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More Important than was Thought: A Profile of Canadian Small Business Exporters

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INTRODUCTION

Exports are a vital part of the Canadian economy. In 2002, exports accounted for 41 percent of Canada's Gross Domestic Product (GDP).¹ They also account for one in every three jobs in Canada.² Exports are strongly correlated with real GDP growth — not only are exports a direct component of aggregate output, they can also lead the growth of GDP. Indirect benefits of exports can also occur through efficient resource allocation, greater capacity utilization, exploitation of economies of scale and stimulation of technological improvement, as a result of foreign market competition.³ Finally, the relatively small size of the domestic economy means it is strategically important to encourage companies to export and grow beyond Canada's borders.

Small businesses are an important engine of growth in the domestic economy.⁴ Given the important role of exports in the Canadian economy, it is important to understand the relative contribution of small business to exports. New enhancements to the Exporter Registry have made data available on exports by size of firm. This paper takes advantage of this data to construct a profile of small business exporters that establishes new baseline information and provides a basis for the development of policy to better foster small business exports.

For the first time it is possible to directly examine the contribution small businesses make to exports. Previously, export data distinguished firms by the size of their exports, not the size of their firm. Thus the 2001 profile of Canadian exporters shows that *small exporters* (defined as exporting less than \$1 million annually) contribute a mere 1.6 percent to the value of total exports.⁵ The implicit conclusion is that small exporters are small firms, thus small firms do not

¹ Statistics Canada, CANSIM, Table 380-0002, and Catalogue No. 13-001-XIB.

² Export Development Corporation, "Why Trade is Crucial to Canada," http://www.edc.ca/corpinfo/whoweare/why_trade_e.htm.

³ O. Titus Awokuse, "Is the Export-led Growth Hypothesis Valid for Canada?," *Canadian Journal of Economics*, February 2003, Vol. 36(1).

⁴ C. Parsley and E. Dreessen, "Growth Firm Project: Key Findings," Industry Canada, August 2004, http://www.ic.gc.ca/eic/site/sbrp-rppe.nsf/eng/h_rd01518.html.

⁵ This figure is based on establishment data.

contribute much to the overall value of exports. However, as this paper demonstrates, this would be a faulty conclusion, because small firms can be large exporters and, conversely, some large firms are small exporters. The principal conclusion of this paper is that the contribution of small businesses to the overall value of exports is much higher than previously believed. Furthermore, this figure appears to have significant room to grow, because the participation of small businesses in export activity is very low. Policies to further encourage small business exports are therefore worth examining in this light.

This paper, which is a summary of a longer document, also provides information on exports by size of firm across provinces, industry and export destination, as well as a comparison with U.S. exporting firms.

DATA

The data come from the Exporter Registry and contain information on exporters at both the enterprise and the establishment level.⁶ It is generally more desirable to use enterprise data, but establishment data are used in some cases for technical reasons. (Because an enterprise may consist of many establishments located in different provinces, whereas an establishment is located within a specific province, the provincial analysis is necessarily restricted to establishment data). In general, using establishment data does not change the overall pattern of results. However, the magnitudes reported in data for small business establishments are usually higher than those of the enterprise data due to the higher number of firms grouped in smaller size classes. Appendix A contains further discussion of the data.

⁶The enterprise level is at the top of the hierarchy of statistical entities; it is the level of business undertaking where a complete (consolidated) set of financial statements is available. The establishment level is the smallest unit for which the accounting data for measuring production (principal inputs, revenues, wages, etc.) are available.

PRINCIPAL RESULTS

Summary results for small firms that export are shown in Table 1. In 2002:

- The vast majority of exporters in Canada were small businesses but the proportion of small business exporters (84 percent) was less than the proportion of small firms in the economy overall (99 percent).
- Large and medium-sized firms represented a bigger share of exporters in comparison with their distribution in the economy. Large firms represented only 0.1 percent of all enterprises but accounted for 3 percent of all exporters.
- The percentage of small firms participating in exporting was very low (1.4 percent). This participation rate rose with firm size.

Table 1: Summary of Exports and Exporters by Firm (Enterprise) Size (Number of Employees)

Canada (2002)	Small (1–99)	Medium (100–499)	Large (≥500)	All Firms
Number of Exporters				
Distribution of Exporting Enterprises (%)	84	13	3	100
Distribution of All Enterprises (%)	99	0.8	0.1	100
Percentage of Firms Exporting (%)	1.4	27.0	37.7	1.7
Value of Exports				
Export Value (C\$ billions)	70	53	220	343
Share of Overall Exports (%)	20	15	64	100
Export Value per Firm (C\$ millions)	2.3	11.8	194.5	9.6
United States (2001)				
Distribution of Exporting Enterprises (%)	89	8	3	100
Share of Overall Exports (%)	21	8	71	100
Export Value per Firm (US\$ millions)	0.6	2.9	58.4	2.6

- In terms of the value of exports, small businesses exported \$70 billion in 2002, which represented 20 percent of the overall value of exports (\$343 billion). This figure is

- The table also shows that export value per firm increased with firm size as would be expected. Small firms on average exported \$2.3 million — demonstrating that the average small firm is not a “small exporter” — compared with \$194.5 million for large firms.
- Finally, Canadian small business exporters were more active internationally than their counterparts in the United States. The distribution of small business exporters and their share of export value were similar in the two countries. However, the average Canadian exporter was much more active, and this is true for all sizes of firm. Canadian small businesses exported C\$2.3 million on average, compared with US\$0.6 million for U.S. small business exporters. The average value of exports for Canadian large firms was C\$195 million, and for U.S. large firms, US\$58 million. These differences were far larger than could be explained by the exchange rate.

