development of small businesses, they would have a place in the labour force.

In conclusion, the small business has been found to be justifiable in such aspects as resource allocation and environmental consideration. Yet a question remains unanswered: To what extent and in what form should the government be involved in stimulating small business growth and eliciting new venture formation without directly interfering with the market system, which is the basis of a free enterprise society?



IV. GENERAL CRITERIA FOR GOVERNMENT MEASURES  
TO STIMULATE SMALL BUSINESS GROWTH

It is difficult to establish a set of criteria for a comprehensive small business policy in Canada while the development of an effective industrial strategy is still a subject of debate. On the other hand, since the focal point of Canadian Industrial strategy is self-sufficiency and self-reliance, the stimulation of small business growth regionally should be an integral part of the overall strategy. In fact, the Science Council of Canada has already suggested that the Minister of the Department of Regional and Economic Expansion should exercise leadership to convince other federal departments and provincial governments that a locally-based development strategy should be implemented in the Mid-North region.<sup>1</sup>

Similarly, Rene Levesque, Premier of the Province of Quebec also stated:

"We... have to take as good care as we can of our small and medium sized enterprises that are mostly regional and based all over Quebec, ..."<sup>2</sup>

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1. A Development Strategy for the Mid-North of Canada. A Proposal by the Canadian Council on Rural Development. Ottawa, 1976, Chapter II.
  2. Report on Business, The Globe and Mail, Toronto, Jan. 1/77. p. 1.



There are development criteria advanced by researchers of other countries which may be applicable to the Canadian situation, either because of cultural similarities or the affinity of Canadian regions to the disadvantaged countries in relation to existing industrial and urban systems. The Bolton Committee's recommendation to the U. K. Government is an example of the latter: "no direct government assistance is necessary to smaller firms, not even financial aid to new business venture, however, the Committee suggests that the government should watch or remove legislation or regulation that may be harmful to the smaller firm or prevent its growth". Since the national economy of both countries is based on a market system, in view of the circumstances, such recommendation supports a common belief that the market economy, and the price system on which it rests, is the most efficient allocative mechanism available. The role of government policy should not be to direct and manage the economy in detail.

Other notable development policies is the one advanced by Schumacher. He identified four requirements that development



policies should meet:

- (1) Workplaces have to be created in the areas where the people are living now, and not primarily in metropolitan areas into which they are forced to migrate.
- (2) These workplaces must be, on average, cheap enough so that they can be created in large numbers without this calling for an unattainable level of capital formation and imports.
- (3) The production methods employed (especially in underdeveloped regions) must be relatively simple so that the demands for high skills are minimized, not only in the production process itself, but also in matters of organization, raw material supply, financing, marketing, and so forth.
- (4) Production should be mainly from local materials and for local use.<sup>3</sup>

It is clear that Schumacher's recommendation is aimed at the developing countries. However, as stated previously, many Canadian regions can be considered as disadvantaged areas in rela-

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3. E. F. Schumacher: *Small is Beautiful*, Abacus, 1973, p. 146.



tion to existing urban systems and are comparable as such to developing countries. The Canadian North, Mid-North and Atlantic coast are particularly susceptible to this comparison.

In summary, the recommendations of both Bolton and Schumacher, appear to be applicable to the Canadian situation, particularly the need of being self-sufficient on a regional basis. A set of general criteria to guide the small business policy may be derived as:

- (1) Government policy should ensure and encourage the interplay of dynamic forces resulting from the market system that has lead to continuing economic growth. Moreover, the government is obligated to create a favourable economic climate for the healthy growth of smaller regional firms.
- (2) The role of large corporations in the Canadian economy will continue and the growth of small business should be a complimentary force in an overall industrial strategy, that is able to effectively compete in the world market.



- (3) The understanding of human behaviour is always fundamental in ensuring the achievement of a policy's objective.
- (4) A government development policy should be designed to effectively stimulate the individual's desire for self-sufficiency and self-reliance.
- (5) The government should continue to be the single largest spending entity. An equal distribution of its spending dollars between both larger and smaller firms should be the policy of all government purchases.
- (6) Rural development and regional growth should be the essential part of an overall development strategy for Canada.
- (7) Pay scale should be considered and Canadian entrepreneurs' cultural and behaviour differences should be recognized, should any foreign investment policy be used and modified for Canadian practice.



V. MAJOR GOVERNMENT POLICIES AFFECTING SMALL  
BUSINESS GROWTH IN RETROSPECT

V. 1. PROTECTIVE POLICIES

1) Foreign Ownership and Anti-Combine Legislation -

Canada is a country whose economy is largely dominated by foreign ownership and lately, especially during the later 1960's and early 1970's, there has been mounting negative feelings towards this situation. Such concern was not primarily a sense of national pride, since most foreign controlled firms operating in Canada are subsidiaries of large multi-national corporations, particularly the U. S. companies. Their practice has a great impact on the development of managerial skill for Canadian managers and survival of the small, regionally based and mostly Canadian owned companies.

American investment in Canada has been a gradual process taking place over many years. Most American companies entered Canada prior to World War II. For example, Canadian Gypsum (99.4% U. S. owned) entered Canada in 1904, B. F. Goodrich (100% U. S. owned) established themselves in Ontario in 1925. The following is just a few American-controlled manufacturing,



service, utility and resources firms operating in Canada.

<u>Company</u>	<u>Percent of U. S. Ownership</u> <sup>1</sup>
Canadair	88.5
Canadian Acceptance	100.0
Quebec Cartier Mining	100.0
British Columbia Telephone	50.0
Ontario Paper Co.	74.0
National Grain	75.0
South Saskatchewan Pipe Line	100.0

Most Canadians are aware of the 100% American ownership of such companies as Coca-Cola, I. B. M., Kraft, H. J. Heinz, R. C. A. Victor, Monsanto, Borden, S. Kresge and Gulf. "Wahn Report", a study completed in the early 1970's by the House of Commons Committee on External Affairs and National Defence, found that 85 percent of Canada's total capital requirements during the period of 1950 to the 1970's have been furnished by the United States.<sup>2</sup> It was also discovered that more than half of the federal grants paid to industries during the 1965/66

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1. Foreign Owned Subsidiaries in Canada, 1964/69, Department of Industry, Trade and Commerce, Ottawa.
  2. Wahn Report, House of Commons Standing Committee on External Affairs and National Defence, Ottawa.



and 1968/69 fiscal years were paid to non-resident-owned firms.

In addition to the general concern over the American presence in the Canadian economy, there has also been some anxiety over the transfer of profits (not in all cases), dividends, royalties and management fee out of the country to non-residents, that is, to owners or parent firms. Moreover, evidence has indicated that the expansion of many large foreign owned companies were in fact financed by Canadian savings.

In 1969, foreign investment in Canada stood at \$46 billion, and 58 percent of Canadian manufacturing was controlled by non-residents. The following data illustrates the extent of foreign ownership:

Foreign ownership of selected industries in Canada<sup>3</sup>  
(percent foreign owned)

Electrical equipment	95.7
Small electrical appliances	82.3
Paint and varnish	79.8
Sporting goods	76.0
Fruit and vegetable canners	67.4
Metals mining	57.0

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3. Economic circular No. 4107, published by the Canadian Manufacturers Association, December 1, 1970; and A P Wire Service Report, "Canada: The View from the U. S.", April 12, 1972.



Truck bodies	56.4
Glass products	53.8

Although there are positive economic advantages to the free flow of foreign capital into Canada, the primary detrimental effect of foreign control is the threat to the survival of the small, regionally based, but largely Canadian owned companies and the development of Canadian managerial skill. This was typically expressed by John Bulloch, President of Canadian Federation of Independent Business:

"if you destroy the retailer, the farmer, the independent entrepreneur, you destroy the hub of the wheel in Canada. This country was built on people who wanted to run their own show, and the conglomerates and chain stores are killing them. Our education system - and I used to be a business lecturer at one stage - is designed to teach kids how to manage large corporations and push masses of people around. How the hell are we going to develop our own economy if all these kids know is how to perpetuate a foreign-dominated corporate system?"<sup>4</sup>

## 2) The Foreign Takeovers Review Act -

In May 1972 the federal government announced its

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4. John Davidson, "Can Hot-Gospel Populism Save Small Businessmen?" Financial Post, April 22, 1972, p.7.



policy on foreign ownership, called the "Gray Report".

Although much of its content had been leaked to the press some months earlier, the crucial decision on recommended controls became the concern of the business community,<sup>5</sup> particularly, the smaller firms. Many Canadian nationalists hoped for a strong "buy back-Canada" policy statement, but the government rejected such a volatile suggestion. Instead they recommended that all future proposed American acquisition of Canadian companies go before a review board. The following excerpt from Revenue Minister Gray's address to the House of Commons indicates the new philosophy toward greater Canadian participation in the nation's economy:

"Our objective as Canadians - which is to exercise greater control over our domestic environment- cannot be achieved by exclusive reliance on a takeover review process. As part of its response to this issue, the government will continue to develop positive policies to encourage Canadians to participate more fully in the development of their country, and to encourage the growth of Canadian sources of capital, technology,



and management."<sup>6</sup>

The policies outlined in the Gray Report were drafted into the Foreign Takeovers Review Act, which provides that the Minister of Department of Industry, Trade, and Commerce, an appointed Registrar, and a team of 12 specialists, shall review proposed takeover, mergers, and acquisitions of Canadian companies by foreign nations interests. The minister will then make recommendations to the Cabinet, who must rule on the eligibility of the transaction within 90 days. The Act does not in any way inhibit the entry of fresh American or other capital investment funds into Canada for expansion or new businesses, but is specifically designed to regulate capital activities which affect the control of existing Canadian companies. Only Canadian companies whose assets exceed \$250,000 or whose annual gross revenues are more than \$3 million are affected by this legislation. Some 250-300 takeover applications were expected to be received each year, and their acceptability will be reviewed based upon the following five criteria:

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6. "When is Foreign Control really Considered Foreign?" Financial Post, May 6, 1972, p.14 and "The Registrar-How he works? .", in "Takeover Policy: Must We Surrender Our Rights?" Financial Post, May 15, 1972, p.7.



- (1) The effect of the acquisition on economic activity and employment in Canada.
- (2) The degree and significance of Canadian participation that is allowed in the company and in any group of which it forms a part.
- (3) The effect on productivity, industrial efficiency, technological development, product innovation, and variety.
- (4) The effect on competition in Canada.
- (5) Compatibility with national economic policy.

The passage of the Foreign Takeover Review Act was the first step toward pacifying Canada's nationalists and monitoring the corporate behaviour of multinational companies, hopefully, providing a favourable business climate permitting smaller firms to grow.<sup>7</sup>

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7. According to a report released by Toronto's Globe & Mail (January 27, 1978), the number of foreign applications to take over Canadian businesses increased by 56 percent during 1977, compared with 1976, according to statistics released by the Foreign Investment Review Agency, which screens all takeover proposals.

At the same time, the number of applications by foreigners to establish new businesses in Canada that have to be screened by FIRA increased by 74 percent in 1977. There were 266 takeover applications filed with FIRA during 1977, compared with 171 in 1976.



3) The Competition Act -

The Competition Act was presented for its first parliamentary reading June 29, 1971. Designed and promoted by the Department of Consumer and Corporate Affairs, Bill C-256 was an attempt to strengthen the government's position regarding unfavourable mergers, acquisitions, promotions, collusion, pricing fixing, and other objectionable business practices. In particular, the government sought effective legislation to reduce the concentration of ownership in essential industries; it believed that vast oligopolist corporations had a detrimental effect on market prices and on the unimpeded entry of legitimate competition of smaller firms. Some industries that came under scrutiny included those producing sugar, gasoline, biscuits, tires, soaps, cement, and electric light bulbs.

Traditionally, the U. S. government has maintained a strong position in dealing with infractions of Federal Trade Commission statutes. Canadian businessmen have been particularly fortunate in being able to practice a more liberal laissez-faire form of commerce. Under the previous Combines Investigation Act, the force, in modified form since 1923, brought many



minor price and advertising infractions to trial, usually resulting in fines of less than \$1,000. The American Federal Trade Commission, on the other hand, dismantled dozens of corporations, stopped hundreds of proposed acquisitions, and levied hundreds of millions of dollars in fines and damage payments, as a result of restraint-of-trade or unfair-business-practice infractions.

The following are a few excerpts from the Competition Act which affect the competition and the entry of legitimate smaller firms:

Part II: 16 (1)a

No person shall conspire, combine, agree, or arrange with another person, to fix or determine, in any manner whatever, the minimum price or any other term or condition at or upon which any commodity or service will be supplied, or the maximum price or any other term of condition at or upon which a commodity or service will be acquired by such persons to or from any other person, whether determined or undetermined.

Part II: 17a (iii)

No person and no affiliated companies, partnerships



or sole proprietorships shall, for the purpose of completely or substantially controlling a market, willfully engage in behaviour that is intended to deter or prevent any other person from engaging in competitive behaviour.

4) Other Protective Measures -

(a) Tariff and Quota Barriers - Other than the Foreign Trade Review Act and the Competition Act, Tariff barriers are also an effective measure to protect Canadian industries. Such a system would benefit both the smaller and larger firms. It is also interesting to note that contrary to the popular belief that foreign companies are interested in Canada because it is "a land of opportunity", most investment in Canadian operations has come about because of Canadian tariff barriers. Like the present non-members of E. E. C. , companies wishing to sell their products in Canada found that the only way to circumvent high import duties was to establish branch producing facilities in Canada.<sup>8</sup>

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8. The extraterritorial application of American anti-Trust legislation which can affect the growth of Canadian companies. Molson's breweries was prevented by the U. S. Department of Justice from buying a brewery in the United States. On the other hand, Schlitz Brewing Company, an American firm, was ordered by that same legal authority to divest itself of ownership in the Canadian John Labatt firm.



As an added protection to Canadian industry, particularly for the smaller manufacturers, a quota system is in use in Canada. Such a quota system has been able to effectively provide breathing room for smaller garment manufacturers and shoe manufacturing firms. Many of these firms are located in the Province of Quebec.

(b) Tax Structure - Tax structure has an important role in the promotion of small business endeavor. Preferential treatment of capital gains as opposed to ordinary income has long provided an incentive to Canadians. Although the institution of a capital gain tax would seem to conflict with a government policy of greater emphasis in developing smaller Canadian enterprises, capital gains continue to receive preferential treatment for the smaller companies.<sup>9</sup>

#### V. 2. GRANTS, INCENTIVES AND SERVICES AS SMALL BUSINESS AID PROGRAMMES

The federal government has indicated a desire to aid new and existing small businesses through government subsidies,

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9. Additional preferential treatment in sales tax and a modification of capital gain tax policy announced by the Minister of Small Business in May, 1978 will be included in the examination of recent government measures of a later chapter of this study.



grants, incentive programmes and the Canada Development Corporation. Most government grants and incentive programmes were initiated and managed by the Department of Industry, Trade and Commerce. They range from innovation, and export insurance to the development of a management training programme. In addition, there are also special programmes for the shoe industry and fashion designers. Most, however, are not designed specifically for smaller firms, although any small company, if it meets the eligibility requirement, is encouraged to apply.

The variety of government programmes appear to be sufficient in assisting virtually any worth-while business activity, especially small manufacturing firms. Nevertheless, neither the official report from the government, nor private studies could confirm that the small firms are benefiting from these programmes. For example, in a study conducted by Dr. R. Knight of the University of Western Ontario, it was found that only 16% of the respondents to his questionnaire made use of government programmes.<sup>10</sup>

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10. It was revealed by Dr. Knight during a personal interview.



A survey, also conducted for this study, revealed that most small business operators who responded to the investigation were ignorant /unaware of the existence of government programmes.<sup>11</sup>

The following is a summary of existing government grants, incentives and services as small business aid programmes, excluding the Industrial Development Bank which will be treated separately, because of its special status and longer service to the smaller firms in comparison with other government undertakings.

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11. See Appendix I. Table 3g, p.250.



Summary of Government grants, incentives & services as small business aid programmes

A) INNOVATION

Programme	Objective	Eligibility	Form of Assistance	Repayment
DIP	To enhance the tech. competence of the Canadian defence industry	Canadian companies	Fin. assistance: the acquisition of modern equipment & pre-prod. expenses	None
IDAP*	To improve the competitive position in the quality of design	Individual companies or groups of companies	Up to 50% of the design operational & admin. cost	None
IRDIA	To expand scientific research & development	Taxable companies incorporated in Canada	25% of the increase in current exp. for scientific research & development & average of such expenditure in the preceding 5 years	None, but recovery of capital grants to current exp. may be re'd in certain circumstances
DPAT	To stimulate the development & demonstration of new tech. for the abatement of pollution	Any Canadian industry	Cost sharing on selected capital costs & normal dev. & operating costs	None
PAIT*	To encourage indus. growth & efficiency by supporting the dev. of new or improved products & process in com. markets	Canadian mfg. & processing companies	Shared cost, normally 50%	None
IRAP	To stimulate scientific research	Only inc. Canadian company & carry research in	Wages & salaries of scientific & tech. staff	None



Summary of government grants, incentives & services as sml business aid programmes

A) INNOVATION (con'd)

Programme	Objective	Eligibility	Form of Assistance	Repayment
DIRP	To promote and strengthen of the res. capabilities of Canadian industry in defence technologies	Canadian company & must meet other specified requirements	Condition grant normally for 50% of the cost of manpower & res. equip.	None. Government retains right to royalty

\* The programme has been incorporated into EDP (Enterprise Development Programme in 1977).

Programme identification:

DIP	Defence Industry Productivity Programme
IDAP	Industrial Design Assistance Programme
IRDIA	Industrial Research and Development Incentive Act
DPAT	Program to Stimulate the Development and Demonstration of Pollution Abatement Technology
PAIT	Programme for the Advancement of Industrial Technology
IRAP	Industrial Research Assistance Programme
DIRP	Defence Industry Research Programme



Summary of Government Grants, Incentives & services as small business aid programmes

B)

PRODUCTIVITY

Programme	Objective	Eligibility	Form of Assistance	Repayment
PEP*	To encourage industry growth & productivity	Cdn. mfg. & Processing company	Shared cost, normally 50%	None
RDIA	To encourage the est. new mfg. & processing & expand existing mfg. & processing in designated regions	Project must be located in regions designated by federal government	Cash grants based on capital investment. & no. of jobs created Loan guarantees for est. comm. facilities	Grants- none Loans- dependent on form of loan
Federal Sales Tax Exemptions	To provide tax relief to Cdn. mfrs. & producers	Cdn. mfg. & processing companies	Sales Tax Exemptions	
Customs Incentives	To provide Tariff Relief in the interest of Manufacturers	Cdn. mfg. & processing companies	Per schedule	
CMHC	To advise & assist builders and developers	Builders & Developers	Lenders' list Sets standards Provides architects for design & planning consultation	
Canada Man-power Industrial Training Prog.	To provide more job opportunities	All employers and employer associations	Training cost & trainee wages up to 85%	None



Programme identification:

PEP	Programme to enhance Productivity
RDIA	Regional Development Incentives Act
CMHC	Central Mortgage & Housing Corporation



Summary of Government Grants, Incentives & Services as small business aid programmes

C) FINANCING

Programme	Objective	Eligibility	Form of Assistance	Repayment
GAAP*	To assist Cdn. mfg. firm in improving its position in international trade competition	Manufacturing in Canada	Insurance by private lenders Direct loan Cost allowed on restructuring projects Grants for consulting assistance	None
PIDA*	To increase the efficiency of drug production & marketing in Canada	Companies which submit suitable plans for expansion, merger or reorganization	Government loan for expansion, etc., Cost sharing on feasibility study	Principal & interest on loan None on gov't share of feasibility study
Small Business Loans	To help proprietors of small business obtain credit for a wide range of business improvement purposes	Any small business whose annual gross revenue under \$1 million in the year the application is made	Loans for equipment both fixed & moveable Premises loans Land loans Up to 80 or 90 % of the value Max. \$50,000 at any one time	Annual installments, Max. period 10 years.
FTIAP*	To encourage Footwear & Tanning firms in adjusting their operations to meet international competition	Footwear & Tanning firms	Up to 80% of consultants hired to study operations & restructuring plans & loans for implementation	



Summary of government grants, incentives & services as small business aid programmes

D) MARKETING

Programme	Objective	Eligibility	Form of Assistance	Repayment
GOMI	To achieve a sustained expansion of the total effective market for Cdn. grains & oilseeds	Canadian companies, agencies, industrial associations, universities etc.,	Contribution & risk insurance Allowable costs: incremental costs directly arising from the project	None
MDAP	To encourage sustained growth for the sale of Cdn. agricultural & food products in export & domestic markets	Cdn. companies, associations, universities & similar entities	Non-recoverable contributions Recoverable contributions & Contingent contributions	
PEMD	To bring about a sustained increase in the export of Cdn. products	Canadian companies	Cost sharing	
Promotional product programme	To promote the export of Canadian products & services	Cdn. companies with export capability seeking markets in other countries	Cost sharing for promotions - % varies according to the promotion	
EDC	To facilitate & develop Canadian exports of goods & services	All persons carrying on business in Canada	None-payment insurance Risk insurance To guarantee financial institutions against loss	Negotiated at time of loan



Programme identification:

GAAP	General Adjustment Assistance Programme
PIDA	Pharmaceutical Industry Development Assistance
FTIAP	Footwear and Tanning Industries



Summary of Government Grants, Incentives & Services as am11 business aid programmes

D) MARKETING (con'd)

Programme	Objective	Eligibility	Form of Assistance	Repayment
CIDA	To help Canadian companies take part in joint venture & other forms of investment to establish or expand mfg. or other com. enterprises in developing countries (to increase employment opportunities)	Canadian companies or individuals	Starter study up to \$2,500 Feasibility study up to 50% or reimbursement to a max. of \$25,000	None
Department of National Defence	To provide mfrs. with information on current military equipment & advise on how to qualify	Canadian companies	Information & advisory services	
Department of Supply & Services	To afford interested businesses an opportunity to contract with the federal government	Canadian companies	To supply with information on what the government has & how to go about selling goods & services to gov't	

Programme identification:

COMI Grains and Oilseeds Marketing Incentives Programme  
 MDAP Agricultural and Food Products Market Development Assistance Programme  
 DPM



Summary of government grants, incentives & services as small business aid programmes

E) SPECIAL PROGRAMMES

Programme	Objective	Eligibility	Form of Assistance	Repayment
BEAM	To increase productivity & efficiency relate to building equipment, accessories & materials	Canadian companies	Design awards Information service Development & expansion of export market Etc.,	
FDAP	To increase the international competitiveness of the Cdn. apparel, textile, leather & footwear industries	Canadian companies & universities or individuals	Bursaries for designers Promotion service	
MACH	To allow users of machinery to acquire capital equipment at lowest cost & at the same time, enable machinery producers to derive max. incentive & encouragement from the tariff	Importers of machinery, under Tariff item 42700-1 & 41100 -1	Remission of import duty	
SCSR	To assist the shipbuilding industry To encourage the rationalization of the industry	All builders of com. & fishing vessels	Comm. Vessel: subsidy of 17% Fishing Vessel: subsidy of 35%	None, except for prorata recovery of subsidy for vessels taken off Cdn. registry within 5 years



Summary of Government Grants, Incentives & Services as small business aid programmes

E) SPECIAL PROGRAMMES (con'd)

Programme	Objective	Eligibility	Form of Assistance	Repayment
Canadian Film Development Corporation	To assist in the production of feature films for release & to produce feature film on low budget for developing new talents	As per eligibility criteria	Investment up to 50% to a max of \$200,000 Low cost film of \$135,000, up to 60% of publicity campaigns, max of \$15,000	Participate in 50% of profits in proportion to its share of the original financing
Fisheries Improvement Loans	To increase the availability of credit to fisherman for a variety of projects	Only fisherman	Loans up to 50% at any one time. Loan must be secured	Annual installment over 3 years for vehicles & 10 years for all others
Farm Credit Act	Long-term mortgage for farmers	Farmers	Standard loan up to \$100,000 or 75% of appraised value of land & buildings Young farmer under 35 may borrow up to \$150,000 or 100% of land & building value	Principal over 30 years
Incentive for Canadian ownership	To encourage Cdn. ownership in corp. operating in Canada	As per eligibility criteria	Reduced rate of withholding tax on dividend payments. 15% in treaty countries 20% in non-treaty countries	



Summary of Government Grants, Incentives & Services as small business aid programmes

E)

SPECIAL PROGRAMMES (con'd)

Programme	Objective	Eligibility	Form of Assistance	Repayment
Farm Syndicates Credit Act	To provide financial means for farmers to own machinery, building & installed eq't.	A group of 3 or more farmers as a form of co-ops.	Loans up to 80% up to \$15,000 per member or \$100,000 to the group	Annual or semi annual inst. principal & interest over a period of 15 years for building, 7 years for machinery
Farm Improvement Loans	To provide farmers with credit for farm improvement projects	A farmer in possession of a farm as owner or tenant	Loans up to \$50,000	3, 10 or 15 years depending on the nature of purchase or improvement
Northern Mineral Exploration Assistance Programme	To stimulate greater interest in the mineral resources of the Yukon & Northwest territories	Cdn. companies or Cdn. citizens	Up to 40% of expenditures or a max. of \$100,000	None
Incentive Programmes North of 60	To aid companies & individuals in exploration & development activities in the Yukon & Northwest Territories	Individuals & companies	Road & resource airport cost-sharing Grants Small business loans Northern exploration facilities prog.	



