FROM GOOD TO GREAT: THE BENEFITS OF SCALING UP BC BUSINESSES

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Business Council of British Columbia
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WHERE LEADERS MEET TO UNLOCK BC'S FULL POTENTIAL

This paper reflects the views of the authors.

HIGHLIGHTS

- The overwhelming majority of companies in BC are small. Of the 404,000 businesses registered in the province, 98% have fewer than 50 employees and therefore qualify as "small," according to the BC government's Small Business Profile. Most of these consist of one-person firms with no paid help and "micro-businesses" that have fewer than five employees.
- There are only 7,900 enterprises in British Columbia that employ 50 or more people.
- Taking into consideration population size, BC has the highest concentration of small businesses among the provinces.
- About half of new Canadian business ventures close their doors within five years – they go broke, shut down for other reasons, or are acquired by another firm. In recent years, the rate of new firm entry in Canada has hovered around 3% annually, down from 3.5-4.0% a decade ago.
- A small proportion of high-growth companies, sometimes called "gazelles," accounts for a disproportionate share of economy-wide employment growth. Some U.S. research finds that the fastest-growing 5% of firms are responsible for up to 2/3 of net job creation.
- Larger businesses have some attractive economic attributes, relative to their smaller counterparts, that are well-aligned with the goal of raising prosperity.
- On average, large businesses are significantly more productive than smaller ones. In most industry sectors, they contribute relatively more to gross domestic product and pay higher wages.
- Larger companies are better able to penetrate and participate in external markets. They account for the bulk of national exports in Canada and other advanced economies.
- Scaling up firm size would help to boost living standards and incomes over time.
- Innovation is essential for businesses and economies to grow. While many see small businesses as highly innovative, in reality the larger companies that make up a tiny sliver of all businesses account for over half of R&D spending in Canada and also dominate R&D globally. Despite representing 98% of all businesses, small firms are responsible for one quarter of all R&D spending. Medium-sized Canadian businesses account for 18%.
- Given the economic benefits that flow from the presence of large companies as well as rapidly expanding firms, nurturing business growth would be beneficial for workers and the BC economy more generally.
- Canada's business tax structure features significantly lower statutory rates and effective tax burdens on "small business" income, which can blunt the incentives for some firms to grow. To address the growth-inhibiting features of the business tax regime, policy-makers should look to modify elements of the existing system. This could include:

  - Reducing the basic corporate income tax rate, to narrow the gap vis-à-vis the small business rate.

HIGHLIGHTS (CONT'D)

- Nudging current preferential small business tax rates higher, or introducing graduated/tiered increases to reduce the impact of the "tax wall" that currently kicks in at $500,000.

- Introducing tax incentives for the sub-set of businesses that invest to expand and improve their capital stock and facilities in British Columbia.

- BC should also explore ways to adjust R&D support programs to provide stronger incentives for companies to grow. This could include developing a "commercialization tax credit" that would augment existing R&D tax credits.

- Leveraging public sector procurement can also help companies scale up. The BC government should review the proposals around strategic procurement outlined by the Advisory Council on Economic Growth in its February 2017 report to the federal Minister of Finance.
- The presence of strong industry clusters creates an attractive climate for SMEs to flourish. The Business Council believes the provincial government should fully support BC's bid to build a Digital Supercluster in the province, as part of Ottawa's ongoing national "Supercluster" initiative.
- Exporting is central to business growth and competitiveness. To help overcome the complexity, additional costs and capital requirements, and extra risks associated with exporting, the province could consider providing tax-based incentives to BC firms that export.
- Of all the barriers to firm scaling in Canada, access to talent is perhaps the biggest impediment to business growth. We need to attract and retain the talent necessary to build more successful medium-sized and large companies. Higher-level management skills and people with expertise in product development and global supply chains are in particularly short supply across the country.
- BC should be investing in post-secondary education to develop the right kinds and mix of skills, while ensuring a closer alignment between the needs of business and the outputs of the university/college system.
- The federal government should ensure that the temporary foreign worker program is effective at enabling the recruitment of people with in-demand skills in areas such as technology, product development, and global supply chain management.
- BC should continue to press Ottawa for a larger annual allotment under the Provincial Nominee Program.

I. INTRODUCTION

To build a more prosperous and innovative economy, new businesses have to be created and some existing firms must grow. This growth process is neither linear nor uniform across the private sector. As some companies scale up, others disappear and many more stay roughly the same size. In addition, new businesses are constantly being formed, providing a valuable source of dynamism.

