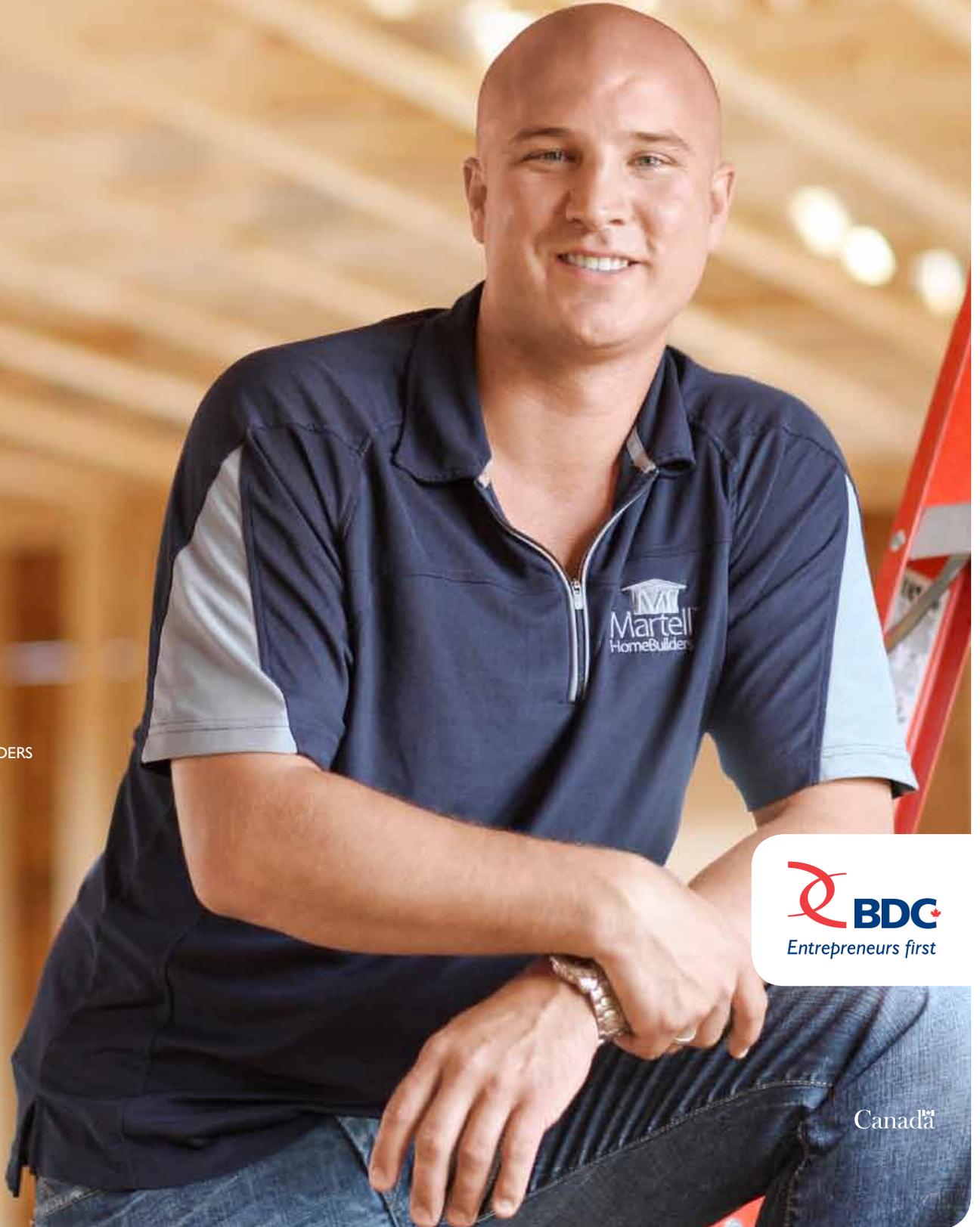


2012

BDC INDEX OF NEW ENTREPRENEURIAL ACTIVITY

PIERRE MARTELL
PRESIDENT
MARTELL HOME BUILDERS



Canada

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EXECUTIVE SUMMARY

The intensity at which entrepreneurs launch new ventures is a key indicator of economic dynamism within a country.

BDC created an Index of New Entrepreneurial Activity to provide up-to-date information on where the greatest entrepreneurial dynamism resides in the country, and the characteristics of new entrepreneurs.

Since the last recession, the BDC Index shows a reduced intensity of new entrepreneurial activity across the country, both at the national level and in all regions.

- > The intensity at which entrepreneurs launch new ventures is a key indicator of economic dynamism within a country, and an important driver of job creation and innovation. The slow economic recovery and the impending impact of Canada's aging population further highlight the importance of entrepreneurial activity as a means to sustain our levels of prosperity and standard of living.
- > BDC created an Index of New Entrepreneurial Activity to provide up-to-date information on where the greatest entrepreneurial dynamism resides in the country, and the characteristics of new entrepreneurs.
- > The Index measures, as a proportion of the overall labour force, the number of Canadians who became independent workers and hired employees in the past year. In 2011, 43,200 Canadians became self-employed and hired employees. With 18,699,400 individuals in the labour force for the same period, the BDC Index was 0.23% (43,200/18,699,400).
- > Since the last recession, the BDC Index shows a reduced intensity of new entrepreneurial activity in the country, both at the national level and in all regions. British Columbians are the most entrepreneurial in the country, followed by individuals in the Prairies. Ontarians have been the most reluctant to launch new ventures since the recession. The BDC Index in Quebec has increased almost to the national level but remains lower than pre-recessionary levels. The BDC Index for the Atlantic region is equal to the national average, although it has dipped over the last two years.
- > In 2011, industries posting the largest proportions of new entrepreneurs were construction (BDC Index of 0.49%), accommodation and food services (0.42%), and professional services (0.38%).
- > Canadians aged 25 to 44 have a greater tendency to launch new businesses. However, the BDC Index has steadily declined within this age group, while increasing amongst older individuals.
- > In general, women are less likely than men to become entrepreneurs. In 2011, the BDC Index was 0.31% for men, more than double that for women (0.14%).
- > Canadian immigrants have a higher tendency to launch new ventures than individuals born in Canada. In 2011, the BDC Index was 0.35% for immigrants compared to 0.20% for non-immigrants.

INTRODUCTION

BDC's Index of New Entrepreneurial Activity measures new independent workers with employees as a proportion of the total labour force. For instance, in 2011, 43,200 Canadians became independent workers and also hired employees, out of a total of 18,699,400 Canadians in the labour force. That year, the BDC Index of New Entrepreneurial Activity was therefore 0.23% (43,200/18,699,400).

The intensity at which entrepreneurs launch new ventures is a key indicator of economic dynamism within a country. It is also an important driver of job creation and innovation. The slow economic recovery and the impending impact of Canada's aging population further highlight the importance of entrepreneurial activity as a means to sustain our prosperity and standard of living.

Timely information on the appearance of new firms in Canada is not easily available. Inspired by the Kauffman Index of Entrepreneurial Activity¹ in the U.S., BDC decided to use a similar methodology and create its own Index of New Entrepreneurial Activity. This Index measures the yearly appearance of new independent workers who hire employees. It allows us to obtain up-to-date information about individuals creating businesses in Canada.

The BDC Index is based on Statistics Canada's Labour Force Survey (LFS). The LFS is a monthly survey of a sample of 56,026 individuals who are 15 years old or more. With this, we have access to recent data on the number of individuals who have become independent workers within the past 12 months and who have employees working for them.² BDC's Index of New Entrepreneurial Activity measures new independent workers³ with employees as a proportion of the total labour force. For instance, in 2011, 43,200 Canadians became independent workers and also hired employees, out of a total of 18,699,400 Canadians in the labour force.⁴ That year, the BDC Index of New Entrepreneurial Activity was therefore 0.23% (43,200/18,699,400).

