



Global Entrepreneurship Monitor

Driving wealth creation &
social development in

Canada



**2019/2020 GEM
CANADA
NATIONAL REPORT**

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EXECUTIVE SUMMARY

COVID 19 DISCLAIMER

While this report was being completed, Canada, along with other global economies, was in the process of managing the spread and effects of the COVID 19 pandemic. The data for this report was collected from May to July 2019, prior to any hint of the economic instability and shock to entrepreneurs and small businesses nationally and globally.

The GEM Canada Report 2019/2020 now provides an informative baseline that can be used to gauge the rate and type of economic recovery coming out of this pandemic. In other words, this Report addresses the question of ‘what did entrepreneurship look like in Canada immediately before the crisis,’ and will be used to help inform ideas and policies about recovery and growth. Future GEM reports will explore the impact of COVID 19 on entrepreneurship as the recovery takes hold.

GEM CANADA REPORT 2019/2020

The Global Entrepreneurship Monitor (GEM) Project is widely recognized as the most comprehensive longitudinal study of entrepreneurship in the world. GEM offers a portrait of the individual entrepreneur in terms of attitudes, activities, and aspirations. It also allows for a more detailed demographic breakdown of how factors like age, education and gender play a role in entrepreneurial activity.

The GEM Canada Report 2019/2020 highlights how Canada measures up regarding its entrepreneurial activity. Comparisons are made between Canada and five other economies (USA, UK, Germany, Italy and Japan); referred to throughout the Report as the ‘G6’ (France did not participate in 2019). Report findings and recommendations are presented in Chapter 6. A summary of findings and recommendations is presented below.

Key Findings

Attitudes towards Entrepreneurship

The Canadian population has **positive attitudes toward entrepreneurship as a career**.

- 7 out of 10 Canadian adults (69%) view entrepreneurship as a good career choice. Canada leads all other G6 economies in this indicator.
- 8 out of 10 Canadian adults (80%) believe that successful entrepreneurs enjoy high status in Canada.
- Three-quarters of Canadian adults (76%) believe that entrepreneurial success attracts a high level of media attention in Canada.

The Canadian population has **positive attitudes towards entrepreneurial skills**, which are associated with intentions to start a business.

- ‘Affiliation with/knowing an entrepreneur’ has risen significantly from 2018 (15.2%), suggesting increased engagement with entrepreneurs by Canadians.
- ‘Perceived opportunities for entrepreneurship’ has risen by 4.1% from 2018 and overall, by 8.1% since 2016. This suggests that Canadians perceive their environment as rich in opportunities despite challenging economic conditions.
- The ‘fear of failure’ rate has risen by 2.4% in 2019, and overall, by 5.6% since 2016. Higher ‘fear of failure’ levels may have a negative effect on entrepreneurial intentions.
- However, there is a **widening gap between ‘opportunity perceptions’ and ‘perceived capabilities’ amongst Canadians**, which may indicate that, while people identify more opportunities, they don’t perceive that they have the capabilities needed to pursue them.

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- Canada has the highest level of ‘intention to start a business’ amongst G6 economies, despite a lower rate than 2018 (24%), a higher fear of failure rate (50%) and lower ‘capability perception level’ than the USA.
- Almost 7 out of 10 Canadians see good opportunities to start a business; a crucial first step on the entrepreneurial journey.

Entrepreneurial Activity

Canada maintains its leading position amongst innovation-led economies for its total early-stage entrepreneurial activity (TEA), but is middle-ranked for its established business activity (EB).

- Canada is the only G6 economy with an **EB rate less than half its TEA rate**, which suggests challenges in transitioning Canadian start-ups into established business.
- Canada’s TEA level has dropped compared to 2018, while the UK, USA and Germany show an increase in their TEA levels.
- Canada is the only G6 economy with **high levels of motivation** across all four motivation indices (e.g. 40% or above).
- The leading motivation for G6 entrepreneurs is to ‘to build great wealth or very high income,’ with ‘to earn a living because jobs are scarce’ ranked 2nd.
- Canada leads the G6 and ranks 6th in GEM 2019 in the motivation ‘to make a difference in the world.’ This suggests that 2 of 3 Canadian entrepreneurs are motivated to build purpose-driven businesses.

Canada’s level of **employee entrepreneurial activity (EEA)** has fallen below the UK, USA and Germany compared to 2018, when it led (the G7).

Canada has the **highest rate of business discontinuance and of exits** compared to other G6 countries; similar 2018. This high rate likely contributes to Canada's low EB rate.

- However, Canada has a high rate of business continuation as a proportion of exits, with over half of those exiting a business reporting that the business continued.
- The most common reasons for 'non-involuntarily' discontinuing a business were lack of profitability and problems accessing finance, with family or personal reasons a third most common reason, followed by an incident and government bureaucracy.
- While overall percentage of voluntary (43%) and non-voluntary (57%) discontinuance is identical to 2018, the 2019 data shows a decrease in 'opportunity to sell the business,' increase in 'pursue another opportunity,' and increase in 'problems getting financing.'
- One explanation for noticeable change in discontinuous factors in 2019 is that market conditions are restricting access to finance and increasing the difficulty in selling a business. The rise in percentage of entrepreneurs seeking another job or opportunity may be a further indicator of challenging market conditions for entrepreneurs.

Canada ranks 1st amongst G6 countries in identifying **Business Angels as an important source of funds** for new businesses, and 3rd in levels of informal investment.

Entrepreneurial Aspirations

Overall, Canada's sector distribution of new businesses shows encouraging signs, given **high EB rates in the extractive, transformative and business oriented categories.**

- **Consumer-oriented services** having the highest TEA rate for all G6 economies, with Canada's rate increasing by 6.5%. Business-oriented services shows a downward trend in 2019 - while the extractive and transforming sectors have decreased slightly.

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- Canada was the only G6 economy in 2019 to see a noticeable decrease in business-oriented services while seeing an increase in consumer-oriented services. Increased entrepreneurial activity in consumer-oriented services may be an indication of ‘necessity-driven entrepreneurial activity in response to weak market conditions.
- Canada’s EB rate in consumer oriented services is much lower than the TEA rate (by 24%). This suggests that while many entrepreneurs enter this category, a high proportion are not transforming into established businesses.
- Canada’s EB rates are significantly higher than its TEA rates for the extractive and transformative sectors. **Canada’s EB rate in the extractive sector** leads the G6, highlighting the importance of this sector to the Canadian economy.
- Canada has the second lowest level of technology sector activity and lowest level of EB technology activity among G6 economies. Canada’s low technology activity levels may reflect its low level of industrial research and development (IR&D) investment.

Overall, Canadian entrepreneurs have **high growth aspirations and high expectations of future growth**, particularly in the transformative and business-oriented sectors.

- The majority of Canadian entrepreneurs and established businesses (EB) employ or expect to employ 1-5 people, which is consistent with Canadian government data.
- Canadian entrepreneurs identify high aspirations to achieve growth ‘now’ as well as ‘in 5 years;’ suggested by a significant shift in the TEA 20+ job category.
- The **transformative sector** showing the highest level of medium (6-19 jobs) and high (20+ jobs) growth expectations.
- The **extractive sector** shows the lowest level of 5-year growth expectations and highest level of ‘no jobs’ expected in 5 years. This suggests less optimism for growth in the sector compared to 2018.

GEM defines Canada as a **strongly ‘export-oriented’ economy**. Canada ranked 1st in 2019 on expectations of export sales that will generate 25% or more of revenues.

- Canada’s TEA level of **‘high export orientation’** is significantly higher than other G6 economies (e.g. over 50% of revenues generated from outside country). Canada’s EB level is similar to that of the UK.
- Canada leads other G6 economies in high export orientation in business-oriented services (TEA and EB), and consumer-oriented services (1st in TEA, 2nd in EB).
- Canada has the highest level of **national scope** (for customers and product/process) compared to other G6 economies; ranking it 7th out of 50 countries. Canada’s **international scope** was slightly lower than USA and tied with Germany (joint 6th).

Demographics

Canadians in the **25-34 age group are the most likely to start a business**, followed by the 25-34 age group. This is consistent with GEM data across 50 economies in 2019.

- Canada’s level of TEA first increases with age and then declines; a pattern consistent in most high-income economies.
- Canada’s TEA rate is translating into established businesses amongst a younger cohort of Canadians.
- Canada’s established businesses continue to rely on an older cohort of business owners (e.g. 45-64 age range).

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Canada's entrepreneurs possessing the **highest educational rates** across three of the four educational levels.

- Canadian TEA graduate experience is almost twice the level of the UK and almost three times the level of Japan.
- A large proportion of Canadian entrepreneurs possess specialized educational knowledge; aligning with Canadian government data which shows that approximately 80% of start-up owners in Canada have post-secondary education.

Canadian women in 2019/2020 have positive attitudes towards entrepreneurship, but **lower perceptions of having necessary skills and experience to start a business.**

- The gap between Canadian men and women in perceptions of skills and experience is 16.5%. Since 2016, the gap has been consistent and has changed less than 1%.
- The small gap between male and female perceptions on 'good conditions to start a business' has remained consistent since 2017, while the 'fear of failure' perception is most similar between men and women, and has risen in 2019.
- Female perceptions of 'knowing entrepreneurs' has risen significantly from 2018 (15.6%), suggesting increasing engagement in the entrepreneurial community.
- TEA and EB rates for Canadian women decreased in 2019, while TEA and EB rates increased for Canadian men. Women-owned businesses are much more active in the consumer services sector, where entry and exit rates are high.
- Canadian women and men rank 6th overall in the motivation 'to make a difference.' This identifies Canada as a leading country for mission-driven entrepreneurship.

Framework Conditions for Entrepreneurship

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Canada is ranked 2nd amongst G6 economies and 14th among 54 economies taking part in the **National Entrepreneurship Context Index** (NECI) for 2019/2020.

- Canada's most sizable gap is in **'financing for entrepreneurship'**, followed by 'R&D transference,' 'government bureaucracy and taxes' and 'internal market burdens.'
- Canada's recognized challenge with internal (i.e. cross-provincial) market dynamics is again suggested in its low score, which places Canada 27th out of 54 economies.
- Canada also shows a sizable gap in 'entrepreneurship education at the post-school stage,' but less of a gap in 'entrepreneurship at the primary school stage.' Canada places 20th in the former and 9th in the latter.
- Canada shares similar gaps with the USA in 'internal market dynamics,' and 'R&D transfer.' Canada differs the most with the USA in 'financing for entrepreneurship' and 'physical infrastructure.'
- Canada's framework conditions appears strongest in physical infrastructure/services access and cultural/social norms, but gaps in most other indicators collectively weaken Canada's support framework for entrepreneurship.
- Canada's gaps in its framework conditions appear to be of its own making. Inter-provincial trade barriers, burdensome R&D transfer processes, inefficient regulatory and tax systems and infrastructure constraints have been identified as barriers to entrepreneurship and business growth for some time.
- Overall, Canada's gaps in its framework conditions require further attention if the economy is to fully benefit from the aspirations and motivations of entrepreneurs to start and establish new businesses.

EXECUTIVE SUMMARY **Recommendations**

1. **Provide more policy attention to support entrepreneurs and established businesses in value-adding sectors.** GEM data identifies high EB rates and strong growth aspirations in the transformative and business oriented sectors.
2. **Provide targeted assistance to younger business owners.** GEM data identifies a significant increase in entrepreneurial activity in the 18-34 age group.
3. **Address the persistent and significant ‘skills and experience’ gap for Canadian women entrepreneurs.** The gap with men has changed less than 1% since 2016.
4. **Prioritise policy efforts to strength Canada’s framework conditions to support entrepreneurship.** Canada’s poor rating on most framework conditions is a barrier to entrepreneurial activity and established business growth in the economy.
5. **Address the gap in entrepreneurship training in the ‘post-school’ stage.** This indicator once again gets a low score from Canadian experts and in the NECI index.

Introduction

The GEM Canada Report 2019/2020 is the 7th year of a comprehensive survey of entrepreneurship in Canada. This report is based on data drawn from the Adult Population Survey (APS), which investigates the attitudes toward entrepreneurship of the general population and, more specifically, the perceptions, activities, and aspirations of individual entrepreneurs.

Canada is amongst 50 world economies completing the APS, which surveys individuals between the ages of 18 and 64 years. Canada is one of the few GEM economies that collects data on individuals between the ages of 18 and 80 years (which acknowledges that entrepreneurs and business owners remain active beyond 64). However, Canada uses the 18-64 age range for comparisons with other GEM economies, as will be presented in this Report.

A key objective of the GEM Canada Report is to present new insights that can guide efforts aimed at equipping Canadians with the capabilities they need to launch and run their businesses and to create environments within which their ventures can thrive. The GEM method differs from most other sources of information about entrepreneurship which are based on firm level data. GEM probes the individual, focusing on their role as an entrepreneur within the Canadian ‘ecosystem.’

The Canadian context

The state of the Canadian economy influences the perceptions, intentions and actions of individuals to undertake entrepreneurial activity. Macro-economic conditions, institutions and public policies, industry characteristics and demographic shifts further influence entrepreneurial behaviours, activities and their contribution to economic growth.

Canada’s annual growth in 2019 was 1.6%, slowing from a 2% expansion in 2018, following a 3% increase in 2017. Slow growth is attributed to a number of factors, including global trade policy uncertainty, low energy prices, lack of pipeline capacity and mandatory oil production cuts and a rising public deficit. Investment in plant and

CHAPTER 1

equipment by Canadian businesses has dropped 20% since oil prices began collapsing in 2014, the weakest performance in more than five decades.¹

Canada had 1.2 million employer businesses in 2019, with the majority of businesses (54%) employing between 1 and 4 people. Exports of goods and services accounted for 32% of Canadian GDP; however, only 12% of SMEs (1-499 employees) exported goods and services outside of Canada.²

Debate continues in 2019 regarding the most effective policies to stimulate and support entrepreneurs and new businesses, such as whether to prioritize support to high-growth firms (HGFs).³ Recent research show that firms are more likely to grow as they approach an estimated size of 23 employees, and then the probability that the firm becomes a HGF lowers as the firm becomes larger.⁴ Measures that promote investment in human capital by entrepreneurial firms or improve access to financing may also help Canadian firms achieve rapid growth.

Canada's challenge in exploiting its world-class science base and building tech businesses to scale remain key topic areas in 2019. The Council of Canadian Academies recently identified the inability to grow a sufficient number of start-ups to scale and loss of innovative start-ups to foreign buyers as factors impeding Canada's ability to fully capture social and economic benefits stemming from its research advances.⁵

Stimulating entrepreneurial activity in new sectors, such as artificial intelligence and digital technologies, green energy and health tech, while supporting established businesses in traditional sectors, such as oil and gas and manufacturing, have attracted considerable attention from federal and regional policy makers in 2019.

¹ <https://www.conferenceboard.ca/topics/economics/canadian/can-otlk>

² Canada's State of Trade 2019: https://www.international.gc.ca/gac-amc/publications/economist-economiste/state_of_trade-commerce_international-2019.aspx?lang=eng

³ A high-growth firm is a firm with 10 or more employees at the beginning of the period that has average annualized growth greater than 20% per year over a 3-year period. (OECD and Eurostat definition).

⁴ [https://www.ic.gc.ca/eic/site/061.nsf/vwapj/High-Growth-Firms-Characteristics-Canada.pdf/\\$file/High-Growth-Firms-Characteristics-Canada.pdf](https://www.ic.gc.ca/eic/site/061.nsf/vwapj/High-Growth-Firms-Characteristics-Canada.pdf/$file/High-Growth-Firms-Characteristics-Canada.pdf)

⁵ <https://www.rapports-cac.ca/reports/competing-in-a-global-innovation-economy/>

The Canadian business landscape in 2019 is also undergoing a dramatic shift, as a generation of business owners enter retirement, which could have a significant impact on jobs in local communities and the economy overall.⁶ Canada's business start-up rates are also being affected by an aging population.

Exploring the role of entrepreneurship in Canada and what it may contribute to the economy seems all the more important within this context. Relevant questions include:

- What do Canadians feel about the role of entrepreneurship in society?
- Are entrepreneurship rates on the rise?
- What aspirations do Canadian entrepreneurs have in terms of growth, export orientation and innovation?
- How are demographic factors influencing entrepreneurial activity in Canada?

The GEM Canada Report 2019/2020 allows us to answer some of these questions.

1.1 Overview of GEM

Entrepreneurship is an essential driver of societal health and wealth, and a key driver of economic growth. It stimulates the innovation required to exploit new opportunities, generates employment, promotes productivity and helps to address some of society's toughest challenges as stated by the United Nations Sustainable Development Goals (SDGs).⁷

The Global Entrepreneurship Monitor Project (GEM) is widely recognized as the most comprehensive longitudinal study of entrepreneurship in the world. Launched in 1999, GEM has cumulatively surveyed over 3 million adults in 114 economies across the globe.

