

Canadian Women Grabbing the Baton

October 2013

Exhibit 1: Canadian Gross Domestic Product

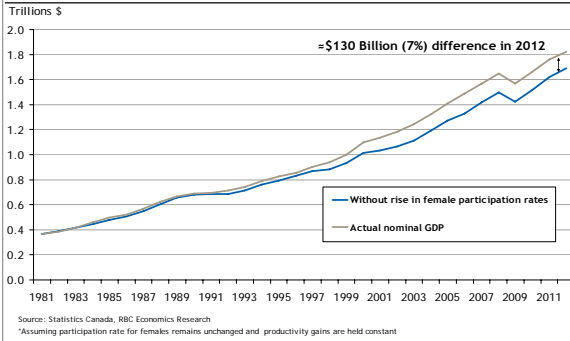


Exhibit 2: Labour Force Participation Rates

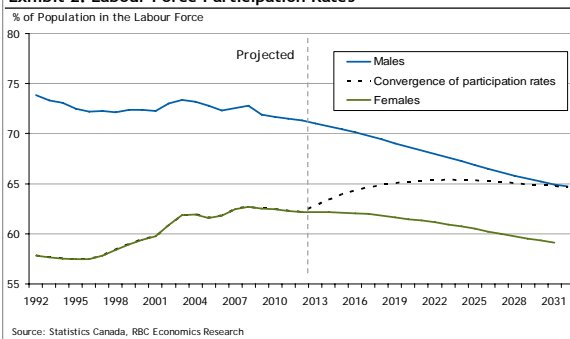
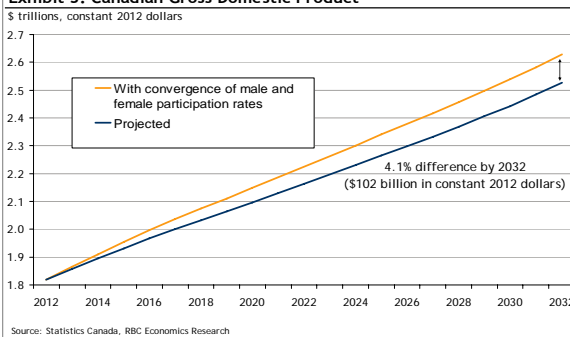


Exhibit 3: Canadian Gross Domestic Product



Small and medium business establishments are well recognized as a significant component of the economic landscape in Canada, driving industrial renewal and innovation and helping the economy to stay competitive in a rapidly changing world. These businesses, characterized as employing fewer than 500 people, represent 99.8% of employer-establishments and are an important source of job creation, accounting for more than 50% of private-sector payrolls. Moreover, as highlighted in an earlier RBC Economics Research report¹, SMEs are a significant source of productivity gains in Canada, a major driver of GDP growth and therefore real personal income growth and living standards.

Given the contributions of small and medium businesses to economic activity in Canada—representing an estimated 40% of GDP²—encouraging greater participation in business ownership, particularly for females, by addressing potential obstacles could yield significant benefits to the overall Canadian economy. Female majority-owned business establishments have made headway in the Canadian SME landscape with the share of firms with greater than 50% female ownership rising to 15.6% in 2011 from an estimated 14.9% in 2007 and 13.7% in 2004³. Much ground has yet to be covered, however, as the relatively low share of majority female owned firms suggests female entrepreneurs represent an untapped resource of growth potential.

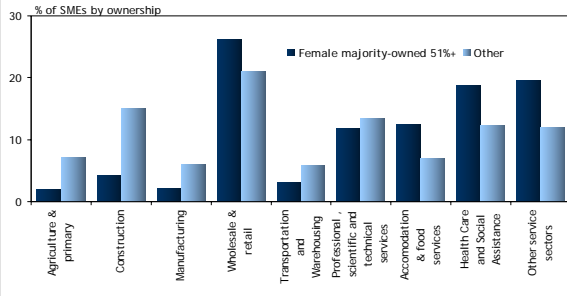
Over the past three decades, the increased participation of females in the labour force represented an important driver of economic growth. We estimate that this increase in female participation resulted in a \$130 billion contribution to economic activity in 2012, equivalent to approximately 7% of GDP⁴. Female participation rates have stabilized in recent years, however, and a demographic shift taking place in Canada raises concerns about the ability to sustain rates of comparable economic growth going forward. That being said, a further narrowing and eventual elimination of the gap between female and male participation rates over the next 20 years would result in a 4% boost to GDP in 2032⁵. To assess the potential for female entrepreneurial activity to contribute to achieving such economy-wide benefits, this report focuses on the characteristics of female majority-owned small and medium sized enterprises (SMEs) using the Survey on Financing and Growth of Small and Medium Enterprises⁶.