This report presents the evolution of the BDC Index from 2000 to 2011. It compares the pre-recession period with the economic crisis and subsequent recovery phase. The Index also looks at how entrepreneurial trends vary by region, industry, age group, gender and for immigrants. It allows us to obtain valuable insights on where the greatest entrepreneurial dynamism resides in the country.

1. Kauffman Foundation, *Kauffman Index of Entrepreneurial Activity 1996-2011*, March 2011. The Kauffman Index captures all new business owners, including those who are employers or non-employers. The Kauffman Index and other entrepreneurial measures are presented in Appendix I.
2. We consider that these independent workers are in fact entrepreneurs, as opposed to those who work for themselves and do not hire employees.
3. In this study, the term "independent worker" is used as a synonym for "self-employed".
4. Canadian Labour Force is composed of civilian workers or unemployed individuals actively looking for a job and who are 15 years old or more.



NEW ENTREPRENEURIAL ACTIVITY IN CANADA

The level of entrepreneurial activity is clearly not on an upward trend.

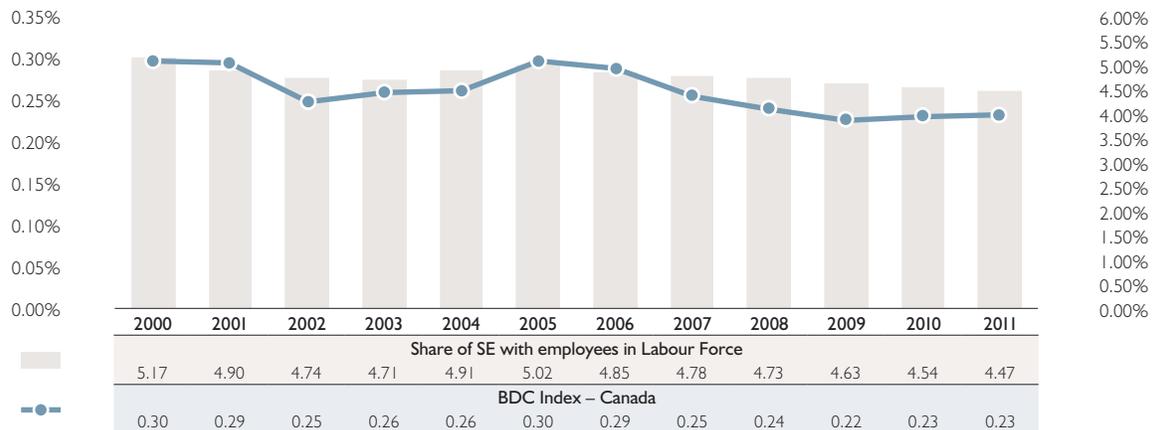
It also appears that the recession and following slow economic recovery did not provide fertile ground for entrepreneurship.

Canadians who are independent workers (self-employed) and, in addition, hire employees, can be considered as constituting the country's pool of entrepreneurs. In 2011, 835,100 individuals had this status. They accounted for 4.47% of the 18,699,400 Canadians in the labour force. Among those who were self-employed, 43,200 people were new to the job, i.e., they had become independent workers within the last 12 months and, at the same time, created jobs. Therefore, the proportion of new entrepreneurial activity within the labour force was 0.23% that year (43,200/18,699,400). This constitutes the "BDC Index of New Entrepreneurial Activity".

In Figure 1 below, we observe that the BDC Index peaked in 2005, attaining 0.3%. It declined in subsequent years and remained slightly lower than during the first half of the last decade. In the same graph, we indicate the share of all self-employed (SE) individuals with employees within the labour force. This includes recent and older ones. We notice that this share increased over the past two years but remains lower than in some of the previous years.

Based on these two indicators, the level of entrepreneurial activity is clearly not on an upward trend. What is somewhat puzzling is that the BDC Index began to decrease even prior to the recession. One explanation could be that the tight labour market we experienced during this period of solid economic growth did not entice individuals to leave the labour market and launch new businesses. It also appears that the recession and following slow economic recovery did not provide fertile ground for entrepreneurship.

Figure 1: 2000 TO 2011 TREND IN NEW ENTREPRENEURIAL ACTIVITY IN CANADA





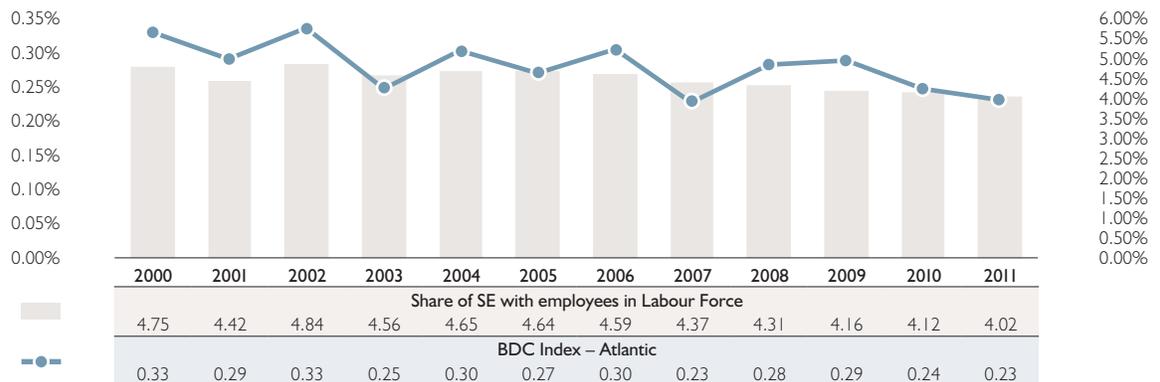
2. NEW ENTREPRENEURIAL ACTIVITY BY REGION

In the Atlantic region, the BDC Index is more volatile and generally holds above the national index.

At 0.23% in 2011, the BDC Index for Quebec reached the national index, although still lower than its peak of 0.29% in 2001 and 2005.

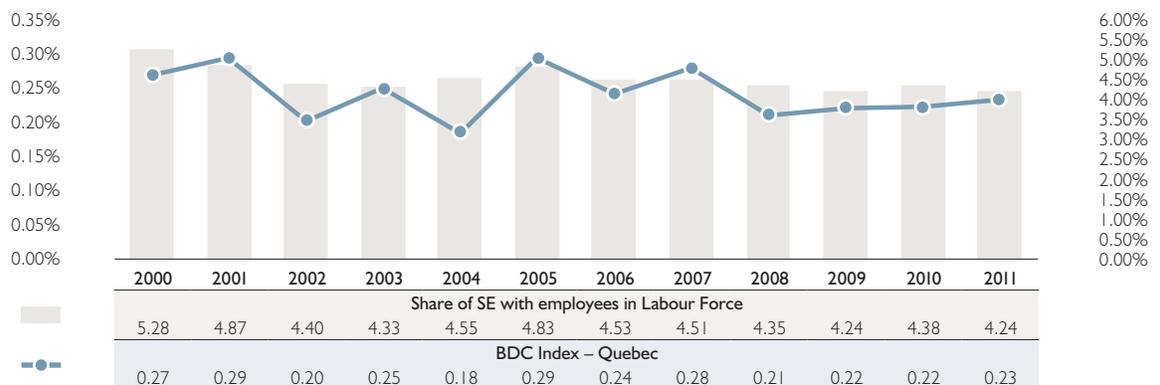
The national picture of new entrepreneurial activity hides various regional dynamics. In the Atlantic region, for instance, the BDC Index is more volatile and generally holds above the national index. This was particularly true during the recession. Overall, however, new entrepreneurial activity is on a downward trend and the share of the labour force occupied by self-employed individuals with employees has decreased steadily over the years. At 0.23% in 2011, the BDC Index for the Atlantic region is now equal to the national index.