⁶ The Canadian Federation of Independent Business estimates that 72% of business owners intend to exit their business in the next decade, with over \$1.5 trillion of assets to be transferred to a new generation of business owners. <https://www.cfib-fcei.ca/en/research-economic-analysis/getting-transition-right>

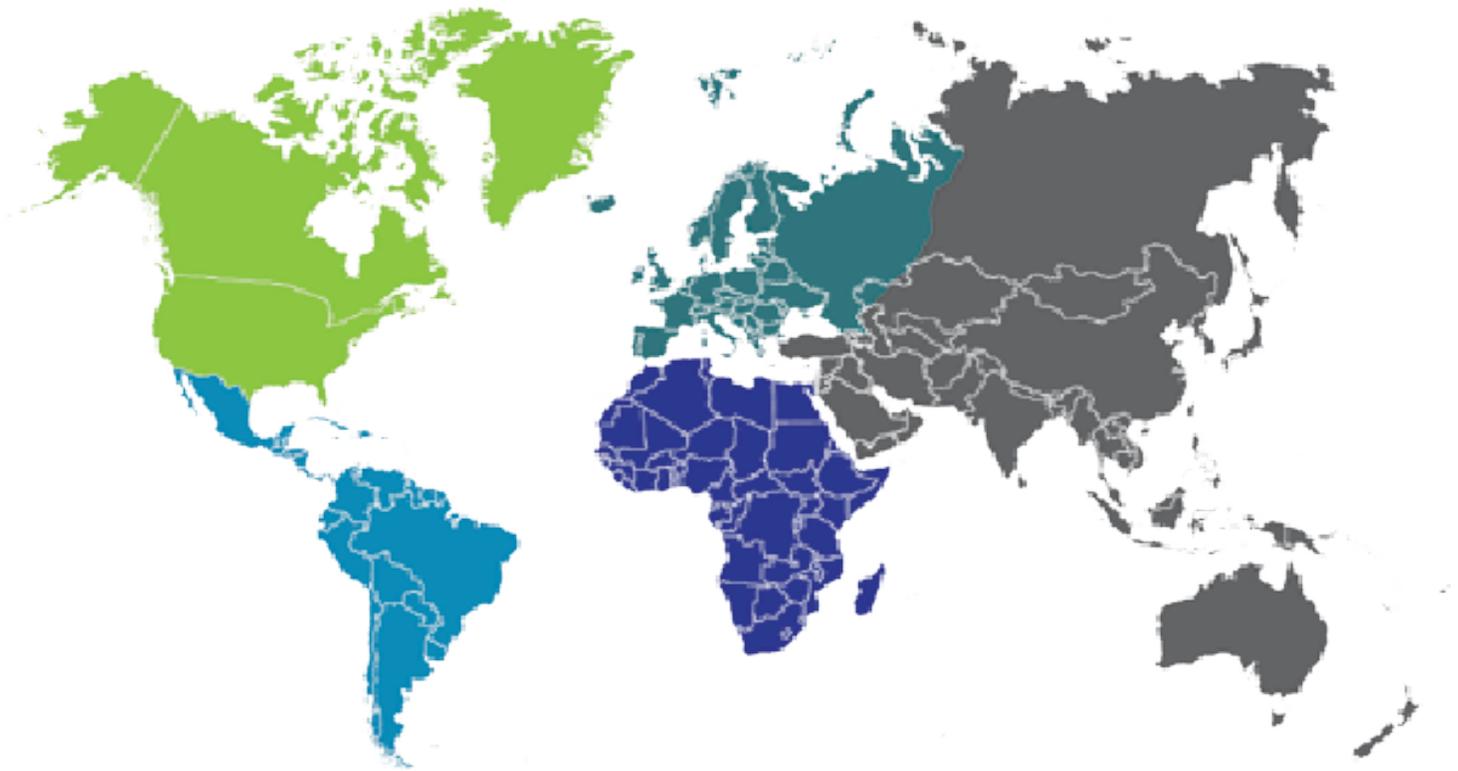
⁷ <https://www.gemconsortium.org/report/gem-2019-2020-global-report> (p. 13).

CHAPTER 1

GEM began as a joint project between London Business School (UK) and Babson College (USA), which included ten developed economies; all members of the Organization for Economic Cooperation and Development (OECD): Canada, Denmark, Finland, France, Germany, Israel, Italy, United Kingdom (UK), Japan and the United States of America (USA).

GEM conducts research across five world regions: North America, Latin American & Caribbean (LAC), Europe, Africa and Asia & Oceania, as shown in Figure 1.1.

Figure 1.1: Five World Regions of GEM Participating Economies



The 2019/2020 GEM study represents the 21st consecutive year in which GEM has tracked rates of entrepreneurship across multiple phases of entrepreneurial activity, assessed the characteristics, motivations and ambitions of entrepreneurs and explored the attitudes societies have towards this activity.

The GEM Adult Population Survey (APS) involves 50 economies, including 11 from the Middle East & Africa, eight from Asia & Pacific, eight from Latin America & Caribbean, and 23 from Europe & North America. Five of these economies are classified as low-income level, 12 as middle-income and the rest as high-income.⁸ In total, over 150,000 individuals participated in extended interviews in 2019/2020.

GEM seeks to understand entrepreneurship in national and global context, focusing on two key dimensions: i) the attitudes, activity, and aspirations of individual entrepreneurs; and ii) the national context and how it impacts entrepreneurial activity. In doing so, it hopes to identify policies that may foster the quality and quantity of the entrepreneurial activity in each country. More recently, GEM has expanded its mandate to include a range of annual global, regional, national and ‘special topic’ reports on areas like youth, women, and senior entrepreneurship.

A key objective of GEM is to explore differences in national levels and types of entrepreneurship and to link these to job creation and economic growth. GEM brings together hundreds of researchers and policy makers from across the globe and includes more than one hundred academic and government institutions every year.

1.2 Gem Model and Methodology

GEM Conceptual Framework and Methodology

The Global Entrepreneurship Monitor (GEM) defines entrepreneurship broadly as:

“Any attempt at new business or new venture creation, such as self-employment, a new business organization, or the expansion of an existing business, by an individual, a team of individuals, or an established business.”

At the heart of the GEM Conceptual Framework is a focus on individual entrepreneurs, and their personal aspirations and capabilities, as well as the nature of the entrepreneurial ecosystem.

⁸ Schwab, K. (ed.) (2019) The Global Competitiveness Report 2019. Geneva: World Economic Forum. www.weforum.org/gcr

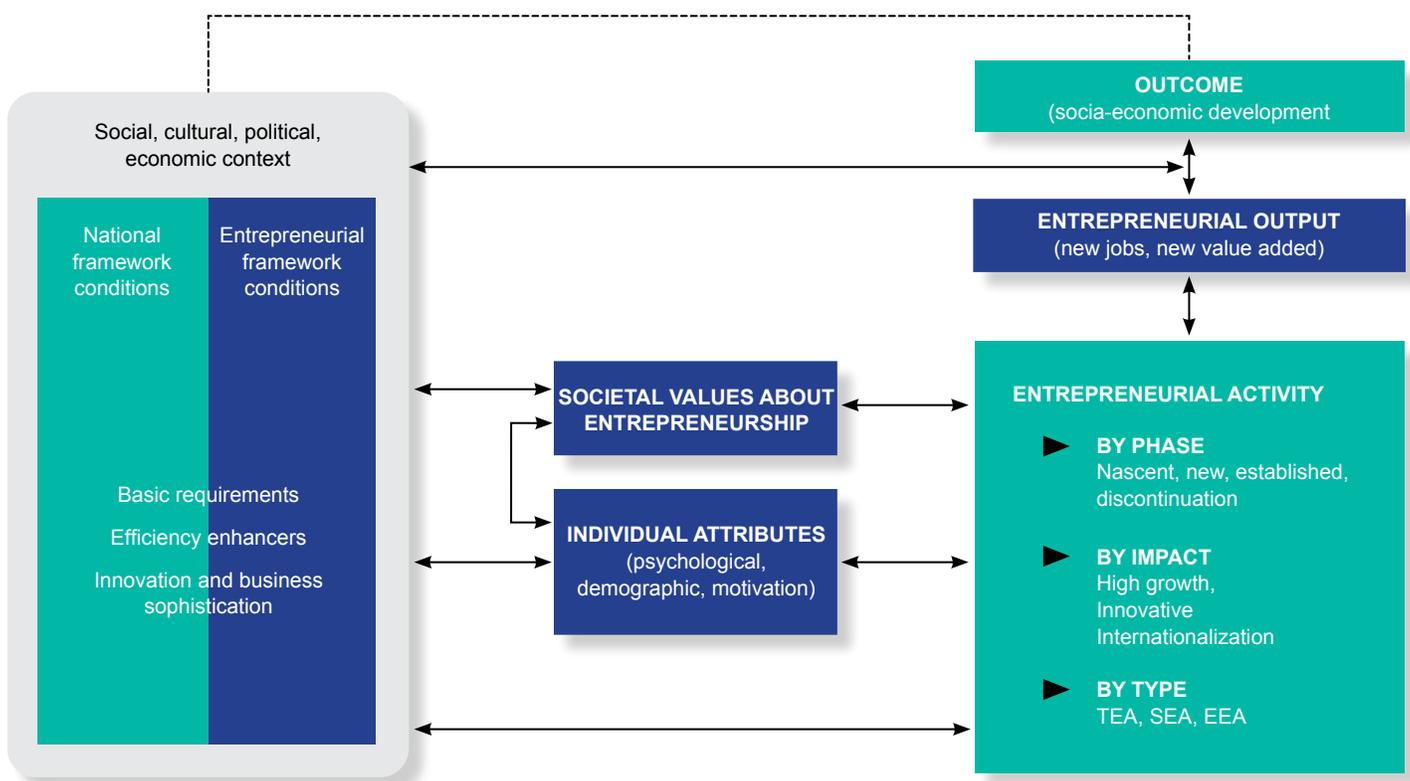
CHAPTER 1

The GEM Conceptual Framework guides data collection activities and research, both of which contribute to GEM's key aims:

- To uncover factors which encourage or hinder entrepreneurial activity, especially related to societal values, individual attributes, and entrepreneurial framework conditions.
- To provide a platform for assessing the extent to which entrepreneurial activity influences socio-economic development (including economic and inclusive growth) within individual economies.
- To uncover policy implications for the purpose of enhancing entrepreneurial capacity and resulting outcomes in an economy.

The GEM Conceptual Framework is show in Figure 1.2.

Figure 1.2: The GEM Conceptual Framework



Starting on the left-hand side of the framework, the social, cultural, political and economic context is represented through National Framework Conditions, which include entrepreneurial finance, government policy, government entrepreneurship programs, entrepreneurship education, R&D transfer, commercial and legal infrastructure, physical infrastructure, internal market dynamics and entry regulation, and cultural and social norms. These are assessed through a survey of selected experts on each of the framework conditions, as part of the National Entrepreneurship Context Index (NECI).

Societal values include societal beliefs about entrepreneurship as a good career choice, whether entrepreneurs have high societal status, the extent to which media represents entrepreneurship positively in an economy, and whether it is easy to start a business.

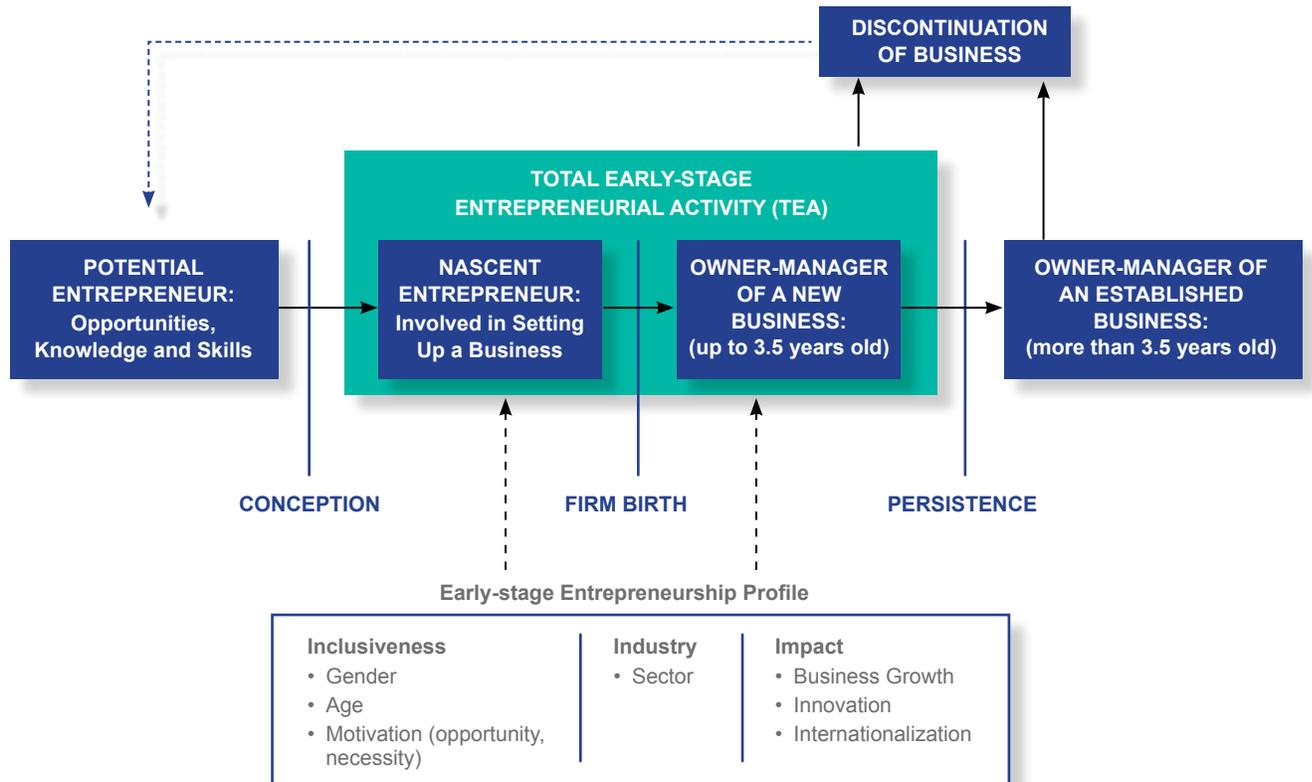
Individual attributes include demographic characteristics (i.e., gender, age, etc.), self-perceptions (i.e., perceived capabilities, perceived opportunities, fear of failure), and motives for starting a business (i.e., necessity versus opportunity).

Entrepreneurial activity encompasses multiple phases of the business process (i.e., nascent, new business, established business, discontinuation), potential impact (i.e., job creation, innovation, internationalization), and type of activity (such as total early-stage entrepreneurial activity or TEA, and employee entrepreneurial activity or EEA).

Societal values, individual attributes, and entrepreneurial activity are assessed through a broad-based survey of the population called the Adult Population Survey (APS).

Overall, the GEM approach also views entrepreneurship as a process with distinct phases. As depicted in Figure 1.3, this process moves from the intention to start a business, to nascent entrepreneurship involving a new start-up, to owner-managers of a relatively new business, to owner-manager of a more established venture. Following this process approach, business exits (discontinuance) are also tracked.

Figure 1.3: The GEM Entrepreneurial Indicators



A central measure of the GEM approach is Total Early-Stage Activity (TEA). This includes those in the process of starting a business (nascent entrepreneurs), and those running a young business (3 – 42 months old) but excludes those in the established business phase (firms older than 42 months or 3.5 years). By exploring these various phases—and especially the difference between total early-stage (TEA) and established businesses (EB)—the GEM approach offers insights not typically available from standard business statistics or official government measures.

With respect to data collection, GEM uses two main sources:

The Adult Population Survey (APS) – Data for the APS is gathered through a telephone survey of randomly selected adults, aged 18-99 years, conducted by an independent polling firm. Using the standard GEM questionnaire protocol, the APS covers a variety of questions on entrepreneurial attitudes, activities, and aspirations. The APS data provides a profile of representative data, weighted for age and gender to standard Canadian or regional demographics.

The National Expert Survey (NES) - The NES is a questionnaire completed by a group of experts in each country, using the instrument developed for the global GEM project. The survey presents a series of statements concerning support for entrepreneurship, and experts are asked to assess the degree to which each is true. Areas probed are based upon the framework conditions: entrepreneurial finance, government policy, government entrepreneurship programs, entrepreneurship education, R&D transfer, commercial and legal infrastructure, physical infrastructure, internal market dynamics and entry regulation, and cultural and social norms.

In summary, the two GEM Surveys, APS and NES, give substance to the GEM conceptual framework by identifying those factors that influence entrepreneurial activity; providing important policy implications for policymakers, practitioners and other stakeholders seeking to expand levels of entrepreneurship.

CHAPTER 1 *Report Structure*

The GEM Canada Report is presented in six chapters. Comparisons are made between Canada and five other economies (USA, UK, Germany, Italy and Japan); referred to throughout the Report as ‘G6’ (France did not participate in 2019).

Chapter 1 introduces the report and describes the GEM model and research method.

Chapter 2 investigates the attitudes and activity of Canadian entrepreneurs. This includes a discussion of: attitudes towards entrepreneurship, skill perceptions, entrepreneurial activity and motivations, and discontinuance and exits.

Chapter 3 examines economic participation by entrepreneurs in the Canadian economy. This includes examining GEM data related to industry sector, technology sector activity, job creation and growth aspirations and export orientation.

Chapter 4 examines the demographic dimensions of entrepreneurship in Canada for 2019/2020, which considers factors such as age, education and gender.

Chapter 5 summarizes findings from the National Expert Survey and examines how Canada measures up regarding its entrepreneurial framework compared to other economies.

Chapter 6 provides a report summary and recommendations.

Entrepreneurial Attitudes and Activities in Canada

CHAPTER 2

This chapter investigates the attitudes and activity of Canadian entrepreneurs based on 2019/2020 GEM data. This includes a discussion of: attitudes towards entrepreneurship, skill perceptions, entrepreneurial activity and motivations, and discontinuance and exits.

GEM was one of the first initiatives that collected data related to public attitudes, perceptions, and intentions towards entrepreneurship.

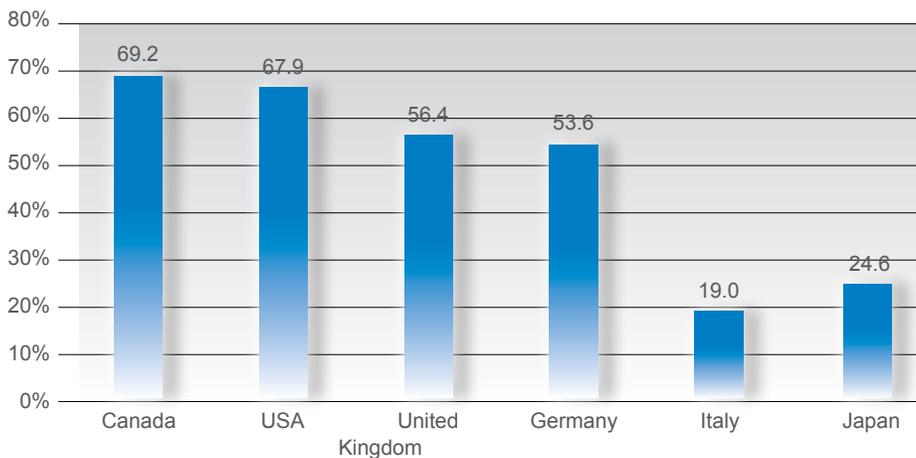
Now, with multiple years of data available from many economies, it is possible to not only analyze differences between countries but also to observe changes over time.

GEM captures public/societal attitudes towards entrepreneurship through three measures: 1) is entrepreneurship a good career choice; 2) do successful entrepreneurs enjoy high status and; 3) does entrepreneurship receive a high level of media visibility?

2.1 Attitudes towards Entrepreneurship

Figure 2.1 shows that Canada leads all other G6 economies in perceptions that entrepreneurship is a good career choice, as it did in 2018. Canada and the USA showed the highest percentage increase (5%) in this indicator from last year.

Figure 2.1: Entrepreneurship as Good Career Choice



CHAPTER 2

Figure 2.2 shows that over three-quarters (80%) of Canadian respondents believe that successful entrepreneurs enjoy high status in Canada; a rise of 6% from 2018. Canada has surpassed the USA and UK from 2018, and is slightly below Germany.