Characteristics of female majority-owners and businesses

Female majority-owned firms tend to be concentrated in specific industries. In 2011, these included wholesale & retail trade (26%), health care, arts and entertainment (19%) and accommodation and food services (12%)⁷. Female entrepreneurs have also achieved gains in the professional, scientific and technical services as evident by a near 30% jump in 'self-employed females with

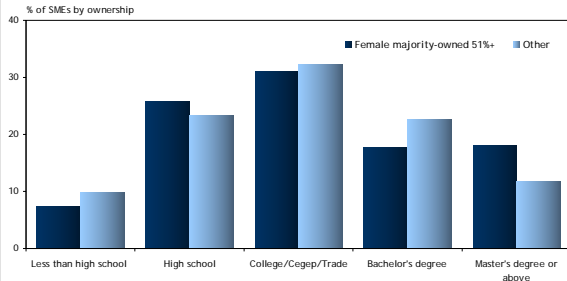
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Exhibit 4: SMEs by industry, 2011



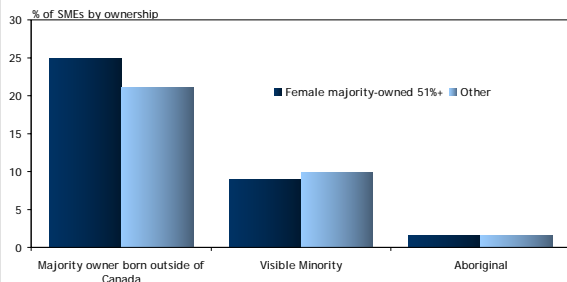
Source: SME Research and Statistics, Industry Canada, Statistics Canada, RBC Economics Research

Chart 5: SMEs by education of majority owner, 2011



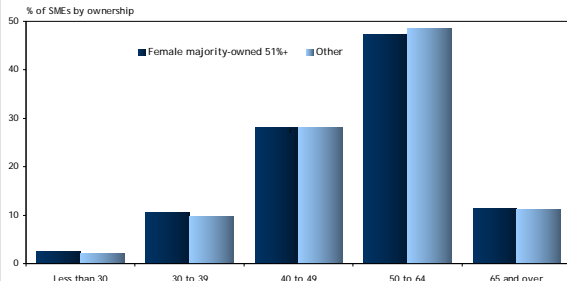
Source: SME Research and Statistics, Industry Canada, Statistics Canada, RBC Economics Research

Exhibit 6: SMEs by majority owner characteristics, 2011



Source: SME Research and Statistics, Industry Canada, Statistics Canada, RBC Economics Research

Exhibit 7: SMEs by age of majority owner, 2011



Source: SME Research and Statistics, Industry Canada, Statistics Canada, RBC Economics Research

paid help' in the industry since 2007. Given industry-specific characteristics and the relatively small size of female majority-owned businesses (62% have 4 employees or less), these firms tend to focus sales of their product or service in local markets with 5% supplying exports abroad.

Nearly 1 in 4 female business owners in Canada are born outside of Canada and close to 70% of female business owners have attained a post-secondary degree. The share of businesses majority-owned by aboriginals and visible minorities remains low, however, and while these demographic groups represent relatively small shares of the overall Canadian adult population (4% and 18%, respectively), bringing ownership rates more in line with the associated population shares for both genders could serve as a supplemental source for further SME growth.

A growing share of Canada's population is reaching retirement age and this trend is being echoed in SME ownership. For female majority-owned firms, the share of owners who are over the age of 65 has nearly doubled in the past four years—in part reflective of rising female participation rates—and the age distribution is now analogous to that for male majority-owned firms. On the other end of the spectrum, younger female entrepreneurs are failing to offset the aging female ownership trend, a pattern that is visible for both genders as male and female firms face relatively low shares of business owners who are under the age of 40.