Figure 2: ENTREPRENEURIAL ACTIVITY – ATLANTIC



In Quebec, both the BDC Index and the share of self-employed workers with employees have generally been lower than the national average over the decade. At 0.23% in 2011, the BDC Index for Quebec reached the national index; although still lower than its peak of 0.29% in 2001 and 2005.

Figure 3: ENTREPRENEURIAL ACTIVITY – QUEBEC

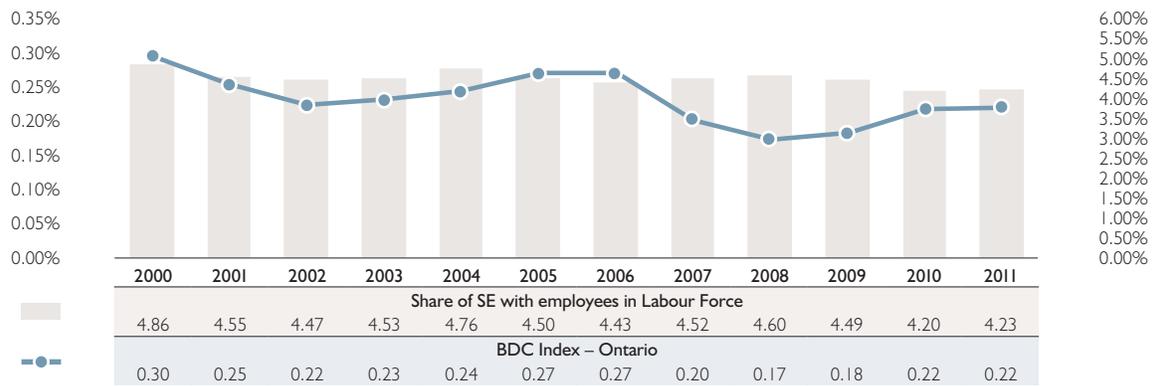


New entrepreneurial activity in Ontario experienced a significant decrease during the recession.

The levels of the BDC Index for the Prairies are in line with what we would expect from Canada's most dynamic economic region.

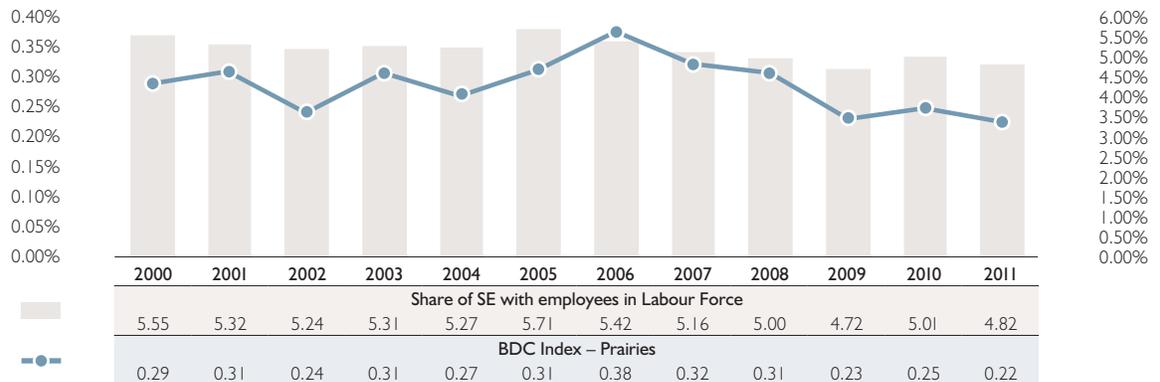
New entrepreneurial activity in Ontario experienced a significant decrease during the recession. The BDC Index for this province dropped to a low of 0.17% in 2008. It recovered to 0.22% in 2011, close to the national average. In the Ontario labour force, the proportion of self-employed workers with employees remained slightly lower than the national average over the period.

Figure 4: ENTREPRENEURIAL ACTIVITY – ONTARIO



The levels of the BDC Index for the Prairies are in line with what we would expect from Canada's most dynamic economic region. Despite decreasing in 2009, the Index remained above the national average for most of the period. From its 2006 peak of 0.38%, it reached a low of 0.22% in 2011. It has remained low by historical standards over the last three years. It is also worth noting that the proportion of employers within the labour force is generally higher than average.

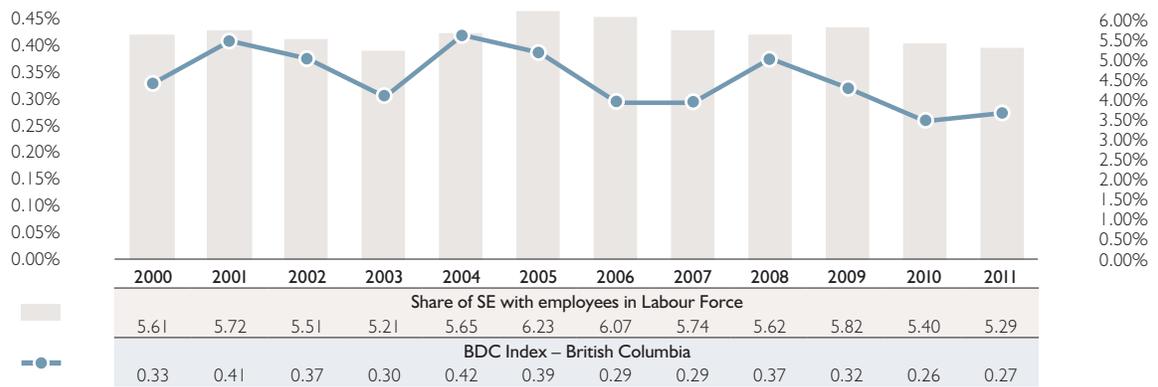
Figure 5: ENTREPRENEURIAL ACTIVITY – PRAIRIES



British Columbia is the most entrepreneurial region in the country. Indeed, the BDC Index for this province has evolved above the national average for most of the period.

Not surprisingly, British Columbia is the most entrepreneurial region in the country. Indeed, the BDC Index for this province has evolved above the national average for most of the period. This is also reflected by a greater share of employers within the labour force than in other regions. These results are consistent with other statistics showing that the number of small businesses per capita in British Columbia is the second highest in the country, after Saskatchewan.¹

Figure 6: ENTREPRENEURIAL ACTIVITY – BRITISH COLUMBIA



To summarize, apart from British Columbians, most Canadians have been less entrepreneurial over the last few years. Furthermore, new entrepreneurial activities have not picked up since the recession. The evolution of the BDC Index shows that Ontario experienced the biggest slowdown of entrepreneurial dynamism during the recession. Not surprisingly, citizens in the Prairies and B.C. have shown a greater propensity to create new businesses.

The negative trends in new entrepreneurial activity have had an impact on the distribution of entrepreneurial individuals across the country. From 2000 to 2011, Quebec's share of entrepreneurs (self-employed individuals with employees) decreased by 2 percentage points, as shown in the Figures below. During the same period, the Prairies and British Columbia experienced an increase of one percentage point each in their respective shares.