Figure 2.2: High Status of Entrepreneurs

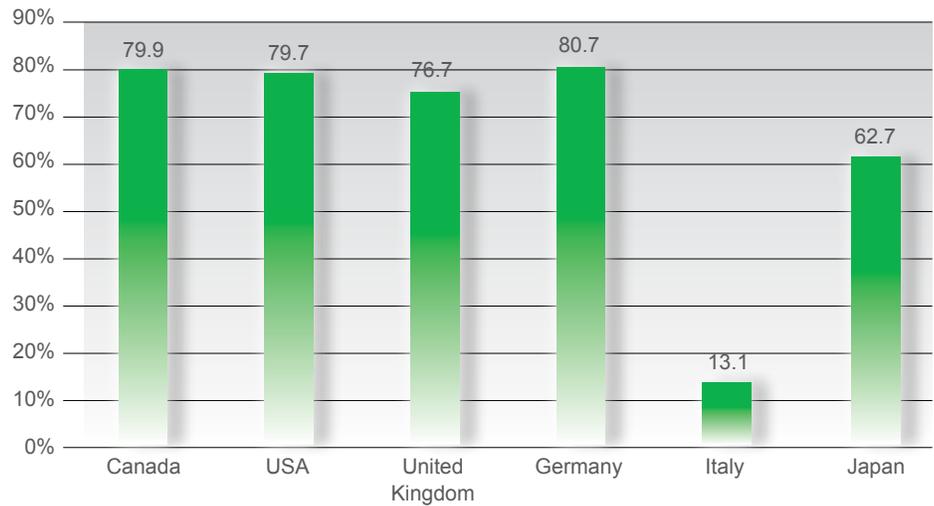


Figure 2.3 shows that entrepreneurial success attracts a high level of media attention in Canada (76%); a similar level as last year. Media coverage would include mention of entrepreneurship and the profiling of successful entrepreneurs. The USA has overtaken Canada as the lead G6 country in this indicator, compared to 2018.

Figure 2.3: Media Coverage of Entrepreneurship

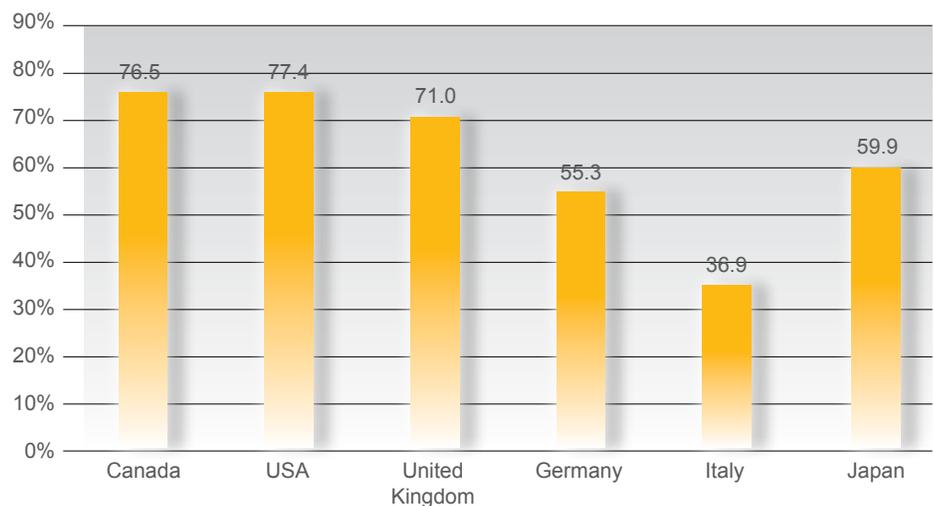
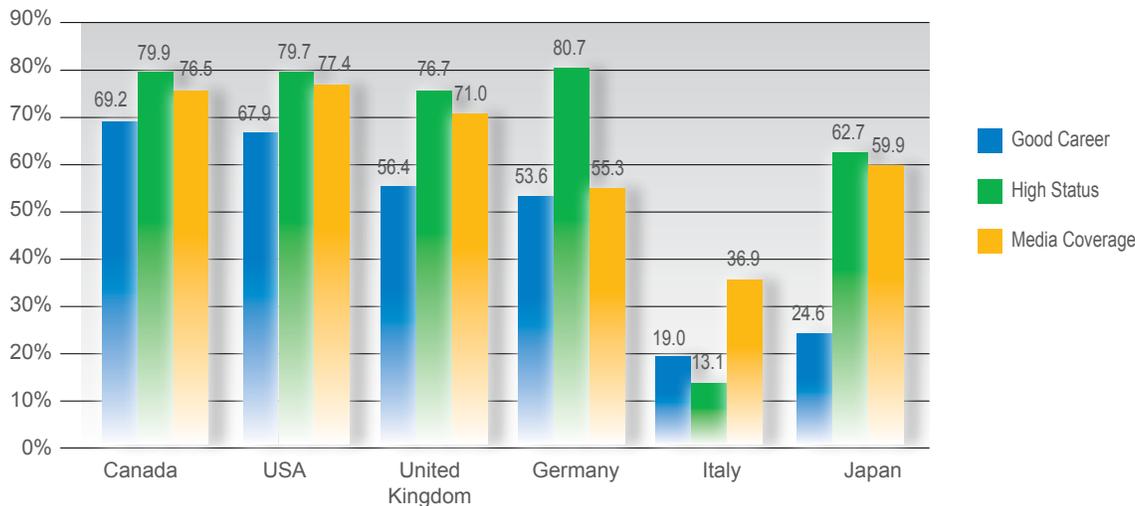


Figure 2.4 summarizes the three measures of public attitudes towards entrepreneurship; comparing Canada with other G6 economies. Canada scores highest in entrepreneurship as a good career choice, is second only to the USA in high status afforded entrepreneurship and is second only to Germany in media coverage for entrepreneurship.

Figure 2.4: Canadian Attitudes towards Entrepreneurship



Overall, public attitudes towards entrepreneurship suggest that good media coverage and high status reinforces entrepreneurship as a good career option. Canada is above the averages for each of the three measures compared to all high-income economies (24 in total),⁹ and particularly for entrepreneurship as a good career option.

2.2 Perceptions of Entrepreneurial Skills

GEM captures perceptions of entrepreneurial skills to shed further light on the intention of people to start a business. Five measures are used: 1) affiliation with/knowing an entrepreneur; 2) opportunities for entrepreneurship; 3) perceived entrepreneurial capabilities; 4) fear of failure; and 5) intention to start a new business in the next 3 years.

Figure 2.5 and Table 2.1 present Canadian data on the five measures for 2016-2019. A positive result is the increase in three of five measures over the past 4 years.

⁹ <https://www.gemconsortium.org/report/gem-2019-2020-global-report>, (p. 29).

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‘Affiliation with/known an entrepreneur’ has risen significantly from 2018 (15.2%), suggesting increased engagement with entrepreneurs by Canadians. Knowing someone who recently started a business is expected to have a positive impact on an individual’s propensity towards entrepreneurship (although it could also be negative).

‘Perceived opportunities for entrepreneurship’ has risen by 4.1% from 2018 and overall, by 8.1% since 2016. This suggests that Canadians perceive their context and environment as rich in opportunities, despite challenging economic conditions. ‘Perceived capabilities’ shows a very slight increase from 2016 to 2019.

Figure 2.5: Perception towards Entrepreneurial Skills, Canada

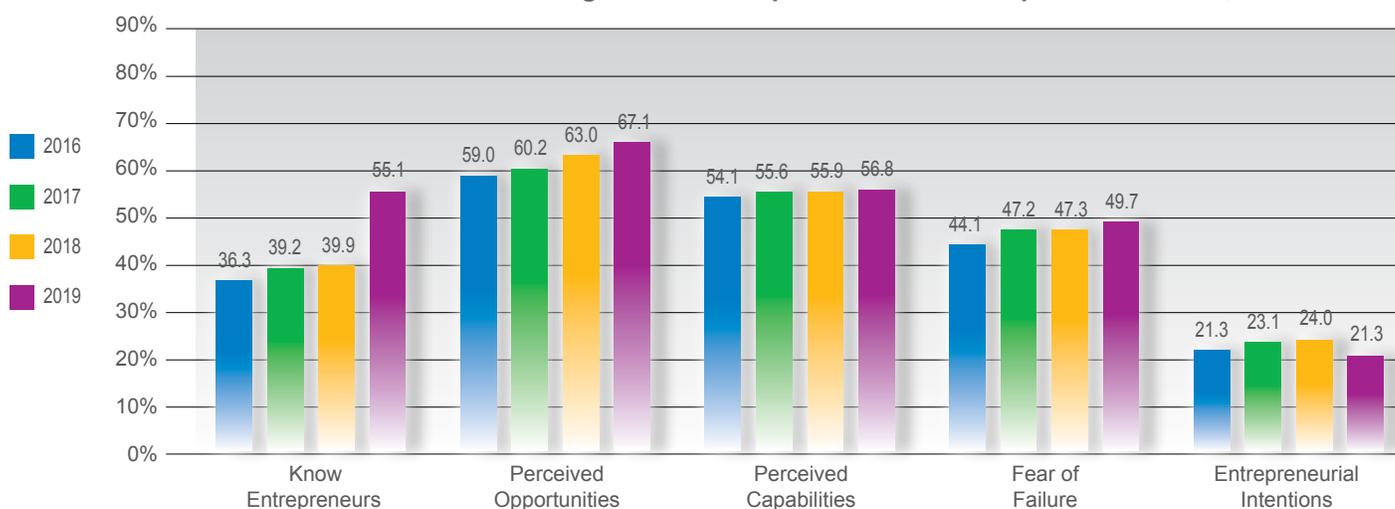


Figure 2.5 shows that the ‘fear of failure’ rate has risen by 2.4% in 2019, and overall, by 5.6% since 2016, while ‘entrepreneurial intentions’ has dropped to the level seen in 2016. Higher ‘fear of failure’ levels may have a negative effect on entrepreneurial intentions.

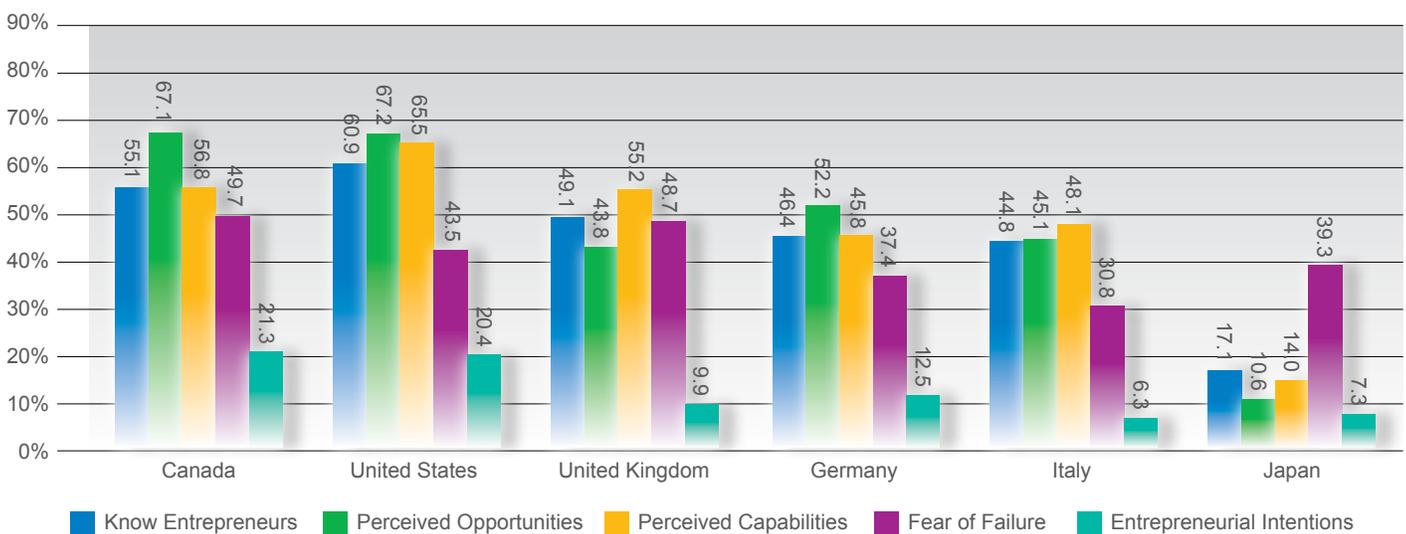
Table 2.1 shows a widening gap between ‘opportunity perceptions’ and ‘perceived capabilities’ amongst Canadians. This gap may indicate that, while people see more opportunities, they don’t perceive they possess the capabilities needed to pursue them.

Table 2.1: Perceptions towards Entrepreneurial Skills, Canada (2016-2019)

	Know Entrepreneurs	Perceived Opportunities	Perceived Capabilities	Fear of Failure	Entrepreneurial Intentions
2016	36.3	59.0	54.1	44.1	21.3
2017	39.2	60.2	55.6	47.2	23.1
2018	39.9	63.0	55.9	47.3	24.0
2019	55.1	67.1	56.8	49.7	21.3

Figure 2.6 compares Canada to other G6 economies. Canada’s level of perceived opportunities (67%) has risen substantially from 2018 to the same level as the USA. By comparison, fewer than half of adults (44%) in the UK perceive good business opportunities. However, the USA has a noticeably higher level of perceived capabilities than Canada (or the UK), suggesting that USA entrepreneurs are more confident in the abilities to start a business.

Figure 2.6: Perception towards Entrepreneurial Skills, G6 Comparison



An important observation from Figure 2.6 is that Canada has the highest level of ‘intention to start a business’ amongst G6 economies, despite a lower rate from 2018 (24%), a higher fear of failure rate (50%) and a lower ‘capability perception level’ than the USA.

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The next section examines entrepreneurial intentions relative to total early-stage activity (TEA) that distinguishes between those intending to take steps in the next three years to start a new business and those currently starting or running a new business.

2.3 Entrepreneurial Activity and Motivations

GEM has adopted the term Total early-stage Entrepreneurial Activity (TEA) to describe entrepreneurial activity during the period preceding and immediately after the actual start of a firm.¹⁰ TEA includes ‘nascent entrepreneurs’ (those actively establishing a new business who have not paid salaries for more than 3 months) and entrepreneurs (owner-managers) of a new firm which is less than 42 months old but more than 3 months.

TEA reporting includes comparisons with Established business (EB), which describes a business in existence for over 42 months (3.5 years). The relationship between TEA and EB activity provides insights on participation across different phases of entrepreneurship and on levels of entrepreneurial activity compared with more mature business ownership. This comparison recognizes that not all start-up efforts will develop into mature businesses.

GEM also identifies the proportion of adults involved in Entrepreneurial Employee Activity (EEA) by asking questions about a leading role in pursuit of new business activities inside an existing organization over the last 3 years (i.e. intrapreneurship). GEM also tracks those who chose to discontinue their entrepreneurial activity.

Figure 2.7 shows Canada’s TEA and EB rates compared to other G6 economies, with both rates similar to last year. Canada’s high TEA level has historically been the highest amongst high-income economies, and was ranked 9th of 50 economies in 2019.¹¹

¹⁰ In GEM, the moment of start-up is defined as the point at which income is first generated from the sale of products or services.

¹¹ Most developed countries show TEA rates of less than 10%, with Europe having the lowest average TEA rate amongst the five GEM regions. GEM research suggests that lower TEA levels in high-income economies are due in part to the presence of alternative job and career options and higher levels of competitiveness that can make starting a business less attractive.

Figure 2.7: TEA and Established Business Rates: G6 Countries¹²

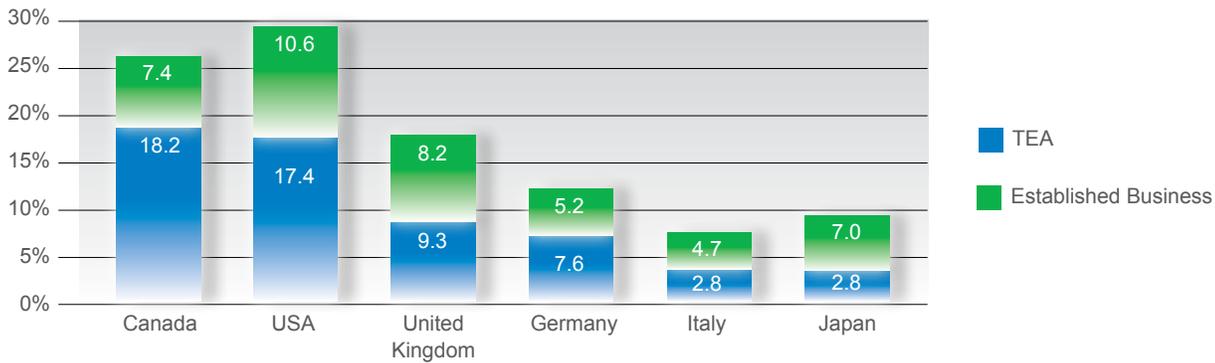


Figure 2.7 shows Canada’s established business (EB) rate remains less than half its TEA rate, unlike other G6 economies. Canada’s EB rate has dropped proportionally in comparison to the USA (7.9% in 2018) and is now below the UK rate (6.4% in 2018).

Figure 2.7 shows Italy and Japan with higher EB rates than TEA rates, suggesting the domination of more mature businesses and lower levels of entrepreneurial activity. EB rates are typically lower in high-income economies, and one explanation is that businesses are more difficult to sustain where market competitiveness is higher and consumer preferences may be entrenched and more difficult to shift. Canada’s high ratio of TEA to EB activity may reflect challenges in transitioning start-ups into established business and the need to further examine Canada’s business environment and framework conditions to support entrepreneurship.¹³

Figure 2.8 sheds further light on TEA rates by examining entrepreneurial motivations based on responses to four new questions in the 2019 GEM APS: 1) to make a difference in the world; 2) to build great wealth or very high income; 3) to continue a family tradition; and 4) to earn a living because jobs are scarce.¹⁴

¹² Country profiles for 2019 can be found at: <https://www.gemconsortium.org/country-profiles>.

¹³ Transitioning high TEA activity into sustainable businesses is critical for Canada, where small and medium-sized enterprises (SMEs) are responsible for job growth. Between 2013 and 2017, for example, SMEs accounted for 85% of net job creation and employed 90% of the private sector workforce in 2017 (ISED, 2020) https://www.ic.gc.ca/eic/site/061.nsf/eng/h_03115.html

¹⁴ This replaces the previous GEM approach of comparing the proportion representing ‘necessity’ motives with the proportion representing ‘improvement-driven opportunity’ (IDO) motives, which did not fully account for the nuances in motivations for founding a startup.