There is compelling evidence that the sub-set of companies that grow briskly over time make disproportionate contributions to the economy. This is partly because larger businesses, on average, are significantly more productive than smaller ones.[1] In most industry sectors, they contribute more to gross domestic product per dollar of sales and per hour worked by employees. Being more productive, these firms tend to pay higher wages. In addition, larger companies are better able to penetrate and participate in external markets — and to take advantage of economies of scale that come from doing business beyond local borders.

What follows is a discussion of scaling up businesses in the British Columbia context, and why we believe policy-makers at all levels need to put greater emphasis on fostering an environment that incents and supports this kind of business growth. There are no simple answers. The vast majority of firms — in BC and in Canada — are and will remain very small. Only a modest number ever develop to the point where they become substantial enterprises in their own right. But this comparative handful of businesses plays a vital role in the economy by creating and sustaining well-paying jobs, boosting exports, participating in cross-border supply chains, driving innovation, and enhancing overall prosperity.

II. BC BUSINESS DEMOGRAPHICS: A SNAPSHOT

The most recent BC Small Business Profile,[2] published by the Ministry of Jobs, Trade and Technology and BC Stats, provides information on the number, size and distribution of businesses in the province. In the report, "small businesses" are defined as those with fewer than 50 paid employees. This definition also captures the self-employed — both unincorporated and incorporated — who operate businesses without any paid help.

Companies with 50 or more workers are classified as "large" in the Small Business Profile. This classification is somewhat unique to BC. The Canadian government, international agencies and many non-governmental researchers use different cut-offs for calibrating firm size. Federal government reports typically define small businesses as having fewer than 100 employees, while medium-sized firms have 100-499 employees and large ones 500 or more. Treatment of the self-employed — including the extent to which they are even counted as businesses — varies in the studies published by governments, international economic organizations and academic researchers. Some federal government and Business Development Bank of Canada reports measure firm size according to annual revenues, exports, or even balance sheet indicators, rather than number of employees. Other countries and international economic agencies have developed their own frameworks for categorizing business enterprises by size. All of this can make cross-jurisdictional comparisons somewhat challenging.

The two figures below summarize a few top-line findings about businesses in BC, based on the latest Small Business Profile report.

In 2016, 404,000 businesses were registered in British Columbia, of which 98% had fewer than 50 employees and therefore qualified as "small." Many of these consist of self-employed operators/proprietors whose "enterprises" have **no paid workers**. Of interest, fully 79% of small businesses in BC have fewer than five employees — we label these "micro" businesses. Self employed individuals and tiny micro-businesses dominate the private sector landscape, at least as measured by the number of firms. About 14,900 businesses in BC employ between 20 and 49 workers.

[1] Based on the value of output, or real gross domestic product, per hour worked. See "Productivity in Canada: Does Firm Size Matter?" Bank of Canada Review, Autumn 2008; available at: www.bankofcanada.ca/wp-content/uploads/2010/06/leung2.pdf.
[2] Available at: www2.gov.bc.ca/gov/content/data/statistics/business-industry-trade/small-business.

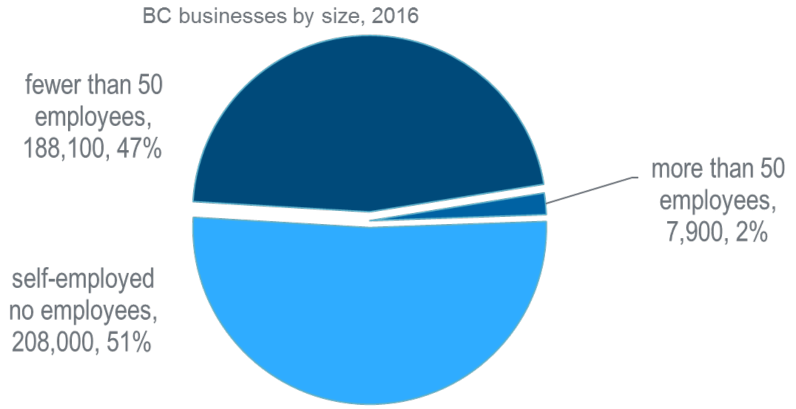
Given the topic of this paper, it is striking that only 7,900 enterprises in British Columbia employ 50 or more people. This figure is up from 7,600 in 2014, which represents a 3.7% increase in two years. The growth of firms with 50+ employees was more than twice the 1.5% increase in the number of companies with 1- 4 employees. The fastest growth over the past two years was in the 10-19 employee category, where the pool of BC firms expanded by 6.7%. The recent data are encouraging, as they suggest that more BC companies are scaling up.