E) Summary of Government Grants, incentives & services as small business aid programmes  
SPECIAL PROGRAMMES

Programme	Objective	Eligibility	Form of Assistance	Repayment
Land Transfer Plan	To assist the low income farmer to acquire add. land & to provide help for the small farm operator who wishes to retire	Cdn. or landed immigrants occupied in farming & less than \$75,000 in assets	Loans for purchasing land Grants for selling land	Favourable terms on loans, some as low as \$200

Programme identification:

BEAM	Building Equipment, Accessories & Materials Programme
FDAP	Fashion Design Assistance Programme
MACH	Machinery Programme
SCSR	Ship Construction Subsidy Regulations



F)

Summary of government grants, incentives & services as small business aid programmes

Management Services

Programme	Objective	Eligibility	Form of Assistance
CASE	To provide counselling services to owners & managers of small enterprises at nominal cost	Manufacturer or be in the tourist industry Have fewer than 50 employees & no more than \$5 million in sales	Up to 50% consulting fees
Development of Management Courses	To help non-profit professional, industry, business or management associations develop management re-training or upgrading courses of a type & quality not currently available	Non-profit professional, industry business or management associations	Grants may cover up to 100% max. of \$50,000 for development costs
Courses in Design Management	To inform executives in industry, commerce & government why where & how to use design effectively to achieve their organizational goals	Business entities, government & gov't agencies	A continuous programme of short courses

Programme identification:

CASE      Counselling Assistance to Small Enterprises



Summary of government grants, incentives & services as small business aid programmes

F)

TAX INCENTIVES

Programme	Objective	Eligibility	Allowance
Allowance under Income Tax Act Section 37	To encourage scientific research & development expenditures through income tax allowance	As defined under Income Tax Regulation 2900	Deduction of all qualifying expenditures from its income in a taxation year. Current expenditures made outside Canada may be deducted also
Accelerated Capital Cost Allowance for Vessel Owners	To assist the shipping & fishing industries to purchase or replace ships and boats	Vessels of Cdn. registry. Prescribed classes under the Cdn. Vessel Construction Ass'ce Act	Allowance may be claimed up to 33 1/3 of its capital cost. Claim is to be made on a straight line basis
Accelerated Capital Cost Allowance for Pollution Control	To assist taxpayers in controlling water and air pollution	Taxpayers	<p>The lesser of</p> <p>a) 50% of the capital cost of the property</p> <p>b) the amount by which the capital cost exceeds the aggregate of deductions allowed in prev. yrs</p> <p>c) the undepreciated capital cost at the end of the tx. yr.</p>
Incentive to Small Business	To assist small business in their early years of operation	Cdn. controlled private corporations	A reduced rate of corp. income tax on 1st \$150,000



Summary of government grants, incentives & services as small business aid programmes

F) TAX INCENTIVES (con'd)

Programme	Objective	Eligibility	Allowance
Accelerated Capital Cost Allowance for Machinery & Equipment used in mfg. or processing	To assist mfrs. in purchasing machinery and equipment	Canadian mfg. or processing firms	To claim up to 50% of the original costs as depreciation in the year acquired & the balance of the unclaimed cost in any subsequent year. (Class 29 assets)
Special Corporate Tax Rate for Income from Mfg. or Processing	To encourage small business in the mfg. & processing industries	Canadian mfg. or processing firms	The rate is 20% and the "specified income" is strictly defined
Excise Tax Act	To encourage manufacturers & processors to expand their capital investment	Manufacturers or producers & other users who buy or import machinery and apparatus	Exempt from the 12% sales tax



V. 3. INDUSTRIAL DEVELOPMENT BANK

The Industrial Development Bank Act obtained its Royal consent in 1944 enabling the Government of Canada to establish the Bank for the purpose of strengthening the position of small business enterprises in Canada. The Bank, according to the Act, was a subsidiary of the Bank of Canada who functioned as a lender to business for a period of 32 years, until a new and broader institution (known as the Federal Business Development Bank) replaced its position. This section is intended to describe the Bank's (the Industrial Development Bank) character, as established by its act of incorporation, in performing its role as a measure designed to stimulate small business growth in Canada.

(1) The Character -

The Industrial Development Bank was incorporated in order to fill what was considered to be a gap in the banking system and financial structure in Canada. It was founded at a time when no regular sources were available to a small enterprise wishing to obtain long term or mortgage financing. The chartered banks provided short term working capital for the smaller firms, but they were not permitted to lend directly



on the security of land, building or other fixed assets. Moreover other institutions were more interested in lending against residential and large corporations than business property.<sup>12</sup>

It was also found that facilities like stock exchanges and venture capitalists were only interested in a large sum of financing and joint ownership. Meanwhile, most small firm operators were either unwilling to share their holdings or the size of money required was unattractive to commercial financial institutions. Long term financing for small firms, therefore, appeared to be one of the main objectives of the bank. It was the intent of the bank, to provide long term financing for plant equipment, often reflecting the entrepreneurs' need to cover start-up capital among other purposes.

The bank was established as a wholly owned subsidiary of the Bank of Canada. The Bank of Canada's governor presides as the president of the Industrial Development Bank; the Board of Directors of the Bank of Canada double their duties to serve as Board of Directors for the Industrial Development Bank with the addition of the Deputy Minister of Industry, Trade

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12. Under the revised Bank Act, and the Small Business Loan Act, All Canadian Chartered Banks and other financial institutions are able to provide mortgage loans and long term credit secured on business property.



and Commerce. The day-to-day operations of the bank were under the direction of the Chief General Manager with its head office in Montreal.

(2) Source of Fund -

The Industrial Development Bank obtained its funds from three sources. Its authorized share capital was originally fixed at \$15,000,000, but this was gradually enlarged by amending statutes. Outstanding shares at the time of the transfer of its operations to the Federal Business Development Bank stood at \$74 million. The principal source of funds, however, was the sale of its debentures, all purchased by the Bank of Canada, which amounted to \$915 million. They were issued in series of maturities up to six years, and borne interest at a fraction above the corresponding government rate for the same maturities. Rates of interest of those debentures range from 6.3 percent to 9.4 percent. Finally, at the time of transfer of its operations to the F.B.D.B. (Federal Business Development Bank) in 1975, the bank had available a reserve fund of \$33 million representing its accumulated profits.



(3) Lending Guidelines -

The Industrial Development Bank Act provided only two guidelines to follow: The first guideline is as follows, since the establishment of the bank was intended to supplement financial structure and banking system rather than to displace them, it was the basic objective of the bank to provide assistance only to those who, in the opinion of the bank, could not obtain financing elsewhere on reasonable terms and conditions. In its operation, the decision whether an applicant was qualified for the Industrial Development Bank's assistance often rested on the judgement of the individual official of the bank. On the application form for a loan, the applicant signed a statement indicating that he or she was unable to obtain the loan from other sources on reasonable terms and conditions. In every case, the bank would check with the applicant's chartered bank manager as to his/her view of the proposal. Frequently, the applicant was asked to produce positive evidence that he/she had exhausted all other sources in obtaining financial assistance, and in the case of a large amount, a form of written refusal supplied by alternative sources was required. It was also a practice of



the bank to remedy the financing problem for a corporation by advising the firm to seek funds through the issue of stock or securities to the public. But, of course, this only happened when the company was sufficiently large and was able to attract investors through public issues. The second stipulation in the Industrial Development Bank Act was that the investment in the business to which assistance was extended was such as to afford the bank reasonable protection. The bank provided no rule for the stipulation concerning the securities for the loan, rather it was concerned with its management and the prospect of the company.

There were no rules from the bank about the structure of the borrowing business. The bank extended financing to incorporated companies, to individuals in business by themselves, to farmers or any other form of venture undertakings. There were also no particular rules on the size of a loan although most of its loans did go to small businesses. It made loans for less than \$5,000 and had several loans for as much as \$5,000,000. The average size of the loans was about \$50,000. During its fiscal year ending in September 1974, out of 9,700 loans approved,



185 were for more than \$200,000. The bad debt rate was about 4% to its outstanding loan during the last few years of its operation.

(4) Organization -

Like all other government operations, the bank had grown considerably since it was formed in 1944. At the time of the transfer of its business to the F.B.D.B., it had approximately 1,400 employees, 71 branch offices from coast to coast, 5 regional offices, and the Chief General Manager's office in Montreal. The five regional offices were: British Columbia, the Prairies, Northern Ontario, Quebec and the Atlantic Coast. The branches reported to a Regional General Manager who, with supervisors, assistant supervisors and other staff, was located in the region for which he was responsible.

(5) Growth of the Bank -

The growth of the bank can be divided into two stages. In the early period of the bank's operation, the lending activity was limited to a small range of businesses. By 1956, it covered a wide range of businesses including manufacturing, processing, assembling, installing, repairing,



altering, cleaning, packaging, transporting, warehousing, logging, mining, construction, supplying of premises and equipment on lease and many more.

Up to 1956, the bank operated through only four offices, located in Montreal, Toronto, Winnipeg and Vancouver. In 1956, however, additional offices were opened in Halifax and Calgary, and in the four years to 1960, several more were opened, bringing the total number of offices to thirteen.

In 1961, Parliament amended the Industrial Development Bank Act again. This made all types of businesses eligible to apply for loans. Subsequently, it brought about a rapid growth of the bank's lending activities. For example, during the fiscal year of 1974, the bank had 9,712 loans approved, about 65% were to businesses made "eligible" by the amendment of 1961.

The next major growth in loan volume started in 1968, contributed by the following factors:

- a) The effect of decentralization of the bank which facilitated the supervision and recognition of the



need of the region.

- b) The establishment of 43 new branches during the period of 1967-74 as opposed to one branch, on the average, per year of the previous period.
- c) The bank made an effort to provide its service to remote areas through its "advertised visit". In 1967, 700 such visits were made, and 5,300 visits were made during 1974. In the latter year, nearly 20 percent of the loans approved resulted from these advertised visits.
- d) The increased responsiveness to requests for assistance. Any approach made to the bank to discuss the financial needs of a business was recorded as "enquiries" resulted in loans as compared to 31.8 percent in 1974.
- e) The bank improved its speed of handling loan applications.

As an added growth factor, following a study made by the bank in 1971, it formed a new department, in July 1972, the Advisory Service Department. Its objective was to help promote good



management practices in small business in Canada. From a long list of suggested advisory activities, the bank selected for implementations from either information services or management training services for small business. They were:

- a) Small Business Management Seminar - An extensive series of one-day seminars conducted in smaller cities and towns throughout the country.
- b) Booklets on Small Business Management - The Minding series on various aspects of management in a small enterprise.
- c) Libraries on Small Business Management - About seventy reference libraries available to the public have been set in the bank's branch office.
- f) Small Business Information Service - The service was first introduced at ten industrial bank branches across Canada. It provided enquirers with information on approximately one hundred government assistance programmes, both financial and non-financial as well as providing assistance in contacting the appropriate representative.
- g) Small Business Financial Management Course - A



thirty hour course on the topic was prepared by the bank for presentation by interested provinces at regional colleges and similar institutions.

- g) Foreign Advisory Service and Special Projects - The Advisory Service Department co-ordinated the bank's counselling activities, both in Canada and abroad, with representatives of foreign development financing institutions. The assignments were usually sponsored by the World Bank.

Accordingly, among all the activities undertaken by the Advisory Service Department of the bank, the management seminar programme was the longest established and had involved direct contact with small businesses. These activities also contributed to the bank's growth.

(6) The Accomplishment -

Most of the bank's loans were related to programmes involving buildings or equipment, although it assisted other business needs as well. In the fiscal year of 1974, the total dollar value of the programmes was \$700 million. Of this,



\$460 million or 66% was for fixed assets; 17 percent was to help with changes of ownership; 11 percent was for working capital 5 percent was for refinancing other debts; and 1 percent was for miscellaneous purposes. As a summation of the bank's activities up to the fiscal year ending in 1974, the bank had approved 55,000 loans to 41,000 businesses in the total amount of approximately \$2.8 billion. At the time of the transfer of its operations to the Federal Business Development Bank, it had approximately 25,000 clients on its books with outstanding loans exceeding \$1 billion, and it is estimated that the businesses assisted by the bank represented employment totalling approximately  $1\frac{1}{2}$  of the disbursed loan proceeds.



## VI. GOVERNMENT MEASURES TO ASSIST SMALL BUSINESS SINCE 1975

If government involvement in stimulating small business growth can be grouped in different phases, it may be considered that there was 1) a period of awareness, 2) a period of development, confusion, and trial and error and 3) a period of consolidation of efforts. The first period, or the period of awareness, began with the establishment of the Industrial Development Bank in 1944; the period of confusion would appear to be in the 1960's where the government was pushing its White Paper on Taxation on the one hand, and instituting a series of tax relieves, grants and incentives on the other. Many of the programmes appeared to be a remedy to a specific symptom, or apparent responses to political pressure exerted by groups such as the Canadian Federation of Independent Business. In spite of their beneficial intent, the programmes were generally ineffective in aiding smaller firms. The third period of the development was distinguished by an effort to consolidate government programmes under the administration of the Department of Industry, Trade and Commerce, and by the formation of the Federal Business Development Bank in 1975. As a subsequent



effort on the part of the government, a cabinet Minister was appointed in charge of Small Business at the federal government and the Small Business Secretariat in the Department of Industry, Trade and Commerce was established . The significance of this period's development does not lie entirely on its emphasis on the small business development, but in the attempt to link the federal small business policy with the development of the needed industrial strategy for Canada.

#### VI. 1. THE FEDERAL BUSINESS DEVELOPMENT BANK

In July 1973, the Hon. Alistair Gillespie, Minister of Industry, Trade and Commerce, made a statement in the House of Commons about small business. He said the government would establish an organization under the name of the Industrial Bank and Development Agency which would be somewhat different from the Industry Development Bank established in 1944.

According to Mr. Gillespie, the I.B.D.A. (Industrial Bank and Development Agency) would be a crown corporation. The I.D.B. would be a spin-off of the Bank of Canada and a part of the



I.B.D.A.. No longer would the I.D.B. be mortgage oriented. It would become an equity or quasi-equity oriented crown corporation designed to assist small firms who seek equity financing. Mr. Gillespie further stated:

- (1) The I.B.D.B. will act as a local focal point for information for the whole range of federal programmes and services available to small businessmen.
- (2) It will provide advice on the availability of private financing, and where such financing is available on reasonable terms for some projects. It will also provide financing through the facilities now operating in the I. D. B..
- (3) It will assume the operational responsibility for management counselling services to smaller business, including the existing CASE programme which has retired businessmen counselling small enterprises, the advisory services offered by the I. D. B., and National Research Council.
- (4) It will assume principle responsibility for the development and operation of federal management training programmes for small businesses which are currently part of the Manpower Business Management



Training Programme. The government intends to work many of these training programmes into university curricula.

- (5) It will try to initiate successful pilot projects such as the ones now under the Counselling Assistance for Small Enterprise Programme.
- (6) It intends to concentrate on establishing offices in local centres rather than in main centres.
- (7) It hopes to minimize paperwork and provide a nucleus where small businessmen in small centres can go and say to a government representative: "Sir, will you give me the papers I need? Will you put me in touch with the people I must talk to? Will you show me where to get the assistance I need?"

In 1974, instead of establishing the Industrial Bank and Development agency, as proposed by the Hon. Alistair Gillespie, Minister of Industry, Trade and Commerce, the Federal Business Development Bank Act was passed by Parliament. The government of Canada, was authorized by the Act to incorporate the bank as a crown corporation and allocate \$200 million from the Consolidated Revenue Fund (Tax money) acquired by I. D. B.



from the Bank of Canada.

Incorporated into the Act are the objectives similar to those outlined in Mr. Gillespie's early statement. These are:

- (1) To promote and assist in the establishment and development of business enterprises in Canada by providing, in the manner and to the extent authorized by the Act, financial assistance, management . counselling, management training, information and advice and such other services as are ancillary or incidental to any of the foregoing.
- (2) The corporation in carrying out its objectives shall give particular consideration to the needs of small business enterprises.

The following is a summary of the significant changes of the new corporation as compared to the old Industrial Development Bank.



	I. D. B.	F. B. D. B.
Basic Character	A subsidiary of the Bank of Canada	A Crown Corporation
Organization	Board of Directors consisting of: Board members of the Bank of Canada, plus one Deputy Minister of Industry, Trade & Commerce.	Separate Board of Directors
Objectives	To be a mortgage institution with the intent of bridging the gap between the long & intermediate financial needs of Canadian businesses.	To develop Canadian enterprises by providing financial aid, management counselling, management training, information and advice; gives particular consideration to the needs of small enterprises.
President	Same as the Governor of the Bank of Canada	Any individual may be elected and appointed by the Board of the Corporation as president.
Accountability	Through the Bank of Canada to Parliament	Accountable directly to the Parliament through the Minister of Industry, Trade and Commerce.
Financial Structure	Wholly owned by the Bank of Canada, with debentures issued entirely to the Bank of Canada.	A crown corporation, financed by the Government of Canada, through a direct allocation of the needed capital from General Revenue Fund.
Power	Limited to mortgaging financing & advisory service.	May enter into equity financing business and may engage other activities in order to achieve its objectives as determined by the Act.
C.A.S.E.	Under the organization structure of the Department of Industry, Trade & Commerce.	As one of the operational units of the Bank.



The above comparison reflects two significant departures of the new Act from the old I.D.B. Act:

- (1) The bank will, under the new Act, be able to engage in leasing - related financial activities; and
- (2) The bank will have increased flexibility to take an equity interest in firms.

The extended power given by the Governing Act was the cause of serious concern among the private financial institutions. In a Symposium designed specifically to examine the implications of the new bank in the Canadian market system, those who took part in the discussion deduced the following:

- (1) Competing with private financial institutions - It was pointed out by a group of bankers that the new bank can use its counselling service to obtain clients.
- (2) In the finance area -
  - (a) The bank should finance businesses who are operating in Canada, not outside of Canada.
  - (b) As a general criterion, the bank should only finance those businesses whose required financing is not available from other sources on reasonable



terms and conditions.

- (c) The bank should only finance those businesses acceptable under the conditions of the general guidelines which had been used by the I.D.B., and which should be followed by the F.B.D.B..
- i. There is a reasonable amount invested (or to be invested) in the business by person other than the bank.
  - ii. Future earnings of the business are expected to be sufficient to repay the bank and to provide for other needs of the business.
  - iii. Appropriate security is available to the bank.
- The following are the purposes for which the bank lends
- to finance the purchase of fixed assets
  - to strengthen working capital
  - to finance the established or new business
  - to finance a change of ownership.

The recommendations of the finance group of the Symposium may be summarized as follows:



- (1) The bank has to clearly communicate to the public through literature and/or other means, its nature relating to its expanded functions of counselling, advisory and information services, and management training. Such a publication would ensure the public awareness. The bank should also minimize work duplication.
- (2) In all services provided by the bank, other than financing, the bank should attempt to develop the management skill of small business operators rather than simply guide them in obtaining financial assistance.
- (3) The bank must ensure that the lending and advisory services are independent of each other. Lending services should not use the advisory services to obtain clients for its financial ministrations.
- (4) The bank's operation should be more regionalized than that of its predecessor.
- (5) Since the Act provides no definition for small business, it is necessary for the bank to clarify the definition for operational purposes.



- (6) The bank's personnel should be more aware of local situations and thereby update information.
- (7) The bank should make its regulations better known to the public.
- (8) The government should keep out of the banking business.
- (9) The bank should have a closer look at all business areas, as some were discriminated against by the old I.D.B..

There was a general consensus among the participants that the bank is moving towards the right direction in providing counselling and advisory services. However, there were questions concerning the competence of the counsellor selected by the bank, since many of them apparently have had no previous experience relating to small business operations.

Most of the suggestions made by the participants in the Symposium were incorporated into the working documents by the bank.



The operations of the Industrial Development Bank was officially transferred to the Federal Business Development Bank on October 2nd, 1975. Its first six months of operation had no significant departure from the I. D. B. operational pattern, except that there was a tendency towards the expansion of management service operation. With the assignment of the C.A.S.E. operation under the bank, management services became an important part of the bank's operation. The following is a summary of the operation result of the bank in the year ending March 31, 1977:

(1) Management Services

i) C.A.S.E. (Counselling Assistance to Small Enterprises)

When F.B.D.B. assumed the management the C.A.S.E. programme from the Department of Industry, Trade and Commerce in November 1, 1975, there were 13 C.A.S.E. offices and 1,200 C.A.S.E. counsellors. At the end of March 1977, there were 20 C.A.S.E. offices and 4 more offices added later in 1977. Approximately 1,600 retired business executives acted as counsellors for C.A.S.E. operations. During a period of five months in the latter half of 1976, the counsellors undertook 2,840 assignments and provided assistance to smaller enterprises ranging from marketing, bookkeeping, production, personnel



and other areas.

ii) Management Training -

In order to help improve management skills of owners and managers of small businesses, the bank conducts management training seminars chiefly in smaller cities and towns across the country. The subjects covered at the seminars include financial analysis, bookkeeping, taxation, personnel administration, marketing and other subjects. During 1976, the bank held 628 seminars in several hundred centres with a total attendance of approximately 12,000 people.

iii) Information Services -

At its offices, the bank provides information about the programmes of assistance to businesses sponsored by the federal and provincial governments and others. When it appears that an inquirer may be helped by one of these programmes, he or she is directed to the appropriate office. In 1976, the bank received over 13,000 inquiries for information. Later in the year, the bank organized information sessions of two to three hours duration to which business persons were invited by advertising.