Figure 2.8: TEA Motivations, G6 Comparison

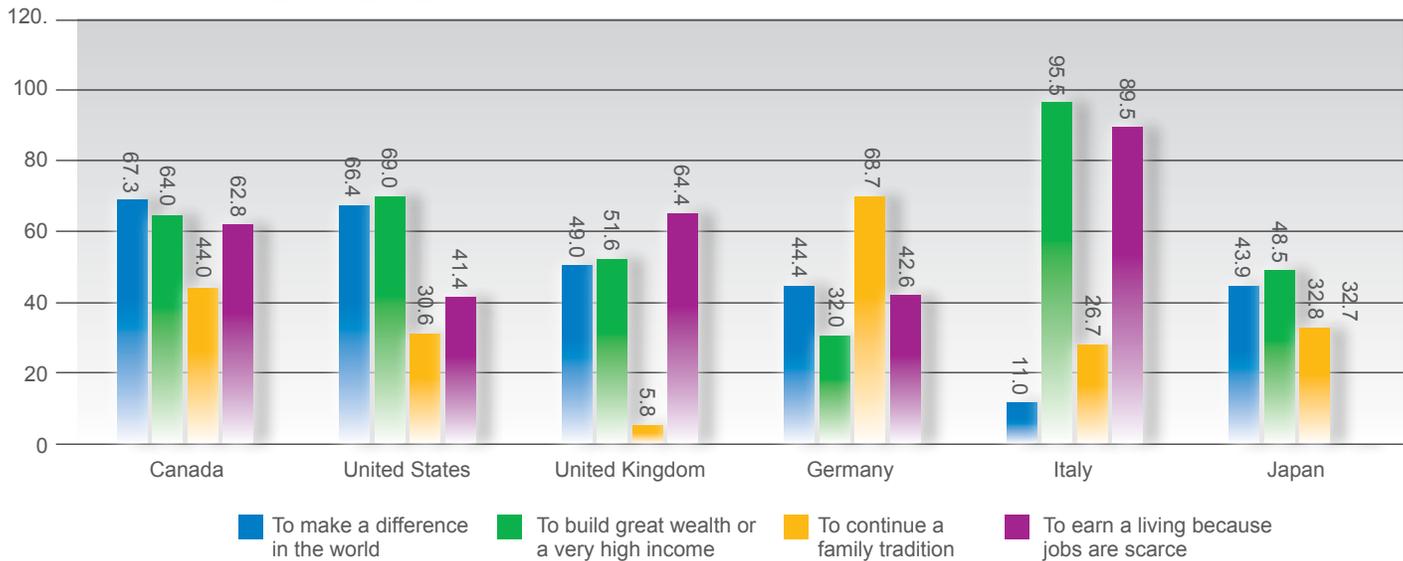


Figure 2.8 identifies high variation in response levels across the G6 economies. Canada and the USA have the highest proportion of those engaged in TEA (2 of 3 entrepreneurs: 67%) who seek ‘to make a difference in the world.’ In Italy, by comparison, only one in 10 entrepreneurs (11%) identified with this motivation.

Responses to the motive ‘to continue a family tradition’ also vary considerably amongst G6 economies, with Germany (69%) showing the highest level, followed by Canada (44%), with the UK showing the lowest level (6%). To build great wealth or very high income is the most frequent response among G6 economies, although there is wide variation, e.g. Italy (96%) compared to Canada (64%) and Germany (32%).

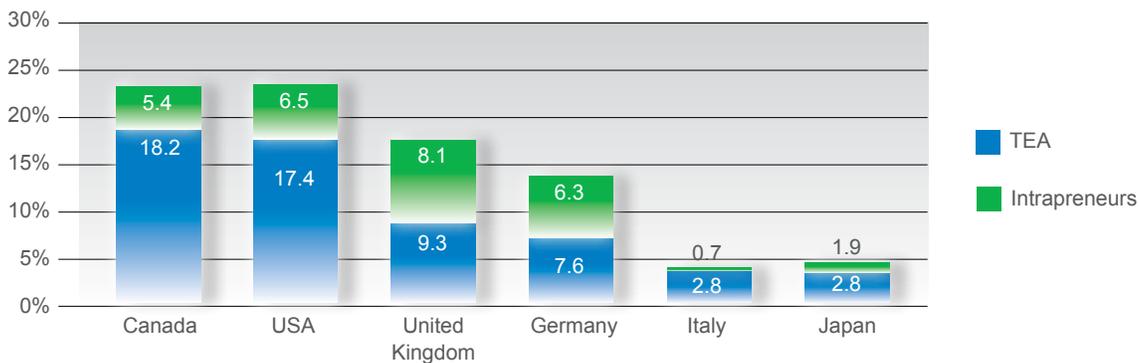
The motive ‘to earn a living because jobs are scarce’ is the second most frequent response, led by Italy (90%) followed by the UK (64%) and Canada (63%). Interestingly, this motivation is less important in the USA (41%). The observation that ‘necessity’ is a frequent motivation in some high-income as well as middle-income economies suggests a weak relationship between income level and necessity motive.¹⁵

¹⁵ <https://www.gemconsortium.org/report/gem-2019-2020-global-report> (p. 47).

Overall, Canada is the only G6 economy with high levels of motivation across all four motivation indices (e.g. 40% or above). Canada ranks 6th out of the 50 countries participating in GEM 2019 in the motivation “to make a difference in the world,” which is evidence of the emergence of purpose-driven businesses.

Figure 2.9 compares entrepreneurial employee activity (EEA), or ‘intrapreneurship’ with TEA activity; comparing G6 economies. GEM survey items are based on questions that ask about a leading role in the pursuit of new business activities inside an existing organization over the last three years.

Figure 2.9: EEA (Intrapreneurship) versus TEA: G6 Comparison



Canada’s EEA level in 2019 has fallen below the UK, USA and Germany compared to 2018, when it led the G7 with an EEA level of 7.5%. Figure 2.9 also identifies a slight drop in Canada’s TEA level compared to 2018 (18.7%), while the UK, USA and Germany show an increase in their TEA levels in 2019.

High levels of EEA and TEA (e.g. Canada and USA), may suggest that intrapreneurship is a latent seed-bed for stimulating start-up activity. On the other hand, similar TEA and EEA levels in an economy (e.g. Germany and UK) may suggest that entrepreneurship is at least as likely to occur in organizations as it is in independent start-ups.

CHAPTER 2 2.4 Discontinuance and Exits

The GEM APS asks whether the individual has, within the past 12 months, sold, shut down or quit a business they owned and managed. There are many reasons why entrepreneurs may discontinue a business, which include lack of profitability, inability to raise sufficient capital and unforeseen or adverse market conditions. On the other hand, business founders may retire, sell a business or simply exit to pursue something else. Subsequent APS questions asks those individuals who reported exiting a business whether that business continued after they left, or not.

Figure 2.10 shows Canada with the highest rate of discontinuance and of exits compared to other G6 countries; similar to 2018.¹⁶ However, Canada has a high rate of business continuation as a proportion of exits, with more than half of those exiting a business reporting that the business continued (4.7%).

Figure 2.10: Life Cycle of Entrepreneurship, G6 Comparison

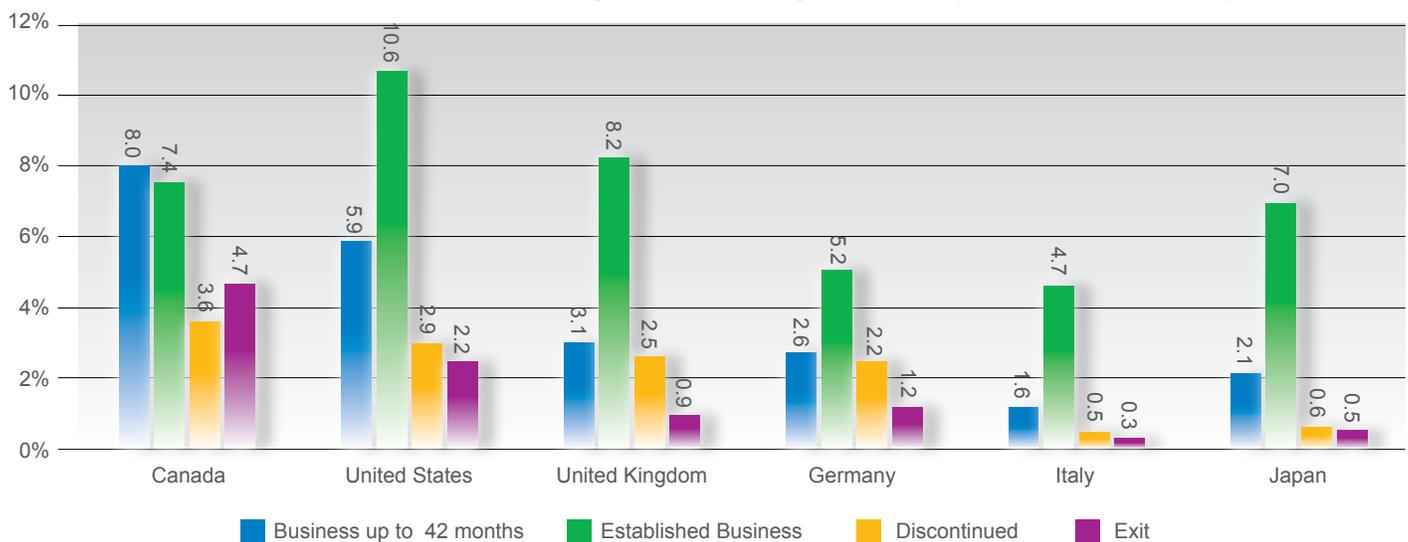


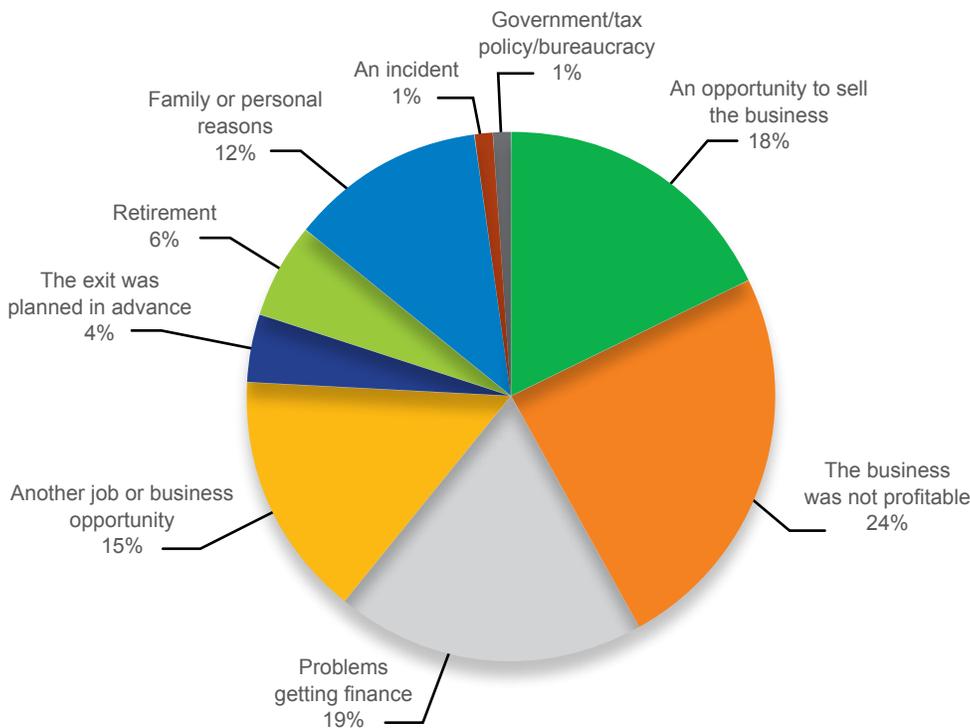
Figure 2.10 shows that lower discontinuance levels of other G6 countries is accompanied by lower TEA rates but proportionally high EB rates. This may suggest that while few businesses get started, those which do are more likely to be viable.

¹⁶ Canada was one of 9 countries (out of 50) where the proportion of adults who had quit a business was 8% or more (others countries were Qatar, UAE, Egypt, Oman, Jordan, Saudi Arabia, Ecuador and Chile).

By comparison, Canada is the only G6 economy with TEA rate higher than its EB rate. While Canada’s high exit level can be explained by its high TEA level, as shown in the comparative GEM data,¹⁷ Canada’s proportionally low EB level may further suggest the challenges involved in building successful businesses in Canada that can sustain themselves over a longer period of time, especially during periods of economic recession.

Figure 2.11 shows a breakdown of discontinuous factors for Canadian entrepreneurs. Approximately 43% of Canadian respondents chose to ‘voluntarily’ leave their business, e.g. because they sold the business (18%), retired (6%) decided to pursue another opportunity (15%) or planned an exit in advance (4%).

Figure 2.11: Discontinuance Factors for Canadian Entrepreneurs



The most common reasons for ‘non-involuntarily’ discontinuing a business (57%) were lack of profitability (24%) and problems accessing finance (19%), with family or personal reasons a third most common reason (12%), followed by an incident (1%) and government bureaucracy (1%).

¹⁷ <https://www.gemconsortium.org/report/gem-2019-2020-global-report> (p. 64).

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While the overall percentage of voluntary and non-voluntary discontinuance is identical to 2018 (43% and 57% respectively), the 2019 data shows a decrease in ‘opportunity to sell the business’ (from 24% to 18%), increase in ‘pursue another opportunity’ (from 11% to 15%) and increase in ‘problems getting financing’ (from 13% to 19%).

One possible explanation for the noticeable change in discontinuous factors is that market conditions are restricting access to finance and increasing the difficulty in selling a business. The rise in the percentage of entrepreneurs seeking another job or opportunity may be a further indicator of challenging market conditions for entrepreneurs.¹⁸

The reasons for exiting a business can be an important indicator of the health of entrepreneurship in Canada, while the relative ease of exiting a business may also be an important influence on the level of new startups. Only two economies in the GEM 2019/2020 study (Sweden and Norway) identified that more people exited a business for positive than for negative reasons.

In summary, while over half of Canadian respondents cite ‘non-voluntary’ factors for business discontinuance, Canada scores high for voluntary discontinuance factors amongst economies with high exit rates. A recent study by the Canadian Federation of Independent Business found that 47% of Canadian business owners intend to exit their business within the next five years.¹⁹

Funding (Personal Investment and Angel Investment)

Informal investment in entrepreneurship is defined as the percent of respondents in the survey population who had provided funds to an entrepreneur. GEM reports this percentage alongside data on the average level of funds provided (in US dollars). Start-ups are shown to have higher demands for external financing than non-start-ups, which identifies the important role of Business Angels and other external funders.

¹⁸ A recent report by the Business Development Bank of Canada found that entrepreneurs’ confidence in the economy is eroding:
https://www.bdc.ca/en/about/sme_research/pages/investment-intentions-canadian-entrepreneurs.aspx

¹⁹ <https://www.cfib-fcei.ca/sites/default/files/2018-11/Getting-the-transition-right-succession-plan-ning-report.pdf>

Table 2.2 identifies Business Angels as an important source of funds for new businesses in 2019, particularly in Canada and the USA. Informal investment is a significant source of funding in Italy, and also in Germany, Canada and the UK.

Table 2.2: Informal Investment, G6 Comparison (2019)

	Business Angel	Informal Funds US\$
Canada	12.2	34887.6
USA	8.2	24430.2
United Kingdom	4.2	32233.8
Germany	5.2	35195.6
Italy	0.9	84183.2
Japan	3.5	28356.2

Overall, these findings confirm that Business Angels and the informal risk capital market, although difficult to measure in the absence of mandatory reporting requirements, continues to be an important source of funding for early-stage entrepreneurs in Canada. Other sources of information on informal risk capital investment in Canada are available through organizations such as the National Angel Capital Association (NACO).²⁰

²⁰ <https://www.nacocanada.com/cpages/angel-activity-report>

CHAPTER 3 Entrepreneurship in the Economy

This chapter examines economic participation by entrepreneurs in the Canadian economy, using GEM data to assess industry sector, use of technology, job creation and growth aspirations, export orientation and innovation.

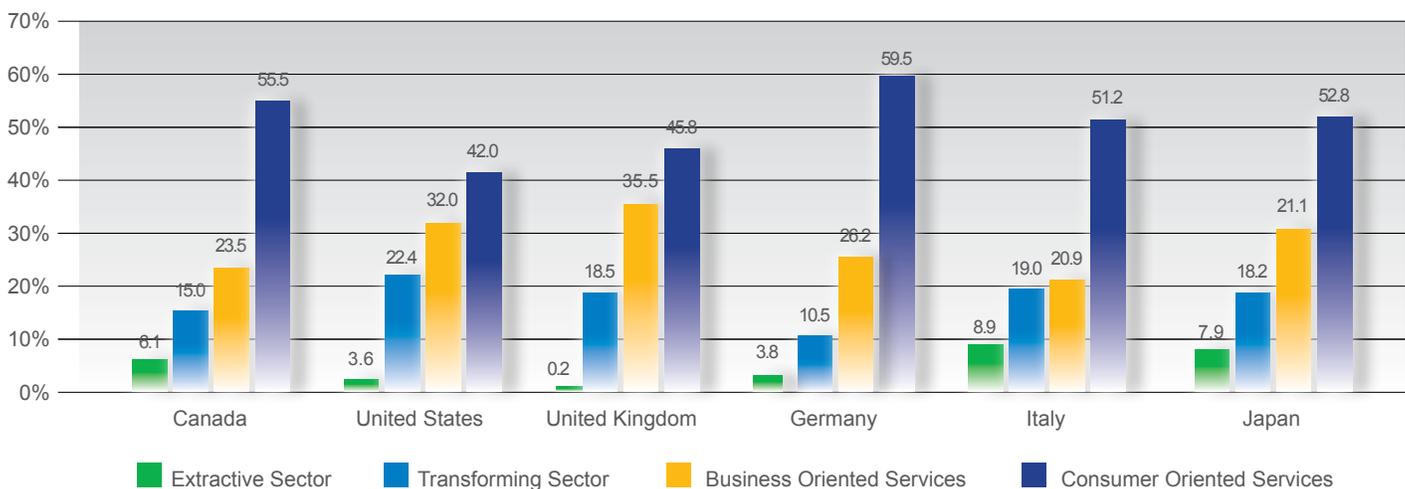
3.1 Industry Sectors

GEM respondents were asked to describe the nature of their new businesses, which were classified using four digit codes from the International System of Industry Codes (ISIC). The businesses were then assigned to one of four broad categories:

- 1) Extractive (e.g. mining, agriculture)
- 2) Transforming (e.g. manufacturing, logistics)
- 3) Business oriented services (ICT, professional services, etc.)
- 4) Consumer oriented services (including retailing, restaurants and personal services)

Figure 3.1 shows consumer-oriented services having the highest TEA rate for all G6 economies, with Canada's rate increasing by 6.5% from 2018. Business-oriented services for Canada shows a downward trend – from 41% (2017) to 27% (2018) to 24% in 2019 - while both the extractive and transforming sectors have decreased slightly from 2018. Canada's TEA industry sector profile for 2019 is most similar to Japan.