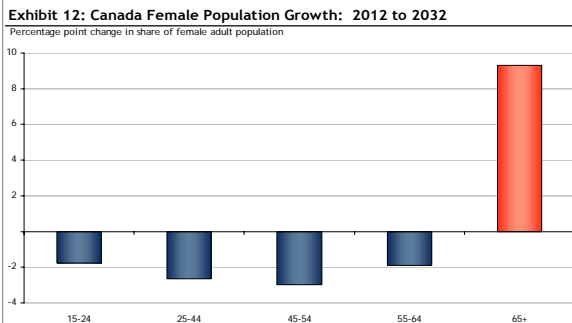
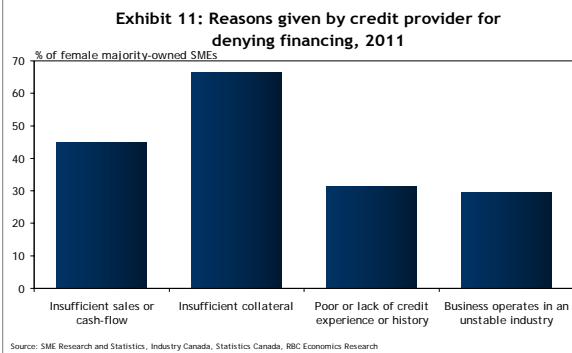
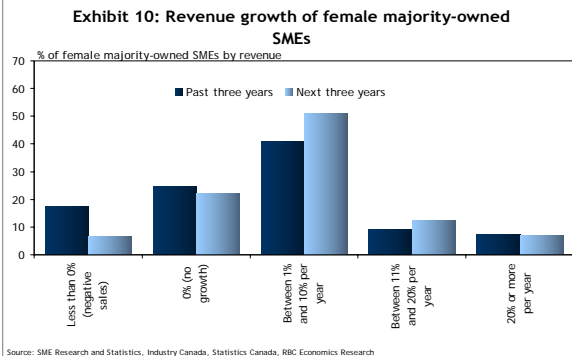
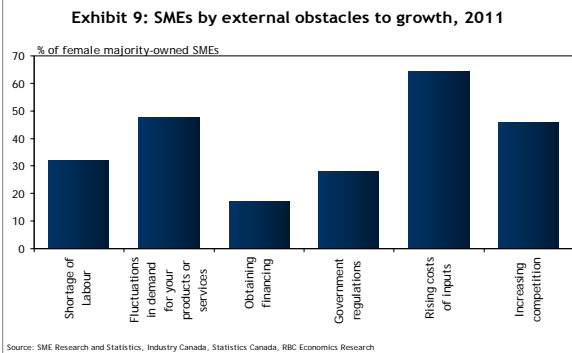
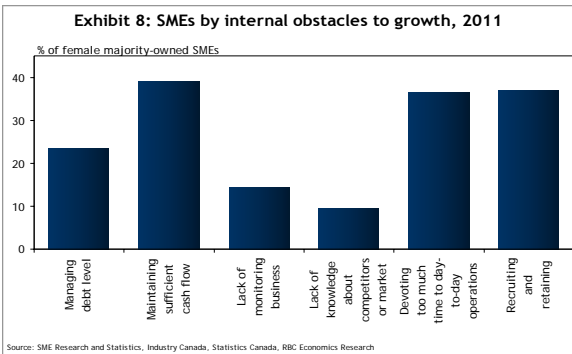
As the distribution of female owners shifts to older cohorts, a higher share have more than 10 years of experience and a greater share of female firms have been in existence for more than two years relative to the past. These trends have been accompanied by a drop in the number of younger firms, however. As the share of relatively young firms dropped for both female majority-owned businesses and other firms from 2007 to 2011, the decline is likely in part attributable to cyclical economic factors and not necessarily indicative of a sustained contraction in small and medium business formation.

Potential barriers faced by female majority-owned firms

As we noted in a 2008 paper ('Small businesses and industries in Canada – Recent trends'), industry growth is, if not a prerequisite, at least a strong contributing element to the expansion of the small business population. Thus, given the prevalence of female firms in specific industries, identifiable factors that may be restraining the advancement of female-dominated firms in Canada are in large part reflective of industry characteristics and firm size.

Exhibit 8 provides a snapshot of the self-identified internal challenges facing SME owners. In 2011, female majority-owners cited 'maintaining sufficient cash flow' and 'recruiting and retaining' as some "serious problems" inhibiting growth. In terms of external obstacles, the 'rising cost of inputs' was identified by about 65% of female owned firms, followed by 'instability of consumer demand' which saw a rise in responses in 2011. These trends are broadly echoed across the small business landscape with similar responses





prevalent in smaller firms and industries such as accommodation and food services and other services.

Female majority-owned firms, on average, experience lower revenues relative to other firms that may be a contributing factor to restrained growth. Once controlling for firm size however, the performance gap largely disappears⁸. As economic conditions gather strength, a greater share of female firms are projecting positive revenue growth for the near-term and the improving economic climate could spark renewed optimism for small business formation. This could, in turn, drive a greater number of female entrepreneurs to seek external financing for expansion as small firms and female-led industries have often had lower financing request rates and faced various impediments to obtaining needed funds (Exhibit 11). They have, however, seen an easing in conditions more recently.

Assessing the economic impact of increased female entrepreneurship in Canada

The relatively low share of female majority-owned small and medium size enterprises in Canada suggests there is room for expansion within this demographic. The question then becomes how policy initiatives could be targeted to foster growth in female majority-owned SMEs in Canada. This brief overview suggests favourable outcomes may naturally occur over time as ownership experience and age of business continue to trend upwards. That being said, targeting factors that are predominantly structural in nature may help to advance the representation of women in the SME landscape. These include the promotion of knowledge sharing through improved access to female entrepreneur networks and promoting the importance of female role models.