The bank issued pamphlets captioned "Minding Your Own Business".



There has been 14 pamphlets in the series covering topics relating to the management of small business in Canada.

The bank also publishes a quarterly bulletin, "Small Business News", featuring business development. Approximately 46,000 names are on the mailing list to receive the bank's publication.

At each of its branch offices, the bank has reference libraries which contain a variety of publications about small business management.

#### Vi. 2. THE MINISTER OF STATE, SMALL BUSINESS

As part of the federal government's effort to assist small businesses, a Ministry was established within the federal cabinet designed specifically to institute policies concerning the welfare of small businesses. The Minister has no staff of his own, however, a small business secretariat was established within the Department of Industry, Trade and Commerce, reporting to the Minister of Small Business. The following are the three major policies instituted by the Minister of Small Business, either through, or in co-operation with the Department of Industry, Trade and Commerce.



(1) Enterprise Development Programme -

(a) The Administration - The E.D.P. is administered by a Central Enterprise Development Board and by Regional Enterprise Development Boards in each province.

Accordingly, the programme uses a corporate approach to analysis. It analyzes applicants and their proposed project to identify viable businesses with attractive future prospects. The firm is encouraged to outline its assistance requirements for current and future programmes. The assistance offered under E.D.P. can then be tailored to meet the total requirements of the firm.

Industry, Trade and Commerce officers submit their evaluation and analysis of the project's and firm's potential to the E.D.P. Board for a decision. Subsequently a contract is signed incorporating the commitments of the company and the E.D.P.. In the case of shared cost programmes, the contract specifies the work that the company will undertake and the procedures the firm must follow to be reimbursed for eligible expenses. For term loan insurance, an agreement is prepared for the company to use when negotiating the terms and conditions



of a loan with an approved lender.

(b) The Forms of Assistance - There are two primary methods by which the E.D.P. participates in projects with a firm:

- i) through sharing of project costs or
- ii) by providing insurance for a term loan to finance the project .

For a typical shared cost project, the E.D.P. can make a contribution of up to 50 percent of the eligible costs. Loan insurance, which helps to facilitate the availability of funds at reasonable terms and conditions, can be provided for 90 percent of a term loan for a 1 percent annual fee.

E.D.P. projects generally include one or more of the following elements:

(1) proposal preparation:

- (a) shared costs for the development of relatively complex proposals that are expected to lead to a substantial E.D.P. project;
- (b) shared costs for market studies that are part of/or



are expected to lead to a substantial E.D.P. project.

(2) share cost projects:

- (a) productivity improvement studies;
- (b) innovation projects for new or improved products or processes and
- (c) industrial design.

(3) term loan insurance for adjustment projects:

- (a) modernization or expansion of production systems including acquisition of plant and plant equipment;
- (b) working capital;
- (c) mergers and acquisitions.

In general, the shareable costs include: requisite professional and skilled labour; the cost of special purpose equipment; materials for prototypes and models. The cost of equipment on general lease can be shared if it is used specifically for the project.

Loan insurance is normally used to raise funds for adjustment projects that help firms adapt to changing competitive circumstances by restructuring and rationalizing their operations. These projects often include working capital, plant expansion or the updating of machinery and equipment. In the case of



mergers and acquisitions, term debt may be required as an integral part of the total financing package. Assistance is also available for special purposes such as insurance for surety for off shore turnkey projects; loans and shared cost projects are available to encourage restructuring of the footwear or tanning industries.

(c) Eligibility -

Eligibility generally includes three qualities:

- i) the viability of the project and the firm;
- ii) the firm's need for E.D.P. assistance; and
- iii) the type of industry.

It is intended that the E.D.P. should not support firms that have adequate financial resources to readily carry out a project on their own. For shared cost projects, the project and its implementation must generally represent a significant burden on the resources of the firm. For loan insurance, the firm must be unable to obtain debt financing elsewhere on reasonable terms and conditions.

Applicants for innovation or design assistance must be incorporated.



It is not necessary to be incorporated to be eligible for other forms of assistance, although it is considered highly desirable.

(2) Enterprise Canada '77 -

Designed specifically to stimulate the public awareness and fact finding for the Minister of State for Small Business, Enterprise Canada '77 was a triple phased project - Spring, Summer and Fall - that the Department of Industry, Trade and Commerce ran from April to December, 1977.

In the Spring phase of Enterprise Canada '77, 135 senior I. T. & C. personnel interviewed over 5,000 company presidents, senior officers, sales managers, production and technology expert and small business owners in plants and offices across Canada. The objective was to learn directly from practicing businesses what the chief opportunities and obstacles in restoring business confidence and activity in Canada were.

In accordance with the survey the Department issued a questionnaire. It had approximately 65,000 respondents. The major concern



expressed in the responses fell into two categories: the general economic environment and business-government relations. The general economic environment encountered such problems as: an insufficient supply of trained people; a paradox of high unemployment while some segments of industry were having trouble both finding and retaining workers; low productivity and high labour cost, in some instances 10 to 20 percent higher than the U.S. counterpart; and rising road and rail freight rates. Concerns for business-government relations revealed a communication gap, especially in regard to government programmes and services. Specific complaints included the postal service, the income tax structure, customs and tariffs, the sales tax, minimum wage laws, and regulations in general, particularly those applying to labelling and the environment. Objections were raised about government imposed paperwork, especially requisitions and questionnaires from Statistic Canada.

The summer phase of Enterprise Canada '77 included the I. T. & C. They set up a number of work groups to investigate and recommend action on the paperwork load, export financing, financial assistance



programmes, duplication of federal and provincial programmes and information sharing, programmes, services, regulations and administration were to be improved in line with the responses.

The Fall phase was the closing of the communications gap between the government and the business community. The publication "Canadian Federal Government Services to Business" was revised and made available to businesses. In addition, Enterprise Canada '77 participated in about 50 events sponsored across Canada by industry, trade and professional associations.



## VII. GENERAL CONSIDERATION

It might be argued that small business in Canada has only recently received recognition as a distinct and vital sector of the Canadian economy. It is clear that the commitment by the government to the small business community has been substantial, and to a certain extent, beneficial. However, it must also recognize that the problems confronted by the small business community remains to a large extent unimproved. General opinion expressed by concerned Canadians indicate that the difficulties in operating a small enterprise in Canada are even worse than a decade or two decades ago. This is indicated by increasing rates of business failure,<sup>1</sup> greater write-offs on loans and investments,<sup>2</sup> and an increasing capital outflow while the number of new venture formations is declining. Moreover, it is openly admitted by industry and government that Canadian manufacturers are unable to compete with foreign goods in the market place, both at home and abroad. The Minister of State for Small Business, acknowledges

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1. A total of 3,562 companies went bankrupt in Canada in 1977-- a rise of 37.5 percent over the 2,590 business failures in 1976. About half of the bankrupt firms were in Ontario (Toronto Star, March 20, 1978 P. A 5).
  2. Provision for losses on loans and investments in 1977 were \$19,931,707, for 6 months period of 1976 were \$5,799,005 (F.B.D.B. Statement of Operations for the year ended March 31, 1977).



the need to create a favourable business climate that will stimulate the initiative and growth of smaller enterprises. But a favourable business climate cannot be obtained if Canada lacks an effective industrial strategy, and a strong presence of government through its legislation, regulations, welfare programmes and crown corporations operating in the market place.

#### VII. 1. LACK OF INDUSTRIAL STRATEGY

The lack of industrial strategy can be blamed as one of the fundamental reasons for the poor Canadian business climate, the decline and the uncertain future of Canadian manufacturing business as a whole, particularly, smaller firms. The declining trend and uncertainty extend into a distinct and pressing concern about the ability to attract the wide range of talents and skills that make the Canadian entrepreneurs such an exceptional national resource. In 1976, Canada's deficit on manufacturing goods was more than 10 billion<sup>3</sup>. Nearly every branch in Canadian manufacturing display weaknesses; textiles, clothing, leather goods, consumer electronics - all are succumbing to fierce foreign

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3. Information were provided by the Director, Economics and Communications, the Canadian Manufacturers Association and Science Council of Canada.



competition. Many of the industrial firms, since 1971, developed increasingly large deficits in balance payment. The problems are long term and reflect fundamental structure deficiencies.

Contrary to popular opinion, the 1960's was a period of decline in Canadian manufacturing. Canada was lapsing into a regression in comparison with the progress being made by other industrial and semi-industrial countries. The seeds of distress were being sown in the so called "gold era". In the past two decades, the various policies bearing on industrial growth in Canada were partially successful as superficial short-term palliatives which in fact caused a stunted form of industrialization. This short term growth was created through import substitution and an expansion of service businesses. Service businesses without the support of industrial growth, in the long run, would add no value to the economy.

..

Many Canadian exports are actually a reflection of intra-corporate transfers. Without the Auto-Pact, for instance, there would have been practically no export of Canadian manufactured goods.



Between 1965 and 1970, the proportion of finished manufacturing goods in total exports (a sector provides productive employment, and incentive for entrepreneurs creating an indigenous base of engineering and scientific expertise) grew in Canada by 3.22 percent, in France by 5.5 percent, in Mexico by 16.8 percent and in Sweden by 10.8 percent.<sup>4</sup> In relative terms, Canada fell seriously behind. Unless Canada can recover its competitive ability, any government measure to assist small business would in effect provide a temporary relief to a symptom but not a cure to the problems.

#### VII. 2. STRONG GOVERNMENT PRESENCE

The responses of many businessmen to the unfavourable business environment are indicative of current small business problems. Overextensive government control through regulation and interference in private enterprise; high taxes; uncertainty about nationalist sentiment and its possible policy implications; loss of competitively advantageous wage-rates relative to the Canadian major market area; stress on the part of the government on

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4. Executive/October 1977 p.33.



the provision of social benefit as opposed to emphasis upon productivity,<sup>5</sup> these are the elements of which businessmen complain as part of the poor business climate in Canada.

Strong government presence also penetrates into the Canadian market system, through crown corporations, government agencies and other forms of enterprise operations. A market system without government agencies allows private enterprises to compete amongst themselves, conversely, the presence of government agencies and crown corporations would interfere with such competition, and worst of all, it discourages individual initiative. Moreover, the operations of government agencies may not be effective, in relation to the same operations undertaken by private enterprises, since government agencies generally are less responsive to the profit motive than private companies.

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5. According to Federal Spending Plans 1978-79, released by the Hon. Robert Andras, President of the Treasury Board of Canada, the Government of Canada will allocate its spending as follows:
- |                       |   |
|-----------------------|---|
| \$10.3 billion        | to senior citizens, family allowance, unemployed veterans, native Canadians workers in training & other direct payments to Canadians.                   |
| 12.0 billion          | as subsidies for oil imports, transportation, agriculture, fishing, housing, regional expansion, and job creation.                                      |
| 9.8 billion           | to hospital and health care, social assistance, post secondary school education, surface transportation, crop insurance through provincial governments. |
| 14.3 billion          | to federal services   |
| 2.4 billion           | undisclosed?  |
| <u>\$48.8 billion</u> | total federal spending for 1978-79.   |

It is of interest to note that welfare and related spending amount to approximately 62.9% of total federal spending (there are \$1,394 million allocated for post secondary education.).



VII. 3. GOVERNMENT INFLUENCE TO ENTREPRENEURSHIP

As conventional wisdom, it can be generally stated that in order to develop enterprise, one must first develop entrepreneurship. Perhaps it seems appropriate to apply the latter conclusion to such a country as Canada, whose economy is based on a market system. However, the truth remains that Canadian policy appears, in many ways, to discourage the development of entrepreneurship.

(1) Risk Averse -

In the investment community, Canadians are considered "risk averse"; in other words, they are reluctant to invest in equities which are the lifeblood of start-up venture, and would rather invest in debt securities. In 1975 Canadians only bought \$400 million of equity shares, most of which were blue chip stocks (such as: Bell Telephone, I.B.M., Imperial Oil, etc.,)<sup>6</sup>, yet in the same year, \$600 million worth of lottery tickets were bought to pay for such grossly mismanaged projects, as the 2/3 finished Olympic stadium.<sup>7</sup>

The governments launched a huge advertisement campaign for Loto

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6. Information was supplied by Toronto Stock Exchange

7. Operated by the Government of Canada.



Canada and provincial lotteries in which the big winners were publicized by being accorded front page treatment. This is a prime example of government encouragement of gambling and discouragement of good hard work. While a nation is pre-occupied with dreams of "instant money", hard and long working hours could have resulted in earned profit, creating jobs in the process.

Canadian tax laws encourage lending of money rather than owning shares. An individual can earn \$1,000 interest income each year tax free. However, the equity owner is subject to Capital Gain Tax when he/she sells at an advantage. He/she could, deduct his/her losses, but only up to a maximum of \$1,000 per year. For the majority in the venture investment field, losses outnumber gains by far. Lottery earnings, on the other hand, are tax free, which is one reason why the "risk averse" Canadian is ever ready to gamble on a lottery ticket even though it is less likely to produce a return.

## (2) Innovation, Research and Commercial Application-

Canadian governments have, through grants and other forms



of assistance, supported innovation to a greater extent than most western countries; yet there has been very little commercial application. The government research agencies are of no particular help to commercial benefit. For example, the National Research Council has achieved scientific excellence, but it appears that no one is concerned with translating the widely available new science and technology discoveries into products and processes that could benefit Canadian industry. Similarly, government incentive programmes to encourage industrial research and development are impressive, but access to them is too difficult and costly for small firms.

In order to test the usefulness of the government incentive programme, a project was developed for a small manufacturing company. Subsequently, the project was submitted to the government as an Industrial Development Assistance Programme proposal. Two 25 paged drafts were prepared concerning the project, the company was told that they must engage an Industrial Designer to submit the proposal and control the programme. This illustrates:



- (a) The existing government programme does not recognize the important role that the entrepreneur plays in making things happen.
- (b) The process required by government bureaucracy is too time consuming for the small firm operators.

On the other hand, a government study indicates that 80% of basic major inventions are created by individuals or small companies (see table I). This percentage demonstrated the importance of the small company to the Canadian innovation process, yet these inventors or small companies are unable to get access to government grants or incentives.

### (3) Foreign Ownership and Imports -

While Canada allowed free access to non-Canadian residents to set up subsidiaries, Japan built its economy by getting local companies to manufacture under licence. As a result of the Canadian policy an already small market has been fragmented, while so much of the Canadian secondary manufacturing is done by foreign subsidiaries, whose parent companies do the exporting.



Hence Canadian operations' ability to export has been reduced. To compound the problem, these same subsidiaries also import heavily from the parent company, and that is when design specifications are created and necessary manufacturing equipment and components for sub-assemblies are made.

In concurrence with the fragmentation of the domestic market by foreign plants, Canada has opened up consumer markets to imports. Canada's balance of payments would indicate that Canadians have been on a buying binge which can only be paid for by selling primary resources. The trading of primary resources, mainly energy and raw materials with finished consumer goods would result in :

- (a) Loss of job opportunities in the secondary industry  
and
- (b) Cost increases in the other nation's raw materials  
and energy, and added mark-up for innovation.

As example of this process is the 40% rise of prices for exported hardware from Europe in the early spring of 1975<sup>8</sup>.

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8. Information supplied by John Kociuba, Buyer, Household Goods and Horticulture, Beaver Lumber Company Ltd.,



The shift of the rising cost of energy, raw materials and from other factors of production to prices for exports was so effective that, West Germany, for example, enjoyed the lowest rate of inflation in 1974, of around 6%. In the meantime, the price increases of exported goods from West Germany were at least five times higher than their rate of inflation.

The cost of lost opportunity must also be taken into consideration. As Peter Drucker suggested, for every cent of innovation revenue received through exporting patents or the rights to manufacture by license, comes \$1 worth of orders for equipment and materials from the purchasing country.

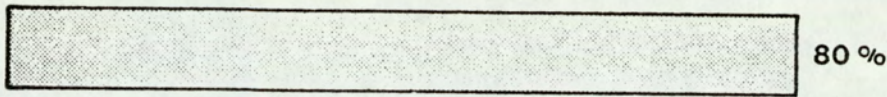
This suggests that the Japanese model of building its economy by getting local companies to manufacture under licence, is worth Canada's consideration. But this consideration will remain only a part of the many hypothetical solutions to the problems concerned unless the Canadian government takes the initiative and responsibility to adopt and put it into action. The question of the potency of venture capital in establishing Canadian manufacturing companies will be discussed in the later part of the study.



E AVAILABILITY OF RISK CAPITAL FOR TECHNOLOGICAL INNOVATION AND INVENTION IN CANADA

- R. H. GRASLEY

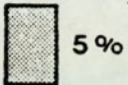
BASIC NEW INVENTION - MAJOR



Individual Inventor & Small Companies

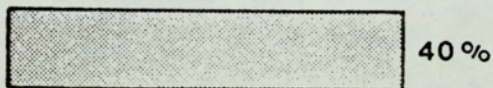


Research Associations & Publicly Funded Laboratories



Large Companies

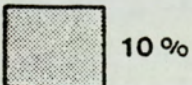
DEVELOPMENT INVENTION



Individual Inventor & Small Companies

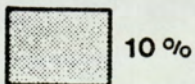


Research Associations & Publicly Funded Laboratories

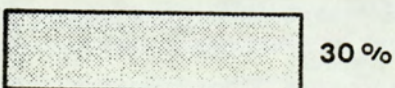


Large Companies

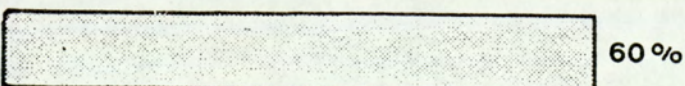
INVENTION AROUND INVENTION - MINOR



Individual Inventor & Small Companies



Research Associations & Publicly Funded Laboratories



Large Companies



VIII. SPECIFIC CONSIDERATION

VIII. 1. THE OPERATIONS OF THE FEDERAL BUSINESS DEVELOPMENT BANK

(1) Consideration for Equity Financing -

One of the main objectives for the establishment of the Federal Business Development Bank was to provide the needed venture capital for the entrepreneurs to undertake new ventures and help existing smaller firms who are pressed for long term funds that will not affect ownership or controlling interest. It was hoped that instead of the collateral conscious Industrial Development Bank's operation, the new bank could undertake a new form of equity and quasi-equity financing at a reasonable level, (e.g. \$50,000-\$100,000) allowing the owner/manager to repurchase stock. Such an investment would have a considerable impact on the new venture formation and the survival and growth of existing smaller firms, since equity financing would strengthen both the financial and cash position of the small firms.

Although, the annual report indicated that the bank has made 24 equity investments for a total of \$2,316,000 during the fiscal period of 1976-77. Such an undertaking, in comparison



with the total loan approvals during the same period, only amounts to approximately .5% of the bank's total lending activity. This suggests that the bank is still operating as a mortgage institution, where its collateral requirement often eliminates the borrower's opportunity to seek second time financing should the additional funds become necessary.

(2) Loan approvals by the type of business -

The following is the classification of loan approvals on the type of business, as a percent of total loan approvals of the bank<sup>1</sup>:

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1. The Annual Report, Year End March 31, 1977, The Federal Business Development Bank and The Annual Report, 1975, The Industry Development Bank.



The following schedule reveals the classification of loan approvals on the type of business (as a per cent of total loan approvals) of the bank:

	Number during fiscal years:					Amount(\$') during fiscal years:				
	ended 1972	ended 1973	ended September 1974	ended September 30 1975	ended March 31 1976	ended September 30 1972	ended September 30 1973	ended September 30 1974	ended September 30 1975	ended March 31 1976
Manufacturing	20	16	16	15	16	26	21	19	18	18
Retail trade	21	22	24	27	29	15	17	17	20	22
Restaurants & other eating places	10	11	11	11	11	8	10	10	11	11
Hotels, Motels & other lodg- ings	9	9	7	5	5	12	13	11	9	9
All other Services	40	42	42	42	39	39	39	43	42	39
Total	5,889 =100%	7,859 =100%	9,712 =100%	9,461 =100%	10,088 =100%	9,311 =100%	262.3 =100%	344.8 =100%	470.0 =100%	401.4 =100%



As the schedule indicates, there is no significant change in pattern between the two banks (the Industrial Development Bank and the Federal Business Development Bank) during the past six year period. There was, however, a gradual decline of lending activities in the manufacturing business, and a gentle increase in the retail trade sector both in number of loan approvals and dollar amount. This would suggest that the bank has made no effort to direct its lending activities towards assisting small manufacturers. Presumably there is a greater risk and longer lending period in the manufacturing sector than in the retail trade business. Also, with over 50% of retail goods imported from other countries (such as textile, clothing, shoes and leather accessories, and electronic consumer goods), financial assistance rendered by the Federal Business Development Bank would be in effect, only partially beneficial to the Canadian manufacturers and supportive services. The decline of lending activities towards small manufacturers signifies the weakness of the bank's business policy. It also indicates a deficiency in the overall small business policy of the government (since the bank reports directly to Parliament through the Minister of Industry, Trade and Commerce),



inasmuch as the manufacturing sector is the back-bone of the Canadian economy.

(3) Loan approval by province -

According to the data given by the bank, over 70% of its lending business is done in three large provinces, namely B. C., Ontario and Quebec. British Columbia having the greatest number of loan approvals from 1972 to 1976, and in 1977; the Province of Ontario recorded 2,505 loan approvals compared with 2,446 in British Columbia and 1,725 in Quebec.

The following is a detailed classification of the loan approvals by provinces:

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2. The Annual Report, Year End March 31, 1977, The Federal Business Development Bank, and The Annual Report, 1975, The Industrial Development Bank.



# Loan Approvals - Classification by Province:

	Number during fiscal years ended September 30						Amount (\$'000,000) during fiscal years ended September 30					
	1972	1973	1974	1975	1976	1977	1972	1973	1974	1975	1976	1977
Newfoundland land	2.5	2.5	2.5	3.3	3.4	3.3	1.9	2.0	1.7	2.3	2.1	1.9
Prince Edward Island	.8	1.0	.8	.6	.6	.7	.5	.7	.5	.4	.4	.5
Nova Scotia	3.2	3.3	2.7	3.9	4.3	4.6	2.2	2.2	1.7	2.7	2.6	2.6
New Brunswick	2.4	2.9	2.9	3.1	3.4	3.7	1.9	2.6	2.8	2.4	2.4	2.5
Quebec	18.4	17.8	17.0	15.4	17.1	18.6	22.5	20.8	18.2	17.7	20.3	23.7
Ontario	26.7	22.8	24.6	26.5	26.1	26.9	24.8	21.8	23.6	25.5	25.1	24.8
Manitoba	2.6	2.2	2.6	2.2	2.2	2.2	3.0	2.4	2.7	2.9	2.7	2.0
Saskat- chewan	2.4	2.2	2.6	2.2	2.3	2.9	2.0	2.1	2.3	2.2	2.5	3.6
Alberta	7.4	8.2	11.0	10.1	10.2	10.4	7.0	7.7	10.1	9.8	10.0	12.4
British Columbia	32.7	36.0	32.5	31.9	29.6	26.3	32.7	36.2	35.4	33.0	30.8	24.7
Yukon	.7	.6	.4	.3	.2	.3	1.1	.8	.6	.6	.5	.4
Northwest Territories	.2	.5	.4	.5	.6	.1	.4	.7	.4	.3	.6	.4
Total	5,889 =100%	7,859 =100%	9,712 =100%	9,461 =100%	10,088 =100%	9,311 =100%	262.3 =100%	344.8 =100%	470.0 =100%	401.4 =100%	454.7 =100%	424.1 =100%



The concentration of the bank's lending activities suggests the following:

- a) The bank's lending policy does not necessarily correspond to the need of small firms in rural regions of smaller provinces.
- b) Financial services provided by the private sector in metropolitan areas of large provinces are normally well developed. Whether the services provided by the Federal Business Development Bank is complimentary to the existing banking system or in competition with the chartered banks is yet to be determined.<sup>3</sup>
- c) Since large provinces have more retail outlets and greater retailing activities than smaller provinces, the concentration of the bank's lending activities in large provinces appears to correspond to the increasing trend of the bank's retailing lending services. The extent of the benefit to the Canadian economy as the result of the bank's lending activity is subject to the amount of imported consumer goods sold in the Canadian market.