Figure 3.1: Distribution by sector (TEA), G6 Comparison

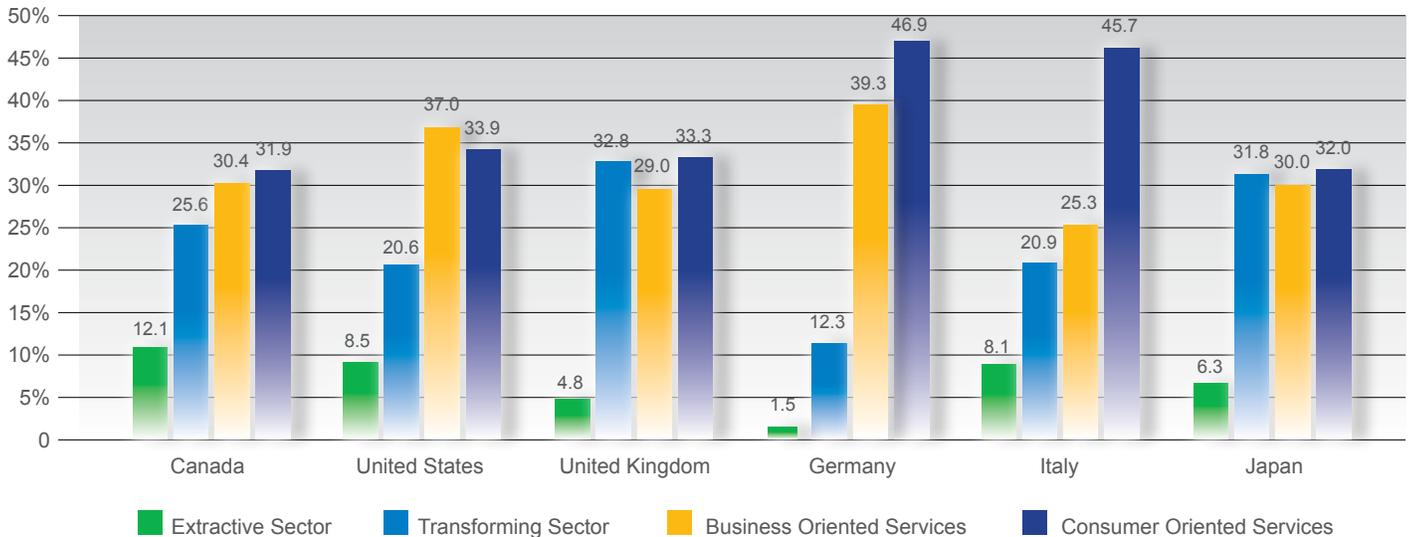


Canada was the only G6 economy in 2019 to see a noticeable decrease (3.4%) in business-oriented services while seeing an increase in consumer-oriented services. Along with decreased rates in the extractive and transformative sectors, Canadian entrepreneurs in 2019 appear to be more active in consumer-oriented sectors, which typically have lower barriers to entry and lower start-up funding requirements.

Increased entrepreneurial activity in consumer-oriented services may be an indication of ‘necessity-driven entrepreneurial activity in response to weak market conditions in Canada. Figure 2.8 earlier identified Canada’s higher level on the motivational indicator ‘to earn a living because jobs are scarce’ than the USA, Germany and Japan.

Figure 3.2 shows Canada’s EB rates are significantly higher than its TEA rates for the extractive and transformative sectors, and to a lesser extent in business oriented services. Canada’s EB rate in the extractive sector leads the G6, highlighting the importance of this sector to the Canadian economy.

Figure 3.2: Distribution by sector (EB), G6 Comparison



Canada’s EB rate in consumer oriented services is much lower than the TEA rate (by 24%); a result seen in the other G6 economies. The high TEA and low EB levels suggest that while many entrepreneurs enter this category, a high proportion are not transforming into established businesses, compared to the other three categories.²¹

²¹ GEM data shows that a key transformation in developed economies in past decades has been the growth of Business Services and the (relative) decline of Consumer Services. Business Services tend to be more technology-based or knowledge-intensive, more difficult to replicate or imitate and more durable and sustainable, compared to Consumer Services.

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One explanation is the nature of many consumer-oriented service sectors, which are characterized by high rates of entry and exit resulting from low barriers to entry, high levels of competition and low margins.

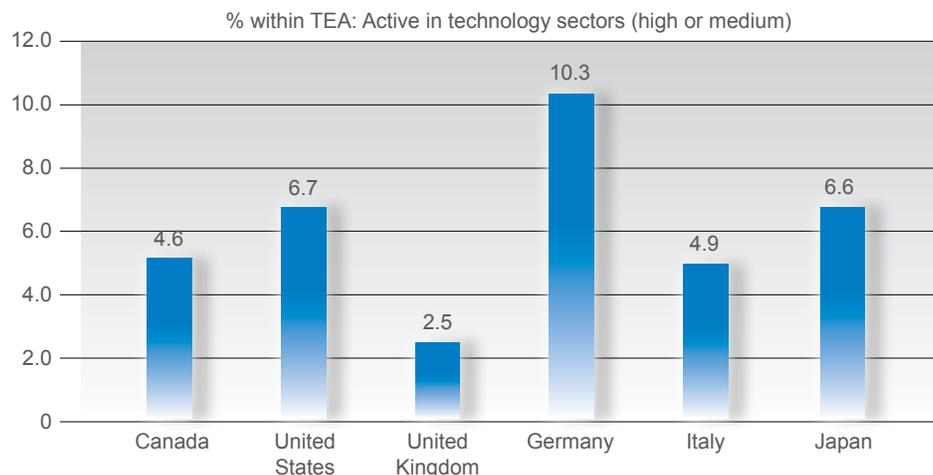
Overall, Canada's sector distribution of new businesses shows encouraging signs, given high EB rates in the extractive, transformative and business oriented categories. One suggestion is to make conditions attractive for entrepreneurs to enter these value-adding sectors of the economy, particularly as new sectors emerge and older ones stagnate (e.g. oil and gas).²² This is further discussed in Chapter 5.

3.2 Technology Sector Activity

This section examines medium and high technology sector activity as a percentage of TEA and EB. The level of technology-based entrepreneurial activity is a good indicator of future innovation and growth ambitions in high and medium technology industries, with technology-based economic activity correlating positively with productivity.²³

Figure 3.3 compares medium/high technology sector activity as a percentage of TEA across G6 economies. It shows Canada with the second lowest level of technology activity within TEA, with Germany significantly higher than the USA or Japan.

Figure 3.3: High Technology Sector TEA Participation Rates, G6 Comparison

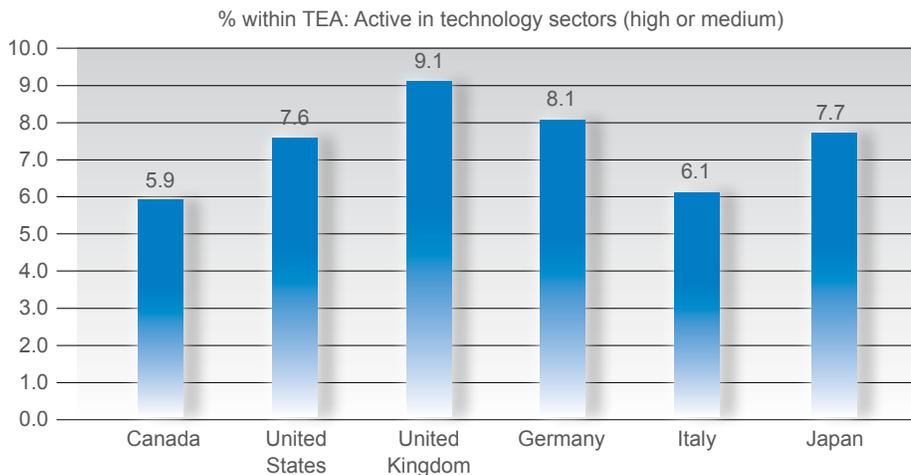


²² SME Statistics, Gov't. of Canada (Jan, 2020) https://www.ic.gc.ca/eic/site/061.nsf/eng/h_03115.html

²³ Ács et al (2017) Global entrepreneurship and development index.

Figure 3.4 shows Canada with the lowest level of EB technology activity among G6 economies, with the UK having the highest level, followed by Germany and Japan.

Figure 3.4: High Technology Sector EB Participation Rates, G6 Comparison



One possible explanation for Canada's low levels of medium to high technology sector activity (as a percentage of TEA and EB) may relate to Canada's low level of industrial research and development (IR&D) investment. Canada's IR&D intensity, as well as its productivity growth, lag behind all of the G6 comparators except for Italy, and economies with higher productivity growth also tend to invest more in IR&D.²⁴

3.3 Job Creation

Job creation is an expected outcome of entrepreneurial activity and an important measure of growth that contributes to national wealth. New firms contribute a substantial number of jobs each year to the Canadian economy.²⁵

GEM asks early-stage entrepreneurs and established businesses how many employees (other than the owners) they have now and expect to have in the next five years. The difference between current and expected employees indicates growth expectations.

²⁴ https://cca-reports.ca/wp-content/uploads/2018/10/ird_fullreporten.pdf

²⁵ For the period 2012-16, on average each year, 95,940 businesses were created and 90,120 disappeared, for a net gain of 5,820 businesses (35% in goods-producing sector, 65% in services-producing sector). Key Small Business Statistics (November, 2019) : https://www.ic.gc.ca/eic/site/061.nsf/eng/h_03114.html

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Table 3.1 presents TEA and EB job creation rates for the period 2016-19. It shows a steady shift away from non-job creating entrepreneurship during this period, with the majority of new and established businesses employing, or expecting to employ 1-5 people, which is consistent with trends observed in Canadian government data.²⁶

One notable observation is a significant shift in the 20+ job category from 2016 to 2019 for TEA, suggesting early growth aspirations amongst Canadian entrepreneurs. High expectations of future growth is also identified, when comparing TEA now and expectations in 5 years in this job category.

Table 3.1: Five Year TEA and EB Job Growth Expectations, Canada (2016-19)

	Job Creation Now and Within Five Year (2016)			
	TEA Now	EB Now	TEA 5 Years	EB 5 Years
No job	26.8	36.7	12.7	32.2
1-5 jobs	46.7	36.6	56.9	40.4
6-19 jobs	11.5	19.3	13.4	19.4
20+jobs	15.0	7.4	17.0	8.0

	Job Creation Now and Within Five Year (2017)			
	TEA Now	EB Now	TEA 5 Years	EB 5 Years
No job	22.0	26.0	13.6	24.2
1-5 jobs	50.5	45.6	49.7	39.6
6-19 jobs	14.6	15.7	16.8	16.8
20+jobs	12.9	12.7	20.0	19.4

²⁶ Ibid, as of December, 2019, micro-firms (1-4 employees) comprise 54% of Canadian businesses; 5-9 employees (19.2%); 10-19 employees (12.9%); 20-49 employees (8.6%); and 50-99 employees (2.9%).

Job Creation Now and Within Five Year (2018)				
	TEA Now	EB Now	TEA 5 Years	EB 5 Years
No job	20.2	21.7	9.5	23.4
1-5 jobs	52.1	44.2	42.3	39.6
6-19 jobs	12.6	10.8	26.9	8.1
20+jobs	15.1	23.3	21.4	28.8

Job Creation Now and Within Five Year (2019)				
	TEA Now	EB Now	TEA 5 Years	EB 5 Years
No job	14.6	22.1	9.1	22.2
1-5 jobs	47.8	45.4	48.4	41.3
6-19 jobs	17.9	13.5	18.6	14.4
20+jobs	19.7	18.9	24.0	22.0

Table 3.1 shows a significant shift in the 20+ job category for established businesses from 2016 to 2018; from 7% to 23% for current employment and from 8% to 29% for jobs expected in the next 5 years. However, job growth expectations in this category have dropped in 2019, while levels have increased in the 6-19 job category. In comparison to high growth expectations of new entrepreneurs, EB grow expectations in 5 years appear more conservative in the 20+ job category.

Table 3.2 presents five-year growth expectations for TEA by sector. Modest growth (1-5 jobs) is predominant across all four sectors, with the transformative sector showing the highest level of medium (6-19 jobs) and high (20+ jobs) growth expectations. This sector also has the lowest level of ‘no jobs’ expected in 5 years. Consumer-oriented services and business-oriented services show moderate growth expectations.²⁷

Table 3.2: Five Year Job Growth Expectations for TEA by Sector (2019)

	Jobs Now			
	Extractive sector	Transforming sector	Business oriented services	Consumer oriented services
No job	20.8	10.0	18.8	14.1
1-5 jobs	75.0	50.0	51.6	42.4
6-19 jobs	4.2	23.3	20.3	20.3
20+jobs	0.0	16.7	9.4	23.2

²⁷ ISEDC (2019) The most significant net employment changes are found in consumer-oriented services (e.g. wholesale and retail trade) while the largest share of high-growth firms, based on revenue, is found in mining, quarrying and oil and gas.

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Jobs in 5 Years

	Extractive sector	Transforming sector	Business oriented services	Consumer oriented services
No job	17.6	3.4	7.5	11.6
1-5 jobs	76.5	37.1	55.2	47.0
6-19 jobs	2.9	33.7	23.9	13.7
20+ jobs	2.9	25.8	13.4	27.7

Table 3.2 shows the extractive sector with the lowest level of 5-year growth expectations and highest level of ‘no jobs’ expected in 5 years. Surprisingly, the extractive sector in the 2018 GEM study showed the lowest level of ‘no jobs’ expected within 5 years and was second only to business-oriented services in high growth expectations (20+ jobs). It appears that the level of optimism identified in the extractive sector last year is no longer evident, as the energy sector enters a 5th year (since 2014) of an economic downturn.

While GEM measures growth aspirations rather than actual growth, it nevertheless provides the best available indication of growth expectations by entrepreneurs and established businesses. Findings presented in Tables 3.1 and 3.1 suggest that Canadian entrepreneurs have high growth aspirations and high expectations of future growth. Given strong growth orientations identified for the transformative and business-oriented sectors, more attention is suggested for growth-oriented start-ups with larger founding teams in these sectors, given evidence of higher survival rates with larger teams.²⁸

Figure 3.5 presents TEA and EB medium job growth aspirations (10+ jobs) for Canada and other G6 economies. The USA and Japan show the highest TEA medium growth expectations, while Germany and the UK show the highest EB medium growth expectations, with Canada 5th in TEA and 3rd in EB medium growth expectations.

²⁸ Statistics Canada shows a positive correlation between new business survival rates and initial business size. New firms entrants with 1–4 employees do not display any increase in their average employment (1.2 jobs) from the year of entry up to 10 years after. This suggests that if a business starts small, its potential for future growth is very limited. On the other hand, new firms that entered with more than 4 employees and survive exhibit a significant increase. https://www.ic.gc.ca/eic/site/061.nsf/eng/h_03075.html

Figure 3.5: Five Year ‘Medium’ Growth Aspirations, G6 Comparison

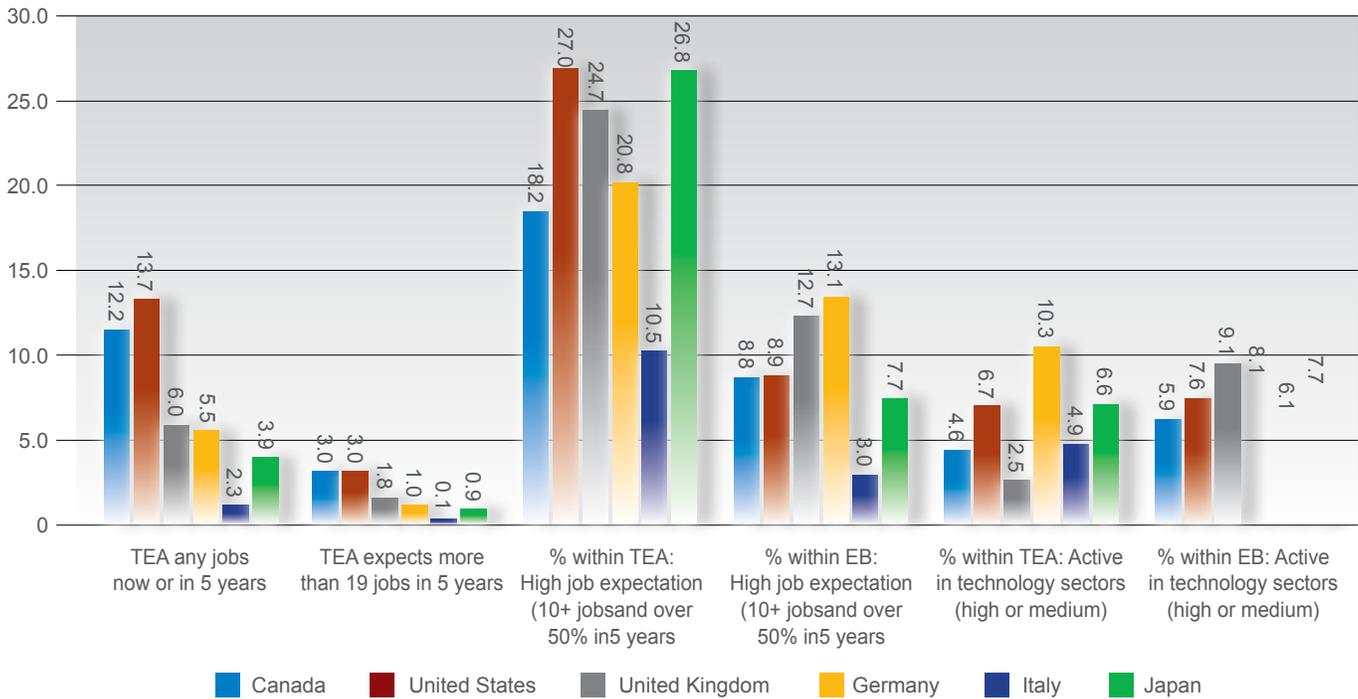


Figure 3.5 identifies Canada’s relatively low levels of medium to high technology sector activity within TEA and EB, as discussed earlier (section 3.2). One positive result for Canada is the high level of expectation amongst entrepreneurs regarding growth aspirations now and in 5 years, with levels similar to the USA.