Figure 7: SHARE OF SELF-EMPLOYED WITH EMPLOYEES BY REGION – 2000

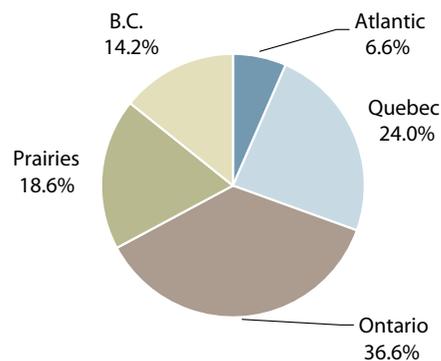
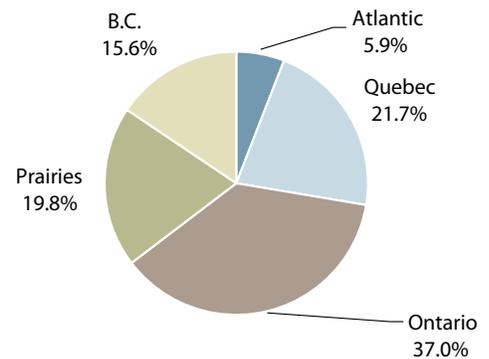


Figure 8: SHARE OF SELF-EMPLOYED WITH EMPLOYEES BY REGION – 2011



1. Western Economic Diversification, BC Ministry of Jobs, Tourism and Innovation, and BCStats, *Small Business Profile 2011*, p.7.



3. NEW ENTREPRENEURIAL ACTIVITY BY INDUSTRY

In 2011, the industry posting the highest score in terms of new entrepreneurial activities was the construction sector, and the BDC Index reached 0.49% that year.

Canadians operating in the accommodation and food services industry are also more entrepreneurial than others.

Another dynamic industry is professional services.

In which sectors are Canadians most likely to launch new businesses? In 2011, the industry posting the highest score in terms of new entrepreneurial activities was the construction sector, and the BDC Index reached 0.49%. While lower than the 0.65% level attained in 2005, it remained elevated compared to other industries. In addition, within the labour force, the share of self-employed workers with employees was 9.7% in 2011, much higher than the national average of 4.5%. However, this proportion has declined over the last few years.

Canadians operating in the accommodation and food services industry are also more entrepreneurial than others. The BDC Index for this industry reached 0.42% in 2011, greater than the national average of 0.23%. Nonetheless, it has experienced a significant decline since 2006, the year it attained 0.80%. The share of self-employed individuals with employees within the labour force, which has declined slightly, is now around the Canadian average.

Another dynamic industry is professional services. The BDC Index reached 0.38% in 2011. While lower than the 0.51% level reached in 2007, it is on an upward trend following its low of 0.23% in 2008. Furthermore, the proportion of employers within the labour force has remained stable and, at 8.6% in 2011, is much higher than average.

The BDC Index for the retail and wholesale trade sector was 0.21% in 2011, up from 0.14% in 2008. Over the years, new entrepreneurial activity in this sector has been close to the national average. The share of self-employed individuals with employees declined over the past year to reach 4.9% in 2011, but remains at a level similar to the national average.

The health care and social assistance sectors have displayed lower levels of entrepreneurship dynamism, and the same can be said about the manufacturing sector. Over the last two years, the number of new independent workers with employees starting in manufacturing was too low to be reported. For the transportation and warehousing as well as other service industries, the BDC Index could not be calculated because their samples were too small to be statistically significant.¹

1. BDC Index of "0" in the following graphs relate to the estimates that are removed (cannot be published) because they are below the threshold of reliability.