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3. Canadian chartered banks have 7,329 branches across Canada (Source: The Canadian April 22, 1978, Toronto Star, p.10 in Rose Mary Speirs article: Tellers United).



Since the actual breakdown of various branch lending activities of the bank is not available, it is difficult to assess the effectiveness of the bank's financial service to the small business community of various provincial urban and rural areas. Therefore, the concern of the bank's lending policy could not be assessed on the basis of the development criteria focused on the regional need. Moreover, there is no clear indication that the bank will make an effort to change its policy, since the bank manager's performance is measured by the number of loan approvals rather than in the direction of venture development.

(4) Collateral on Property and other Security Requirements-

As a mortgage institution, the Federal Business Development Bank places a heavy emphasis on the security that a small firm must pledge as the basis for loan approvals. The following is a list of items that the bank requires as collateral from its clients. The information was supplied by three Chartered Accountants who are specially assigned by their firms to handle private small companies.

- . All company assets, including equipment, plant assets, building, land. Accounts receivable and



inventory may also be included, if such assets were not already assigned to chartered banks for working capital financing.

- . Real estate owned by owner/manager.
- . Automobile owned by owner/manager.
- . Household effects owned by owner/manager.
- . Spouse as a co-signer.
- . Co-signers in addition to spouse, if the above securities pledged were not satisfactory.

The banks' security requirements suggests that its fundamental policy is still based on a. the track record of the applicant.

b. assurance of the ability for loan payment. Entrepreneurs can find it very difficult to comply with both the track record and assurance for loan repayment. Moreover, as it was mentioned earlier, most small firms who require long term financial assistance would normally seek further financing. Such requirements would make it extremely difficult for small firms to obtain further assistance anywhere.

#### (5) The Rate of Interest -

In the large cities, such as Metropolitan Toronto and



Montreal, the bank's rate of interest is currently at  $10\frac{1}{2}\%$ , which is higher than the chartered bank's rate by only  $\frac{1}{4}\%$ . In most cases, this rate is lower than personal loan rates secured on automobiles or other forms of securities, excluding stocks, bonds and real estates, but including household effects. It is not evident whether the rate charged on long term lending by the bank competes with the private lending institutions. According to a study done by York University, in the early 1970's, it suggested that sufficient financial services abounded in the metro Toronto area. Nevertheless, since the interest charged by the bank is comparable to the commercial rate, the bank, in effect is not the last source of business borrowing. Hence, whether a crown corporation should be engaged in the mortgage lending field becomes a subject of controversy.

(6) Management Services -

There has been very little feedback concerning the management services performed by CASE counsellors. However, we know that all counsellors are retired business executives performing their counselling services on a part time basis. Admittedly their services are generally beneficial to the small



community, but with very little managerial skill transfer effect ?  
and in many incidents, no follow-up to the counsellor's advice.

In recent years, nearly all Canadian chartered banks have provided some form of management services to small business operators.

These services are generally linked with their banking services;

for example, the Royal Bank of Canada, has its own Independent

Business Department , as a service to independent businesses,

the bank issues a guide called "Your Business Matters" available

through all branches across Canada, free of charge. As a

normal bank service, all branch managers of chartered banks

usually work together with their clients, to discuss cash flow problem

ratio analysis and contributes other forms of advice, including adver-

tising and promotion; some chartered banks may concentrate their

advisory services on retail trade and others may have other

forms of management services. They are all generally effective.<sup>4</sup>

In summary, although the Federal Business Development Bank often claim

itself to be the last resource for the small firm's term

financing, since the revision of the Bank Act, all chartered

banks and their subsidiaries have been granted power to conduct

mortgage financing business, and their terms and rate of interest

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4. Personal interview with approximately twenty bank managers.



are no different from those offered by the Federal Business Development Bank. Moreover, all managers of the Federal Business Development Bank are measured by their profit performance, it is therefore, extremely difficult to motivate managers of the bank to risk their career to undertake venture financing (equity or quasi-equity).

VIII. 2. OPERATIONS OF GOVERNMENT GRANT AND INCENTIVE PROGRAMME  
AS A FORM OF SMALL BUSINESS AID

There are approximately 40 different federal grants and incentives designed to assist Canadian businesses. Some of these grants and incentives are not designed specifically for the smaller firms, nevertheless, all grants and incentives are available for the small business operators. Since programmes are designed to achieve specific objectives, therefore, they are mostly drawn-up by specialists in their own field. There is nothing wrong for the specialists to draw up incentive programmes or government grants, except often these programmes are so technical and procedures for application are so complicated, that it is difficult for entrepreneurs to take advantage of the offer,<sup>5</sup> On the other hand, large corporations are able to

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5. Several surveys indicate that there is a low percentage small business owner/managers have had university degrees, and most of them are verbal communicators. (See appendix I).



staff specialists to study these programmes to find out ways and means to make these programmes beneficial. Even though some of the programmes are specifically designed for the smaller firms, only the large companies who have the staff to work with government people are able to obtain the needed assistance. For example, the Enterprise Development Programme is supposed to be a flexible and simplified scheme in which small business owner/managers are able to obtain the assistance offered by the programme to meet the total requirements of the firm. Unfortunately, should a small firm operator consider that his firm and project qualifies for a certain assistance under the programme, he may find that the programme is not really designed to meet the needs of the small firm, for some or all of the following reasons:

- a) The programme indicates that it is advisable that the applicant should be an incorporated company, but according to the Minister of Small Business, there are some 360,000 unincorporated partnerships and proprietors. This represents 60% of the total of approximately 600,000 small firms in business in Canada.<sup>6</sup>

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6. Minister of State, Small Business, Small Business in Canada: Perspectives, Ottawa, 1977, p.6.



- b) According to the programme requirements, an applicant at the initial stage of application, must provide a brief description of the proposed project, estimate cost, proposed financing and an adequate financial statement for the last three years. At subsequent stages a more detailed analysis, including projected cost and revenues for the project and for the firm will be prepared by the company and an I.T. & C. officer for submission to the E.D.P. Board. Most small business owner/managers however, are not familiar with government requirements, such as estimated cost and proposed financing and projected revenues and they may not have adequate staff to prepare the required documents. Therefore, it would be necessary for small firm owner/managers to commission an outside accountant and design engineer to manage the preparation. While not knowing whether the proposal is acceptable by the I.T. & C., most entrepreneurs and small business owner/managers are very reluctant to go through all the trouble to deal with the government, therefore, only those applicants who have



the ready staff in the organization to deal with such matters are able to take advantages of the programme.

For the purpose of verifying the usefulness of the Enterprise Development Programme to the small business owner/manager, several inquiries were made by eight people into the E.D.P. administration. Accordingly, no project will be considered for assistance, if the project is less than \$50,000. The reasons given by the administrator is that any project less than \$50,000 of government commitment under the E.D.P. is not worth the administrative efforts. Bear in mind, that most entrepreneurs lack formal university education in comparison with government employees. Moreover, most projects and small enterprise needs are less than \$50,000.<sup>7</sup> The imposition and the attitude of the administrative personnel would suggest that the programme is designed to meet the need of larger corporations, and not that of the small regional based firm.<sup>8</sup>

### VIII. 3. THE SMALL BUSINESS LOAN AND ITS OPERATION

According to the Small Business Loan Act, the programme

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7. According to F.B.D.B., the average size of financial assistance and loan approval is approximately \$45,000-\$46,000.
  8. The Cost Sharing Scheme under the E.D.P. would provide 50% cost of the project paid by the government, which is a form of quasi-equity financing.



is designed to assist proprietors of small business enterprises, obtain term credit for a wide range of business improvement purposes. In order to facilitate the borrowers' access to the needed term financing, the small business loan is handled by the chartered banks, trust companies and other financial institutions, whereas the government guarantees the loan repayment. The actual loan however, is made by institutions other than the government.

When the Small Business Loan Act was passed by Parliament, it was welcomed by the small business community and viewed as a positive step towards assisting smaller firms. Unfortunately, it did not attain its anticipated result. According to several senior officers of different chartered banks, the following are the possible causes of the dissatisfaction. These opinions were expressed to the participants of the Federal Business Development Bank Symposium and Ryerson Small Business Conference '76, '77 and '78.

- 1) The rate of interest set by the government was 8%, which was much below the going rate. At one time, the premium saving interest rate reached as high as 7 3/4%.



There were no incentives for a bank manager to recommend the small business loan to a client, rather, most bank managers would recommend their clients to take a normal bank loan at an interest based on the small business loan interest rate, such as 1% above the small business loan rate.

- 2) Sometime during a period of two years (1975-76-77), the Bank of Canada raised its rate to  $7\frac{1}{2}\%$  for bank borrowers.
- 3) The bank manager's personal judgement is largely involved, therefore, if a client has no particular track record with his/her bank manager, it is unlikely his/her application will be approved by the bank.
- 4) Since it involves the bank manager's judgement, unlike other forms of bank loan, the market is restricted making it impossible for a small business owner/manager to shop among different chartered banks. Moreover, there is little chance his application for a small business loan will be approved, if he/she is a first time customer to the bank.
- 5) The repayment is set between 3 to 5 years, but



most borrowers require mortgage refinancing for plant expansion, or purchasing machinery or equipment and cannot afford or handle the repayment; generally, borrowers look for a plan with 10 to 15 years repayment.

- 6) Many small business operators cannot make a financial commitment, or are unwilling to put up their personal effects as security. This would make it almost impossible for the bank to consider his/her application.
- 7) Many entrepreneurs or small business operators are unable to put their ideas into writing, particularly in financial terms; the bank requires an audited financial statement, a business plan; pro-forma financial statements; a cash flow project.
- 8) The bank often requests guarantors or co-signers for the loan. This could be very difficult for some entrepreneurs.

The requirements for financial assistance under the Small Business Loan Act is similar to those set by the Federal Business Development Bank and, in fact is no different from other forms of government



programmes. They all focus around the risk factor, and make a point of avoiding the risk, on the other hand, risk is the essential ingredient for new venture formation and small business development.<sup>9</sup>

#### VIII. 4. TAXATION

Despite the fact that the government recognizes the importance of small businesses' contribution to the national economy, the small business operator is still taxed unfairly when compared to the taxation of big companies.

Big business in Canada tends to be capital intensive. Hence the continuous buying of new machinery allows the large companies to save tremendous amounts of corporate income taxes by deducting Capital Cost Allowance from their income before paying any taxes. Since Capital Cost Allowance is not a cash expense, a large company has more working capital for the future.

The effect of purchasing manufacturing and processing equipment is a common example of how the government helps big businesses.

Manufacturing and processing equipment are categorized into class 29 of the Income Tax Act. Capital Cost Allowance is

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9. The Small Business Loan Act was amended in April, 1978, the details of the amendment will be in the later chapter of the study.



allowed at a straight line rate of 50%. Hence the company is allowed to recover its entire investment in 2 years or less through the reduction of income taxes. On top of this Capital Cost Allowance benefit, the corporation is also entitled to an Investment Tax Credit. This credit reduces taxes that would otherwise be payable by approximately 5% of the cost of the new equipment.

Among other numerous examples, the right of deducting losses credited by Capital Cost Allowance on rental properties constructed after 1974 with a cost of \$50,000 or more, clearly shows that the government of Canada's policy of taxation favours the large capital intensive businesses.

The small business operation in Canada is labour intensive. The owner/manager of a small business tends to spend very little on new equipment, hence, his biggest cost is labour. His income is taxed at a reduced rate by the Small Business Reduction. However, this reduction of taxes does not continue indefinitely. A very profitable small business could use up its entire credit in 5 years, once this credit is used up the only thing a small business owner/manager can do to



reduce taxes is to become capital intensive and utilize the benefit of Capital Cost Allowance. It should also be noted that the small unincorporated business is not allowed a Small Business Deduction. The Small Business Deduction is the only credit available to the labour intensive small and incorporated companies.

The present Capital Cost Allowance tax benefit scheme not only favours the big companies, it may also have a detrimental effect on the Canadian machinery business. Most Canadian large corporations are foreign owned, hence through their international operation, they take advantage of the Canadian Taxation Law and government incentive programme for machinery purchases. Accordingly, it is found to be more beneficial to import machinery and equipment rather than purchasing those made in Canada.

#### VIII. 5. CONSIDERATION FOR DEATH DUTIES AND CAPITAL GAIN TAX

As a step to encourage the individual to pass their businesses to their spouse or children, the Province of Manitoba has recently passed a legislation for the estates of individuals who died on or after October 11, 1977, exempting them from



succession duties. At present only Ontario and Quebec remain subject to the succession duties and it is likely that mounting pressure will force these two provinces to reconsider this questionable area of taxation.

Death taxes have been imposed in Canada for many years. In 1959, the federal government replaced the Dominion Succession Duty with the Estate Tax Act, in conjunction with the Federal-Provincial Arrangement Act, empowering the Federal Minister of Finance to pay to those provinces not levying a provincial succession duty of an amount equal to 50% of the federal estate tax collected in the provinces. In 1964, these provisions were amended to increase the payments to the provinces to 75%, except in the case of those provinces that continued to impose their own succession duties, in which case, they would be entitled to 25%, provided they did not increase the provincial rate beyond that at the time. During this period, Alberta paid back to estates the portion of the estate tax that was levied by the federal government and refunded to the respective provinces. With the advent of tax reform, the federal government suspended the Estate Tax Act with respect to deaths occurring



after January 1, 1972. This step was taken because it was felt that capital gain tax would provide sufficient revenue to replace any revenues lost by the repeal of the Estate Tax.

Although in many provinces, provisions are made that business or property received by a taxpayer's spouse on death is exempt from succession duty, the Province of Ontario still subjects large estates to taxation. Despite the exemptions, Ontario residents must pay wealth tax, when coupled with capital gain tax on accumulated wealth, small family businesses, therefore, are forced to discontinue new investment, or terminate the business operation by selling. Should the latter alternative be taken, the sizeable capital accumulations is then used to take up residence elsewhere, particularly to the United States. Capital gain tax has contributed and provoked the present behaviour of small family business operators and it can only be blamed on the federal government for imposing this form of taxation. In a recent press release, the Minister of Small Business, the Hon. Anthony Abbott announced that small businesses will be able to defer the capital gains tax when transferring a business to a relative.<sup>10</sup> The detail of the plan has

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10. Toronto Star, June 3, 1978, Money & Market, p.B6



not been made available to the public.

#### VIII. 6. CROWN CORPORATIONS

According to the report released by the Auditor-General Mr. J. J. MacDonell, the federal government owns (wholly or partially) approximately 380 business corporations: including oyster farming (Crane Cover Oyster Farm Ltd.), gambling (Loto Canada Ltd.), Motels (Abenaki Motel Ltd.), Plastics (Glass Fibre Plastics Ltd.), soft drinks (PoP Shoppes of Canada), mining, airlines, railways and petroleum. This would make the Government of Canada one of the closest conglomerates in the Canadian economy. In fact, the government owned corporations have been reproducing themselves beyond, not only the control, but also the knowledge of Parliament.

As a general assessment, the Auditor-General commented that, in the majority of crown corporations under the audit, financial management and control was weak and ineffective. Moreover, co-ordination and guidance by central government agencies of the financial management and control practices in these crown corporations are virtually non-existent. After the



initial explosion of the situation by the Auditor-General, the Treasury Board released the following corporations: The Canadian Broadcasting Corporation, Canadian National, Petro Canada, the Central Mortgage and Housing Corporation, Grimshaw Trucking and Distributing Ltd., Malabar Silver Mines Ltd., Undersea Equipment Ltd., Terra Nova Shoes Ltd., Mohawk St. Regis Lacrosse Ltd., and many other subsidiaries spawned from parent crown corporations. At the last count (1977), the former amounted to 380 corporations. These corporations are not only operating ineffectively and inadequately in financial control, but they are also in direct competition with private enterprises, a serious concern to many business people, as all crown corporations are financed by the government through the General Revenue Fund.

#### VIII. 7. LEGISLATION AND REGULATIONS AFFECT SMALL BUSINESS

Legislation tends to help or hinder the small business, both in venture formation and existing businesses. Quite often the government, and those who deal with the government, do not realize the role that legislation plays in impeding formation, survival, and growth of smaller firms. This perhaps is because of political belief, incompetence or negligence on the part of politicians and government officials. It should



be noted that large companies can deal with the problems that legislation and government creates, but the small companies cannot.

(1) Categories of legislation and their impact on small business -

It must be stated that legislation and government regulations affect all businesses, but the impact or their harmful effects on small businesses are generally much more severe than on large companies. It is also important to note, that the categories listed hereunder need not be considered undesirable. In fact, in many cases legislation is designed to promote and protect public interests, except where there might be a harmful impact on the development of Canadian smaller enterprises:

- a) Legislation designed to prevent harmful conduct and effect: Combine Investigation Act, Anti-Dumping legislation, Consumer Protection Acts, Food and Drug Act, Human Rights Code, Employment Standards, Minimum Wage, Consumer Product Labelling, Workman's Compensation Act, Warranty legislation and various Labour legislations.



- b) Marketing legislation which is basically neutral but designed to assist the free market to work; Trade Marks Act, Patent Act, Customs Act, Partnership Act, Sales of Foods Acts, Securities Acts, Bankruptcy Acts, Bills of Sale and Chattel Mortgage Acts, and Statistics Act.
- c) Revenue and /or welfare legislation: Income Tax Act, Retail Sales Tax Acts, Unemployment Insurance, Labour Relations Acts, Manpower and Immigration, National Health and Welfare.

(2) Government Fiscal and Monetary Policies -

Government management of the economy, in order to control inflation, inevitably affects business decisions. The direct effect to the smaller companies has often been a detrimental; any time the Bank of Canada lowers or raises the rate of interest, or any action taken by the government on price control inevitably affects the small business. A typical example illustrates the behavioural effect that a government policy or regulation has on small business: In the later part of 1975, the Canadian government established its Anti-Inflation Board with it, they intended to control runaway



inflation. The private sector and super market food chain responded to the policy. Loblaws Stores initially announced a period of price freeze for shelved goods. From the outside, the public quite reasonably believed that the supermarket manager was a responsible corporate citizen, supporting government policy on inflation control and was acting accordingly.

Unfortunately, the price freeze was a competitive advertising strategy, designed to gain a greater market share. Moreover, Loblaws in lowering its margin on shelved goods, was passing the burden of competitively lower prices. The large suppliers were not affected, as large corporations have far greater bargaining strength to deal with such situations. The smaller suppliers, however, were more susceptible. They were advised to comply price cut requests made by the company (Loblaws). If they refused to co-operate, it was warned that their goods would be removed from the shelf. Unfortunately, the small suppliers could not pass their price concessions to their suppliers or employees. They simply did not have the resource to effectively deal with their clients' suppliers or union when faced with such a situation.

A similar situation can also occur in the Canadian banking



system. If the Bank of Canada raises its bank rate, or if there is a credit squeeze in the financial market, the bankers will not usually offend their big corporation customers. It is often the practice of the bank to pass along any unfavourable imposition made by the central bank to the small companies, either by adjusting the rate of interest and restricting the line of credit normally granted to the smaller firms.

### (3) Resources and Energy Policy -

It has been an established fact that resources and energy policy favours large users through the pricing policy made by governing bodies. For example, the use of declining rates for the large energy users, namely large factories, versus small firms who have a smaller productive capacity and are paying high power bills for smaller energy consumptions.

## VIII. 8. ATTITUDE TOWARDS GOVERNMENT

The general attitude towards the government has been very unfavourable, as has been admitted by the government itself.<sup>11</sup> There is a simple reason why resentment is felt for the federal government. Recent runaway government expansion has merely added to bureaucratic red tape so that any government service is viewed by the small business operators as an added

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11. Small Business News, F.B.D.B., Fall 1977.



cost and impediment to doing business. The following is one of the examples that illustrates the general attitude of some small business owner/managers towards government: George Kadoke, president of Kadoke Display Ltd., says it cost him \$7,150 a year or about 1 percent of sales to fill out all the forms the government sends him every year. Kadoke, whose company builds exhibits for trade shows, fired off an angry letter to Statistics Canada in May 1978 when he received a filling request from the government - the request is a two page form, accompanied by two pages of instructions in small type, requesting monthly information on shipments, inventories and orders. Aside from sales, income and corporate tax forms, the small business is continually being asked to provide more information. Kadoke wrote: "It would appear that these reports, even though they keep hundreds of bureaucrats on the payroll, do little to boost lagging productivity and eat into business profit."<sup>12</sup>

In early 1974, the Canadian Centre for Entrepreneurial Studies asked its members to express their views concerning the establishment of the Federal Business Development Bank. The following

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12. Toronto Star, June 3, 1978. Money & Market, p. B6.



are some of the replies:

Letter 1. "I am sorry our Mandate views helped convince the government to form the F.B.D. Bank. I would prefer that we never contributed to the growth of the choking bureaucracy; we seem to be about the last voice opposing it. How the public sector, the unproductive sector, is becoming advisor to the private sector, the producers, the awful cycle looks nearly complete. We're beating Orwell by 10 years.

We could do the job ourselves; there is no question in my mind that we ought to try. I thought that was what we formed the CCES for.

For example, Consumers Union does just a great job; much of their fight has to be against huge, bureaucratic, hopeless government agencies who, the public thinks, are protecting them. Should they foster the growth of more such public burdens: Or go on showing that private, informed concern can do? How would Nader make out as a civil servant?

You know as well as I do..."

Letter 2. " I have just completed the survey you sent



out ... We simply wrote "NONE" across the whole survey. We don't want the damn government studies and information, and find absolutely no use for it. In fact, I am personally angry about the fact that the Federation is interested in, or backing, this new piece of bureaucracy called "Federal Business Development Bank". It is just another means of employing more government experts, and I just can't accept the fact that they can, or will, do business any good.

I suppose one of the reasons I am so burned about this development bank type of thing is that, just recently, we received the attached letter from the Clarkson Company re a bankrupt on which we lost some money. Don't you see the picture? A small business can only borrow money from the government agencies if they can't find financing through normal channels. This means that if the government loan banks do give the money, it is a "bad" risk, as obviously happened with the bankrupt in question.

Do you also note that the government people watched carefully to assume themselves that it ran down just far enough that there were sufficient funds to pay the I.D.B. and ODC and nothing for creditors."...



Letter 3. " I believe the "service" provided by the government, to any kind of business, is completely irrelevant and usually out of date by the time it is available. The Civil Service has become a giant waste to the taxpayer: The addition of further departments, to provide information as outlined in this questionnaire, is ridiculous. Such information is available through accountants, independent associations or other sources directly connected with the individual business. The cost of setting up this machinery in two tiers of government, would be better spent on a more equitable tax stratum for small businesses. In this way, I feel more would be accomplished.