3.4 Export Orientation

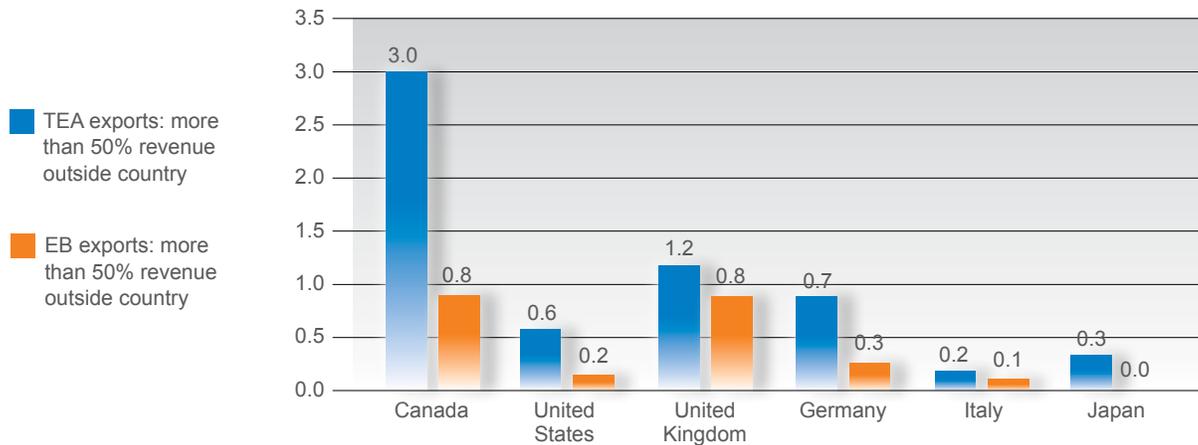
Export orientation is recognized as an indicator of productive entrepreneurship and innovation in an economy. An export-oriented company is one which produces goods and services in large measure for export and has a customer base outside the country.

GEM data captures three measures to assess the level of export orientation for entrepreneurs: 1) percentage of revenues from outside Canada; and 2) level of export orientation, defined as more than 50% of revenue from outside the country.

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Figure 3.6 shows that Canada's TEA level of 'high export orientation' is significantly higher than other G6 economies (e.g. over 50% of revenues generated from outside country). Canada's EB level is similar to that of the UK, an economy which relies heavily on revenues from its established businesses in business-oriented and transformative sectors in particular.

Figure 3.6: High Export Orientation, G6 Comparison



Canada's high export orientation level is not surprising, as exporting is vital to Canada's economy. In 2019, more than 45,500 Canadian businesses exported goods, with a total value of approximately \$593 billion, representing approximately 32% of Canadian GDP.²⁹ Canada benefits from its close proximity to its largest trading partner, the USA, which absorbed approximately 75% of Canada's exports in 2019.

Figure 3.7 shows high export orientation by sector. Canada leads other G6 economies in high export orientation in business-oriented services (TEA and EB), and consumer-oriented services (1st within TEA, 2nd within EB). Canada lags behind Germany, UK and USA in the transformative sector, and somewhat surprisingly, has lower levels than Japan, Italy and the USA in the extractive sector.

²⁹ Global Affairs Canada (February, 2020) Highlights of Canada's 2019 Merchandise Trade Performance

Figure 3.7: High Export Orientation by Sector, G6 Comparison

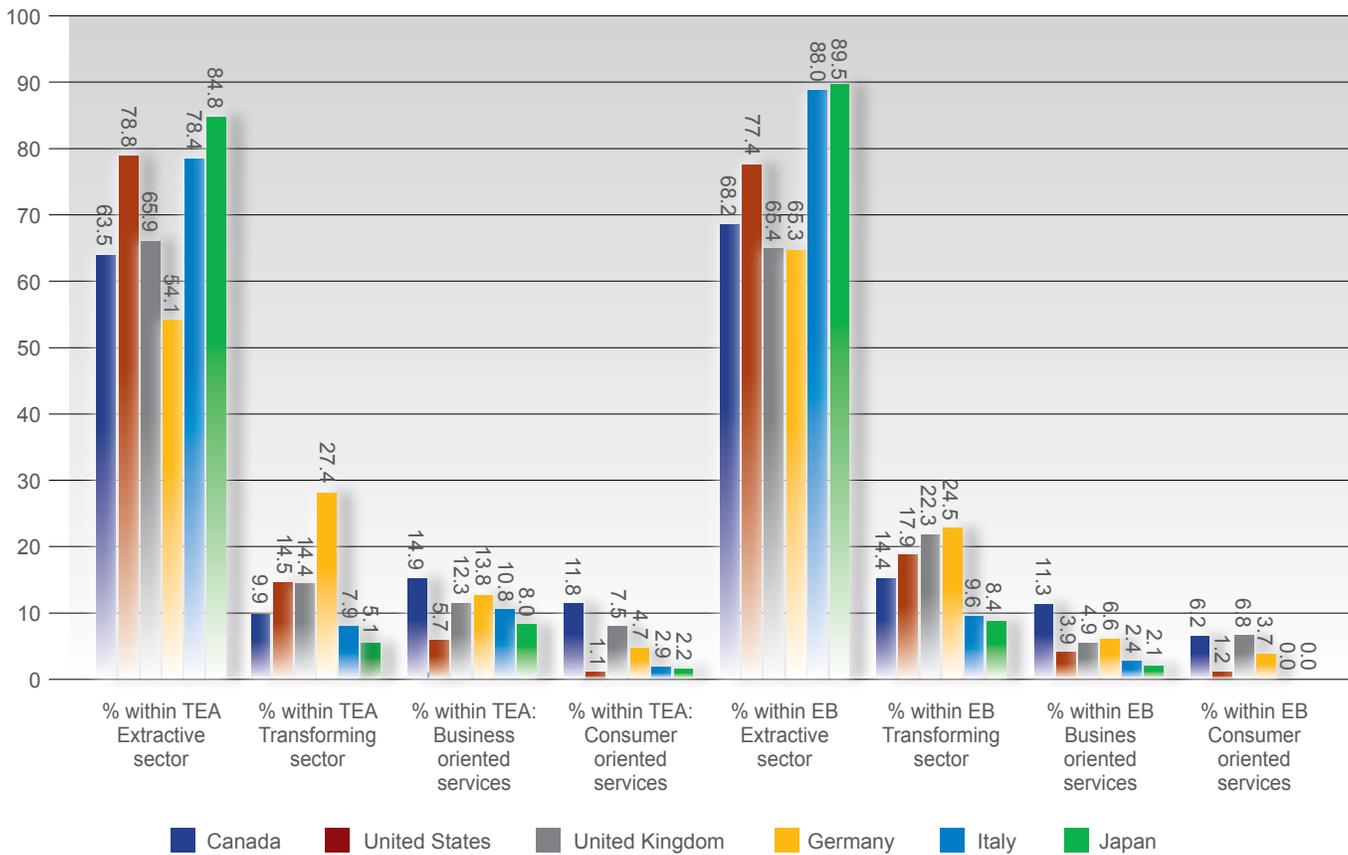


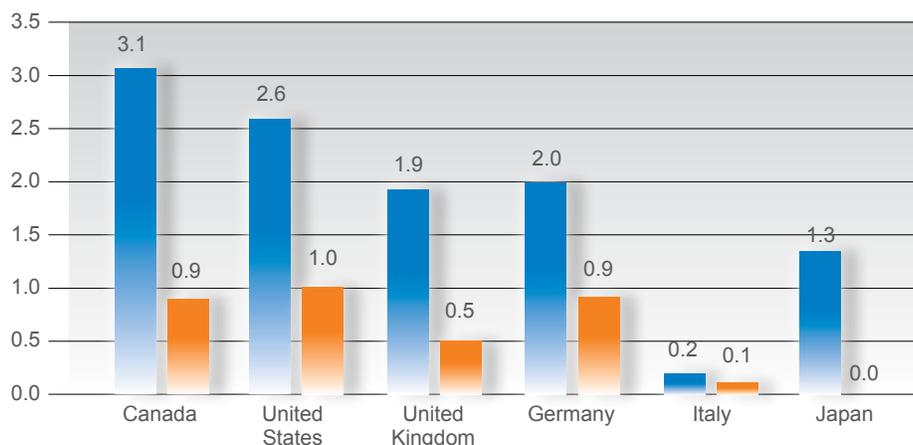
Figure 3.8 presents data from new questions in the GEM 2019 APS which enquired about the scope of the new business (whether they had local, national or global customers); the scope of their new products/services (whether they were new to customers locally, nationally or globally); and whether technologies/procedures were new locally, nationally or globally.

Findings show Canada has the highest level of national scope (for customers and product/process) compared to other G6 economies; ranking it 7th out of 50 countries in the GEM 2019 study. Canada’s level of international scope was slightly lower than the USA and tied with Germany, ranking it joint 6th in the GEM study.

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- TEA at least national scope for market and at least national scope for new product or new process
- TEA at least international scope for market and at least national scope for new product or new process

Figure 3.8: New Product Market Combination % of TEA, G6 Comparison



Overall, Canada ranked 1st amongst 50 countries in the GEM 2019/2020 study based on the percentage of respondents who expect sales outside of the country to generate 25% of their revenue or more; confirming Canada as a strongly 'export-oriented' economy. Influenced by its high TEA rate, Canada was only one of three countries (plus United Arab Emirates and Armenia) to have 4% or more of their adults both starting or running a new business and expecting more than a quarter of revenue to come from outside their country.

<https://www.international.gc.ca/economist-economiste/performance/index.aspx?lang=eng>

Demographics of Entrepreneurship

CHAPTER 4

This chapter examines the demographic dimensions of entrepreneurship in Canada for 2019/2020, which considers factors such as age, education and gender.

4.1 Age

Figure 4.1 shows Canadian TEA and EB rates by age category. The highest TEA contribution comes from the 25-34 age group, followed by the 35-44 age group; similar to 2018 results. This is consistent with global GEM data showing that the most prevalent age range for starting a business across 50 countries is 25-44.

Figure 4.1: Share Total of TEA and EB Rates for Canadian Entrepreneurs by Age

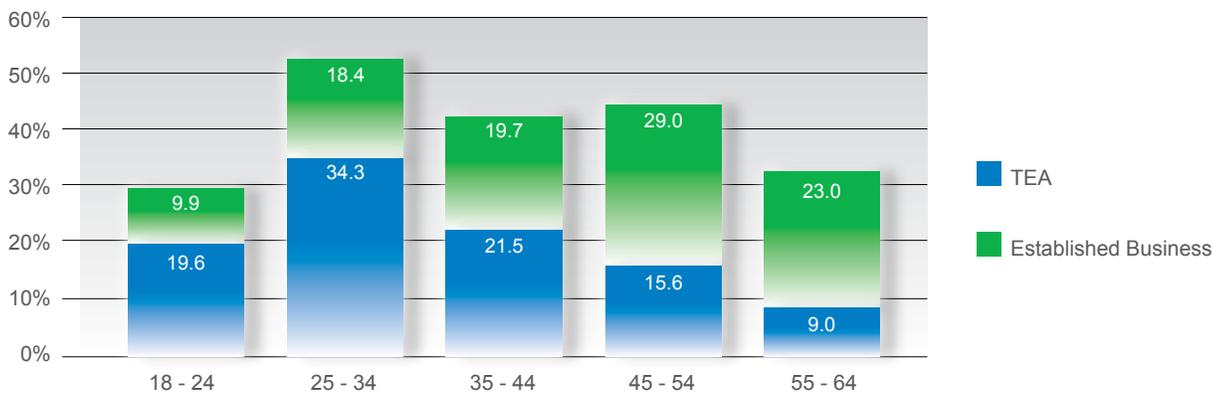


Figure 4.1 shows that the level of TEA first increases with age and then declines, which is a pattern consistent in most high-income economies. However, as observed in 2018, there is a noticeable shift in Canadian TEA levels to a younger cohort, with an increase in TEA in the 25-34 age group (+5.4%) and a decrease in the 45-54 age group (-2.4%) for 2019. Canada has significantly higher TEA rates in the 18-24 and 25-34 age groups compared to other high-income economies in the GEM study.

Figure 4.1 shows that established businesses continue to rely on an older cohort of business owners (e.g. 45-64 age range), although EB rates have increased in the 35-44 age range (+2.1%) and 25-34 age group (+2.2%) for 2019.

CHAPTER 4

Overall, findings suggest that Canada's high TEA rate is translating into established businesses amongst a younger cohort. A suggested topic for further study is identifying factors that may be influencing the shift in TEA and EB rates to a younger cohort and determining the impact this shift may have on EB rates.

4.2 Education

Figure 4.2 compares Canada's TEA educational levels with other G6 economies. It shows Canada's entrepreneurs possessing the highest educational rates across three of the four educational levels; with the USA slightly ahead of Canada in secondary degree experience; similar to results in 2018

Figure 4.2: TEA Educational levels, G6 Comparison

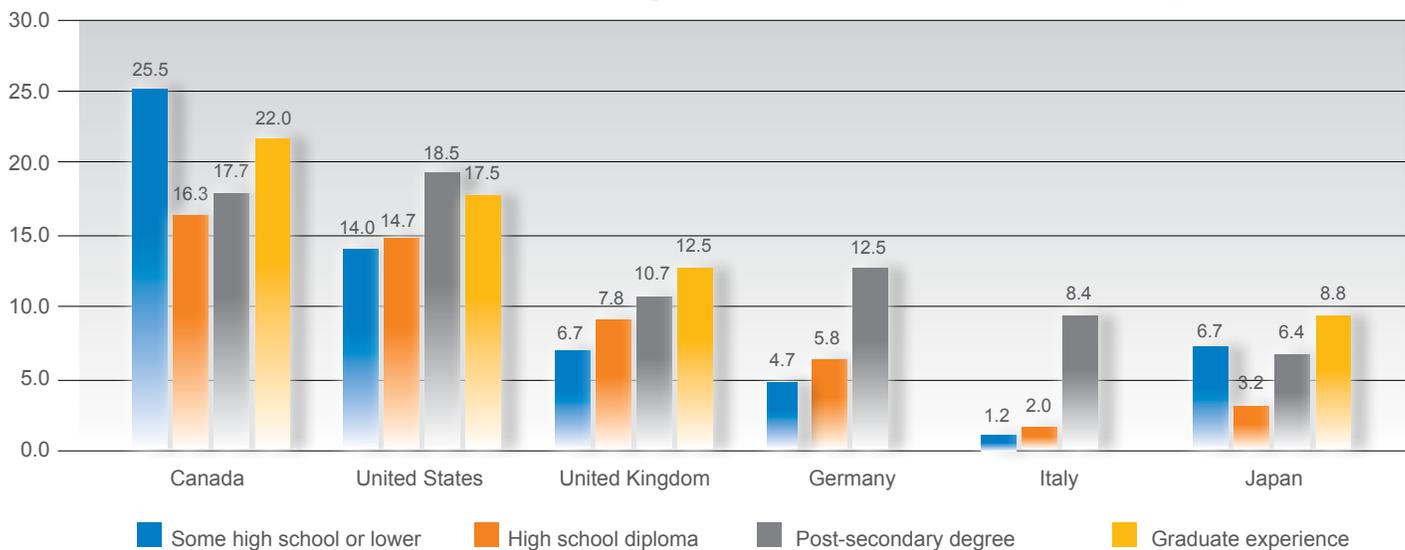


Figure 4.2 suggests that, overall, Canadian and U.S. entrepreneurs possess higher educational levels than other G6 countries. Canadian TEA graduate experience is almost twice the level of the UK and almost three times the level of Japan, even though it has dropped from 2018 levels (-4.8%). The Canadian high school diploma rate also increased from 2018 (+6.5%).

Findings suggest that a large proportion of Canadian entrepreneurs possess specialized educational knowledge. These findings align with Statistics Canada data, which show that approximately 80% of start-

up owners in Canada have post-secondary education and are better educated than non-start-up owners.³⁰

Although GEM data suggests a link between post-secondary education and entrepreneurship, Canada’s expert rating on entrepreneurship education at the post-school stage is low, as discussed further in Chapter 5.

While Canada’s high educational levels are likely contributing to Canada’s strong showing in technology use and adoption, formal education in itself may be insufficient in developing the knowledge or capabilities also necessary to grow larger businesses.

4.3 Gender

Figure 4.3 shows Canadian TEA and EB rates by gender for the period 2016-19. Similar to previous years, Canadian men in 2019 are more likely than Canadian women to engage in early-stage entrepreneurial activity and in established business.

Figure 4.3: TEA and EB Rates by Gender, Canada (2016-19)

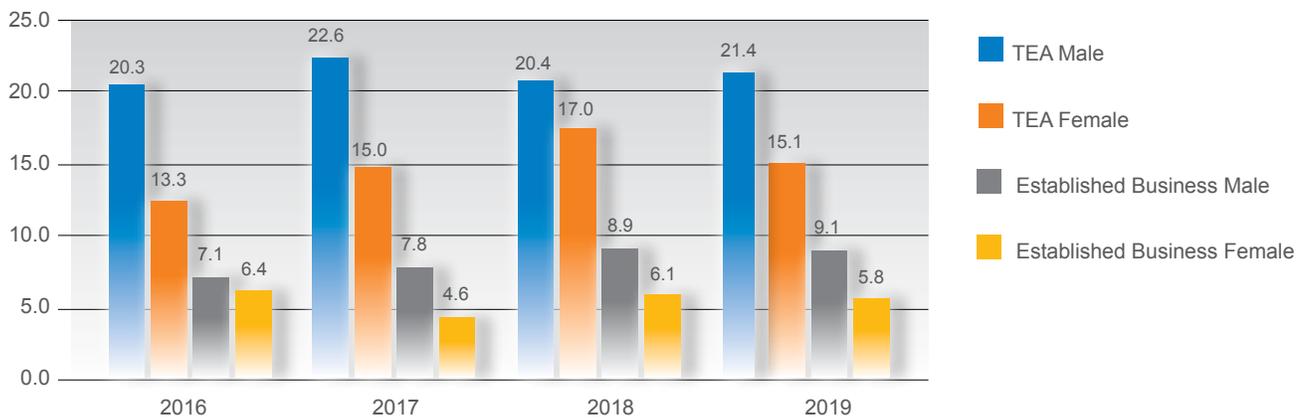


Figure 4.3 shows that while TEA and EB rates for men increased in 2019, TEA and EB rates for women decreased. The decrease in female rates is surprising, given that female TEA and EB rates had been steadily increasing since 2016, with the gap between male and female TEA decreasing significantly in 2018.³¹ We consider possible explanations for this decrease by further examining the GEM data below.

³⁰ Song and Archambault (2018).

