

51. Enabling More Canadian Firms to Scale Up

Issue

Canada's continued growth and prosperity depends on our capacity to innovate and translate these new ideas into real economic gains. To do so, we need to create an environment that lets our most promising firms thrive. To spur the creation of new and innovative companies, governments, institutions, and the business community have done much to build up and tap into the entrepreneurial spirit of Canadians. However, key barriers are preventing entrepreneurs from continuing to build their business and achieve high-growth, or "scale up", in the country. As such, Canada is foregoing many of the economic benefits that could be provided by this untapped growth potential. A concerted effort is required by the federal government, provincial/territorial governments, and local governments to create the conditions that would allow more of our firms to grow into large, global-leading organizations.

Background

According to the Global Entrepreneurship Monitor, Canada is a leader in early stage entrepreneurial activity, scoring above many G7 nations and almost equal to U.S. Unfortunately, this entrepreneurial activity has not resulted in expected economic outcomes, namely the growth and proliferation of new and innovative firms. As stated recently by the Centre for Digital Entrepreneurship and Economic Performance, "Canada continues to struggle to produce the type of sustainable, high-growth firms in knowledge-intensive sectors that policy-makers have identified as crucial to the country's economic future."

A recent report by the UK's National Endowment for Science, Technology and the Arts (NESTA) revealed a clear "scale up gap" between the Canada and the U.S.: American firms are more likely to experience periods of rapid growth, while Canadian firms are more likely to experience little growth or rapid decline. As a result, Canada's small firms contribute relatively more to total economic output compared to the U.S. In addition, Canada's billion-dollar firms contribute a much lower share of total revenues compared to other economies. Despite the proliferation of start-up accelerator organizations (SAOs) in Canada, there has been limited success in creating large firms relative to our American counterparts.

Canada's failure to scale its companies is a critical gap in our nation's business growth strategy. In Canada, high-growth firms are responsible for a large proportion of job creation: from 2000 to 2009, high-growth firms made up only 18 percent of Canada's growing firms but created nearly 47 percent of new jobs.¹ With fewer firms scaling, we are also reducing our potential to increase Canada's population of large firms, which contribute disproportionately to the nation's economic activity, R&D, and exporting. A focus on entrepreneurship to inject new and innovative ideas into the economy is important, but Canada foregoes the long-term economic benefits of this activity if its most promising businesses are unable to grow.

In a recent report, the Ontario Chamber of Commerce identified six key barriers preventing businesses from scaling up in Ontario:

- Professionals with the right skill set to help businesses scale up are too scarce
- Businesses may not have sufficient access to some forms of financing
- Public business supports and incentives are not aligned with scaling up objectives
- Businesses are not sufficiently engaged in international trade
- Anchor companies are not sufficiently engaged in the Canadian marketplace
- There is insufficient data to monitor the effectiveness of policy responses

¹ Dixon, J., and A-M. Rollin. 2014. The distribution of employment growth rates in Canada: the role of high-growth and rapidly shrinking firms. <http://www.statcan.gc.ca/pub/11f0027m/11f0027m2014091-eng.pdf>

While the report was situated in the Ontario context, many of the barriers are equally relevant to businesses' experiences in other provinces/territories.

Encouragingly, the federal government has recently signalled its intent to support help more companies scale in Canada. In its 2016 budget, the government announced a new initiative to help 1,000 high-impact firms access a coordinated suite of services specific to their growth needs. This is in addition to other initiatives that increase support for growth-oriented small and medium-sized firms.

This is also true in Ontario, where the provincial government has included scaling up as one of three pillars of its newly-announced Business Growth Initiative. The government is implementing a voucher program to provide growth-oriented firms access to specific services that align with their growth needs. The province is also piloting a project to boost government's role as an adopter of Ontario-based innovation.

With alignment across governments and with the business community, we have a critical window of opportunity to address the barriers that are preventing Canadian entrepreneurs from scaling their companies.

Recommendations

That the federal government:

1. Create a distinct "scale up visa" or special immigration designation that accelerates the immigration process for international talent that has been recruited by Canadian companies in the process of scaling up.
2. Work with provincial/territorial governments and the private sector to identify where current gaps in financing exist in the Canadian financing landscape.
3. Ensure public programs are aligned to facilitate scaling up by focusing greater support on high-growth firms and those with high-growth potential.
4. Increase support for businesses seeking to engage in international trade, a key determinant of business growth in Canada.
5. Designate a percentage of all public procurement budgets to support innovative businesses in Canada.
6. Work with provincial/territorial governments, sector associations, and other relevant organizations to collect and publicize data that would enable the accurate measurement of the scale up challenge and monitor the success of public policy responses.

SUBMITTED BY THE UPPER OTTAWA VALLEY CHAMBER OF COMMERCE

Co-sponsored by the Ontario Chamber of Commerce, the Greater Kingston Chamber of Commerce, the Greater Sudbury Chamber of Commerce, the Chamber of Commerce Brantford-Brant, the Windsor-Essex Regional Chamber of Commerce, the Whitby Chamber of Commerce, the Burlington Chamber of Commerce, the Newmarket Chamber of Commerce, the Oakville Chamber of Commerce, the Greater Peterborough Chamber of Commerce, the Sarnia-Lambton Chamber of Commerce, and the Tillsonburg District Chamber of Commerce

THE SME COMMITTEE SUPPORTS THIS RESOLUTION.

THE IMMIGRATION POLICY COMMITTEE SUPPORTS THIS RESOLUTION.