Figure 9: ENTREPRENEURIAL ACTIVITY – CONSTRUCTION

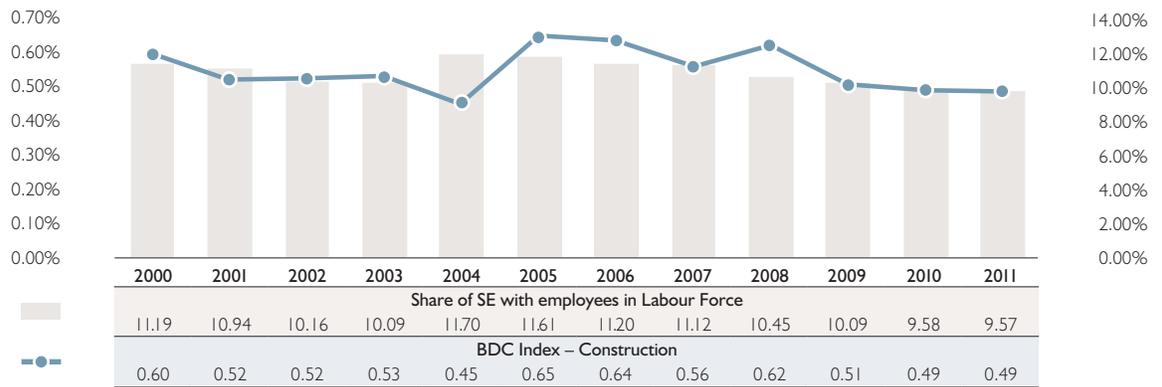


Figure 10: ENTREPRENEURIAL ACTIVITY – ACCOMODATION AND FOOD SERVICES

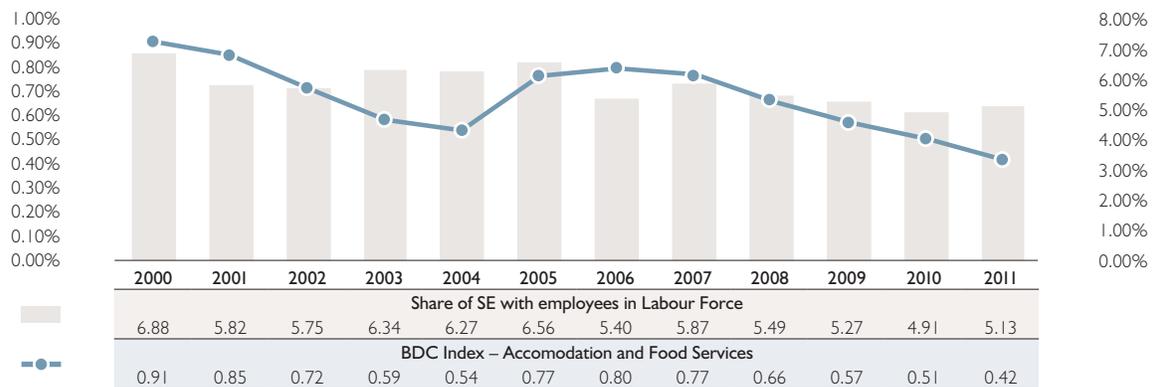


Figure 11: ENTREPRENEURIAL ACTIVITY – PROFESSIONAL SERVICES

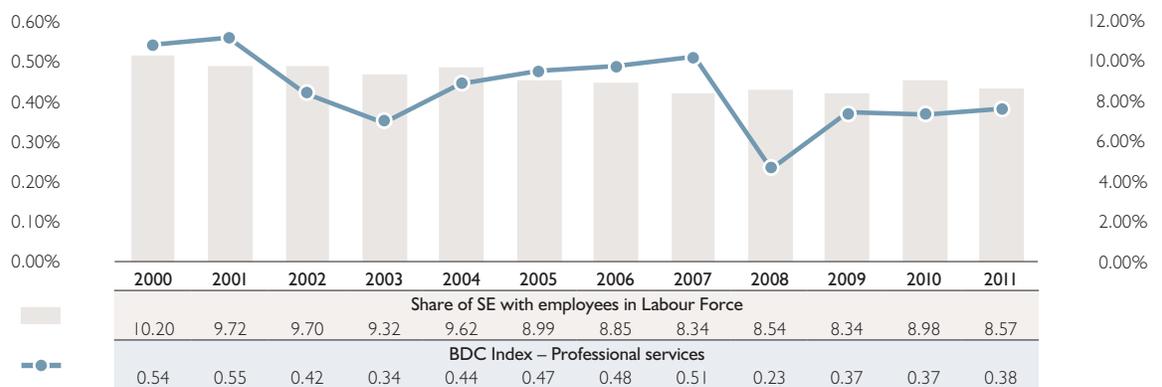


Figure 12: ENTREPRENEURIAL ACTIVITY – TRADE

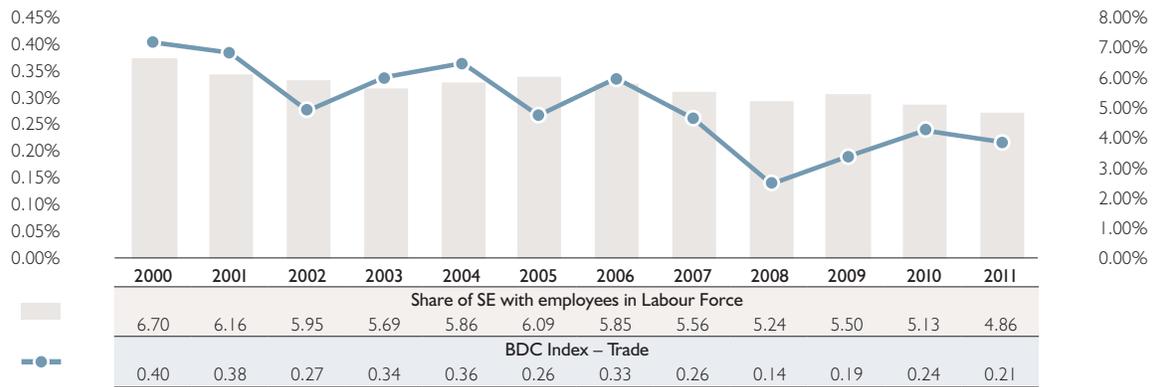


Figure 13: ENTREPRENEURIAL ACTIVITY – HEALTH CARE AND SOCIAL ASSISTANCE

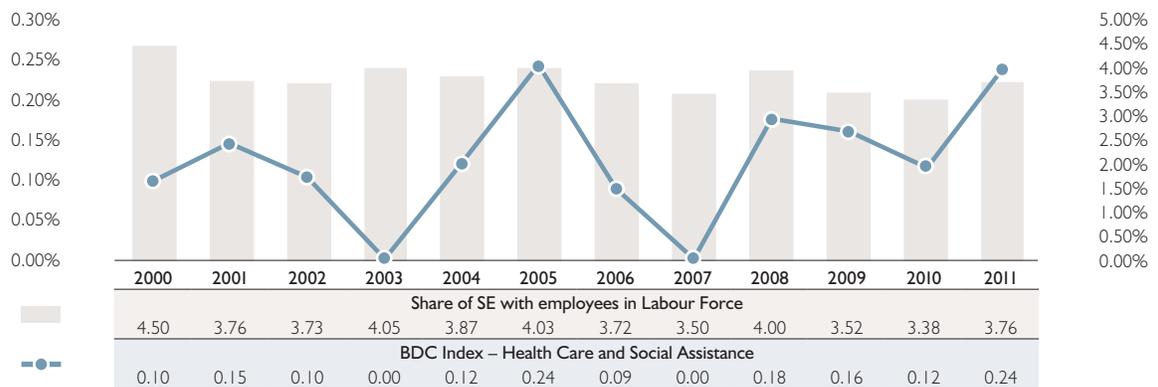
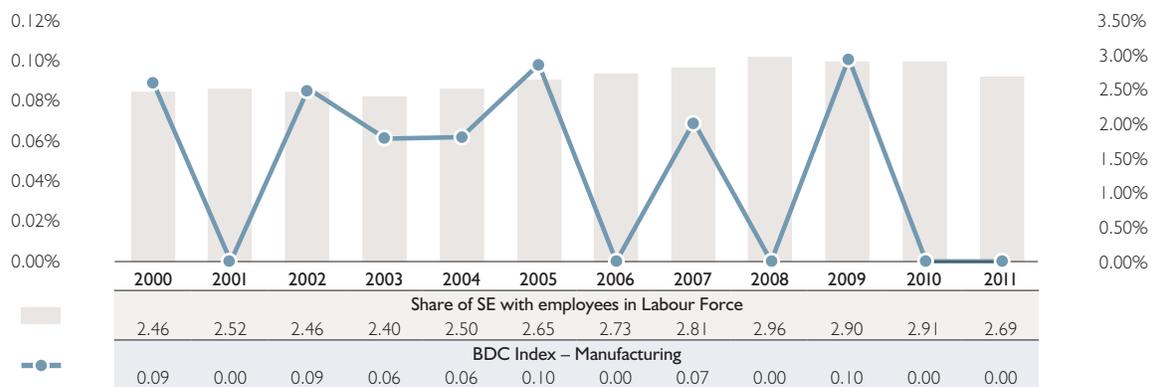
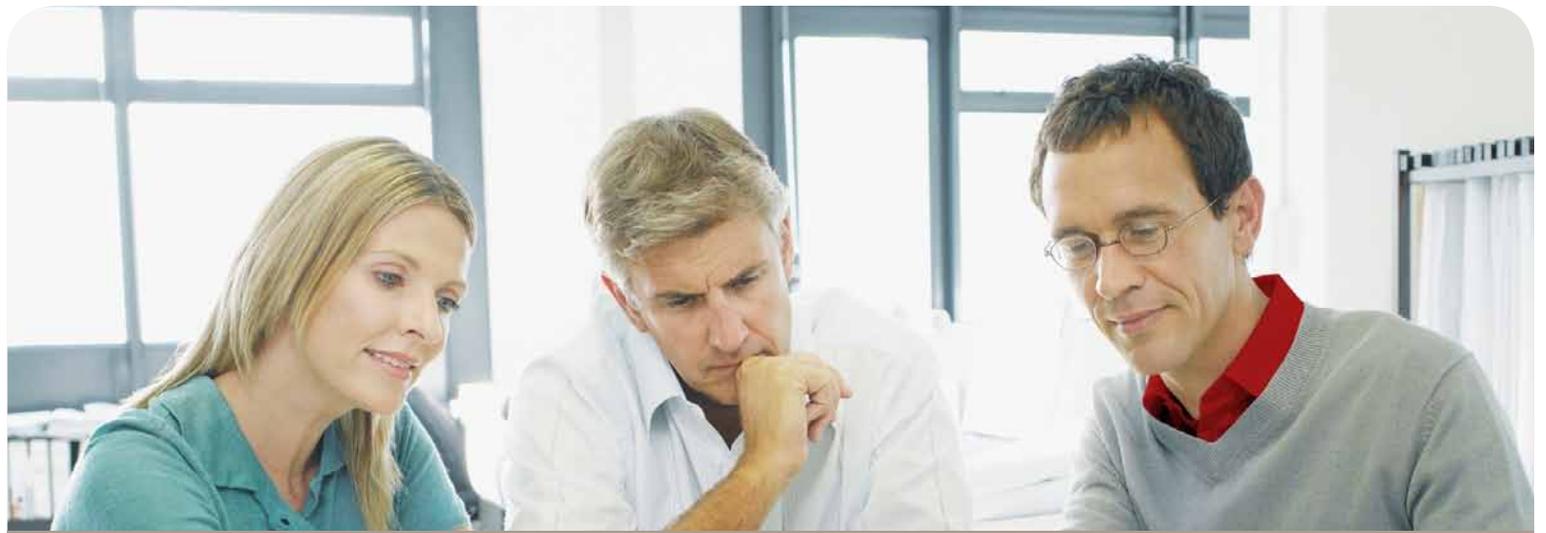


Figure 14: ENTREPRENEURIAL ACTIVITY – MANUFACTURING





4. NEW ENTREPRENEURIAL ACTIVITY BY AGE

Canadians aged 25 to 44 have a greater tendency to launch new businesses. However, while the BDC Index for this age group has remained the highest during most of the period, it declined to 0.28% in 2011 from a peak of 0.40% in 2006.