³¹ During the period 2011-2017, women self-employment grew by 10.6%, compared to 5.4% for the overall self-employed population from 2011 to 2017 (Stats Can, Table 14-10-0027) <https://www150.statcan.gc.ca/n1/daily-quotidien/190104/dq190104a-cansim-eng.htm>

CHAPTER 4

Figure 4.4 shows Canada with the highest TEA rates for men, which increased slightly from 2018. Canada's female TEA has dropped from 2018 (-2%), compared to the USA, which saw a 3% increase in female TEA from 2018. The UK and Germany also show an increase in female TEA rates from 2018.

Figure 4.4: TEA Rate by Gender, G6 Comparison

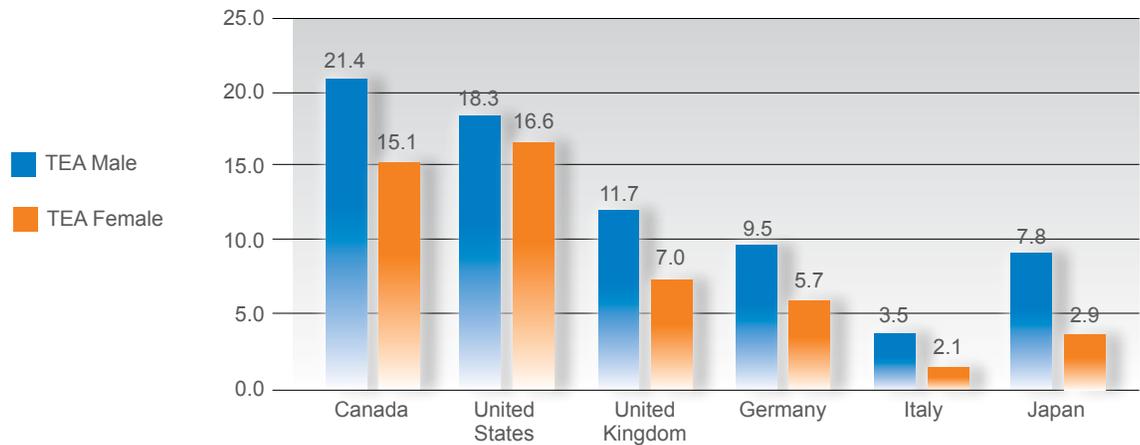
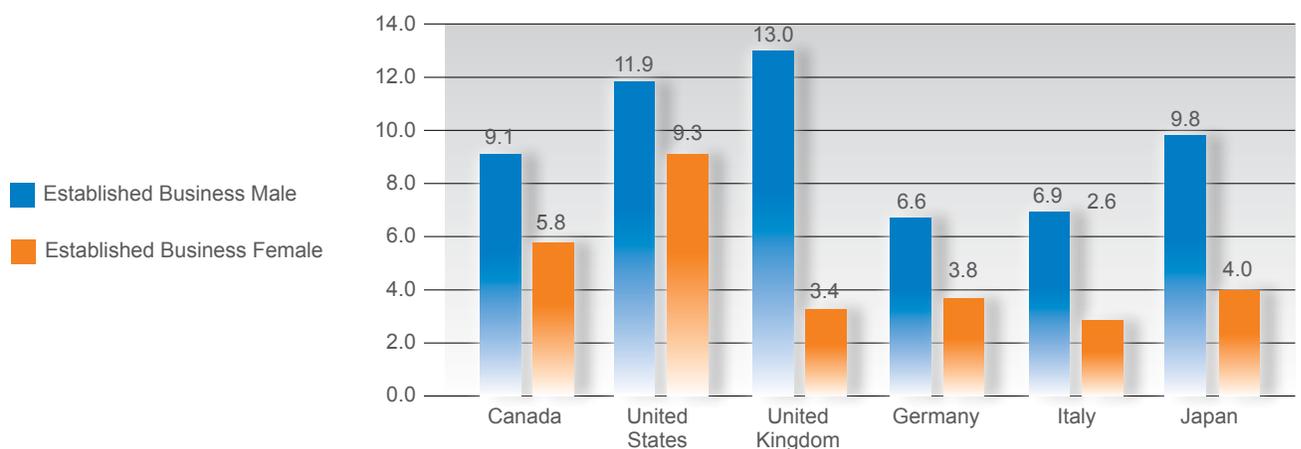


Figure 4.5 shows Canada's EB rate by gender, with male EB increasing slightly from 2018 but below the UK, USA and Japan. Canada's female EB rate has dropped from 2018, compared to rate increases for the USA (+4.2%), Germany (+2.8%) and Italy (+2.4%).

Figure 4.5: EB Rate by Gender, G6 Comparison



Gender: Attitudes

CHAPTER 4

Table 4.1 presents findings to determine whether Canadian men and women have similar attitudes toward entrepreneurship and whether attitudes have changed in the past 3 years.

Table 4.1: Perception of Entrepreneurial Skills by Gender (2016-19)

	Know Entrepreneurs		Good conditions		Have skills and experience		Fear of Failure	
	Male	Female	Male	Female	Male	Female	Male	Female
2016	39.9	32.9	59.5	58.4	62.8	45.4	41.7	46.4
2017	44.9	33.6	63.5	56.8	62.9	48.4	42.5	51.8
2018	42.7	37.1	66.2	59.6	62.4	49.2	46.6	47.9
2019	57.7	52.7	69.1	65.0	65.1	48.6	48.5	50.8

Female perceptions of ‘knowing entrepreneurs’ has risen since 2016 and significantly since 2018 (15.6%), suggesting increasing engagement by women in the entrepreneurial community. Knowing someone who recently started a business can have a positive impact on an individual’s propensity towards entrepreneurship, although it could also be negative. This may also reflect efforts to promote entrepreneurship more to women.

The small gap between male and female perceptions on ‘good conditions to start a business’ has remained consistent since 2017, while the ‘fear of failure’ perception is most similar between men and women, and has risen in 2019.

The most important difference between men and women is the gap in perceptions of skills and experience, which is 16.5% in 2019. Since 2016, the gap between men and women has been consistent and has changed less than 1%. While there are different reasons which may explain this persistent gap, one area to explore further is differences in entrepreneurial motivations between men and women.

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Figure 4.6 shows TEA motivations by gender amongst G6 economies. It shows Canadian men with the highest motivation to ‘make a difference,’ with Canadian women 2nd to USA women in this indicator. Canada and the USA have significantly higher levels than other G6 economies, with Canada ranked 6th in the GEM 2019 study for this indicator.

Canada’s high scores for ‘making a difference’ aligns with other evidence which identifies Canada as a leading country for mission-driven and social entrepreneurship.³²

Figure 4.6: TEA Motivations by Gender, G6 Comparison

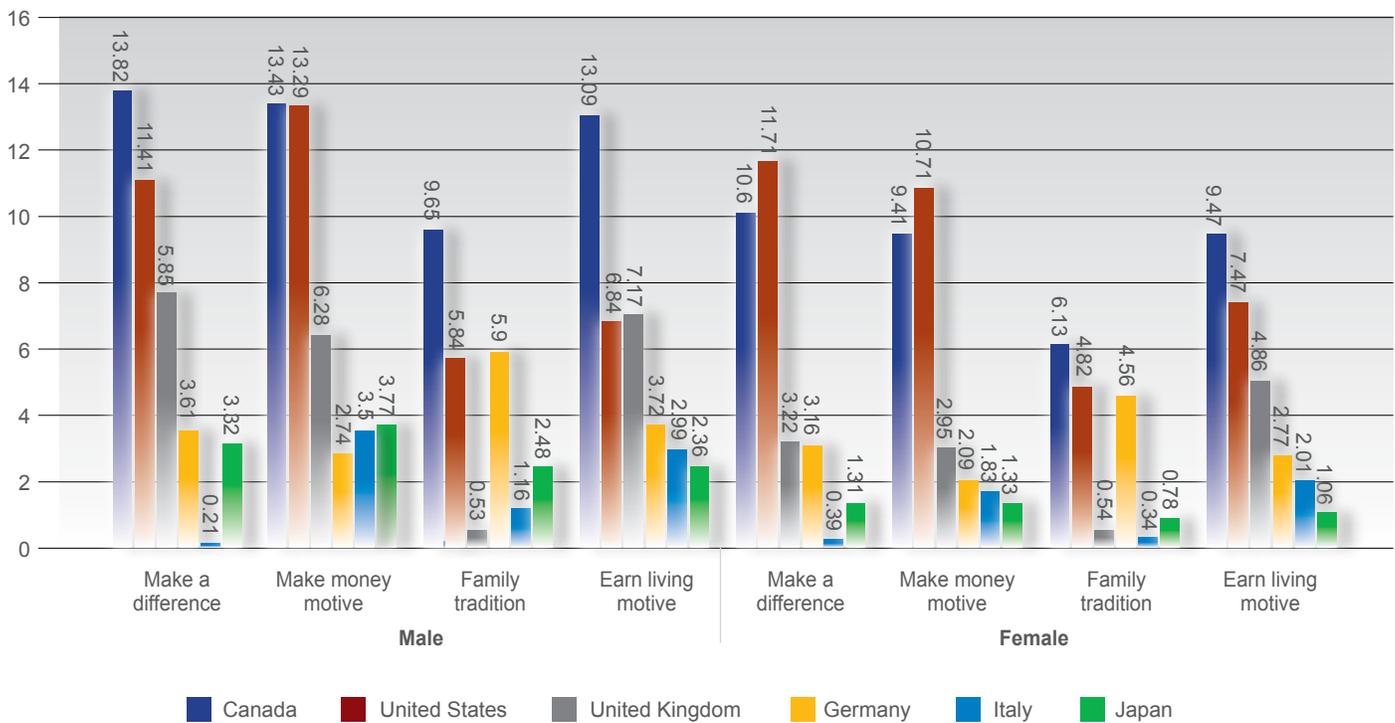


Figure 4.6 shows that Canadian men have the highest TEA motivation scores across all four indicators, contributing to Canada’s overall high TEA level. While the ‘making money’ motive for men is similar to the USA, the level for Canadian women is second to the USA, with both levels significantly higher compared to the other G6 economies.

Canadian men and women have the highest levels for ‘to continue a family tradition,’ with this indicator showing the most variation as a

³² The annual Thomson Reuters Foundation/Deutsche Bank survey of global experts, established in 2016, ranks the best countries for social entrepreneurs from the 45 largest global economies. Canada was ranked 1st in the 2019 survey; <https://poll2019.trust.org/>

motive for men and women across all G6 economies.

Figure 4.6 also shows a high ‘earn a living’ motive for both Canadian men and women, with the level for Canadian men over two times the level of USA men. In recognizing that motivations of entrepreneurs may be indicative of disruption or job insecurity, this may reflect Canada’s current economic conditions, and aligns with similar findings in the 2018 GEM study.

In summary, GEM data for 2019/2020 is consistent with previous years in showing that men are more likely to be involved in entrepreneurial activity than women. While Canadian women are most similar to men in fear of failure to start a business, they differ the most from Canadian men regarding perceptions of necessary skills and experience.

This gender perception gap related to skills and experience is wide and has been relatively consistent for the last 4 years, which suggests a need for more attention from policy makers.

Further examining the industries which women enter may shed further insights on skill and experience requirements and how this may limit or influence female participation. For example, women-owned businesses are much more active in the service sector than men-owned businesses, where competition is intensive, margins are low and entry and exit rates are high.³³

Although female perceptions of ‘knowing entrepreneurs’ has risen significantly, if failure rates are high, then knowing someone who recently started a business but was unsuccessful is likely to have a negative impact on an individual’s propensity towards entrepreneurship.

³³ A study by Beckton et al (2018) showed that 90% of Canadian women-owned businesses operate in the service sector compared to 70% of men-owned businesses.

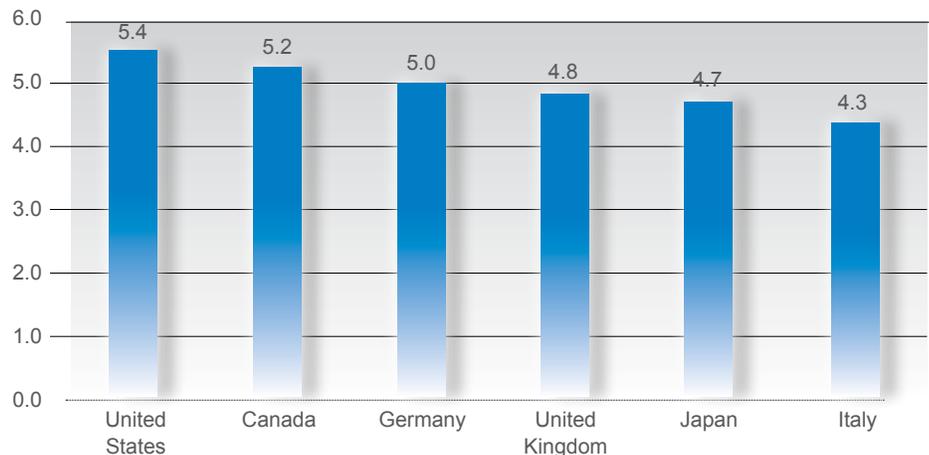
CHAPTER 5 Framework Conditions for Entrepreneurship

This chapter summarizes findings from the National Expert Survey (NES) and considers how Canada measures up regarding its entrepreneurial framework. Thirty-six experts were asked to express their views about 12 framework conditions that can either foster or constrain entrepreneurial activity. The economies completing GEM's NES were then ranked using the National Entrepreneurship Context Index (NECI).

The practical application of the NECI is to identify areas where there are gaps between the ratings on the framework conditions in relation to the importance placed on them. The importance values are typically high because these framework conditions are generally believed by the experts to have an influence on entrepreneurship.

Figure 5.1 presents NECI scores for Canada and the other G6 economies. Canada ranks 2nd amongst G6 economies and 14th among the 54 economies taking part in 2019/2020. Canada's NECI score has dropped from 2018 (5.5), as have NECI scores for the USA, Germany and Japan.

Figure 5.1: National Entrepreneurial Conditions Framework (NECI) Ratings, G6 Comparison, 2019/2020



An examination of top-ranked economies identifies the importance of having healthy conditions across all aspects of the environment affecting entrepreneurship.³⁴ Table 5.1 compares average scores in relation to average importance ratings for each of the 12 framework conditions assessed by the Canadian experts.

Table 5.1: Entrepreneurial Framework Conditions: Average Score versus Average Importance for Canadian Experts, 2019/2020

Entrepreneurial Framework Conditions (EFC)	EFC Average Score	EFC Average Importance
Financial environment related with entrepreneurship	5.3	8.4
Government concrete policies, priority and support	5.2	7.3
Government policies bureaucracy, taxes	4.5	7.1
Government programs	4.7	6.6
Entrepreneurial level of education at primary and secondary	4.3	7.3
Entrepreneurial level of education at university, college, professional, and vocational	5.0	7.4
R&D level of transference	4.2	7.4
Professional and commercial infrastructure access	5.5	7.3
Internal market dynamics	5.1	7.0
Internal market burdens	4.8	7.3
Physical infrastructures and services access	7.0	6.7
Cultural, social norms and society support	6.3	6.9

Table 5.1 identifies that Canada’s most sizable gap is in ‘financing for entrepreneurship,’ followed by ‘R&D level of transference,’ ‘government policies: bureaucracy, taxes’ and ‘internal market burdens.’

Canada’s recognized challenge with internal (i.e. cross-provincial) market dynamics is again suggested in the low score on ‘internal market dynamics,’ which places Canada 27th out of 54 economies.

Canada also shows a sizable gap in ‘entrepreneurship education at the post-school stage,’ but less of a gap in ‘entrepreneurship at the primary school stage.’ Canada places 20th in the former and 9th in the latter.³⁵

³⁴ See <https://www.gemconsortium.org/report/gem-2019-2020-global-report> (p. 64).

³⁵ Among the 54 countries contributing to the 2019 NECI, physical Infrastructure is rated highest of the framework conditions that support entrepreneurship, with entrepreneurship education at school level universally rated the lowest.

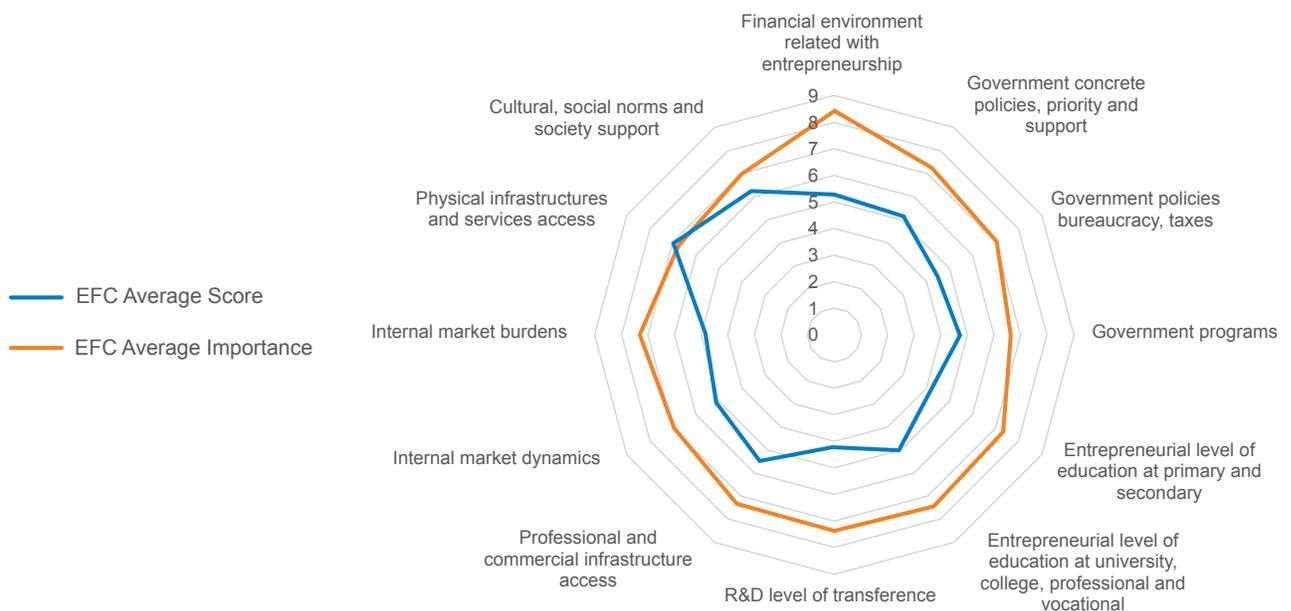
CHAPTER 5

For comparison, Canada shares similar gaps with the USA in ‘internal market dynamics’ (27th and 31st respectively) and ‘R&D transfer’ (22nd and 16th). Canada differs the most with the USA in ‘financing for entrepreneurship’ (12th and 1st) and ‘physical infrastructure’ (27th and 14th).