The demographic shift in Canada may also prove favourable to boosting the share of female majority-owned business in Canada. Business ownership can provide an attractive option for older cohorts by providing the ability to pursue part-time opportunities, provide income supplementation to delay retirement and presents a means for interaction and mental stimulation⁹. Thus, over the next two decades, as the aged 65 and older female population is projected to grow at a faster pace than other age cohorts, tapping into the incentives provided by entrepreneurship could boost this demographics' contribution to economic growth. Moreover, with fewer women-led firms in the pipeline for the younger age groups, targeting entrepreneurial initiatives to attract younger females to business ownership could yield additional untapped benefits.

Targeting female entrepreneurs and tapping into this relatively underutilized resource pool has the potential to boost economic activity. In 2011, the aggregate contribution of female majority-owned SMEs was an estimated \$148 billion in economic activity¹⁰. A 10% rise in the number of female majority owned firms over the next decade would bring this to an estimated \$198 billion (in inflation-adjusted terms, the gain would be an estimated \$163 billion—a net annual gain of \$15 billion). Significant benefits exist to promoting an even more pronounced shift towards a greater presence of female

majority-owned SMEs in Canada as an improvement in the revenue performance of such firms would further boost the contribution estimates. Thus, the potential boost to economic activity by tapping into the entrepreneurial spirit of females is significant and could sustain women as a source of economic growth in Canada for decades to come.

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End Notes

- 1 RBC Economics Research (2006). “Small- and Medium-Sized Business Driving Productivity Gains”.
- 2 According to Industry Canada’s Key Small Business Statistics—July 2012, when taking into account both the public and private sectors, small businesses in the private sector accounted for about 31% of GDP in 2005, while medium-sized businesses accounted for 9%.
- 3 These estimates differ from Industry Canada’s Key Business Statistics’ estimates as they exclude businesses with 0 employees. In 2011, the share of self-employed females without paid help was 75% of all female self-employment; however, this does not indicate the extent of female business owners without employees. Incorporated self-employed females, a potentially better indicator, made up 31% of female self-employment of which 17% had paid help.
- 4 For our estimate, we hold female labour force participation constant from 1981 onwards and keep annual productivity gains constant. The estimate is expressed in constant 2007 dollars.
- 5 This estimate is based upon female labour force participation rates by age cohort converging to those of males over the next two decades with modest assumptions underlying labour force activity. Real GDP growth is then calculated as the product of growth of the overall participation rate, the employment rate, average hours, productivity and population.
- 6 We limit our focus to firms that employ less than 500 people and have at least one employee, thus excluding business establishments that are considered by Statistics Canada to be “indeterminate”. As noted in a previous RBC report (Hogue 2008), businesses without workers on payroll – either self employed or establishments with only contracted workers, irregular payrolls or family members – are typically not included in the population of small firms despite representing more than 50% of private sector establishments in Canada in 2011. The survey also restricts firms to those with annual gross revenue greater than \$30k but less than \$50million during the survey period: February to June 2011. As such, this brief analysis encompasses close to 50% of business establishments in Canada with a primary focus on female entrepreneurs with greater than 50% ownership in an SME.
- 7 It is important to note that the survey excludes industries such as finance, insurance and real estate which accounted for nearly 8% of female self-employment in 2012. Moreover, the data does not take into account educational services, public administration, some healthcare services and other industries. Thus, the results of this paper may understate the overall share of female majority owned businesses in Canada.
- 8 According to the OECD, firm size of female majority-owned establishments is the main factor for poorer performance

outcomes relative to other firms. They conclude that once smaller firm size is controlled for, the performance gap with other firms largely disappears.

- 9 Statistics Canada's report on Seniors' Self-Employment notes that seniors typically have higher levels of human and financial capital to invest in a small business, which are two conditions "thought to stimulate entrepreneurial activity". Moreover, the greater degree of flexibility and fewer retirement constraints on retirement timing could explain why seniors choose self-employment. In a separate report by Weber and Schaper, the authors cite incentives such as mental stimulation and income supplementation to explain why females may enter into new business ventures later in life.
- 10 With a weighted average revenue for female SMEs in 2011, according to survey data, of \$852k and approximately 174k female majority-owned SMEs, the aggregate net contribution would have been an estimated \$148 billion. A 10% rise in the number of female firms over the next decade along with an increase in revenues at the rate of inflation would yield an estimate of \$198 billion. Note: the estimate would vary given different revenue assumptions.