If the overall cost of a programme, as set out in these questionnaires, was applied as a tax saving to small businesses, I am sure it would be far more worthwhile than all the printed matter which will be received in the future.

That governments should stay out of providing services, is my belief."

Letter 4. "... One of the major problems facing this country is the tremendous growth in government spending which far surpasses the growth of the economy generally.



The share of Canada's GNP in the public sector is growing at an alarming rate. While government assistance to small business is necessary and should be supported, I question the too aggressive a position on this matter by the Federation as I would like to see your organization encouraging all levels of government to control their spending and view this as more important...".

The above letters and their view is common among small business owner/managers. In fact, the overly expanded government structure has become a vital concern to many Canadians. Canada, a country with little more than 20 million population, is governed by approximately 34 cabinet ministers, and over one half million federal government employees. However, it is not the size alone that concerns Canadians, rather they are concerned about the manner in which the government conducts its businesses. For example, in his 15 pages declassified cabinet document on problem of paper work burden on small business on February 7, 1978, Mr. A. Abbott, the Minister of State, Small Business said the information requirements established by governments are judged to be "unduly burdensome and costly". The paper burden ranges from Statistics Canada Surveys to customs documents at the



federal level to licence applications and other regulatory forms at the municipal level. About 25 percent of the paper burden is the result of the surveys; the remainder relates to the administration of government laws and programmes. According to the Minister, the burden is growing, and a recent government survey of 5,200 businessmen showed that for 35 percent of them, filling out government forms was the "greatest aggravation". In another question, 85 percent described it "as a very considerable irritant". Furthermore, a recent British Columbia study showed that the average cost for form filling for businesses is about \$5,000 a year. The Minister also indicated that some small business owner/managers reportedly walk away from government subsidized programmes because of the huge amount of form filling involved and their lack of expertise in doing this.<sup>13</sup>.

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13. According to the Minister of State, Small Business, the Federal Council of Paperburden will hold public hearings into ways of trimming the \$10 billion annual cost of filling out forms, (Source: Toronto Star, June 3, 1978, Money & Market, p. B6.



## IX. CONCLUSION AND RECOMMENDATION

### IX. 1. CONCLUSION

The recent economic hardship and declining number of small businesses prevailing in the Canadian economy, indicates that the measures undertaken by the government have not been as effective as was anticipated. Some of the reasons for their ineffectiveness may be identified as follows:

- (1) Unless a co-ordinated effort is undertaken by all sectors of the economy to resolve the problems, any measures designed to stimulate small business growth will only be a temporary measure to relieve the pressure of a symptom, rather than solving a deep rooted problem.
- (2) Most small business measures are basically protective policies, which may generate short term results. For a long term result, Canadian small firms must compete effectively both at home and abroad.
- 3) Government supportive programme makers do not appreciate the specific characteristics and behaviours of small business owner/managers.



- a) Small business owner/managers do not or are unaware of government support programmes.
  - b) Friction may be created between government agencies and the small business community, which can only serve to diminish the effectiveness of support programmes for small firms.<sup>1</sup>
- (4) Lack of regional emphasis, both in policy direction and resources utilization.
- (5) Lack of venture capital, particularly, seedbed, equity or quasi-equity financing.

In addition to the reasons outlined above, there are programmes that might have a negative effect on small businesses. For example, measures designed to assist small firms to improve productivity by sharing the cost of machinery, would in fact damage Canadian small machinery manufacturers. As mentioned before, the large or foreign owned subsidiaries are more capable of taking advantage of the programme. Due to patent, parental control and other constraints imposed on the subsidiaries (such as decision making on the part of the manager), the financial assistance and tax write-offs offered by the government would be

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1. Small Business in Canada: Perspectives, Minister of State, Small Business, Ottawa, 1977, p.15.



more beneficial to import machineries rather than to purchase them in Canada. Such practices may have caused the high failure rate of the machinery business in recent years.

According to Dun and Bradstreet's "The Canadian Business Failure Record 1976", manufacturing failures increased 28 percent in 1976. This reflects the largest number of failures in this sector in over 30 years, the most severe increases in failures being manufacturers in the textiles and machinery industries.

In a recent meeting with the Minister of Small Business<sup>2</sup>, those who attended recognized:

- (1) The Canadian small business operators are in fact being given the best tax break in comparison with major industrial countries.
- (2) The Canadian government has in fact offered incentive programmes to a saturated state and any more new measures would not be effective nor can it be efficiently operated to achieve its objective.
- (3) The creation of the Small Business Secretariat within the Department of Industry, Trade and Commerce has

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2. A meeting was called by the Minister of Small Business and the President of Canadian Federation of Independent Business. Approximately 25 advisors to both the government and the Federation, as well as government officers and business executives were invited, including the author (April ,1978).



proven to be a successful government undertaking.

- (4) The government's determination to reduce paper burden for the small business owner/manager is commendable.
- (5) There is a clear indication that the government of Canada is moving towards the right direction in its small business policy in so far as the Minister of State of Small Business is concerned.
- (6) The performance of the Federal Business Development Bank in both the financial assistance and management services is considered to be useful, particularly the CASE programme.

#### IX. 2. CANADIAN SMALL BUSINESS AND CANADIAN ECONOMIC PROBLEM

If not impossible, at least it is impractical to view the Canadian small business problem in isolation. It must be viewed in the context of the overall economy of the nation as a whole. On the other hand, the Canadian economic problem is a complicated matter, not even those who are concerned with the problem can concisely identify what the root of the problem is.

People from different disciplines with different backgrounds tend to lean on those problem areas reflecting their own preferences.



For example, nationalists suggest that the problem is caused by foreign ownership; the Canadian Federation of Independent Business concentrates on their mandate on large corporations, big government and big union; economists claim that the root of the problem is inflation; industrialists blame it on low productivity, high wages, inability to compete effectively at home and abroad, and the problem is further compounded by the lack of industrial strategy on the part of government policy; political scientists relate it to constitutional matters, such as the structure of the confederation (this of course is complicated by the Quebec Government's desire for independence), sociologists feel that there is a lack of unity and Canadianism; many others claim that the fundamentals of the Canadian economic problem has been inherited from confederation and the build-up of the large corporations as far back as the early exploration of Canada, in the days of fur trade and the formation of the Hudson Bay Company. Of course, there are just as many people who would associate the Canadian economic problem with the inability among Canadians to reconcile cultural differences. While each of the views has its own merit,



it also reflects their interrelationship that makes it very difficult to foresee just how the Canadian government can proceed with an effective small business policy without taking into account all these underlying factors.

### IX. 3. RECOMMENDATIONS

#### (1) Policy Areas - A Canadian Federation of Independent Business Proposal

During a period of two years, the Canadian Federation of Independent Business attempted and directed its effort, and solicited views from all sectors of the Canadian economy to recommend a general consensus for a small business policy. As a result, the Federation published the following:

- Legislation to increase the formation of small business consortia that encourage group of small firms where there are economies in purchasing, common promotion, the provision of services and exports sales.
- Tax incentives for individuals and institutions to free risk capital for new ventures and growing firms.
- Improved access to term financing and operating funds by a more effective guaranteed loan programme



administered by the chartered banks.

- Adoption by all provinces of the dual tax rate for section 125 companies at the provincial level.
- Provisions to encourage succession of a business to family members or key employees wishing to carry on the business beyond the life of the present owners.
- The elimination of business taxes on property.  
This is a harsh, regressive tax on small firms.
- Deductibility, for tax purposes, of income paid to working spouses of proprietors.
- The establishment of government purchasing goals or "set-asides" for the owner-managed sector.
- Encouragement of the development of energy, cheap, small scale technology appropriate to regional markets and rural communities.
- The development of policies that will expand the share of retailing by independent retailers.

The above recommended policy areas have already been acknowledged by the Minister of State, Small Business, in fact, many of the above recommendations are already in operation. The following



are some of the existing facts and plans set for implementation:

1) In the area of government purchasing - According to Small Business News, Winter 1977/78, the Department of Supply and Services explains that upon examining the statistics of who is selling what and for how much, they found that selling to the government is not just the prerogative of larger companies. Over 95 percent of individual contracts between the government and business are for less than \$10,000. In the last fiscal year, 245 million dollars worth of commercial contracts were for less than \$10,000; and of that, approximately 96 thousand contracts were issued with a value of \$250 or less. The Department of Supply and Services also points out that it buys goods and services not only from businesses in the concentrated Montreal-Toronto areas; but also from companies located in all parts of Canada. Sample statistics (last fiscal year) of government purchases show that Newfoundland had 12 million dollars worth of contracts, Manitoba 30 million dollars, and British Columbia 77 million dollars. As a practice of the government, to ensure that all 11 regions and districts have the opportunity to do business with the government, the Department of Supply and Services posts daily, at their local offices



tenders for small printing jobs (such as booklets, notices, calling cards, etc.) so local printers can make bids by telex on these jobs. Over 60 percent of the government's printing requirements are bought commercially.

2) The Risk Capital for new ventures and growing firms - When the Minister of State, Small Business met with his advisors and the President of the Canadian Federation of Independent Business, his advisors and business executives on April 14, 1978 in Toronto, he announced that he was already considering a proposal for the cabinet concerning the establishment of venture capital corporations throughout the country. Instead of mortgage lending, the new corporation will take a form of partnership with small firms and entrepreneurs, and the corporations were to be privately owned and operated. The new corporations would attract savings and pension funds, as well as other forms of free capital in the market. These funds would be funnelled into small firms and venture undertakings which are in need of long term funds with no effect on the control of the firms. It was mentioned by the Minister that the way to attract private investors to invest in the venture capital scheme is through income tax deduction. The proposal



is welcomed by the business community. Whether or not this will have a favourable effect on the growth of Canadian small business remains to be seen. Nevertheless, it is felt by those who attended the Minister's meeting that the government has changed its attitude towards small business; instead of ignoring its problems as it did previously, it is now beginning to realize its potentials.

3) Guaranteed loan programme - As an attempt to make the Small Business Loan more effective, the government has recently revised the interest rate from a previous 8 or 68  $\frac{3}{4}$  per-cent to one percent above the prime rate (e.g. the current chartered bank prime rate is 9  $\frac{3}{4}$ %, accordingly, the Small Business Loan rate will be 9  $\frac{3}{4}$ %, which is also the rate charged by the F.B.D.B. to its borrowers). As usual, the loan will be administered by chartered banks and other financial institutions, and it is hoped that through the revision of the interest rate, the Small Business Loan will be more attractive to the chartered banks to become more involved in the operation.

4) Taxes - There are also modifications of taxation policies towards the small business operators, for example, manufacturers with annual sales of less than \$50,000 will no



longer have to charge a 12 per cent sales tax when they sell finished products. Instead, the sales tax will have been included in the cost of their raw materials. According to the Minister, such a reduction, in effect, is a reduction in paperwork, it saves the manufacturers from having to collect the tax for the government, fill in the appropriate forms and file monthly statements. In addition to the proposed modification on capital gain tax<sup>1</sup>, the plan also includes a broader application of the capital tax deference when transferring a business to key employees, this, according to the Minister, will be "an important measure to stop the spread of concentration of corporate power."<sup>2</sup> The Minister also indicates that capital losses on investments in small businesses which have not sold shares to the public may be written off against income from any source for tax purposes. Previously the losses could be written off only against capital gains.<sup>3</sup>

(2) Industrial Strategy and the Development of Canadian Entrepreneurship

It has been said by so many people, at different times, that the Canadian entrepreneurship and innovative

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1. See also p. 142 of this study.

2. & 3. Toronto Star, June 3, 1978, Money & Markets, P. B6



activities are affected by foreign ownership, large corporations and heavy dependence on imported goods and technology. Therefore, to develop Canadian entrepreneurship is largely dependant upon the industrial strategy yet to be developed by the Canadian government. In general, there are three options that Canada may choose:

- (a) Aggression
- (b) Defense or
- (c) Surrender.

Among the three options, the aggressive option seems to be most attractive, because it ensures self-sufficiency and self-reliance. It would present a challenge for Canadian entrepreneurs to develop a strategy that enables both the large corporations and small firms to compete effectively in the domestic and international markets. On the other hand, if a defensive alternative is adopted, then it is possible, through tariff and other protective tools to bring the cost of imported goods approximately to 20 percent above the cost of Canadian goods or to a comparable quality permitting Canadian manufacturers to recapture a portion of the market lost to imports. This option would not, of course, be desirable in the long run because it discourages



entrepreneurship and innovative activities. Moreover, such a protective shield would, invite further government presence, thus increasing the cost of doing business for smaller firms. However, if the Canadian dollar value could be stabilized at a reasonable level, reflecting a parity of the American wage rate, a protective policy may force a real increase in productivity. If government supportive programmes can be effectively integrated with the protective policy, it may encourage Canadian entrepreneurs explore the potential of the U. S. market, providing that the U. S. government imposes no barriers on entry or other forms of retaliation. Last but not least, should Canada choose to elect surrender to the economic powers of the world, perhaps, Canadians could share some Irish experiences: to encourage foreign investment and branch plant operations, and at the same time, depending heavily on exporting energy and natural resources, in which case the development pattern would be similar to those developing countries. Whether this option would yield similar results in Canada as it has in Ireland is questionable. The Republic of Ireland is a member of the European Economic Community, giving a distinct advantage



to the Irish industry. Moreover, the foreign owned subsidiaries in Ireland differ from those in Canada, for example:

(a) there seems to be more secondary manufacturing subsidiaries in the Irish Republic, whereas Canadian foreign subsidiaries tend to be either assembly plants or marketing establishments or a combination of both.

(b) Canadian foreign operations can effectively use tele-communication to facilitate decision making between the parent and its subsidiaries, whereas Irish foreign operations enjoy more autonomy.

The aggressive option seems the base suited to stimulate Canadian entrepreneurship, as it promotes new venture formation and healthy growth of smaller firms. On the other hand, the independent Canadian small firms would have to be the cornerstone of any aggressive economic strategy and at present most are ill-prepared. They are inexperienced in the management of technology, short of risk capital and have meager access to foreign markets. Furthermore, many of them are not large enough in terms of market penetration to really entertain the role of technological leadership.



Which of the three options is most appropriate for Canada? let alone entrepreneurship. Aggression, defense or surrender? Clearly, the circumstances surrounding each industrial sector differ substantially. What the Canadian government should, therefore, entertain, is the simultaneous application of all three approaches based on industry-by-industry studies. However, Canadian policy must not be allowed to vacillate between three strategic alternatives within any one industrial sector.

### (3) Self-Sufficient and Self-Reliance

While this study concerns only the government measures for stimulating small business growth in Canada, it must be stressed that government policy can only be effective, if there is a favourable response from the private sector to be self-sufficient and self-reliant. This determination cannot be attained in a short period, as it is a long term process. In fact, it must begin with the educational system, and it must have a stimulant built into the system promoting entrepreneurship and rousing the desire of an individual to make things happen.



A self-sufficiency and self-reliance approach to assist and stimulate Canadian small business growth can at least serve three useful functions:

- i. Promotes entrepreneurship.
- ii. Facilitates managerial skill transfers.
- iii. Bridges the gap between technology and its commercial application.

These functions can be performed through an organized unit, operated through educational institutions. On the basis of this assumption, the Ryerson Polytechnical Institute, through its Entrepreneurial Programme, has already spearheaded the following:

- i. A management or consulting services programme, conducted by the degree students, designed to facilitate managerial skill and technology transfers. Normally, a fee for their services is charged. It is already gaining exceptional results.<sup>4</sup>
- ii. Organizing and conducting a small business conference on an annual basis. The conference brings government, business and academic

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4. See Exhibit 1



people together to discuss problems related to small business development and is in its fourth year of operation. It has not only been a financial success, but also provides valuable input for governments of both provincial and federal jurisdiction.<sup>5</sup>

- iii. Encourages and assists students to form new ventures.

In view of the success of the students' consulting services provided by Ryerson and other universities, and inputs from other sources, the Government of Canada has recycled some funds that were allocated for Canada Works Programme, and has directed them into the Small Business Intern Programme.<sup>6</sup> Like physicians serving their internship in hospitals, the university graduates under the programme will be assigned to small firms for internship. Ryerson Polytechnical Institute is being approached by the Government to undertake such a task designed to achieve the following objectives:

- i. To provide opportunity for university

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5. See Exhibit 2

6. See Exhibit 3



graduates as a career alternative.

ii. To facilitate an interchange of experiences, managerial skill and technologies between small business owner/managers and university graduates, and

iii. To provide added job opportunities to young Canadians which are not available otherwise.

The actual working of the programme and the measurement of the result will be dealt with in the second part of this study.

It is expected that as a minimum, 50 per cent of the graduates placed in the small firms within two years will be able to secure permanent positions within the assigned firms. It is also expected that the placement record be used as a yardstick to measure the effectiveness of the programme some two years from to-date.

The other phase of self-sufficiency operation at Ryerson focuses on the need of seeking import replacement. The operation consists of a group of venture capitalists, distributors and retail chain buyers and the Ryerson Entrepreneurial



group. The details of the operation can be summarized as follows:

- To identify those goods, through buyers of retail chains and national distributors, which were previously supplied by Canadian small suppliers but have been replaced by imports is the initial step. Subsequently, the Ryerson Entrepreneurial Group member shall solicit opinions from retail and distribution buyers as to those items that could be produced by local manufacturers.
- Once the above is identified, the original supplier or possible manufacturer will be contacted and a meeting will then be arranged to identify the supplier's problem relating to its inability to compete with imported goods.
- A team of consultants will be assigned to the firm to study and search for alternatives for improvement with the specific objective to restore with the formal buyers of the firm's product.
- Should additional capital investment be necessary, the venture capitalist will enter into a form of joint venture or partnership if the firm's



operation is profitable. However, such an arrangement will:

- . not affect the control of the company
  - . permit the owner/manager to buy back the added capital investment at a price agreeable to both parties.
- A consulting fee will only be charged, if the company's products are restored by the company's original buyer, the products will penetrate into a new market, or the company has definitely shown an improvement in profit.

The proposed import-replacement or market recapture scheme is still in its experimental stage. It is hoped, that within a period of two years, the result can be measured on the basis of its established objective.

(4) A Model of Total Involvement in Promoting Small Business by Educational Institution - The Establishment of a Small and Medium Enterprise Development Centre

Because of Ryerson's broad involvement in promoting small business and entrepreneurship, its original academic programme is inadequate to meet the requirements of its activities. As desired by the group, through the use of the surplus generated



from its activities, without any financial assistance from Ryerson or other sources other than the Institute's facilities, established a Small and Medium Enterprise Development Centre under the Corporation Act of the Province of Ontario, as a non profit, non-share capital corporation.<sup>7</sup> The following are the details of the corporation.

Through Ryerson Entrepreneurial Programme, the members of the Entrepreneurial group, established a Small and Medium Enterprise Development Centre, as a co-operative undertaking among business, government and academic institutions, for the purpose of developing Canadian enterprise and creating job opportunities for Canadians.

#### OBJECTIVES

1. To provide management services to small owner managed businesses.
2. To provide guidance, advice and management services to business area re-vitalizing projects in the Metro Toronto area and in the Southern Ontario regions.
3. To assist Ryerson students and graduates in job-creating activities through new venture formation, and productivity

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7. Ontario Corporation Number 384871 (See also Exhibit 4)



improvement of existing businesses.

4. To provide life experiences for Ryerson degree students and graduates and senior students, through a co-operative programme in engaging management services to small/owner managed businesses, thereby,
  - a. creating student placement opportunities, and
  - b. furnishing small businesses with better equipped potential managers.
5. To promote Canadian entrepreneurship and enterprise in organizing special symposiums, seminars and conferences.
6. To publish a range of papers in business development problems, and on management problems and small/owner managed firms.
7. To develop a curriculum in the area of entrepreneurship and enterprise development for educational institutions.
8. To co-operate and co-ordinate with other educational institutions in the area of entrepreneurship and enterprise development efforts.

#### ACTIVITIES

The Centre is proposed to be a project of Ryerson Entrepreneurial Seminar with the deliberate intention of keeping it strongly allied to other disciplinary areas of the Ryerson Polytechnical Institute so that wide resources of the Institute can be made



available to small owner managed businesses and entrepreneurs through the Centre.

The Centre will:

1. Provide for small/owner managed businesses, a consultancy service which will undertake preliminary surveys of the businesses, and recommend advice or assistance that they could advantageously employ; for example, improved systems in profit planning, costing and /or budgetary control, inventory and production control, merchandise policy, methods study and work measurement, human resources planning and development and other managerial skills and techniques.
2. Provide firms with a follow-up of the consultant's recommendations (such as CASE, and other consultants), and a continuing advisory service under which it would year round, on request, undertake critical reviews of the financial statements, cash flow analysis and projection, give regular advice on problems stemming from expansions and the rapid pace of technological change and competitive pressures, make surveys on market conditions, and on investment proposals.
3. Provide for Business Improvement Areas, established under the Ontario Municipal Act, Section 361, a consultancy service which will undertake preliminary surveys on traffic flow,



parking, consumers' buying habits' studies relating to area beautification and promotional plans for both long and short term situations as well as related revitalizing projects for the area.

4. Through close co-operation with Ryerson Entrepreneurial Seminar, the Centre will provide all aspects of assistance to Ryerson Entrepreneurs who undertake new ventures. This will include the provision of advice of incorporation, location, and feasibility studies, market test, information relating to seed money sources, the development of a complete business plan and books of accounts.
5. Co-operate with other areas of Ryerson Polytechnical Institute, other institutions, industry and/or government to promote, and be involved in activities of developing import replacement and increase export opportunities.
6. Undertake, in collaboration with other research and/or government agencies, a significant research programme in the factors limiting the efficiency of small businesses and into the means by which these limitations can be overcome.
7. Organize the Ryerson Small Business Conference, special symposiums and/or seminars where necessary.



## ORGANIZATION

### Membership:

#### A. Voting Members: -

- i. Participants of Ryerson Entrepreneurial Seminar,  
with the payment of an annual membership fee as  
determined by the Board of Directors of the Centre.
- ii. Corporate Members: -
  - a) Corporate member, with the payment of an annual  
corporate membership due as determined by the  
Board of Directors.
  - b) Corporate contributor, who has rendered  
its financial support from time to time.
  - c) Corporate participating member, small business  
owner/manager, who in the opinion of the Board  
of Directors, could make valuable contributions  
to the Centre.

#### B. Non-Voting Members: -

Membership offered to the public at large, with the  
payment of an annual membership due as determined by  
the Board of Directors.

### Board of Directors:

All board members shall be elected by the voting members



at the membership meeting. At least one member of the Board must be a faculty member of Ryerson Enterprise and Management Development Faculty.

