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**Competition Policy Review Panel**  
**Research Paper Summary**

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**Title: Addressing the Problems Confronting SMEs**

**Subjects Addressed:**

- Small and medium enterprises (SMEs)
- Productivity and competitiveness
- Government support initiatives for SMEs

*Small and Medium Enterprises (SMEs) in Canada:*

There are various definitions of SMEs in different jurisdiction, based on a firm's size, sales, revenues, assets, or employees. The authors use the definition of the Canadian government's SME Financing Data Initiative: a for-profit business with fewer than 500 employees and annual revenues of less than \$50 million.

According to the SME Financing Data Initiative, there were approximately 1.4 million small and medium-sized enterprises in Canada in 2004. Geographically, their distribution was approximately proportionate to the population. 66% of SMEs operated in the services sector, 22% in goods production, and 12% in the resource-based sector. 99.7% had less than 100 employees. The Business Register of Statistics Canada included 2.4 million business establishments in June 2007, of which only 45% had any employees on a payroll. Self-employed businesses were especially prevalent in knowledge-based industries, professional services, and agriculture.

SMEs play an active role in Canada's exports, but the general trading environment is dominated by larger firms. Only 1.4% of small businesses export, compared to 27.0% of medium-sized and 37.7% of large enterprises. In 2005, 72% of all exporting establishments exported less than \$1 million per year, and they accounted for only 2% of the value of merchandise exports. The largest 4% of exporting establishments accounted for 83% of the value of these same exports. However, small enterprises can also engage in trade through imports or indirectly, by being part of supply chains for larger, export-oriented businesses. Family-run SMEs tend to internationalize less than other SMEs, at least partly due to a lack of access to resources.

There are six types of SMEs: SMEs that are part of the value chain of a flagship multi-national enterprise (and that might expand internationally to follow their flagship); SMEs that are Canadian subsidiaries of a foreign multi-national (and that may win global product or R&D mandates and become part of a company network of Centres of Excellence); SMEs that have gradually gone international or global; SMEs that are going global from the start; SMEs with a

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mostly or exclusively North American strategy; and family-owned and operated SMEs (most of which will undergo a generational turn-over in the next 15 years, possibly leading to a more international orientation).

*Barriers SMEs Face at the International Level:*

The main barriers to innovation for SMEs identified in the literature include a lack of financial and human resources (including leadership and IT skills), a focus on time and cost over other critical factors, a lack of incentives and motivation for new product development and change in general, a lack of documented procedure, inadequate data collection and analysis (e.g. of the competitive environment, of product development performance, of the importance of design, etc.), and an excessive focus on technology and not enough on marketing/communication.

Barriers specific to entry to international markets for SMEs were identified primarily in the areas of knowledge and skills: Lack of international understanding, lack of a long-term strategy for manufacturing, linguistic and cultural differences, organizational structure, management skills, and the lack of knowledge and connections to deal with logistics, production networks, sourcing of materials, international communications, foreign exchange management, outsourcing functions like logistics, and making strategic alliances. Foreign risk management is a greater concern than for larger firms. Small enterprises tend to be slower in adapting new Information and Communication Technologies (ICT), including the Internet; this seems to be due to financial and time constraints.

SMEs should proactively develop dynamic and continuous marketing activities and pay more attention to brand management and networking. For better supply chain management, turn-key solutions and horizontal collaboration with other SMEs to access modern planning and control methods are encouraged. SMEs that select foreign target markets systematically, engage in market research, conduct fact-finding missions, use published statistics and monitor the business press, seem to have a superior performance to those using an ad hoc approach. Successful approaches to off-setting the small size of SMEs include horizontal networks, e.g. dispersed manufacturing networks, First North (an alternative stock exchange for small companies), and online market-places for offshore IT outsourcing.

*Government Support to SMEs in Other Jurisdictions:*

Small businesses in the United States are supported by a Small Business Agenda that originates from the President's office. Created in 1953 under the Small Business Act, the U.S. Small Business Administration (SBA) is an independent agency of the federal government tasked with aiding, counselling, assisting and protecting the interests of small business concerns. This includes enhancing their ability to export and to compete against imports, facilitating technology transfers, increasing SMEs' access to long-term capital, disseminating information, and representing the interests of SMEs in international

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trade negotiations. Its programs include technical assistance, financial assistance, contracting assistance, disaster recovery assistance, legal assistance, online training, and programs for special groups.