DETAILED RESULTS

Further detailed results on the contribution to the value of exports by industry, province and destination are reported in Table 2.

PROVINCIAL DISTRIBUTION

Provincial detail is available for establishments only, for the technical reasons discussed above. In 2001, Ontario was the largest exporting province overall, accounting for 48 percent of total Canadian exports, followed by Quebec (18 percent), Alberta (17 percent) and British Columbia (9 percent).

Small business establishments played an important but uneven role in all provinces. The small business contribution to exports ranged from 23 percent in Newfoundland to 84 percent in Alberta. Generally, in smaller provinces, small businesses accounted for higher proportions of the province’s exports. In New Brunswick and Saskatchewan, for example, small businesses contributed 64 percent of total provincial exports, and in Prince Edward Island the figure was

47 percent. In contrast, in both Ontario and Quebec, small businesses accounted for 33 percent of provincial exports.

The high contribution of small business to exports in Alberta is noteworthy. The more detailed data available show that 74 percent of exports by micro firms originated from Alberta, which primarily exports oil and gas. In addition, 67 percent of micro forms exports in Canada come from the finance and insurance industries. This could suggest that Alberta oil and gas producers hire micro firms in the finance and insurance industry to handle the export functions. However, in order to explore this hypothesis further, cross-tabulation by province and industry would be necessary.

INDUSTRY DISTRIBUTION

There are also pronounced differences between the goods and services small businesses export and those which medium and large firms export. Small businesses were primarily responsible for exports in the service- and goods-producing industries outside of the manufacturing sector. In two out of the three goods-producing industries outside of the manufacturing sector (i.e., the construction industry and the agriculture, forestry, fishing and hunting industry), small businesses made the largest contribution to exports of any firm size. Furthermore, small enterprises accounted for 73 percent of all exports originating from all service-producing industries. By contrast, small businesses contributed only 9 percent of manufacturing exports, whereas large firms contributed 75 percent of these exports.

DESTINATION OF EXPORTS

The destination of exports differed very little by size of firm. Fully 87 percent of exports were sent to the United States and 13 percent to other destinations, principally the European Union and Japan. This ratio remained constant, regardless of firm size.

Table 2: Share of Export Value and Contribution to Value of Exports by Size of Firm (%)

	Share of Export Value (All Firms)	Contribution to Value of Exports by Size of Firm (Number of Employees)			
		Small (1-99)	Medium (100-499)	Large (≥500)	All Firms
Province of Residence, 2001					
(Establishment Data)					
Newfoundland	0.8	23	30	46	100
Prince Edward Island	0.1	47	53	0	100
Nova Scotia	1	39	28	33	100
New Brunswick	2	64	23	14	100
Quebec	18	33	34	33	100
Ontario	48	33	27	41	100
Manitoba	3	38	42	20	100
Saskatchewan	1	64	30	6	100
Alberta	17	84	9	7	100
British Columbia and Territories	9	51	32	16	100
Canada	100	44	26	30	100
Industry, 2002					
(Enterprise Data)					
Agriculture, Forestry, Fishing and Hunting	0.9	66	14	20	100
Mining and Oil and Gas Extraction/Utilities	8	10	13	77	100
Construction	0.2	81	17	2	100
Manufacturing (Total)	75	9	16	75	100
Wholesale Trade	7	68	21	11	100
Retail Trade	0.5	70	11	20	100
Transportation and Warehousing	3	86	4	10	100
Information and Cultural Industries/Finance and Insurance	5	88	6	6	100
Business Services	2	47	15	38	100
Other	0.7	21	6	73	100
All Industries	100	20	15	64	100
Destination of Exports, 2002					
(Enterprise Data)					
U.S. (Total)	87	21	15	64	100
Eastern Seaboard	22	26	19	55	100
Industrial Heartland	35	13	11	77	100
Midwest	11	25	21	54	100
Southeast	7	27	20	53	100
West	12	26	13	60	100
Non-U.S. (Total)	13	19	17	64	100
European Union	4	12	13	75	100
Japan	3	25	24	51	100
Mexico	1	10	16	74	100
South America	1	23	15	62	100
Other	5	23	17	60	100
All Destinations	100	20	15	64	100

While the majority of exports to the United States went to the Industrial Heartland and the Eastern Seaboard — reflecting the proximity to the large exporting provinces of Ontario and Quebec — small firms tended to concentrate on exports to the West. Small businesses accounted for 26 percent of exports to the West, compared with 13 percent of those to the Industrial Heartland.