Advisory Board:

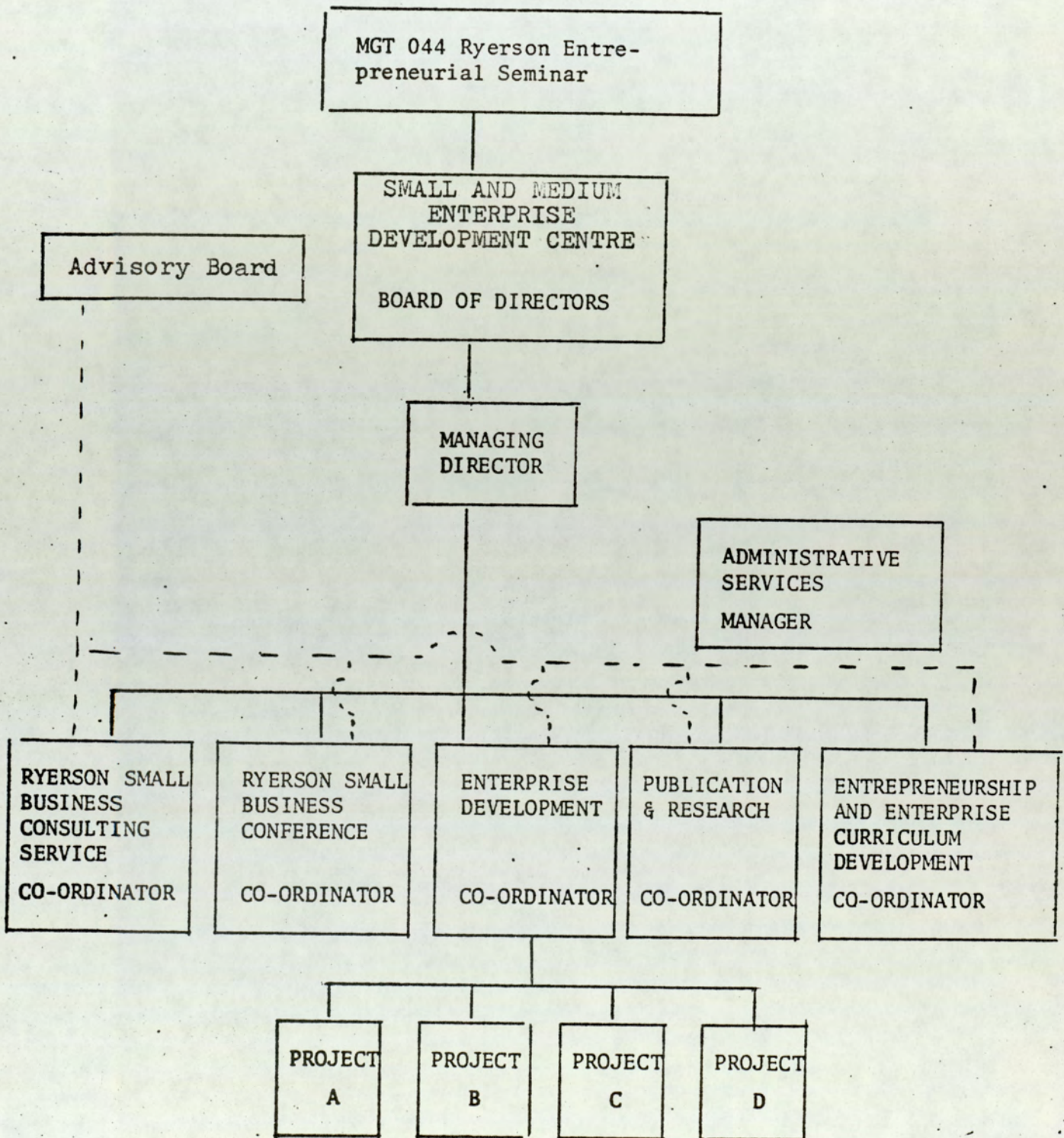
The Advisory Board shall consist of appointed senior managers of business corporations, owner/managers of smaller firms, and members of the Ryerson faculty.

The Advisory Board is an independent body from the Centre's formal organization structure.

Each member of the Advisory Board may act as a resource person for any undertaking of the Centre, and/or as a leader of a consulting project.



Organization Chart:





(5) A Self-Reliance Model - Project Self-Reliance

Project Self-Reliance is designed to deal with education and small business. Essentially, the project is financed by the Canadian Federation of Independent Business. Its objective is to co-ordinate educational efforts in developing Canadian entrepreneurship and specifically, to develop curricula related to small business in both the secondary and post secondary schools across Canada. The initial operation of the project will involve developing a series of courses or programmes on a decentralized basis. The following are the specific objectives:

- a) To promote awareness of the importance of small business in Canadian economy.
- b) To develop and encourage individuality and self-motivation.
- c) To develop possible co-ordination between thinking and doing.
- d) To provide an opportunity of applying newly acquired knowledge instead of a mere simple transfer of learning.

The project is still in its developing stages, however, there is already a clear indication that nearly all Canadian universities



and colleges are involved in some form of small business curriculum. Only five years ago, Ryerson and possibly two or three other universities had been offering this type of course to their students. But as of 1977, according to a survey conducted for the 8th Management Research Forum, among approximately 35 universities offering a business or commerce programme, nearly all have curricula activities relating to small business management or entrepreneurship development. The following is a summary of the finding:



Summary of Small/Owner Managed Business & Entrepreneurship Curricula in Canadian Universities.

R. Kao

University	Course/Program			Summer Students' Small Business Consulting Services: No. of Yrs.		
	Day GUC	Eve. GUC	Method(s) Used	One	Two	Three+
			Lecture & Others Texts, Articles Booklets Simulations, Cases Cases with Visi- ting Ent'neur Field Studies & Interviews Venture Design Projects Consulting Services Seed Money Sources Physical Shops Others*			
rock		UC	X			
algary		G	X X			X
arlton						
alhousie						
cole des						
Hautes						
Etudes						
Commer-						
ciales, GSB	GU	GU	X X X X X X X			
	C	C				
uelph						
akehead						X
laurentian	U		X X X X X X X			X
aval		U	X X X X X X X			
McGill	GC	GC	X X			
McMaster						X
Memorial	U					
Moncton	GU	GU	X X X		X	
	C	C				
Ottawa	U		X	X		X
Quebec						
Montreal	U	U	X X X		X	
Quebec						
Rimouski	U	U	X X X X X X X			



Summary of Small/Owner Managed Business &  
Entrepreneurship/Curricula in Canadian  
Universities (Cont'd.)

R. Kao

University	Course/Program										Summer Students' Small Business Consulting Services: No. of Yrs.				
	Day G U C	Eve. G U C											One	Two	Three+
			Lecture & Others	Texts, Articles Booklets	Simulations, Cases	Cases with Visi-ting Ent'neur	Field Studies & Interviews	Venture Design Projects	Consulting Services	Seed Money Sources	Physical Shops	Others*			
Queen's															X
Regina	U		X	X				X							
Ryerson	U	U		X		X	X	X	X	X	X				X
St. Francis Xavier	U			X	X		X	X							
St. Mary's	U			X				X		X					
St. Vincent															
Simon Fraser	U		X	X			X	X							
Windsor	G U		X	X	X		X	X	X						X
Wilfred Laurier															X
Toronto	G	G		X	X	X	X	X	X	X			X		
York	G	G	X	X	X	X	X	X	X	X					
G - Graduate Course/Program U - Undergraduate Course/Program C - Continuing Education Non-Credit  * Ryerson - Organizing an annual															

G - Graduate Course/Program  
U - Undergraduate Course/Program  
C - Continuing Education Non-Credit

\* Ryerson - Organizing an annual  
"Ryerson Small Business Conference"



(6) A Self-Sufficiency Model - The Business Improvement Area Association

As an answer to combat with the rapid expansion of shopping malls in Canadian retail trade, a group of merchants, mainly small, owner managed stores on Bloor Street, West of Toronto, organized themselves into an improvement association. The Association seeks both to beautify old shopping districts and their merchandising policy, the interiors and other forms of services to customers. In accordance with the need of the district, among other improvements, street furniture was provided, parking facilities were re-allocated and overhanging hydro wires were removed. The result has been very impressive, not only have they changed the appearances of the shopping district, but, there has been substantial evidence that most merchants in the district enjoy a reasonable increase in sales, thereby, profit. Since this project was self-supported without assistance from public funds, its success has impressed the Government of Ontario. In 1970, an amendment to the Ontario Municipal Act, under Section 361, the Act empowers the Business Improvement Area Association to levy a tax on the members of the association as well as resident non-member merchants in the district as is defined



by the association. The machinery of such an operation is based on a democratic process. First, there should be a need recognized and identified by the merchants in the area, once this need is identified, the proposal should then be submitted to the government. Subsequently, the Municipal Board of Ontario shall publicize the proposal, and a hearing will be conducted for the contrary. If there is no objection from the citizens involved, a Board of Management shall be organized with the membership representing various interests within the designated association area, such as councillors, professionals, retail stores owner/managers and other residents who might have an interest in the cause. The Board of Management shall then anticipate the improvement need, and submit its estimate to the municipal government to levy additional tax on the property and store owners. The success of the Ontario model is of interest to other provinces, such as Saskatchewan and Alberta. It is anticipated that a similar amendment may be made by the respective governments. In the Spring 1977, an effort was made to affiliate all the local improvement areas into an Ontario Association. Recently, through the steering committee of the Ontario Association, the concept was submitted



to the Federal cabinet and hopefully a Canadian Association of Business Improvement Areas can be formed.

It is by no means that the above experience of Ryerson Polytechnical Institute and other private institutions (such as Project Self-Reliance and Business Improvement Area Association) are complete nor will it resolve Canadian small business problems, nevertheless, it is a genuine and honest attempt to resolve these problems self-sufficiently. Moreover, self-sufficiency is the fundamental missing ingredient that ensures the involvement of the private sector in the economy. It is also an attempt to demonstrate the extent of co-operation between the government, business and academic institutions and the effective utilization of local resources in achieving the common objective of helping small enterprises in a decentralized basis.

In view of the weak Canadian economy and its industrial structure which is incapable of supporting the demands of a rapidly expanding work force and increasing wealth place on it, to develop Canadian small business, particularly regionally based secondary manufacturing, becomes an urgent national issue. On the other hand, it is evident that the problem of developing Canadian small



business cannot be resolved by simple government incentive programmes or subsidies on a piecemeal basis, nor can it be solved by closing out foreign owned branch plants or restrict imports. To close out foreign owned branch plants and restrict imports will not only immediately affect the nation's employment, but it will also dry up the principle source of technology for Canadian industry. Canada faces a desperate need to develop not merely small businesses, but her own native technological capacity as well. To do this, there must be an undivided effort by the nation as a whole to develop a balanced economy through businesses of all sizes and types and with a large secondary manufacturing base. Such a strategy can only be effective, if there is an integrate effort between the government and private sector devoted in self-sufficiency and self-reliance. The recommendation of the total involvement of educational institutions in promoting small business and models of self-sufficiency and self-reliance is then the starting point of a meaningful small business policy for Canada.



EXHIBIT 1

VIDA SERVICES  
LIMITED

9 BENTON ROAD • TORONTO, ONTARIO • M6M 3G2 — (416) 245-1715

October 13, 1977

Ryerson Polytechnical Institute  
50 Gould Street  
Toronto, Ontario

Attention: Professor R. Kao  
Coordinator Management Studies

Subject: Student Consulting Service

Dear Raymond:

The student consulting service of Ryerson under your capable direction is indirectly responsible for providing twenty-five job opportunities.

As you may recall it was the student consulting service who discovered a small company in trouble floundering for its very survival. Through your counsel I approached the directors with the offer of my assistance in a full time capacity as controller.

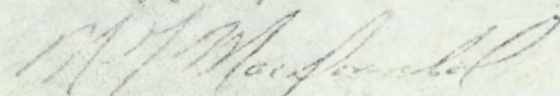
We are indeed pleased with the turnaround exercise as demonstrated in the attached audited statements. As one can readily see by examination of the financial data a precarious position did exist. If immediate management action had not been taken 25 people would have lost their jobs and creditors of the corporation would have lost over \$350,000.

I am not suggesting the student consulting service solved the problem, they did however, discover the cancer and indicated the severity of the situation.

During our present fiscal period we will employ twenty-five people, purchase goods and services to the tune of 1,800,000 and receive an after tax income which yields a respectable R.O.I.

The results of our association with your students is self evident. Thank you.

Sincerely yours,



N. G. (Neil) MacDonald  
Controller

P.S. All Financial Data is presented in the strictest of confidence.



EXHIBIT 2 page 1

The Ryerson Entrepreneurial Group gratefully  
acknowledges the support of the following:

- Ryerson Polytechnical Institute
- The Accounting/Finance Union
- The Management Union
- The Marketing Union
- Ontario Ministry of Industry and Tourism
- Department of Industry, Trade and Commerce
- The Federal Business Development Bank
- The Dean of Business, R.P.I.
- The Department of Business Administration,  
Ryerson Polytechnical Institute
- The Department of Hospitality and Tourism  
Management, Ryerson Polytechnical Institute

APPLICATION FOR REGISTRATION

RYERSON SMALL BUSINESS CONFERENCE '78

~~APRIL 8 1978~~ Jorgenson Hall, Ryerson Polytechnical Institute, 380 Victoria Street, Toronto, Ontario, M5B 1E8

NAME BICK JOHNSON POSITION \_\_\_\_\_

FIRM RYERSON NO. OF EMPLOYEES \_\_\_\_\_ TELEPHONE \_\_\_\_\_

ADDRESS \_\_\_\_\_

REGISTRATION FEE: \$20.00 (lunch included)

Registration may be made by mail or in person. The Registration Form and cheque should be sent to:

RYERSON SMALL BUSINESS CONFERENCE '78 C/O Professor R. Kao, Business Division, Room B605, Ryerson  
Polytechnical Institute, 235 Victoria Street, Toronto, Ontario, M5B 1E8 - Telephone 595-5393 or 595-5259.

PARKING: "J" Lot (\$1.00 per entry) Corner Gould and Victoria Streets.

Please indicate which of the following discussion groups you would like to attend: (X)

☐ Taxation ☐ Equity: Term Financing  
in Cash Flow ☐ Secondary Manufacturing  
and Service Business ☐ Technology and Managerial  
Skill Transfers

RYERSON  
SMALL  
BUSINESS  
CONFERENCE

Presented by  
THE RYERSON  
SEMINAR GROUP

Dean of Business  
W. J. L. CLARK

Conference Chairman  
A. GIRENTI  
M. A. McINNIS

Faculty Advisor  
RAYMOND W. Y.  
Professor of Management

• To explore entry  
in respect to small  
and service business  
• To communicate  
problems and work  
solving

RYERSON  
POLYTECHNICAL INSTITUTE



## PROGRAM

Saturday, April 8, 1978

Jorgenson Hall

880 Victoria Street, Toronto, Ontario, M5B 1E8

8:30 a.m. - 9:30 a.m. Registration

9:30 a.m. - 9:45 a.m. Welcome Address - Dean of Business

9:45 a.m. - 11:30 a.m. General Session

## TOPIC:

Canadian Business Environment

## SPEAKERS:

L. Thibault

Director, Economics and Communication  
Canadian Manufacturers Association

George Kibedi

Manager  
Tourism Industry Improvement  
Ontario Ministry of Industry and Tourism

## PANELISTS:

John Skelton

Policy Development - Small Business  
Managerial Resources and Technology Area  
Department of Industry, Trade and Commerce

Ross Radford

Executive Director  
Small Business Division  
Ontario Ministry of Industry and Tourism

Mary Helen Spence

Counsellor  
City of Mississauga

D. C. Sedgwick

Manager, Toronto Branch  
The Federal Business Development Bank

B. Ferguson

Professor of Finance  
Ryerson Polytechnical Institute

12:30 p.m. - 2:30 p.m. Lunch

## SPEAKERS:

George Sinclair

Chairman and Chief Executive Officer  
Sinclair Radio Laboratories Ltd.

W. Stadelman

President  
Ontario Research Foundation

Dr. Sinclair and Mr. Stadelman will be introduced by Professor B. Ferguson.

2:30 p.m. - 3:45 p.m. Group Discussion

## GROUP ONE:

Secondary Manufacturing and Service Business-  
Development and Operation Problems

## DISCUSSION LEADERS:

George Sinclair

Chairman and Chief Executive Officer  
Sinclair Radio Laboratories Ltd.

A. R. Gould

President  
Canadian Union of Postal Workers

R. J. Sherk

Professor of Finance  
Ryerson Polytechnical Institute and  
Vice-President  
Canadian Federation of Independent Business

R. Pollock

Business Consultant  
Consultative Service Branch  
Ontario Ministry of Industry and Tourism

## GROUP TWO:

Technology and Managerial Skill Transfers -  
Consulting and Human Resource Planning  
Services

## DISCUSSION LEADERS:

W. Stadelman

President  
Ontario Research Foundation

John Skelton

Policy Development - Small Business Mana-

R. Radford

Executive Director  
Small Business Division  
Ontario Ministry of Industry and Tourism

John Jenkins

Professor of Business Administration  
Wilfrid Laurier University

R. Bruce

Management Service Officer  
The Federal Business Development Bank

## GROUP THREE:

Taxation-Incorporation

## DISCUSSION LEADERS:

R. E. Bean

Chartered Accountant  
Professor of Taxation  
Ryerson Polytechnical Institute

A. Suga

Chartered Accountant  
Special Services Department  
Price Waterhouse and Co.

M. White

Chartered Accountant  
Tax Department  
Price Waterhouse and Co.

## GROUP FOUR:

Equity, Term Financing and Cash Flow

## DISCUSSION LEADERS:

D. C. Sedgwick

Manager, Toronto Branch  
The Federal Business Development Bank

P. Northey

Professor of Business Administration  
Ryerson Polytechnical Institute

Ken Jensen, F.I.C.B.

Manager  
Yonge and Sherwood Branch  
Royal Bank of Canada

3:45 p.m. - 4:00 p.m. Coffee



EXHIBIT 3 page 1



Gouvernement  
du Canada

Government  
of Canada

Industrie  
et Commerce

Industry, Trade  
and Commerce

MEMORANDUM - MÉMOIRE

Raymond,

April 27/78

Copy as promised.  
Will be able to finalize  
this very shortly. Must  
meet with province first.

John  
Shelt

Ottawa

0115-111.3(12/76)



EXHIBIT 3 page 2

SMALL BUSINESS INTERN PROGRAM

BACKGROUND

There is evidence that small businesses are not able or willing, more often than not for lack of funds, to recruit young persons with higher education who may be capable of contributing significantly to the firm's long-term profitability and viability. Also, this situation stems from a lack of appreciation by the small business owner or manager of the potential usefulness of a new graduate to his firm and in part from the fact that new graduates do not possess the practical experience necessary to complement their theoretical training and, therefore, perhaps cannot immediately justify their salary.

From the point of view of the graduate, it is a fact that in many cases:

- (a) Small businesses tend to pay a lower starting salary to graduates and tend to offer less security of employment than do large firms.
- (b) The small business environment is often perceived by graduates to be less challenging in terms of work assignments, e.g. less opportunity to use their specialized skills than in the big business environment.
- (c) Fewer obvious opportunities for career advancement may exist with a small firm.

April 25, 1978



EXHIBIT 3 page 3

Some of these perceptions would probably be substantially modified as a result of actual work experience in a small firm since pay scales, work tasks and career development in a small business can often be fully competitive with those in big business.

OBJECTIVE

The Small Business Intern Program is intended to:

- (a) Encourage the provision of permanent jobs for recent graduates having the skills and potential to contribute significantly toward the improvement of the viability and competitiveness of small and medium-sized firms.
- (b) Enable young graduates to acquire practical work experience in a small business environment.
- (c) Increase the number and quality of contacts between universities and community colleges and the small business community.

It should also be noted that the aim of the program is to foster and encourage a normal employer-employee relationship.

ADMINISTRATION

The vehicle of delivery of this program will be through universities and community colleges offering relevant training programs, beyond the one year post secondary level. An agreement setting out the terms and conditions by which the program is to be administered will be signed between the university/community college and the Crown. The university/community college will appoint a program Administrator who will assume responsibility for the matching of interns to job opportunities as these arise.



BASIS OF PAYMENT TO THE INSTITUTION OF LEARNING

Accountable advances may be made by the Crown up to a maximum of 25% of the annual cash requirements as indicated in the forecast (based on three month cash requirement). The educational institutions will be required to submit a monthly accounting of actual payments made to the participating firms, together with copies of all relevant supporting documentation such as company invoices to the university, etc. The monthly accounting should be received no later than the fifteenth of the month following. After performing a desk audit of the accounting, the Crown will reimburse the university or community college for the eligible costs incurred so as to re-establish the accountable advance to the previously agreed upon level. If evidence indicates that the actual expenditures have fallen significantly short of those estimated, the Crown may then, at its discretion, decide not to reimburse the university or community college for the costs incurred during a particular period. This will, in effect, decrease the amount of the accountable advance to a more realistic level.

The Crown will reimburse the university or community college sixty (\$60.00) dollars per intern administration fee upon receipt of an invoice.

FUNDING FORMULA TO THE EMPLOYER

The federal contribution is fifty percent of a specified intern's wage up to a limit of \$8,100 per job for a twelve month period. Payments are to be made by the university/community college to the company on a monthly basis.

COMPANY ELIGIBILITY

To be eligible, the Company must meet the following criteria:

- be incorporated;
- not be insolvent;
- have three hundred or less employees (companies which meet this criteria but which are affiliated to larger companies will be considered on a case by case basis);



- have a new manpower requirement which does not displace any existing employee;
- is not receiving other subsidy for the intern;
- submits a job description for the intern acceptable to the university/community college program Administrator;
- has the potential for providing continuing employment after subsidy termination to the intern;
- agrees to submit monthly invoices to the university/community college;
- agrees to discretionary audit by the Administrator or the Department of Industry, Trade and Commerce.

In the event of company bankruptcy, receivership or if for any other reason there is non-payment to the intern, the Crown will be responsible only for its share of the intern's wage up to the amount earned at the time of termination of employment.

#### STUDENT ELIGIBILITY

Students who are Canadian citizens or landed immigrants and who have completed the whole of a recognized program of studies two or more years beyond secondary school are eligible. The student must not have worked for the firm in which he or she will be employed as an intern in the previous six months.

#### SELECTION CRITERIA

Certain criteria including the following will be taken into consideration by the Administrator when making selections under the program:

- (1) The potential to create a permanent job for the intern.
- (2) Whether a firm has ever before hired a graduate in the function related to his studies.
- (3) Whether a firm is receiving other employment subsidies, i.e. those firms not receiving any employment subsidies are to be preferred over those firms already receiving some subsidy, if a choice between the two must be made because of scarcity of funds or graduates.



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- (4) The number of additional jobs estimated to be created by the employment of the graduate.
- (5) The availability of suitable experienced guidance for the company with respect to the use and development of the intern's skills.
- (6) The extent of graduate preparation for work in a small business environment, i.e. his/her "comprehension" of that environment, specific preparation done to carry out the work tasks expected by the employer.
- (7) The overall ability of the graduate to contribute to the small firm's viability and growth.

It should be noted that because of budget limitations not every company or graduate meeting the criteria can be guaranteed assistance.

GUIDANCE FOR INTERNS

The Administrator will, on a discretionary basis, recommend to the employer that an intern have guidance from a person experienced in the work which will be assigned to the intern. Sources of experienced persons include: managers of local firms, business association members, and government and learning institution personnel having extensive business experience. Such guidance services shall be on a voluntary, no fee basis. The Administrator, assisted by the Small Business Secretariat, will establish lists of suitable persons who agree to guide interns.

ASSESSMENT OF PROGRESS

The university/community college will contact regularly (at least monthly) the persons guiding interns. Unsatisfactory reports concerning the firm, e.g. no substantive work assigned to the intern, could lead, after consultation with the Administrator, to termination of the subsidy. Unsatisfactory reports by the employer concerning the intern's performance will be referred to the Administrator for action. The Administrator is to forward monthly financial and activity reports to the Small Business Secretariat. Spot program monitoring by the Small Business Secretariat and ITC Financial Services will be undertaken.



### CONSULTATION WITH PROVINCES

Provincial departments of industry will be approached to:

- (a) Assist Administrators in identifying job opportunities suitable for the program. .
- (b) Assist in identifying persons to guide interns in applying his theoretical skills to the practical small business work environment.