Canadians aged 25 to 44 have a greater tendency to launch new businesses. However, while the BDC Index for this age group has remained the highest during most of the period, it declined to 0.28% in 2011 from a peak of 0.40% in 2006. Furthermore, the share of employers within the labour force in this age group has also declined and, at 3.5%, is now below the national average of 4.5%.

Entrepreneurial activity within the 45 to 54 age group decreased sharply during the recession but has bounced back since. The BDC Index was 0.27% in 2011, very close to the 25 to 44 age category. The share of self-employed workers with employees within this age group has dropped slightly but remains much higher than the national average.

New entrepreneurial activity among Canadians age 55 or more traditionally has been and remains lower than for the two previously-mentioned age groups. It also decreased during the recession, followed by a bounce back, with a BDC Index of 0.17% in 2011. The labour force in this age category includes a much larger share of employers than the average. However, it has decreased over the years.

Entrepreneurship among youth, between 15 to 24 years old, has been extremely volatile. Individuals in this age category also account for the smallest proportion of independent workers with employees.

Figure 15: ENTREPRENEURIAL ACTIVITY – 15 TO 24 YEARS OLD

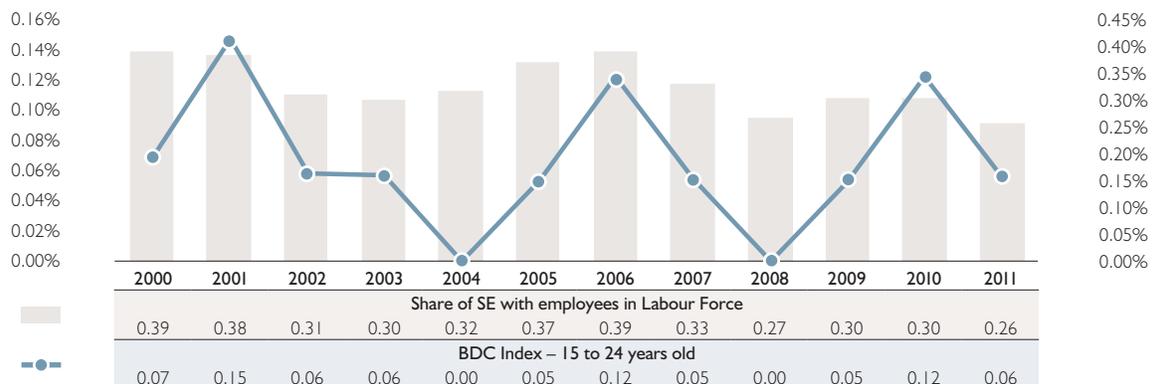


Figure 16: ENTREPRENEURIAL ACTIVITY – 25 TO 44 YEARS OLD

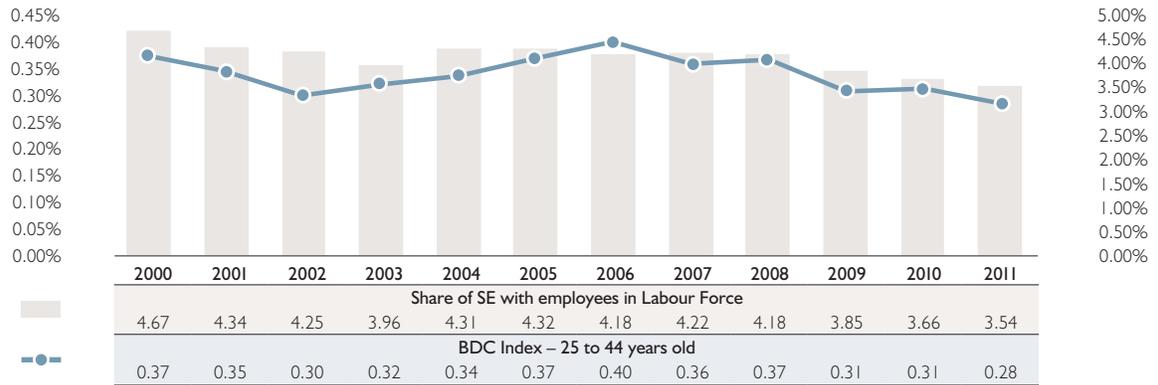


Figure 17: ENTREPRENEURIAL ACTIVITY – 45 TO 54 YEARS OLD

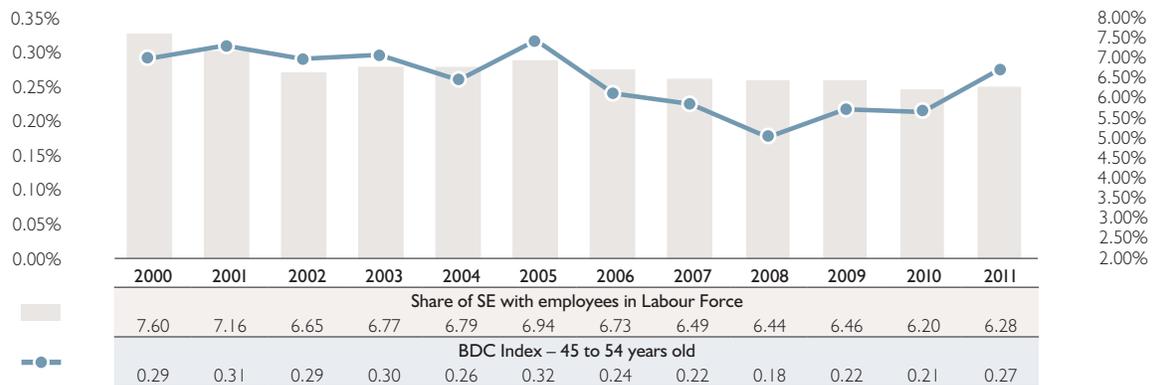
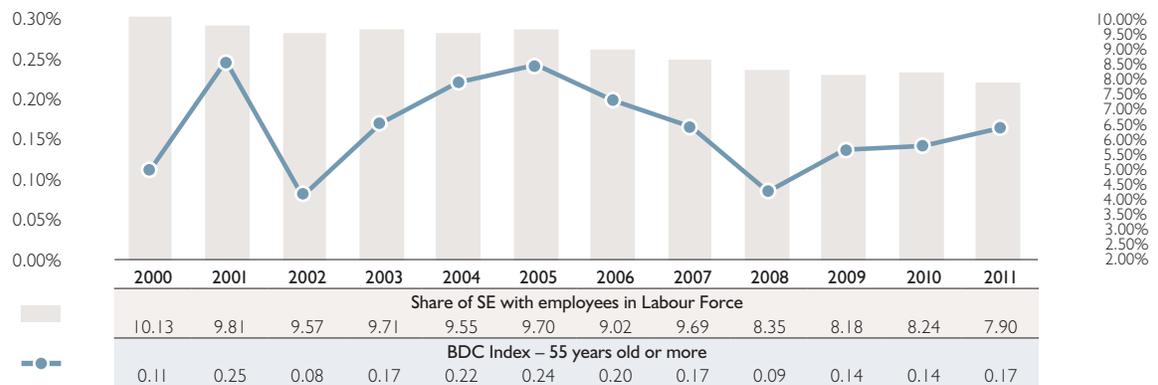
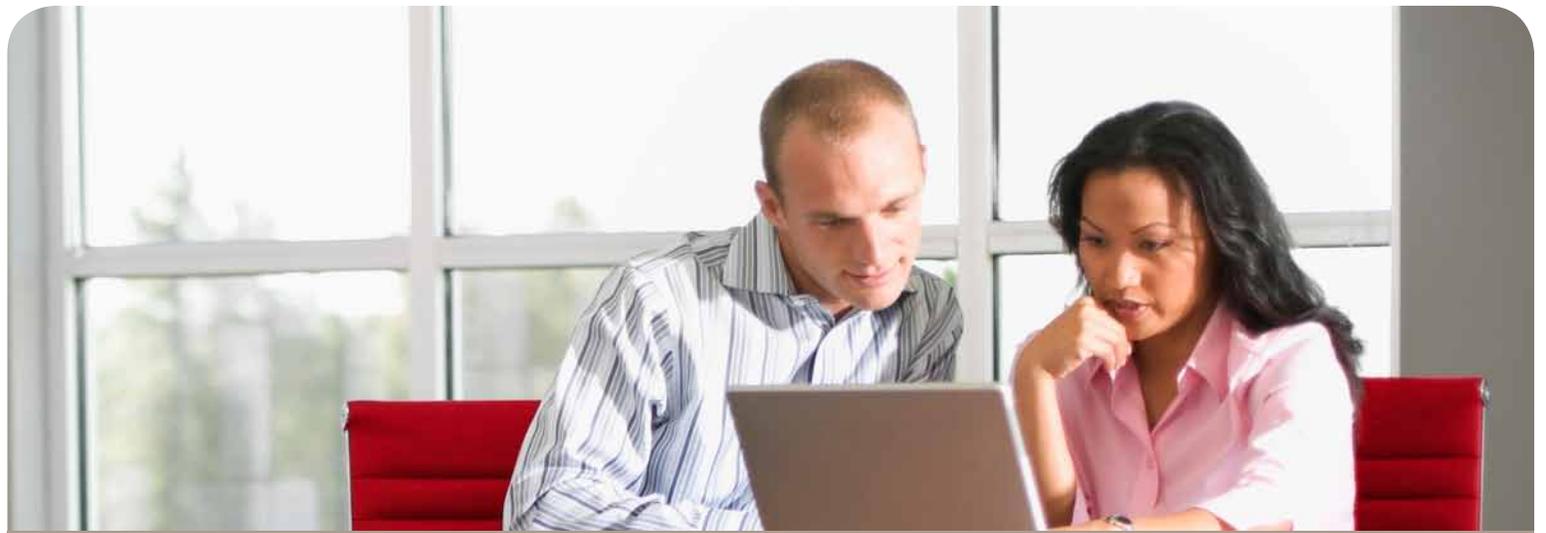