Surprisingly, Canada and the USA are not among the top 10 economies in the NECI index in ‘entrepreneurial education at the post-school stage,’ despite the high number of entrepreneurship programs, business plan competitions, student incubators and other support initiatives available at post-secondary institutions in both countries.

Figure 5.2 illustrates the average score and average importance ratings to highlight gaps in framework conditions. Canada’s framework conditions appears strongest in physical infrastructure/services access and cultural/social norms. However, Figure 5.2 identifies multiple gaps that collectively weaken Canada’s support framework for entrepreneurship.

Figure 5.2: Entrepreneurial Framework Conditions: Average Score versus Average Importance for Canadian Experts, 2019/2020



In summarizing these findings, many of the gaps in Canada's support framework appear to be 'of its own making.' Inter-provincial trade barriers, burdensome R&D transfer processes, inefficient regulatory and tax systems and infrastructure constraints have been identified as barriers to entrepreneurship and business growth for some time.³⁶

These gaps may also be affecting Canada's ability to grow businesses to scale. Canada's high TEA rate and low EB rate suggest that Canada does well in starting new businesses but less well in transitioning into established and sustainable businesses. According to the World Bank, Canada ranks 3rd in its global rankings for ease of starting a business (out of 190 countries), but ranks 23rd for ease of doing business, behind comparators the USA (6th), UK (8th) and New Zealand (1st).³⁷

One question arising from the findings is to determine to what extent Canada is translating rising trends in levels of entrepreneurial activity into sustainable established businesses. Another question is to further examine the relationship between NECI scores or rankings, income group and entrepreneurial activity to determine more direct effects of framework conditions in the economy.³⁸

³⁶ Government of Canada (2015): Determinants of Entrepreneurship in Canada: State of Knowledge: https://www.ic.gc.ca/eic/site/061.nsf/eng/h_02852.html

³⁷ <https://www.doingbusiness.org/en/reports/global-reports/doing-business-2020>

³⁸ <https://www.gemconsortium.org/report/gem-2019-2020-global-report>, (p. 70).

CHAPTER 6 Summary and Recommendations

This chapter summarises findings of the report under the following headings: attitudes; activity; aspirations; demographics; and framework conditions for entrepreneurship. This is followed by recommendations based on the report findings.

Summary of Findings

Attitudes towards Entrepreneurship

The Canadian population has **positive attitudes toward entrepreneurship as a career**.

- 7 out of 10 Canadian adults (69%) view entrepreneurship as a good career choice. Canada leads all other G6 economies in this indicator, as it did in 2018.
- 8 out of 10 Canadian adults (80%) believe that successful entrepreneurs enjoy high status in Canada; a rise of 6% from 2018.
- Three-quarters of Canadian adults (76%) believe that entrepreneurial success attracts a high level of media attention in Canada; a similar level as last year.

The Canadian population has **positive attitudes towards entrepreneurial skills**, which are associated with intentions to start a business.

- ‘Affiliation with/knowing an entrepreneur’ has risen significantly from 2018 (15.2%), suggesting increased engagement with entrepreneurs by Canadians.
- ‘Perceived opportunities for entrepreneurship’ has risen by 4.1% from 2018 and overall, by 8.1% since 2016. This suggests that Canadians perceive their environment as rich in opportunities despite challenging economic conditions.
- ‘Perceived capabilities’ shows a very slight increase from 2016 to 2019. By comparison, the USA has a noticeably higher level, suggesting that USA entrepreneurs are more confident in the abilities to start a business.

- The ‘fear of failure’ rate has risen by 2.4% in 2019, and overall, by 5.6% since 2016. Higher ‘fear of failure’ levels may have a negative effect on entrepreneurial intentions.
- However, there is a **widening gap between ‘opportunity perceptions’ and ‘perceived capabilities’ amongst Canadians**, which may indicate that, while people identify more opportunities, they don’t perceive that they have the capabilities needed to pursue them.
- Canada has the highest level of ‘intention to start a business’ amongst G6 economies, despite a lower rate than 2018 (24%), a higher fear of failure rate (50%) and lower ‘capability perception level’ than the USA.
- Almost 7 out of 10 Canadians see good opportunities to start a business; a crucial first step on the entrepreneurial journey.

Entrepreneurial Activity

Canada maintains its **leading position amongst innovation-led economies for its Total early-stage entrepreneurial activity (TEA)**, ranked 9th of 50 economies, but is middle-ranked for its Established business activity (EB).

- Canada is the only G6 economy with an **EB rate less than half its TEA rate**. The gap between TEA and EB levels suggest challenges in building businesses that can sustain themselves over a longer period.
- Canada’s TEA level has dropped compared to 2018 (18.7%), while the UK, USA and Germany show an increase in their TEA levels. Canada’s EB rate has dropped proportionally in comparison to the USA and is now below the UK rate.
- Canada is the only G6 economy with **high levels of motivation** across all four motivation indices (e.g. 40% or above).

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- The leading motivation for G6 entrepreneurs is to ‘to build great wealth or very high income,’ with wider variation amongst respondents, e.g. Italy (96%) compared to Canada (64%) and Germany (32%).
- The 2nd ranked motivation for G6 entrepreneurs is ‘to earn a living because jobs are scarce,’ led by Italy (90%) followed by the UK (64%) and Canada (63%). Interestingly, this motivation is less important in the USA (41%).
- Canada has the 2nd highest level of entrepreneurs in the G6 motivated ‘to continue a family tradition’ (44%), behind Germany (69%).
- Canada leads the G6 and ranks 6th in GEM 2019 in the motivation ‘to make a difference in the world,’ (67%). This suggests that 2 of 3 Canadian entrepreneurs are motivated to build purpose-driven businesses.

Canada’s level of **employee entrepreneurial activity (EEA)** has fallen below the UK, USA and Germany compared to 2018, when it led the G7 with an EEA level of 7.5%.

Canada has the **highest rate of business discontinuance and of exits** compared to other G6 countries; similar 2018. This high rate likely contributes to Canada’s low EB rate.

- However, Canada has a high rate of business continuation as a proportion of exits, with over half of those exiting a business reporting that the business continued (4.7%).
- Canada is one of 5 economies (with Switzerland, Sweden, Portugal and Luxembourg) where the proportion of adults exiting a business that continues exceeds the proportion exiting where that business does not continue.
- The most common reasons for ‘non-involuntarily’ discontinuing a business were lack of profitability (24%) and problems accessing finance (19%), with family or personal reasons a third most common reason (12%), followed by an incident (1%) and government bureaucracy (1%).

- Despite common complaints amongst businesses regarding taxation, government bureaucracy and policy, only 1% cited this as a factor in discontinuing a business, down from 4% in 2018.
- While overall percentage of voluntary (43%) and non-voluntary (57%) discontinuance is identical to 2018, the 2019 data shows a decrease in ‘opportunity to sell the business’ (from 24% to 18%), increase in ‘pursue another opportunity’ (from 11% to 15%) and increase in ‘problems getting financing’ (from 13% to 19%).
- One explanation for noticeable change in discontinuous factors in 2019 is that market conditions are restricting access to finance and increasing the difficulty in selling a business. The rise in percentage of entrepreneurs seeking another job or opportunity may be a further indicator of challenging market conditions for entrepreneurs.
- Only two economies in the GEM 2019 study (Sweden and Norway) identified that more people exited a business for positive than for negative reasons.

Canada ranks 1st amongst G6 countries in identifying **Business Angels as an important source of funds** for new businesses, and 3rd in levels of informal investment.

Entrepreneurial Aspirations

Overall, Canada’s sector distribution of new businesses shows encouraging signs, given **high EB rates in the extractive, transformative and business oriented categories.**

- Consumer-oriented services having the highest TEA rate for all G6 economies, with Canada’s rate increasing by 6.5%. Business-oriented services shows a downward trend in 2019 - while the extractive and transforming sectors have decreased slightly. Canada’s TEA industry sector profile for 2019 is most similar to Japan.

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- Canada was the only G6 economy in 2019 to see a noticeable decrease (3.4%) in business-oriented services while seeing an increase in consumer-oriented services. Increased entrepreneurial activity in consumer-oriented services may be an indication of ‘necessity-driven entrepreneurial activity in response to weak market conditions.
- Canada’s EB rate in consumer oriented services is much lower than the TEA rate (by 24%). This suggests that while many entrepreneurs enter this category, a high proportion are not transforming into established businesses.
- Canada’s EB rates are significantly higher than its TEA rates for the extractive and transformative sectors. **Canada’s EB rate in the extractive sector** leads the G6, highlighting the importance of this sector to the Canadian economy.
- Canada has the second lowest level of technology sector activity (as a percentage of TEA) behind Germany, USA and Japan. Canada has the lowest level of EB technology activity among G6 economies (behind the UK, Germany and Japan).
- Canada’s low technology activity levels may reflect its low level of industrial research and development (IR&D) investment. Canada’s IR&D intensity (and productivity growth) lag behind all other G6 economies except for Italy.

Overall, Canadian entrepreneurs have **high growth aspirations and high expectations of future growth**, particularly in the transformative and business-oriented sectors.

- The majority of Canadian entrepreneurs and established businesses (EB) employ or expect to employ 1-5 people, which is consistent with Canadian government data.
- Canadian entrepreneurs identify high aspirations to achieve growth ‘now’ as well as ‘in 5 years;’ suggested by a significant shift in the TEA 20+ job category.

- Canadian EB shows lower job growth expectations in the 20+ job category compared to 2018, while levels have increased in the 6-19 job category.
- The **transformative sector** showing the highest level of medium (6-19 jobs) and high (20+ jobs) growth expectations. This sector also has the lowest level of ‘no jobs’ expected in 5 years.
- Consumer-oriented services and business-oriented services show moderate growth expectations.
- The **extractive sector** shows the lowest level of 5-year growth expectations and highest level of ‘no jobs’ expected in 5 years. This suggests less optimism for growth in the sector compared to 2018.
- Canada is 5th in TEA and 3rd in EB medium growth expectations (10+ jobs). The USA and Japan show the highest TEA medium growth, with Germany and the UK showing the highest EB medium growth expectations.

GEM defines Canada as a **strongly ‘export-oriented’ economy**. Canada ranked 1st in 2019/2020 on expectations that sales outside Canada country will generate 25% or more of revenues.

- Canada’s TEA level of **‘high export orientation’** is significantly higher than other G6 economies (e.g. over 50% of revenues generated from outside country). Canada’s EB level is similar to that of the UK.
- Canada leads other G6 economies in high export orientation in business-oriented services (TEA and EB), and consumer-oriented services (1st within TEA, 2nd within EB). Canada lags behind Germany, UK and USA in the transformative sector, and has lower levels than Japan, Italy and the USA in the extractive sector.
- Canada has the highest level of **national scope** (for customers and product/process) compared to other G6 economies; ranking it 7th out of 50 countries. Canada’s **international scope** was slightly lower than USA and tied with Germany (joint 6th).

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- Canada was only one of three countries to have 4% or more of adults both starting or running a new business and expecting over 25% of revenue from outside their country.

Demographics

Canadians in the **25-34 age group are the most likely to start a business**, followed by the 25-34 age group. This is consistent with GEM data across 50 economies in 2019.

- Canada's level of TEA first increases with age and then declines; a pattern consistent in most high-income economies.
- Canada's TEA rate is translating into established businesses amongst a younger cohort of Canadians, with an increase in TEA in the 25-34 age group (+5.4%) and a decrease in the 45-54 age group (-2.4%) for 2019.
- Canada's established businesses continue to rely on an older cohort of business owners (e.g. 45-64 age range), although EB rates have increased in the 35-44 age range (+2.1%) and 25-34 age group (+2.2%) from 2018.

Canada's entrepreneurs possessing the **highest educational rates** across three of the four educational levels; with the USA slightly ahead of Canada in secondary degree experience.

- Canadian (and U.S.) entrepreneurs possess higher educational levels than other G6 countries. Canadian TEA graduate experience is almost twice the level of the UK and almost three times the level of Japan.
- A large proportion of Canadian entrepreneurs possess specialized educational knowledge; aligning with Canadian government data which shows that approximately 80% of start-up owners in Canada have post-secondary education.
- While Canada's high educational levels are high, formal education in itself may be insufficient in developing the capabilities necessary to grow larger businesses.

Canadian women in 2019/2020 have positive attitudes towards entrepreneurship, but lower perceptions of having necessary skills and experience to start a business.

- The gap between Canadian men and women in perceptions of skills and experience is 16.5%. Since 2016, the gap has been consistent and has changed less than 1%.
- The small gap between male and female perceptions on ‘good conditions to start a business’ has remained consistent since 2017, while the ‘fear of failure’ perception is most similar between men and women, and has risen in 2019.
- Female perceptions of ‘knowing entrepreneurs’ has risen significantly from 2018 (15.6%), suggesting increasing engagement in the entrepreneurial community.
- TEA and EB rates for Canadian women decreased in 2019, while TEA and EB rates increased for Canadian men. Women-owned businesses are much more active in the consumer services sector, where entry and exit rates are high.
- Canadian women and men show a high ‘earn a living’ motive, with the level for Canadian men over two times the level of USA men. This may be an indicator of current economic conditions, and aligns with similar findings in 2018.
- Canadian women and men rank 6th in the GEM study in the motivation ‘to make a difference.’ Canada’s high scores align with other evidence identifying Canada as a leading country for mission-driven and social entrepreneurship.
- Canadian women and men have the highest motivation levels for ‘to continue a family tradition,’ with this indicator showing the most variation as a motive for men and women across all G6 economies.

CHAPTER 6 *Framework Conditions for Entrepreneurship*

Canada is ranked 2nd amongst G6 economies and 14th among 54 economies taking part in the **National Entrepreneurship Context Index (NECI)** for 2019/2020. Canada's NECI score has dropped from 2018, as have NECI scores for the USA, Germany and Japan.

- Canada's most sizable gap is in '**financing for entrepreneurship**', followed by 'R&D level of transference,' 'government policies: bureaucracy, taxes' and 'internal market burdens.'
- Canada's recognized challenge with internal (i.e. cross-provincial) market dynamics is again suggested in the low score on 'internal market dynamics,' which places Canada 27th out of 54 economies.
- Canada also shows a sizable gap in 'entrepreneurship education at the post-school stage,' but less of a gap in 'entrepreneurship at the primary school stage.' Canada places 20th in the former and 9th in the latter.
- Canada shares similar gaps with the USA in 'internal market dynamics' (27th and 31st respectively) and 'R&D transfer' (22nd and 16th). Canada differs the most with the USA in 'financing for entrepreneurship' (12th and 1st) and 'physical infrastructure' (27th and 14th).
- Canada and the USA are not among the top 10 economies in the NECI index in 'entrepreneurial education at the post-school stage,' despite the high number of entrepreneurship programs, business plan competitions, student incubators and other support initiatives available at post-secondary institutions in both countries.
- Canada's framework conditions appears strongest in physical infrastructure/services access and cultural/social norms, but gaps in most other indicators collectively weaken Canada's support framework for entrepreneurship.

- Canada's gaps in its framework conditions appear to be of its own making. Inter-provincial trade barriers, burdensome R&D transfer processes, inefficient regulatory and tax systems and infrastructure constraints have been identified as barriers to entrepreneurship and business growth for some time.
- Overall, Canada's gaps in its framework conditions require further attention if the economy is to fully benefit from the aspirations and motivations of entrepreneurs to start and establish new businesses.

Recommendations

1. **Provide more policy attention to support entrepreneurs and established businesses in value-adding sectors.** GEM data identifies high EB rates and strong growth aspirations in the transformative and business oriented sectors.
 - a. Make conditions attractive for entrepreneurs to enter value-adding sectors, as new sectors emerge and older ones stagnate (e.g. oil and gas).
 - b. Prioritize support for growth-oriented start-ups with larger founding teams in these sectors, given evidence of higher survival rates with larger teams.
 - c. Prioritize programs to reskill and redeploy people from the extractible sector (e.g. oil and gas) into transformative and business oriented sectors.
 - d. Canada's high 'earn a living' TEA level (twice the level of the USA) suggests a 'necessity' motive that may be shifting Canadians into lower value sectors, as suggested with a rise in consumer-oriented sector activity in 2019/2020.

CHAPTER 6

2. **Provide targeted assistance to younger business owners.**
 - a. GEM data suggests that Canada's high TEA rate is translating into established businesses amongst a younger cohort, with a significant increase in entrepreneurial activity in the 18-24 age group and in established business activity in the 25-34 age group.
 - b. Targeted assistance to support younger start-up owners will allow Canada's EB rates to rise, align with Canada's high TEA activity and potentially reduce Canada's high level of business discontinuance.
 - c. Further study is suggested to examine factors that may be influencing the shift in TEA and EB rates to a younger cohort and determining the impact this shift may have on EB rates.
3. **Address the persistent and significant 'skills and experience' gap for Canadian women entrepreneurs.** The gap with men has changed less than 1% since 2016.
 - a. Start-up and EB levels cannot rise if the Canadian economy is unable to fully benefit from women entrepreneurs, due to much lower perceptions of their own skills and experience to start a business compared to men.
 - b. Further study of the industries which women enter may shed further insights on skill and experience requirements and how this may limit or influence female participation.
4. **Prioritise policy efforts to strength Canada's framework conditions to support entrepreneurship.** Canada's poor rating on most framework conditions is a barrier to entrepreneurial activity and established business growth in the economy.
 - a. Inter-provincial trade barriers, burdensome R&D transfer processes, inefficient regulatory and tax systems and infrastructure constraints have been identified as barriers to entrepreneurship for some time.

- b. Canada's high TEA rate and low EB rate suggest that framework conditions are better at supporting start-ups than established businesses. Canada ranks 3rd in the World Bank global rankings for ease of "starting a business" (out of 190 countries), but ranks 23rd for "ease of doing business," behind comparators the USA (6th), UK (8th) and New Zealand (1st).
- c. Further study is suggested to examine the relationship between NECI scores or rankings, income group and entrepreneurial activity for Canada.

5. **Address the gap in entrepreneurship training in the 'post-school' stage.** This indicator once again gets a low score from Canadian experts and in the NECI index.

- a. Canada's leading level of formal education appears insufficient in developing capabilities to establish and grow larger businesses.
- b. Canada ranks low despite the proliferation of entrepreneurship programs, business plan competitions, student incubators and other support initiatives available at most Canadian post-secondary institutions.
- c. Development of more practical-based programs, such as work-integrated learning for students within start-ups and new businesses.
- d. Offering programs to train entrepreneurs in use and adoption of technology, marketing and sales and business sustainability and growth.
- e. Offering training on different types of business ownership, e.g. business succession, socially oriented businesses, etc. that acknowledge different motivations for entrepreneurs and capability requirements.

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