### PUBLICITY

The Department of ITC will provide national and regional publicity support in order to promote the program. This publicity will indicate how the program is complementary to the similar Scientific and Technical Employment Program.

### PROGRAM MEASUREMENT CRITERIA

Overall assessment of the program will be undertaken prior to the end of the first fiscal year and re-evaluation of the program's parameters and financial requirements will be proposed.

The prime measurement criteria will be the number of direct and indirect permanent jobs created and the cost per permanent job created. A sample survey of the employer also will evaluate the intern's contribution to the firm's growth; e.g. sales, productivity, entry into export markets; the extent to which the firm is willing to hire additional graduates without assistance; an assessment of additional small business involvement with learning institution affairs, e.g. assisting professors in developing a curriculum more oriented to small business needs. There will also be an evaluation of the degree to which job opportunities identified for the program emanated from different program sources within the provincial and federal governments, e.g. from TIS, CASE, DREE, ITC, etc.



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WHERE TO APPLY

Universities and community colleges wishing to participate in administering this program should contact:

Small Business Intern Program,  
Small Business Secretariat, 8E (63),  
Department of Industry, Trade and Commerce,  
235 Queen Street,  
Ottawa, Ontario.  
K1A 0H5

(613) 992-1303

Companies, students and graduates should apply to the nearest institution of learning administering the program. A list of participating institutions is available from the Small Business Secretariat.



EXHIBIT 4 page 1



Ministry of  
Consumer and  
Commercial  
Relations

Ontario Corporation  
Number

384871

## Letters Patent

WHEREAS an application has been filed to incorporate a corporation without share capital under the name

SMALL AND MEDIUM ENTERPRISE DEVELOPMENT CENTRE

AND WHEREAS the Minister of Consumer and Commercial Relations is the member of the Executive Council to whom the administration of The Corporations Act is assigned.

THEREFORE I, by virtue of the aforesaid powers vested in me, do by these Letters Patent issue a charter constituting the applicants named in the application which is attached hereto and which forms part of these Letters Patent, and any other persons who become members of the corporation hereby created, a corporation without share capital in accordance with the provisions of the said Act.

AND IT IS HEREBY ORDAINED AND DECLARED that the Letters Patent shall also contain and be subject to the following terms, conditions and provisions:

- (a) The corporation shall be carried on without the purpose of gain for its members and any profits or other accretions to the corporation shall be used in promoting its objects.



ENTERPRISE DEVELOPMENT CENTRE



EXHIBIT "A"

THE OBJECTS FOR WHICH THE CORPORATION IS TO BE INCORPORATED ARE

- . To promote the study of business management and to improve the knowledge of its members in connection with the practice of business management.
- . To provide educational experience for students and graduates of Ryerson Polytechnical Institute in business management, and to assist such persons with advice in establishing and operating their own businesses and in other job-creating activities.
- . To provide a consulting service in business management to small and medium businesses.
- . To provide advice in business re-vitalization programs in Southern Ontario.
- . To provide business consulting services for improvement areas established under the Municipal Act of the Province of Ontario.
- . To do research on small and medium businesses and to co-operate with industry, government, educational institutions and others in such research.
- . To develop curricula in entrepreneurship and enterprise development.
- . To organize conferences, symposiums and seminars and to publish literature relating to the development of small businesses and to the promotion of entrepreneurship by Canadians.
- . To receive, acquire and hold gifts, donations, legacies and demises and to hold, invest, expend or deal with the same in furtherance of the objects of the Corporation.

4. THE HEAD OFFICE OF THE CORPORATION IS TO BE SITUATE in the City OF Toronto  
(name of municipality) IN THE Judicial District OF York  
(county or district)

THE PROVINCE OF ONTARIO.



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5. THE NAMES OF THE APPLICANTS WHO ARE TO BE THE FIRST DIRECTORS OF THE CORPORATION ARE  
Raymond Wen-Yuan KAO

100 Kenwood Avenue, Toronto, Ontario M6C 2S2

Jacek Francisezek Jozef KRYT

21 Heathcote Ave., Willowdale, Ontario M2L 1N6

Paul Blair CURRIE

1 Ardrossan Place, Toronto, Ontario

\*\*

DATED THIS 11th DAY OF May 19 78.

SIGNATURE OF WITNESS

SIGNATURES OF APPLICANTS

Thome Briskwell

Kathleen Wilson

Thome Briskwell

Raymond Wen-Yuan KAO

Jacek Francisezek Jozef KRYT

Paul Blair CURRIE



THE PROFILE OF OWNER/MANAGERS OF SMALLER FIRMS

S U M M A R Y

The summary is made on the basis of the findings from the response of a questionnaire from over 500 people who are mostly owner/managers of smaller firms in the Province of Ontario, Canada; and subsequent person-to-person interviews with approximately 35 owner/managers of different industries, retailing and service establishments. Although the summary and the conclusion of this investigation cannot be considered definitive, it reflects some relevant characteristics of owner/managers, their decision making behaviour, their responsiveness to problems and government assistance programmes.

1. A small businessman/woman is in most cases, the owner/manager of his/her own business. He/she, in a broader sense, is an owner who might inherit the business or buy it, or otherwise, acquire sufficient ownership to become the manager whose major asset is the business.

Although his/her academic education may be limited, the



small business owner/manager is willing to take a risk and is very resourceful at minimizing his/her risk. He/she tends to play a dominant role in the company and particularly in the area of finances, since his salary is the residual after all other deductions.

All owner/managers interviewed responded with an air of self-confidence, as they recounted their experiences despite the difficulties faced by their companies. It was apparent that most have overcome enough challenges to acquire a confidence in overcoming tomorrow's difficulties. They are generally of an optimistic temperament.

2. The responses to the questionnaire and the discussion of the key function with selected owner/managers unveiled the differences in operating approaches between those who were marketing (sales) oriented and those who were production oriented. Whatever the differences in operating approaches, all were involved in day-to-day operations and exerted strict financial control.

The small business owner/manager has his/her own yardsticks



for measuring the performance of his/her company. Often it is not based on hard core facts(figures) or routing reports, but the vital influences are out in the market place and are gathered through personal contact. The market place is the key source of information, but unlike large business managers, the small business owner does not formally gather data; rather events and people tend to influence his/her decision making. Although he/she tends to play down the role of formal planning, the small business owner/manager does set unwritten goals and objectives for his/her company. Financial statements, while important as a means of confirming the owner's intuition of the operating performance, do not play a significant role in the day-to-day decisions. They are usually produced too far in arrears of the time for which the information is required.

3. In the footwear industry, the lack of skilled personnel together with the prospect of entering the larger U. S. market, is causing some manufacturers to investigate new directions such as automation and/or training programmes. A few are contemplating retirement selling out or closing down.



In this era of inflation, small business is perhaps suffering more than the large companies, since price instability not only increases the cost of manufacturing, but also the costs of measuring performance.

4. It is apparent from the responses and the interviews that several of the government programmes do not help the small business owner/manager because he/she does not know that they exist. There is also the question of whether the procedures of government are in conflict with managerial processes of small businesses.



DETAILED ANALYSIS - QUESTIONNAIRE

There were 533 valid entries, representing approximately 40% of the total questionnaires dispatched. Included in the 533 entries, were a number of government representatives, professional people (management consultants and accountants) and some employees from large corporations (Sales over \$2,000,000 and/or employs more than 100 people). For the purpose of ensuring that the information would reflect the profile or owner/managers of smaller firms, some discretion was used to exclude those who, in fact, were not running their own businesses, but are employees of large corporations, as well as government officials. However, all entries are accounted for and included in Table 1 of the analysis to reflect the general pattern of the responsiveness of the investigation.

Corporate Profile (General information)

a) Type of business:

Businesses represented were:

Retailing	18.2%
Wholesale	5.1
Manufacturing	38.6
Services	30.7
Exporting	1.3
Importing	5.3
Government	.8



The pattern of representation is also true for various regions. There was a high percentage in both the services and manufacturing businesses; it is also interesting to note that a significant number of importer respondents were those who attended the Ryerson Small Business Conferences. (Table 1, 1)).

b) Position and status of the respondent in the firm:

Over 90% of all respondents were owner/managers. This includes all professional accountants and management consultants who are also partners of their respective firms.

Nearly all respondents hold key positions, including chairman of the board, president, vice-president or director of the company. The government officials responded either as manager or reporting to a manager, the number of government officials included in the analysis only amounts to less than 5% (Table 1, 2) and 3)).

c) Incorporation, the size of the company and number of years in business:

Incorporation

More than half of the firms are incorporated as a limited liability company, and approximately 40% either carry on a business with a status of sole proprietorship or partnership. It should be noted that some respondents



are professional accountants and management consultants of which partnership appears to be the logical form of incorporation.

The size of the company

82% of the respondents have less than 70 employees, with annual sales of less than \$2,000,000. Although the questionnaire did not provide a separate category for firms whose sales are under \$250,000, there were a number of smaller firms under this category mostly in the retailing and small service businesses.

Number of years in business

There was a suprising number of new firms ( 5 years or less) among the respondents. Accordingly, they represent 82% of the total responses. However, the percentage in total tabulation is not necessarily in congruence with the regional result. For example, in the Hamilton area (an industry city), 33% of the regional respondents have been in business between 6 to 10 years.(Table 1, 6)).

d) Affiliation with trade association:

The question was designed specifically to find out the



owner/manager's attitude towards an organized body, such as a trade association, chamber of commerce, board of trade etc. Unfortunately, there was some indication from the returned questionnaires that some respondents did not wish to provide an answer to the question. Later, during a person-to-person interview, many owner/managers expressed appreciation for the services that their associations rendered to them, but some also expressed disenchantment towards their associations, particularly retailers.

According to the responses received from owner/managers, over 60% of those who replied indicated that they are affiliated with an organization of some kind. However, if professional accountants are excluded from the tabulation, (since all accountants must affiliate with their respective association, such as: C. A., C.G.A., or R.I.A..), only a little more than 50% can be considered as having an affiliation with trade technical or similar organizations (Table 1, 8)).

#### Owner/manager's background

##### a) Field of specialization:

Sales, accounting and engineering constitute approximately 80%



of the respondents' background with sales or marketing representing 43.5% of the total. Some respondents also marked three different places (such as: marketing, Design and Production). Presumably there are many owner/managers of the smaller firms with a multiple business functional background; a man could design a product then produce it himself and be a sales representative for the company.

- b) Previous association before entering into the present business: Among the 427 respondents to the question, only 23% have had no previous business or working experience. 31% of the total respondents worked for large companies, 16% have had another small business before, and 11% have worked for smaller companies. (Table 2a).

A large number of owner/managers who came from large corporations suggested that the working experience with large corporations could be a stimulus for entrepreneurs to form businesses of their own. It might have also been true that the experiences gained by working for others could help entrepreneurs to eliminate unnecessary uncertainty which can be detrimental to small companies in the early stages of their operation. (Table 2b).



c) Formal education:

all respondents have had a minimum of 8 years of formal education, with approximately 40% who received some university training and over 70% who have earned their high school graduation diploma. The responses do not add to 100%, as some respondents marked more than one place. For example, one owner/manager may have designated himself as a high school graduation diploma holder, and subsequently, he may have enrolled in a university course in small business management. Therefore, he would also indicate that he had some university education. Unlike the U. S. entrepreneurs, most respondents do not have university degrees (Table 2c).

d) Citizenship:

Many respondents (51%) are naturalized citizens (first generation), this suggests that job opportunities were not as desirable or available for the new-comers than for those who were born in Canada (second or third generation). It could also suggest that most immigrants are opportunity seekers. It seems to be a natural tendency for them to form their own businesses to realize a dream of wanting to be his/her own boss (Table 2b).



Owner/manager and his/her business

All questions in this section are designed to obtain some insight of the owner/manager's decision making behaviour, at the same time, it is expected that some management problems which are often encountered by owner/managers of smaller firms and the ways and means that he/she goes about to resolve these problems and to whom he/she usually seeks for assistance if help is needed.

a) Founding the business:

It is regrettable that only 266 owner/managers responded to this question. This may suggest that some smaller firms' operators may not tolerate questions of a personal nature. Nevertheless, among those who responded to the question, a large number of them (61%) founded the business by themselves; and approximately an equal number indicated that either they founded their businesses with family members (including relations) or friends (Table 3a).

b) Decision making behaviour:

Unlike the earlier question (with whom he/she found the business), owner/managers are much more willing to share the information relating to his/her decision making



and management problems.

Accordingly, over 60% who responded indicated that they would like to make decisions strictly by themselves (It is possible that most of them may be sole proprietors). On the other hand, many (46%) of them expressed that they would consult the matter with their partners or staff members of the company. There was also an indication that few do seek outside consultation with experts/specialists such as bank managers or accountants (15%). It is also significant to note that there are a number of respondents who often use the rule of thumb to make business decisions rather than a formalized input. The total responses to this question add to more than 100%, as many respondents marked more than one place. This may indicate than an owner/manager's decision making process is influenced by many people around him/her (Table 3b).

The use of the telephone for business dealings appears to be apparently the consensus of all respondents that the telephone is the most preferred method for business dealings. Written documents, letters or memos tend to be the least preferred method (Table 3c).



c) Managing business:

The responses indicated a high priority on cash flow in small business management, although sales tends to be the concern of all respondents. There were also indications that owner/managers spend a great deal of their time in supervision (28%, second in ranking order) and business dealing through telephone. A reasonable number of owner/managers also spend considerable time in doing book-keeping and other paper work. Some respondents do read trade or technical journals, but in a lower ranking order (Table 3d). The responses suggest that either short(monthly and yearly) or long term(up to five years) planning were low in priority in comparison with other business management processes, however, this does not mean that owner/managers make no plans or prepare budgets for their businesses. Through subsequent personal interviews with some owner/managers, it was found that they have some sort of plan of their own, except that they cannot put it down in a written form. More than 50% of the respondents expressed their interest in management control (reviewing reports), nevertheless, they ranked it very low in



priority (Table 3d).

Sales decline and cash flow remain critical problems for most respondents; the need for long term funds is also a general concern. Although lack of competent employees is not a serious problem, most managers experienced some difficulties (Table 3e).

Bank managers and accountants tend to be the individuals that most owner/managers will go for help, particularly, in problems such as cash flow, sales decline and other financial matters. They also tend to seek help from their accountants in selecting their employees, only turning to government assistance for problems of long term financing, dealing with unions and hiring new employees. Advertising agencies were also the sources that they turned for help, but only for problems relating to sales or promotion (including overstock). They also seemed willing to turn to suppliers for consultation concerning problems relating to buying or leasing, and/or business expansion (Table 3f).



The Awareness of Government Services and Programmes

There appears to be less awareness of government services and programmes. According to the responses, only a small percentage of 512 respondents have used the services provided by the Federal Business Development Bank, some of the respondents indicated their total ignorance of any service or programme offered by the government. There seems to be evidence that there is less satisfaction among very small companies as far as government programmes are concerned. (Table 3g).



## INTERVIEWS

After several discussions with participants of the Ryerson Small Business Conference, it was apparent that the owner/manager's decisions were not made as the result of analyzing hard data, but from various influences interacting upon him/her. Consequently, it was felt that a person-to-person interview was necessary in order to gain some insight into the owner/manager's decision making behaviour. While the footwear (shoe making) industry was the focus of the interview, other manufacturing companies were used to validate the questionnaire. It became apparent that there were too many valuable insights and comparisons in these other interviews to ignore them, therefore, they have been included.

In the instances where there are significant differences, the companies in the footwear industry are discussed separately from other companies. Where there are no major differences, all companies are discussed as small businesses.

### (1) Who is a Small Businessman/Woman

A small businessman/woman in most cases is an owner/manager of his/her own business, he/she in a broad sense, is an owner who might have inherited the business, or have bought it, or otherwise



acquired sufficient ownership to become the manager whose major asset is the business.

The owner/managers who were interviewed represent all ages, and their length of business ownership stretches from a year to fifty years. Although the energy varies from one generation to the next, each owner/manager was confident of his/her ability to meet any problems presented in the day-to-day operation.

A. Formal education

None of the owner/managers interviewed had any formal university education. Most had completed some high school, but few had graduated. Mostly, education was abandoned by the older men because of the ravages of the 30's. The younger owner/managers "dropped out" because they did not see the relevance of education at school.

During their business careers, some men turned to informal ways of increasing their knowledge and skill. That is, they sought knowledge not for knowledge's sake, but for a purpose. One dropout found the businessmen's seminar of one of the universities a great benefit, while others found their association's



seminars and conferences stimulating. However, most of the owner/managers interviewed did not see the relevance of extended academic education, and a few were even distrustful of it. Most of the owner/managers were found to read a little. Their communication mode is verbal and they prefer not to write. Many owner/managers interviewed indicated that the best way to get in touch with them is to telephone rather than write.

B. Attitude towards Risk

A common element of all the owner/managers interviewed is the willingness to take risks. It does not seem to matter whether the owner has inherited, purchased or started the company; the common thread is a shortage of financial resources in the early stage and therefore, a higher degree of risk.

The risks for these owner/managers are personal as well as corporate. Even when a loan is acquired, all personal assets are required as collateral. For most companies, in the early stages, bank loans, other than a line of credit (working capital) were difficult if not impossible to get. Unlike dealing with large corporations, other institutions are very seldom willing to share the risks.



C. Resourcefulness

In order to survive with their limited funds, all owner/managers interviewed were found to be unusually resourceful thus minimizing their costs. A major factor in this resourcefulness is their ability to ask questions. For example, one owner/manager developed an abbreviated but useful costing system by asking and getting his competitor's help and costing standards. Another was able to adopt a Sales Price List computer programme of a competitor into a formula which only required a pocket calculator.

The necessity of resourcefulness is underlined when one realizes that some of the owner/managers did not know the market they were entering when they set up their businesses, but simply had a good idea which they thought would work. In the retail business, for example, of approximately twenty stores in the newly erected Markham Shopping Mall, 15 or 16 retailers admitted that it was their first business venture. One man started a packing company in an industry that he knew nothing about, and at a time when Canada was still a foreign country to him. As he said: " I made it because I asked a lot of questions, and because I was humble, the buyers helped me out."



The owner/managers rely heavily upon personal contacts. Mostly, he/she does not seek information through research data; he is influenced by immediate events and the people around him/her.

D. Management style

Among the owner/managers interviewed, regardless of their industries, there is a difference between first generation and second generation approaches to management. With the first generation owner/managers, in most cases the founders of the business, the individual becomes indistinguishable from the company. The obvious examples are the instances where the company's name is that of the owner. nonetheless, whether the corporate name is the same or not, the founders tend to dominate. The first generation owner/managers usually hire assistants to do specific jobs, but as they made it clear in the interview, they themselves run the business. However most of the older founders who were approaching retirement or were thinking of handing over the business to someone else, realize that a new management style would be required.

The second generation owner/manager, whether or not



related to the founder, utilizes all the key employees. He/she tends to recognize his/her own limitations and deficiencies and expects to elevate the group into a management team. Although the second generation owner may broaden the employee group participation to include a voice in the decision making process and often a share of profits, the financial information is still tightly controlled. In most cases, employees who are not shareholders do not have access to the financial statements.

The reason for this tight financial control is related to another fundamental difference between the small business owner/manager and his/her managerial counterpart in big business. The small business owner/manager, unlike the manager in a large corporation who is an employee, gets the residual of the business operation.

(2) How does the owner/manager operate the business?

(A) What is the company's key function?

The discussion of key function reveals major differences in approach within the footwear industry. Particularly between those purchasing and production oriented, and those



marketing oriented. These differences are discussed in sub-headings "price sensitivity" and "innovation".

In all the other small companies, marketing was ranked as the key function, and the differences in approach were not as apparent.

a) Key Function in Footwear Industry

Among owner/managers interviewed in the footwear industry, there is a division between those who see the company's key function as marketing and those who see it as purchasing and production.

This division affects corporate practice, and will be discussed under the following headings: i) Price Sensitivity and ii) Innovation.

i) Price Sensitivity - Among the marketing oriented, marketing generally means an emphasis on creative design and styling, although merchandising also plays a role in some instances. The companies in this group sell their shoes and slippers for higher prices, and do not consider their product as price sensitive; the styling of their lines is the key to their selling strategy.

Those who consider purchasing and production as their



key functions are very price sensitive. Although the price sensitive group emphasized that they produce a quality product, some relate good design to cost cutting factors. Another illustration of the effect of price sensitivity is shown in the attitude to the export market. It was constantly reiterated that there is a real demand for quality shoes in the United States. The purchasing and production oriented (price sensitive) group considers costs as inhibiting their entry into the export market. A common feeling is that it is difficult to get into the U. S. market because the American tariffs make Canadian footwear too expensive to compete and the costs of setting up are too high.

The marketing oriented group (not price sensitive) is already in the export business or exploring ways to get into it, either by increasing their own production domestically, or by setting up an operation in the foreign market.

ii) Innovation - In the purchasing and production group the constant attention to cost seems to inhibit innovation. Owner/managers in this group are more apt to wait and see whether other people's experiments are successful before making the changes themselves. By contrast, many



owner/managers in the marketing oriented group talked about the improvements that their companies would be implementing in the next few years.

The difference in attitude to innovation is particularly evident in the response to technological improvements. The purchasing and production group tends to be wary of increased automation for two reasons: 1) it is synonymous with a drop in quality. 2) the capital required is too much when returns are so low.

In contrast, the marketing oriented group has discovered that some automation processes could improve quality and are seeking ways around the problems of return in investment. Another type of innovation by a different company in the marketing oriented group was the establishment of a modern plant on a suburban site with some land around it. It was believed that an improved environment would attract the necessary skilled personnel.

#### b) Key Function in Other Industry

In the manufacturing businesses outside the footwear industry, marketing is considered the most important



function. While marketing to this group does not include design, it does include innovation in other areas - such as merchandising, advertising or ancilliary services provided with their products. As in the case of design, however, the innovation is required to enable the company to create its own "niche" in the market. To succeed, most small businesses realize that they needed to be a little different, or a little better.

For example, one manufacturer carved his niche in the paper box business, not by competing with the large scale - mass production manufacturers but by providing a unique service to promotion and merchandising departments of large companies - by the design and coloring of odd shaped boxes for specific promotions.

Generally, the uniqueness of ancilliary services determine the degree of price sensitivity.

(2) What is the Role of the Owner/manager?

All the small business owner/managers interviewed are heavily involved in every phase of the day-to-day operation and assume total responsibility for raising capital and other



financial matters. Even if they have designers, salesmen and foremen, they still exercise constant supervision and have continual personal contacts with nearly all their employees. The personal approach extends beyond the plant. The small business owner/manager knows the customers that he/she has and/or wants, and usually has a personal connection with them. He/she also understands his/her competitors' strengths and weaknesses; and he/she often has a personal rapport with them.

(3) What is the Role of Planning?

In regard to planning, it is evident that the small business owner/manager reacts to people and events on his perception towards them. Ostensibly he/she has no formal plan. The reasons given are various:

"Things happen so fast in the market place that it is impossible to plan."

"One cannot see beyond today's laws, taxes and prices, which are all in such state of flux."

"I make most of the decisions and nobody else is interested or capable of planning."

"Nobody is interested in a plan - so why create unnecessary problems by writing it out."



Despite the differing rationales, one reason the small business owner/manager has no written plan is because financially, his/her main concern is to avoid unnecessary costs involved in planning and on who much is going to be spent.