Figure 18: ENTREPRENEURIAL ACTIVITY – 55 YEARS OLD OR MORE





5. NEW ENTREPRENEURIAL ACTIVITY BY GENDER

Looking at the BDC Index by gender leads us to conclude that entrepreneurship remains a male-dominated environment.

Looking at the BDC Index by gender leads us to conclude that entrepreneurship remains a male-dominated environment. The BDC Index was much lower for women than men over the entire period, and reached a historic low of 0.14% in 2011. Traditionally, the share of female employers within the labour force has also been much smaller.

New entrepreneurial activity among men has experienced a decline since 2007 and, despite some improvement, has not recuperated the ground lost in recent years. However, at 0.31% in 2011, the BDC Index is two times higher for men than women. The share of male employers within the labour force has decreased but remains above the national average.

Figure 19: ENTREPRENEURIAL ACTIVITY – WOMEN

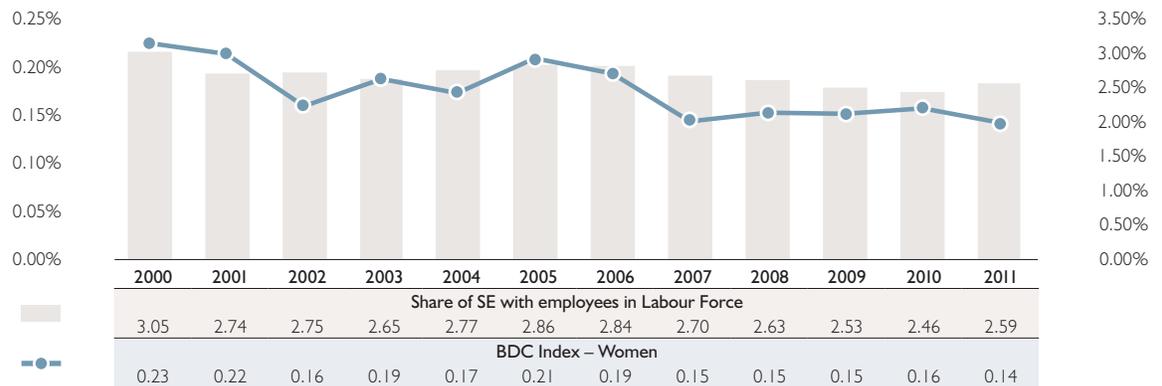
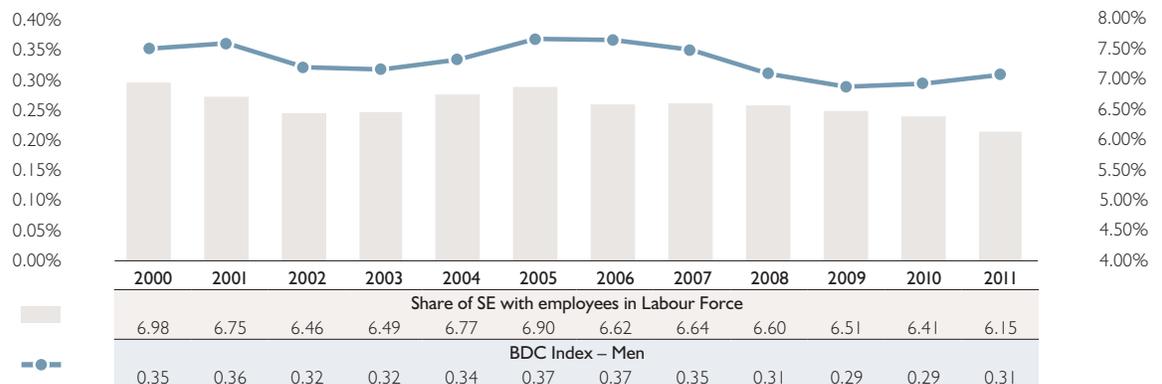


Figure 20: ENTREPRENEURIAL ACTIVITY – MEN





6. NEW ENTREPRENEURIAL ACTIVITY AMONG IMMIGRANTS

The data shows that immigrants are much more entrepreneurial. The BDC Index for immigrants has been much higher for all years than for individuals born in Canada.

We looked at whether there was a difference in the BDC Index between Canadian-born individuals and immigrants. Statistics Canada began publishing data in this regard in 2006, a long enough period to see a trend. The data shows that immigrants are much more entrepreneurial. While the BDC Index for immigrants has been much higher for all years than for individuals born in Canada, the share of immigrant employers within the labour force is also noticeably higher. In 2011, the BDC Index was 0.35% for immigrants compared to 0.20% for non-immigrants. For both categories, entrepreneurial activity has reduced since 2006, when the BDC Index was 0.47% for immigrants and 0.24% for non-immigrants.