The German Federal Ministry of Economics and Technology launched an *Initiative for Small and Medium-Sized Businesses* in 2006. It includes creating a more favourable business environment through various tax reforms; reducing bureaucratic obstacles; supports for business start-ups (including a “startothek” Internet platform); various measures to promote innovation and collaboration with academic institutions among SMEs; modernizing vocational training; improving SMEs access to capital; mobilizing venture capital through an improved regulatory and tax environment and through direct start-up funds; and supporting SMEs internationally through negotiations, credit and investment guarantees, the foreign trade fair program, and the German chambers of commerce abroad.

The UK Small Business Service under the Department for Business, Enterprise & Regulatory Reform (BERR) developed a strategic framework for a government-wide approach to helping small businesses in 2002. It is based on seven themes: Building an enterprise culture, encouraging a more dynamic start-up market, building the capability for small business growth, improving access to finance for small business, encouraging more enterprise in disadvantaged communities and underrepresented groups, improving small businesses’ experience of government services, and developing better regulation and policy.

The EU has started to organize a specific policy on SMEs, which encourages skills related to entrepreneurship, innovation, and globalization. A variety of initiatives have been set up across the EU encouraging SME development, especially in five key areas: the promotion of entrepreneurial skills, the improvement of SMEs’ access to markets, cutting red tape, the improvement of SMEs’ growth potential, and strengthening dialogue and consultation with SMEs.

The Commission’s strategy for SMEs aims to apply the ‘Think small first’ principle to make the business environment easier for SMEs, reducing their administrative costs, simplifying and speeding up the procedures they need to undertake, improving their access to markets and making it easier for them to be more competitive. The European Commission is planning a Small Business Act. Key elements of the proposed Act are the establishment of a special private company statute adapted to SME needs; exemptions from burdensome legal requirements; easier access to risk capital; protection of their ideas; support for recruitment and retraining of staff; facilitating their participation in public tenders and R&D programs; closer links with university and research centres; and a new chance for entrepreneurs in case of business failure.

The Commission is working with Member States to facilitate the sharing of successful experiences and tools for fostering entrepreneurial attitudes, e.g. the ‘mini companies’ in schools to give pupils an experience of business. It also aims

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to promote innovation and competitiveness, and to assist SMEs international activities. It has established a European job portal and helps member states to simplify hiring procedures. It also supports language training and vocational training, works on easing the regulatory burden, and promotes electronic commerce, ICTs, and other advanced technologies as well as networking between European countries and trade promotion to other areas of the world. It has appointed an SME envoy to open channels of communication between SMEs and the EU Commission.

*Government Support to SMEs in Canada:*

In Canada, support to SMEs is offered by a variety of target-oriented initiatives in the industrial and foreign affairs areas. For example, BizPal is an online service that provides Canadian businesses with one-stop access to all government permit and license information. The Office of Small and Medium Enterprises assist SMEs in navigating the government procurement system.

While Canada's portfolio of SME initiatives responds to many of the same needs as in the US and the EU, including helping Canadians start and build businesses, reducing red tape, improving access to small business finance, enhancing SMEs ability to export, and facilitating access to government procurement, we do not have a comprehensive small business agenda yet.

95% of employer businesses in Canada have less than 50 employees, and 98% of SMEs in the knowledge-based industries have less than 20 employees. The ability of these enterprises to develop and implement sustainable campaigns internationally is limited. The government could play an innovative, practical and effective partnering role with these companies by creating the necessary international networks and business platforms that our SMEs could leverage to better access buyers, sellers, and partners. In effect, the government would be creating "virtual mass" for the SMEs.

**Conclusions:**

Canada's policies regarding SMEs should be as strong as those of other leading industrialized nations. Canada requires a dedicated, integrated, and comprehensive small business agenda that, similar to what Canadian enterprises must do when developing competitive strategies, should be based on a "global best practices" philosophy. This Small Business Agenda should aim to create an entrepreneurial 'nation of traders' culture and establish an independent, federal-level agency to integrate and manage all SME-related programs. The Agenda should be overseen by a senior cabinet member.

As a part of this framework, SMEs should work together in networks to achieve 'critical mass.' Canada should try to establish trade clusters: commercial channels to enhance trade and investment flows across geographic areas. For example, the 14 bilateral Canadian Chambers of Commerce or like business associations across the Americas should form an integrated network, which

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would provide businesses with a channel to over 1,000 companies in Latin America and the Caribbean. The American Chambers of Commerce Abroad (AmChams), which are now present in over 80 countries, is a similar network which has proven to be an effective internationalization platform for U.S. companies – particularly SMEs – as they endeavour to build their businesses abroad.

The Government of Canada must be an active partner in helping to effectively leverage this network, given the size and resource constraints of the bilateral chambers. Public-private partnerships in international trade and investment development should be formed to help companies implement their international business plans on a cost-reimbursable basis, following the example of the Canadian German Chamber of Industry and Commerce.