Nevertheless, while he/she does not make a formal plan, the owner/manager knows what he/she wants to do and how he/she is going to do it. Each has set some objectives and created goals for his/her company. Moreover, a formal plan undermines flexibility, where flexibility can be a key to small business management.

(4) How is Performance Measured?

A. Role of Financial Statement

Profit is the ultimate measure of success, however, unlike the large corporation's manager, the owner/manager the of/smaller firm relies on his/her own yardsticks. Many owner/managers interviewed stated that the financial statements are of little value in the day-to-day decisions because they are too far behind. Yet they have a healthy respect for their statements as a confirmation that their yardsticks are valid.

Another problem of financial statements for the small



business owner/manager is the expense of creating them where inventories are involved. A statement is not accurate without an inventory, but no company does more than two physical counts per year, and most do only one - which is another reason why other yardsticks were used.

B. Other Yardsticks

In the footwear industry the most popular measurement of performance is the number of shoes made, as indicated by production reports, and/or number of shoes sold, as indicated by sales analysis. These figures, together with the intimate knowledge of the costs of material and labour give the owner/manager an accurate view of his/her operating performance. As a result of their experience and feel for the business, some owner/managers can estimate performance by more subjective means.

In view of the lack of emphasis on financial statements, most accounting is done manually. There are a few book-keeping machines utilized... and a few owner/managers are exploring the computer as a means for book-keeping.

(5) What are the Major Influences on Decision-Making?

It was evident in the interviews that the small business



owner/manager does not make decisions from a cool assessment of hard data. He/she tends to be influenced by events and people in the market place, and in his/her own company.

A. Internal Influences

The key employee is sometimes an influence. In most cases, the key employee is given the responsibility for an area, but rarely full authority, with the result that he or she must exert his/her influence on the owner/manager to create any change. Whether or not he/she does exert any influence, is largely determined on whether the owner/manager hired him/her to cover a personal deficiency or as an assistant in an area of skill. The former may have great influence, while the latter has none. Although some owners were quick to point out the superior skill of employees in some areas, the dominant attitude is summed up by the following remark:

"It is my show and money and my major job is to motivate the others."

B. External Influence

Among external influences family and friends are not major ones, and if used, are only sounding boards.



Consultants are seldom used.

The major external influence is obviously people and events in the market place. As one stated: "The market place holds the secrets; the trick is to unlock them." The union can be a major influence, particularly in the footwear industry, where it sets the wages in each member shop, which in turn becomes the base for the non-union shops. The union, until recently, was also the major source of manpower, but as skilled workers have diminished, the union has had more and more difficulty meeting the requests.

There are several experiments in profit-sharing being carried in some non-union shops. These experiments can also be attributed to be a strong union influence, since the owner/manager is looking for ways to pre-empt the union appeal. For the most part, the companies that are outside the footwear industry are more directly influenced by the minimum wage laws than the unions.

C. What are some of the Problems of the Small Business Owner/Manager?

A. Personnel

In the footwear industry, as well as many other industries, a common problem is the lack of skilled personnel.



"Properly trained people are impossible to get" was a frequent remark in the interviews. There seems to be a common belief that the North American lifestyle discourages prospects from entering the trade. The lack of skills inhibits exports for several companies and all feel that it is slowing their domestic growth.

#### B. Automation

A seemingly simple solution to the lack of personnel is automation, but in some quarters of the footwear industry, automation is synonymous with a drop in quality.

Some of the larger companies have automated entirely in order to increase production, but in Canada there is greater reluctance to automate, particularly among the older entrepreneurs. Some of the latter say they would close their doors rather than automate.

#### C. Prices

The most pressing problem of the owner/managers interviewed is unstable prices. The fluctuating costs of raw materials, and the resulting requirements to constantly keep the selling price in line, means that the yardsticks commonly used



are no longer valid. Thus the cost of gathering information would increase substantially.

D. Transfer of Ownership

The difficulty of transferring ownership from one generation to the next was repeatedly mentioned. There is evidence of the sale of particular companies to large corporations, usually American.

E. Financial Resources

Most of the manufacturing companies in this study are undercapitalized. This common problem of small businesses definitely restricts their ability to innovate and expand. It also increases the risks of the owner, because it reduces his/her margin for error.

F. The use of Government versus Private Sector Sources

Leasing companies and term lenders appear to be called on almost as much as government sources, and when visited, they are considerably more likely to provide funds. This may be partly because of better information being available (ie. the owner/manager knows what they provide before he/she goes there) and partly the adverse, (ie. government



provides so many services and programmes that the owner/  
manager does not know what to expect, and as far as money is  
concerned, is therefore less likely to get it.)



Table 1 Part I Business 1) 2) & 3)

	Small Business Conference		Courses or Program - Small Business Management, including Start Your Own Business and New Venture Management									
	Total	Toronto	Toronto	Hamilton	Barrie	Peterboro	London	Oshawa	Sudbury			
Total	533	161	132	71	34	27	33	20	55			
	100%	100%	100%	100%	100%	100%	100%	100%	100%			
1) <u>Type of Bus.</u>												
Retailing	18.2	8.7	23.5	15.3	31.1	21.2	16.7	30.0	21.4			
Wholesale	5.1	5.0	1.9	4.2	8.2	3.7	9.1	-	5.5			
Mfg.	38.6	37.9	42.4	39.4	29.4	29.6	48.5	45.0	32.7			
Servicing	30.7	31.7	26.5	35.2	26.5	40.7	24.2	25.0	38.6			
Exporting	1.3	1.9	2.3	1.4	-	3.7	-	-	-			
Importing	5.3	13.7	1.5	2.8	2.9	-	-	-	1.8			
Other	.8	1.1	1.9	1.7	1.1	1.1	1.5	-	-			
2) <u>Position</u>												
Chairman	23.6	25.5	24.2	22.5	32.3	14.8	15.2	30.0	20.0			
President	46.5	34.8	46.2	56.3	35.3	55.6	69.7	55.0	54.5			
Vice-President	12.6	14.3	12.1	15.5	5.9	14.8	6.1	10.0	12.8			
Director	12.2	13.0	15.2	5.7	20.6	11.1	6.0	5.0	12.7			
Manager	1.1	2.5	1.3	-	-	-	3.0	-	-			
Reporting to a Manager	4.0	9.9	1.0	-	5.8	3.7	3.0	-	-			
3) <u>Status</u>												
Owner	45.2	36.6	47.0	39.4	58.8	74.1	45.5	40.0	52.7			
Partner	51.0	57.1	51.5	57.7	38.2	22.2	48.5	60.0	43.6			
Employee	3.7	6.3	1.5	2.9	3.0	3.7	6.0	-	3.7			



Table 1 Part I Business 4) 5) 6)

		Small Business Courses or Program - Small Business Management, including Start Your Own Business and New Venture Management									
		Total	Toronto	Toronto	Hamilton	Barrie	Peterboro	London	Oshawa	Sudbury	
Total		533	161	132	71	34	27	33	20	55	
		100%	100%	100%	100%	100%	100%	100%	100%	100%	
4) <u>Incorporation</u>											
Limited Co.		58.7	62.7	64.4	54.9	58.8	59.3	27.3	55.0	58.2	
Partnership		26.5	21.7	18.2	36.6	23.5	14.8	60.6	40.0	29.1	
Sole Pro-prietorship		14.1	14.3	15.9	8.5	17.7	25.9	12.1	5.0	12.7	
Other		.7	1.3	1.5	-	-	-	-	-	-	
5) <u>No. of Emp-loyees</u>											
Less than 5		8.5	2.5	8.3	8.5	8.8	37.0	27.3	-	3.6	
5-10		29.5	22.3	9.1	29.6	44.2	29.6	54.5	85.0	54.5	
11-25		44.2	38.5	68.9	56.3	38.2	18.6	12.1	10.0	34.6	
26-70		11.6	19.3	12.1	4.2	5.9	11.1	6.1	5.0	7.3	
71-100		2.8	6.8	.8	1.4	2.9	3.7	-	-	-	
101-200		2.8	9.4	-	-	-	-	-	-	-	
Over 200		.6	1.2	.8	-	-	-	-	-	-	
6) <u>No. of Years in Business</u>											
Less than 2		21.0	13.0	8.4	15.5	26.5	51.9	21.2	40.0	56.4	
2-5		61.2	77.1	81.8	42.3	41.2	25.9	60.6	35.0	29.1	
6-10		12.6	9.3	6.1	33.8	11.8	11.1	18.2	25.0	3.6	
Over 10		5.2	.6	3.7	8.4	20.5	11.1	-	-	-	



Table 1

Part I Business 7) 8)

Small Business Courses, or Program - Small Business Management, including Conference Start Your Own Business and New Venture Management										
Total	Total	Toronto	Toronto	Hamilton	Barrie	Peterboro	London	Oshawa	Sudbury	
533	161	132	71	34	27	33	20	55		
100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	
7) <u>Annual Sales 000's</u>										
Under \$500	37.7	32.3	53.8	18.3	41.2	18.5	21.2	15.0	65.5	
\$500-\$1,000	32.6	30.5	20.5	33.8	44.1	74.1	45.5	70.0	18.2	
\$1,000-\$2,000	26.1	33.5	21.2	45.1	8.8	7.4	30.3	10.0	14.5	
\$2,000-										
\$3,000	1.5.	.6	2.3	1.4	5.9	-	-	5.0	-	
Over \$3,000	.6	.6	.8	-	-	-	-	-	1.8	
Other (N/A)	1.5	2.5	1.4	1.4	-	-	3.0	-	-	
8) <u>Affiliation-Trade Assoc.</u> **										
Yes	65.0	63.2	76.2	54.6	68.2	68.9	43.6	60.0	67.3	
No	12.2	14.3	2.3	19.7	5.9	7.4	36.4	20.0	9.0	

\*\* Responses add to less than 100% as some respondents did not answer the question.



Table 2a      Part II    Background

Question: Please indicate your field of specialization (relating to your background, education, training or interest)

	<u>Total</u>
Respondents	427
	100%
Sales (including Marketing)	43.5
Production	12.1
Finance	11.6
Accounting	21.2
Personnel	-
Design	4.1
Engineering	19.8
Purchasing	6.5
Product Research	7.1
General Administration	16.9
Other	6.8

Responses add to 142.8%, as some respondents checked more than one place.



Table 2b                      Part II Background

Question: " Before you entered into the present business, you... "

	<u>Total</u>
Respondents	427
	100%
Worked for a large company	30.7
Had another business	16.3
Worked for a small company, similar to the present business	8.0
Worked for a small company, but in different business	3.2
Worked for government	6.1
Were a high school student	13.2
Were a university student	10.1
Worked for a professional firm	4.1
Worked for a public insti- tution, such as hospital	2.5
Other	2.6

Responses add to less than 100% as some respondents  
did not answer the question



Table 2c

Part II Background

Question: Formal Education  
Citizenship

<u>**Formal Education</u>	<u>Total</u>
Respondents	427 100%
University Graduate (B.A., B.Sc. etc.,)	1.4
Master's Degree (or higher) Holder	.2
High School Diploma Holder	7.7
Hon. High School Diploma Holder	12.7
Eight years or more formal education	17.1
Professional Designation Holder (Such as: C.A, R.I.A., C.G.A., etc)	.5
Some post secondary school education	29.5
Other	1.6
<u>Citizenship</u>	
A Canadian by birth	40.7
A Canadian by Choice (Naturalized Citizen)	51.1
A landed immigrant	6.2
Other	2.0

\*\* Responses add to more than 100%, as some respondents checked more than one place.



Table 3a

Part III Entrepreneur and his/her business

Question: "If you found this business yourself, did you  
start it with ... "

	<u>Total</u>
Respondents	266 100%
Wife or husband	10.1
Son(s) or/and daughter(s)	6.7
Brother(s) and/or sister(s)	5.2
Other relative(s)	2.8
Somebody else other than relations	14.1
No-body else	61.1



Table 3b                      Part III Entrepreneur and his/her business

Decision making behaviour

Question: Before you make an important business decision  
would you normally:

	<u>Total</u>
Respondents	455
	100%
Discuss the matter with your wife, or a member of the family	15.2
Consult the matter with your colleague, or a staff member of the company	46.1
Consult the matter with your accountant, banker, or other professionals (e.g. lawyer)	5.0
Discuss with no one, but get as much information as possible, then simply make the decision yourself	66.7
Made by rule of thumb	31.2

Responses add to more than 100%, as some respondents  
checked more than one place.



Table 3c      Part III    Entrepreneur and his/her business

Decision making behaviour (con'd)

Question: In dealing business, what is your best communication device? Please rank the following in decending order(A.B.C.....) in according to your preference.

	<u>Total</u>		
Respondents	100%		
	<u>A</u>	<u>B</u>	<u>C</u>
Person to person	24.3	62.1	13.6
Telephone	95.2	4.8	-
Writing a memo or letter	10.5	6.7	82.8
Telex	21.0	34.8	46.2
Other	-	-	-



Table 3d Part III Entrepreneur and his/her business

Managing business  
Question: Rank the following activities in descending order (A.B.C. ....), according to the amount of time and efforts you spend in managing your business:

	Respondents								
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)
Managing cash flow	43.5	11.8	22.6	11.1	11.0				
Selling (incl. Marketing)	12.6	27.8	28.5	31.1					
Production		6.6	5.9	8.9	24.0	24.6			
Monthly & yearly plan'g.	1.8	2.3	10.4	-	14.6	7.3			
Long-term planning		1.0	5.8	6.6	6.9	3.5	11.6		
Supervision	9.5	27.8					5.9		
Book-keeping		5.1	2.6			25.3			
Paper work other than book-keeping	10.2	4.5	3.4	10.1	-	6.5	6.0	11.2	3.6
Managing inventory				4.7			14.5	3.5	
Purchasing					4.3	6.9	24.7	5.6	6.8
On the telephone for business matters	22.4	13.1	18.5	15.2	28.4	2.4			
Reviewing reports			2.3	5.3		8.2	22.1	16.6	2.5
Dealing with union							5.2	10.4	3.4
Read tech. or trade journal and news papers				7.0	7.8	6.2	2.9	5.3	8.1



Table 3e

Part III Entrepreneur and his/her business

Managing business (con'd)

Question: Ignoring the fact that you are running a successful business, please rank the following common problems in descending order (A.B.C. ...) according to their relative importance, which you might have been experienced in the past:

	Respondents										
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)
					409		100%				
Sales decline	45.6	36.2	18.2								
Cash flow	38.1	36.0	15.9								
Overstock											
Shortage of supply											
Lack of competent employees	6.8	10.0	36.6	21.7	12.9	7.7	4.3				
Can't meet market demand			10.4	26.0	9.1	2.4					
Buying or leasing equipment (incl. expansion)			7.4	10.9	15.2	-	5.5	22.7	9.5	10.2	.7
Need more long term funds	8.5	17.8	8.8	32.2	21.6	11.1					
Trouble with union						12.8	19.9	8.8	1.0		
Family or health problem			1.5	9.2	5.2	15.1		16.8	7.9	3.4	
Other					.5						.2

Responses in both business problems and ranking add to less than 10%, as some respondents did not answer all the questions.







Table 3g Part III Entrepreneur and his/her business

Question: There is a variety of government services designed specifically to aid smaller firms. Please indicate whether you have a) heard, b) used, c) had no knowledge of such services.

512 = 100%	a) heard	b) used	c) no know- ledge
a) F. B. D. B.	35	9	40
b) Small Business Loan	61	3	31
c) Enterprise Development Programme	2	0	91
d) CASE	9	4	78
e) Minister of State in charge of Small Business	31	8	60
f) Ontario Gov't Trade & Tourism Consulting Services	19	9	70
g) Ontario University Students' Summer Consulting Services	29	22	37
h) Industrial Design Assistance Programme	5	0	90
i) Industrial Research Assistance Programme	6	1	88
j) Venture Capital or Canadian Fund (Ontario)	3	0	88
k) Ontario Research Foundation	22	4	71
l) Canadian Manpower Industrial Training Programme	20	3	77
m) Ontario Industry Services	10	5	85
n) Ontario Loan to Small Business	6	4	87
o) Ontario Tourist Industry Loan	2	2	81
p) Export Support Programme	3	3	97
q) Other, please specify			

The responses do not add to 100% (in case of p) over 100%), because not all respondents responded to all questions, and some respondents marked off both a) heard and b) used.



R. Kao

SURVEY OF OWNER-MANAGER'S PROFILE OF SMALLER BUSINESS ENTERPRISES

This questionnaire is an attempt to establish the profile of the small business operator or owner/manager, as it relates to the responsiveness to government measures designed to aid Canadian Small Business Growth. All answers will be treated in strict confidence, and the result of the finding will be used solely for academic research.

Part I

(Check more than one place, if necessary)

1) Your company is engaged in:

- |   |              |
|---|--------------|
| a) Retailing                                  | b) Wholesale |
| c) Manufacturing                              | d) Services  |
| e) Exporting                                  | f) Importing |
| g) Other, please specify<br>(e.g. Government) | _____        |

2) Your position in the company is:

- |                          |                           |
|--------------------------|---------------------------|
| a) Chairman of the Board | b) President              |
| c) Vice-President        | d) Director               |
| e) Manager               | f) Reporting to a Manager |

3) Your status in the company is:

- |             |            |
|-------------|------------|
| a) Owner    | b) Partner |
| c) Employee |            |



- 4) Your company is incorporated as:
- a) A limited liability Company
  - b) A Partnership
  - c) A Soleproprietorship
  - d) Other, please specify \_\_\_\_\_
- 5) The number of employees in your company:
- a) Less than 5
  - b) 5 - 10
  - c) 11-25
  - d) 26-50
  - e) 51-100
  - f) 101-200
  - g) More than 200
- 6) The number of years in business of your company:
- a) Less than 2 years
  - b) 2 - 5 years
  - c) 6 - 10 years
  - d) More than 10 years
- 7) The annual sales of your company: (approximately)
- a) Under \$500,000
  - b) \$500,000-\$1,000,000
  - c) \$1,000,000-\$2,000,000
  - d) \$2,000,000-\$3,000,000
  - e) Over \$3,000,000,000
- 8) Is your company a member of a trade (professional) association?  
(including Board of Trade, Chamber of Commerce, etc.,)
- a) Yes
  - b) No
  - c) Affiliation other than trade association, (please specify).  
\_\_\_\_\_



Part II

(Check more than one place of each question, if necessary)

- 9) Please indicate your field of specialization (relating to your background, education, training or interest)
- |                                 |                           |
|---------------------------------|---------------------------|
| a) Sales (including Marketing)  | b) Production             |
| c) Finance                      | d) Accounting             |
| e) Personnel                    | f) Design                 |
| g) Engineering                  | h) Purchasing             |
| i) Product Research             | j) General Administration |
| k) Other, please specify. _____ |                           |
| _____                           |                           |

- 10) Before you entered into the present business, you
- a) Worked for a large company
  - b) Had another business
  - c) Worked for a small company, similar to the present business
  - d) Worked for a small company, but in different business
  - e) Worked for government
  - f) Were a high school student
  - g) Were a university student
  - h) Worked for a professional firm
  - i) Worked for a public institution, such as hospital
  - j) Other, please specify. \_\_\_\_\_

- 11) You are:

- a) A university graduate
- b) A Master's Degree (or higher) holder
- c) A high school graduation diploma holder
- d) A hon. high school graduation diploma holder



- e) Graduate of a public school  
(including some high school education)
- f) A professional designation holder  
(Such as: C.A., C.G.A. or R.I.A. etc.,)
- g) Some post secondary school education
- h) Other, please specify. \_\_\_\_\_

12) You are:

- a) A Canadian citizen by birth
- b) A Canadian citizen by choice  
( naturalized citizen)
- c) A landed immigrant
- d) Other, please specify. \_\_\_\_\_

### Part III

(Please check more than one place of each question, if necessary)

13) If you found this business yourself, did you start it with:

- a) Your wife or husband
- b) Your son(s) and/or daughter(s)
- c) Your brother(s) and/or sister(s)
- d) Other relative(s)
- e) Somebody else other than relations
- f) Nobody else

14) Before you make an important business decision, would you normally:

- a) discuss the matter with your wife, or a member of your family
- b) Consult the matter with your colleague, or a staff member of the company
- c) Consult the matter with your accountant, banker, or other professionals
- d) Discuss with no one, but get as much information as possible, then simply make the decision by yourself.



15) In dealing business, what is your best communication device? Please rank the following in decending order (A.B.C. ...) according to your preference

- a) Person to person ( )
- b) Telephone ( )
- c) Writing a memo or letter ( )
- d) Telex ( )
- e) Other ( )

16) Rank the following activities in decending order (A.B.C. ...)

- a) Managing cash flow ( )
- b) Selling ( )
- c) Monthly and yearly planning ( )
- d) Long-term planning ( )
- e) Supervision ( )
- f) Book-keeping ( )
- g) Paper work other than book-keeping ( )
- h) Managing inventory ( )
- i) Purchasing ( )
- j) On the telephone for business matters ( )
- k) Reviewing reports ( )
- l) Dealing with union ( )
- m) Read tech. or trade journal and newspapers ( )
- n) Other, please specify ( )



17) Ignoring the fact that you are running a successful business, please rank the following common problem (A.B.C. ...) according to their importance, which you might have experienced in the past:

- a) Sales declining ( )
- b) Cash flow ( )
- c) Overstock ( )
- d) Shortage of supply ( )
- e) Lack of competent employees ( )
- f) Can not meet market demand ( )
- g) Buying or leasing equipment  
(including expansion) ( )
- h) Need more long term funds ( )
- i) Trouble with union ( )
- j) Family or health problem ( )
- k) Other, please specify  
\_\_\_\_\_ ( )



- 18) If you did have any of the problems stated in your earlier response to the question 17), please check the appropriate column to indicate the person(s) or government agency from whom you obtained or sought assistance or consultation:

Wife or husband  
 Sons or daughters  
 Brothers or sisters  
 Other relative(s)  
 Accountant  
 Bank manager  
 Lawyer  
 Friend  
 Gov't agent  
 Old teacher  
 Supplier  
 Member of trade assoc.  
 Consultant  
 Other

Sales decline

## Cash flow

Overstock

## Shortage of Supply

Lack of competent employees

can not meet  
market demand

## Buying or leasing

Need long term funds

Trouble with  
union

Family or health  
problem

Other \_\_\_\_\_



- 19) There is a variety of government services designed specifically to aid smaller firms. Please indicate whether you have a) heard, b) used, c) had no knowledge of such services.

a) heard    b) used    c) no know  
\_\_\_\_\_    \_\_\_\_\_    ledge

- a) F.B.D.B.
  - b) Small Business Loan
  - c) Enterprise Development Programme
  - d) CASE
  - e) Minister of State in charge of Small Business
  - f) Ontario Gov't Trade & Tourism Consulting Services
  - g) Ontario University Students' Summer Consulting Services
  - h) Industrial Design Assistance Program
  - i) Industrial Research Assistance Program
  - j) Venture Capital or Canadian Fund (Ontario)
  - k) Ontario Research Foundation
  - l) Canadian Manpower Industrial Training Program
  - m) Ontario Industry Services
  - n) Ontario Loan to Small Business
  - o) Ontario Tourist Industry Loan
  - p) Export Support Program
  - q) Other, please specify
- \_\_\_\_\_



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Government Grants, and Incentive Programmes (see pages 62 to  
76 and page 101 of this study)

Information concerning Grants and Incentive Programmes  
are obtainable from Small Business Secretariat,  
Department of Industry, Trade and Commerce.