Figure 21: ENTREPRENEURIAL ACTIVITY – IMMIGRANTS

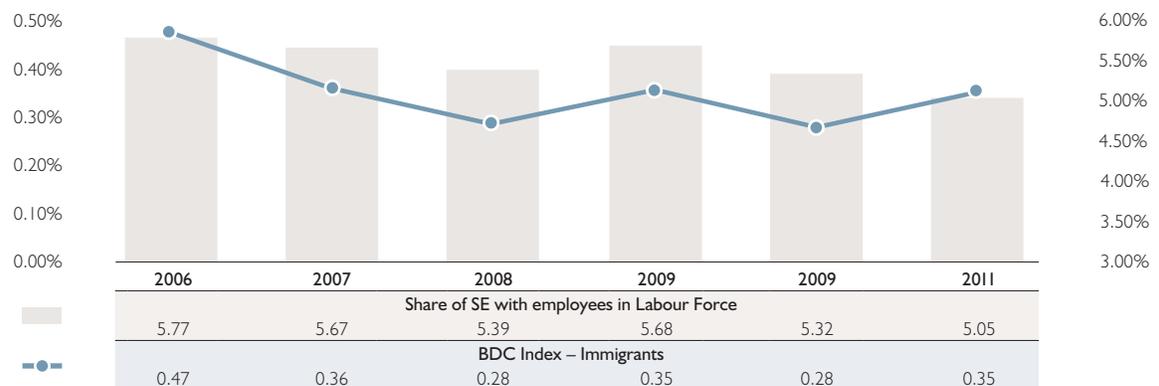
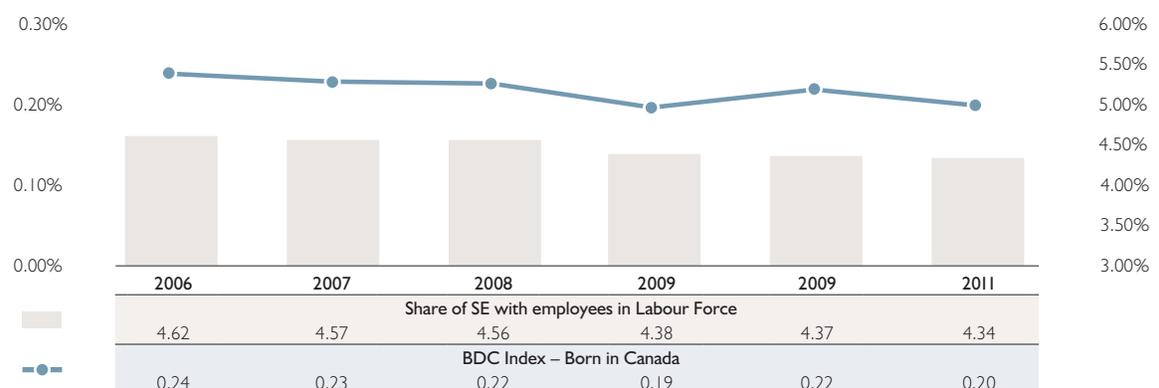


Figure 22: ENTREPRENEURIAL ACTIVITY – BORN IN CANADA



CONCLUSION

Canadians who decide to become employers in any given year constitute the pool of new entrepreneurs in the country.

Canadians who decide to become employers in any given year constitute the pool of new entrepreneurs in the country. Using Statistics Canada's Labour Force Survey (LFS), BDC was able to obtain this information and build an index of new entrepreneurial activity. This BDC Index represents the proportion of individuals, within the labour force, who became independent workers over the previous year AND had employees. Using the LFS allowed us to access reliable and timely data for various periods and regions, including the different characteristics of entrepreneurs.

In this report, we present the evolution of the BDC Index from 2000 until 2011. We also look at the variation by region, industry, age group and gender as well as for immigrants. Overall, we observed a reduction in the intensity of new entrepreneurial activity in recent years. Western regions are more dynamic than Central or Eastern Canada. The sectors where Canadians have a higher propensity to launch new ventures are construction, accommodation and food services, and professional services. While most new entrepreneurs are in the 25 to 44 age group, older citizens are now more likely to embrace entrepreneurship. Furthermore, men are much more likely than women to become entrepreneurs. Finally, we found that immigrants are more entrepreneurial than individuals born in Canada.

APPENDIX – OTHER ENTREPRENEURSHIP MEASURES

> **Kauffman Foundation – Kauffman Index of Entrepreneurial Activity**

The Kauffman Index¹ represents the percentage of the adult population (between ages twenty and sixty-four) that starts a business each month. Individuals who, for the first time, own businesses as their main job, with fifteen or more hours worked per week, are captured by the Index. These monthly entrepreneurial activity rates are then averaged to calculate an average monthly estimate for each year. The data source used is the Current Population Survey (CPS), the U.S. equivalent of Canada's Labour Force Survey. The Kauffman Index captures all new business owners, including those who own incorporated or unincorporated businesses and those who are employers or non-employers. In comparison, the BDC Index excluded non-employers, considering that most of them are independent workers who may not have the intention to build a firm.

> **Global Entrepreneurship Monitor (GEM) – Total Early-Stage Entrepreneurial Activity (TEA)**

The TEA captures the percentage of adults between 18 and 64 years old who are actively involved in setting up a business or are currently owner-managers of a new business (up to three and a half years old). The TEA illustrates entrepreneurship at one point in time and the data is based on surveys of 140,000 adults (18 to 64 years of age) in 54 economies. Based on this survey, GEM estimated that 388 million entrepreneurs were actively engaged in starting and running new businesses in 2011. The last time Canada was included in the GEM report² was in 2006.

> **Fondation de l'entrepreneuriat – Quebec Entrepreneurial Index**

The *Fondation de l'entrepreneuriat* developed and launched a survey which measures, in a given year, the rate of the population involved in the entrepreneurial process.³ It includes the percentage of individuals who intend to start or take over a business and those that were actively involved in creating a business in the past 12 months. The survey, conducted by Léger Marketing, also measures the percentage of the population that owns a business and that closed a business in a given year. In 2012, 8.0% of Quebecers intended to start or take over a business, compared to 11.8% of residents of other provinces. In addition, 6.3% of Quebecers had actively been involved in creating a business over the past year, as opposed to 8.8% among other Canadians.

1. Kauffman Foundation, *Kauffman Index of Entrepreneurial Activity 1996-2011*, March 2011.

2. The GEM 2011 Global Report, January 2012.

3. Fondation de l'entrepreneuriat, *Indice entrepreneurial québécois 2012*.

> **Statistics Canada – Firms “entries” from the Longitudinal Employment Analysis Program (LEAP)**

Statistics Canada studied firm dynamics in Canada using a longitudinal database, called the Longitudinal Employment Analysis Program (LEAP), to follow firms through time and identify firms’ “entries”¹. This database included all firms in the Canadian economy that have some payroll and therefore issued a T4-slip. LEAP includes all incorporated and unincorporated businesses but excludes self-employed individuals. The data currently covers 1983 to 2008. For 2008, Statistics Canada estimated the business entry rate was 10.8.²

> **OECD – Birth rate of employer enterprises**

The OECD publishes measures of the birth rate of employer enterprises for a variety of countries. Their *employer enterprise birth rate* corresponds to the number of births of employer enterprises as a percentage of active enterprises with at least one employee. For Canada, the latest birth rate published by the OECD³ was 5.99%. The source for this data comes from Statistics Canada’s SME Data Warehouse which includes firms having fewer than 250 employees and less than \$50 million in total revenue.

1. Firms’ “Entry rate” considers firms without employment in the previous year only, while firms’ “birth rate” considers new firms that have no employment history at all.

2. Statistics Canada, *Firm Dynamics: Firm Entry and Exit in Canada, 2000 to 2008*, January 2012.

3. OECD, *Entrepreneurship at a Glance*, 2012.