Small and medium-sized enterprises accounted for a smaller proportion of exports to the European Union (12 and 13 percent, respectively) than large firms, which accounted for 75 percent of exports to this region. However, small firms accounted for approximately a quarter of Canadian exports to Japan and South America. This suggests that small businesses sent their exports to a broader range of countries than medium-sized and large firms. Concomitant with this is the observation that small firms may be able to penetrate smaller export markets more easily than larger markets. The reason for this may be that economies of scale are less important in smaller export markets.

The profiles were tested for robustness, and in general, the data from 2000 to 2002 are similar. It is interesting to note that the number of small business exporters increased between 2000 and 2002, but the distribution of the number of exporters and the value of exports remained unchanged.

CONCLUSION

Together, this information paints an interesting picture of the small business exporter in Canada. First and foremost, Canadian small business exports are more important than previously perceived. Although small exporters (which export less than \$1 million each) account for approximately 1.6 percent of the value of exports, small businesses who export constitute 20 percent of overall export value and, on average, small businesses exported \$2.3 million in 2002.

However, the majority of Canada's exports still stem from a small number of large firms. Small firms, in contrast, are still underrepresented, given their importance in the overall economy. It is recognized that many small businesses are unlikely to seek either exports or growth — a study of

micro firms found that 40 to 45 percent did not have growth aspirations beyond the local market⁷ — export activity clearly provides an important mechanism for small firms that do wish to grow. The very low participation rate of small businesses in exports does suggest that small businesses likely face barriers to exporting. High start-up costs may be an initial barrier preventing small businesses participating in exporting and economies of scale in export activity could be another reason for the predominance of large firms.

The important question is how these could be addressed through government policy. Dependence on a concentrated number of firms has the potential to leave an economy vulnerable to sudden changes in trade patterns. In this light the small business contribution to exports is potentially of strategic importance: seeking out small firms with a desire to grow and encouraging their new and enhanced exporting activities could help diversify the country's exports. To investigate ways to increase the participation of small businesses in exports would also be worth while, particularly perhaps in smaller export markets, and certainly pertinent in this regard is the very significant participation of Alberta micro firms in export activity.

Moreover, further research is needed to explore the links between exporting firms and the positive benefits that flow to these businesses. The relationship between exporting firms and firm growth could be a particularly fruitful one to investigate, especially in light of work on growth firms.

This short paper has presented baseline information on exporting activities of small business. While the results indicate that small firms do play a major role in exports, it has provided only a diagnostic of small business exporters. To further understand the process of exporting in small business would require more in-depth analysis of the data.

⁷ E. Papadaki and B. Chami "Growth Determinants of Micro-Businesses in Canada," Industry Canada, July 2002, http://www.ic.gc.ca/eic/site/sbrp-rppe.nsf/eng/h_rd01522.html.

APPENDIX A

Statistics Canada's Business Register is a central repository of information on businesses operating in Canada. This is the principal frame for most of Statistics Canada's economic statistical programs, including the Exporter Registry. The available unpublished data set used is derived from the Exporter Registry for 2001 and 2002 and draws its sample from both employer and non-employer (indeterminate) businesses in the Business Register. The Exporter Registry includes exports that are domestically produced, and exports that are produced for business use. In addition, exports to non-U.S. destinations must be valued at more than \$2000. The two main sources for the trade data are U.S. Customs and the Canada Revenue Agency. The breakdown of firms by number of employees became available in 2001.

The standardized business classification model developed at Statistics Canada comprises several statistical entities. The data from Statistics Canada contain both the enterprise and the establishment as the statistical unit of measure. The enterprise level is at the top of the hierarchy, associated with a consolidated set of financial statements, whereas the establishment is the level at which the accounting data required to measure production are available (e.g. principal inputs, revenues, wages). Consequently, an enterprise may consist of many establishments. Furthermore, while an enterprise may have locations in more than one province, an establishment is located within a specific province. The data set consists of information on exporters at the establishment and enterprise levels in 2001 and at the enterprise level only in 2002. Consequently, provincial data, based on establishment, were purchased only for 2001.

Some differences between the methodology in the U.S. Exporter Database and the Canadian Exporter Registry are pertinent:

U.S. Exporter Database

- The Exporter Database captures only companies that have at least one export shipment valued at US\$2501 or more during the year.
- This matching means excluding export transactions that cannot be attributed to specific exporting companies but the Exporter Database covers more than 97 percent of total export value.

- The Exporter Database categorizes some exporters into a size class labelled as unknown. Exporters with the number of employees unknown fall under the following categories:
 - 1) missing employment data
 - 2) non-employers (self-employed)
 - 3) companies that reported an annual payroll but did not report any employees

Subsequently, the Exporter Database classifies these size-unknown exporters as small businesses. To make comparisons, this study considered size-unknown exporters part of the 1–19 employee size class.

Canadian Exporter Registry

- The Exporter Registry captures only companies that have at least one export shipment during the year valued at C\$2000 or more.
- The Exporter Registry covers more than 95 percent of the total export value.

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