Firms with 50 or more employees can be further divided into "medium-sized" and "large" enterprises. Just over 60% of these businesses have between 50 and 99 employees.[3] Another 25% have between 100 and 199. In total, 85% of the businesses in BC that are above the 50-employee threshold can be classified as medium-sized. The remainder are larger enterprises. Just 340 business establishments in the province have more than 500 employees, while another 870 have between 200 and 499.[4]

Adjusted for population size, British Columbia has relatively more small businesses than any other province. Whether this is a source of strength or weakness for the economy can be debated. In 2016, BC had 83.4 small businesses per 1,000 persons, noticeably higher than the national benchmark of 69.9. Saskatchewan is second, with 81 small businesses per 1,000 persons. Ontario and Alberta are both close to the national figure. In recent years, the gap between BC and the national benchmark has widened, as British Columbia has seen the strongest growth in the ranks of small businesses. Between 2014 and 2016, the population of small businesses in BC increased by 3.5%, well above the national average of 0.7%. In Alberta, the number of small businesses declined over the same period. Small business growth in BC was more than twice the pace seen in Ontario. This speaks to the existence of a fertile climate for start-ups (and for self-employment) in British Columbia.

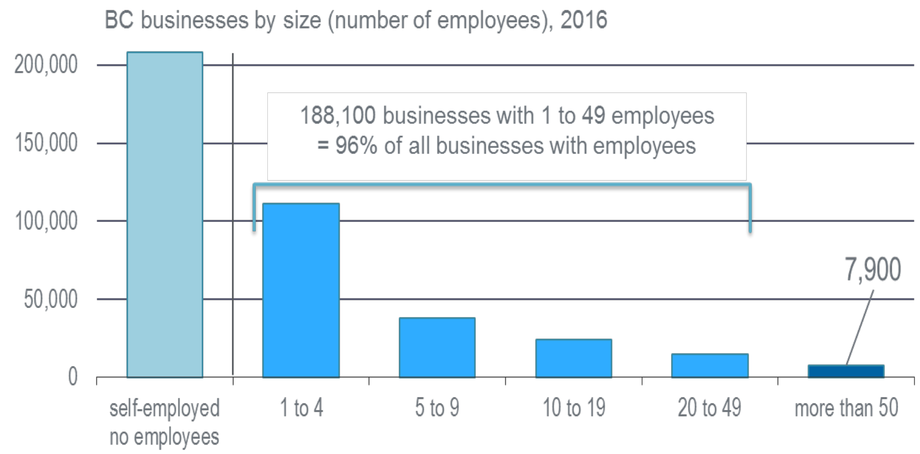
A higher concentration of smaller businesses can be juxtaposed to the fact that BC has relatively few large companies. Currently, the province is home to approximately 340 establishments with 500+ employees. Although Alberta has fewer businesses in total, it boasts 437 enterprises with 500+ employees – almost 30% more than BC. Relative to the population of all businesses (with paid employees), there are just 1.7 businesses in BC with more than 500 staff

FIGURE 1: **BREAKDOWN OF BUSINESSES IN BC**



Source: BC Stats, Small Business Profile, 2017.

FIGURE 2: **BREAKDOWN OF BUSINESSES IN BC**



Source: BC Stats, Small Business Profile, 2017.

[3] Statistics Canada, Business Register, CANSIM 552-0005.
[4] Statistics Canada, Business Register, CANSIM 552-0005.

for every 1,000 businesses in the province. In Alberta, the same ratio is 2.4. In Ontario and Manitoba, the comparable figures are 2.7 and 2.8, respectively.

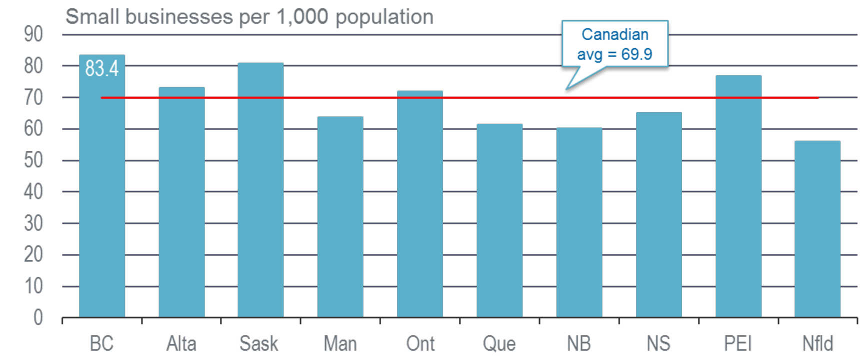
Some 870 companies in BC fall into the 200 to 499 employee group. As with large firms, it turns out that BC also has fewer firms in this mid-sized category relative to the total number of businesses than other provinces do, although Saskatchewan is similar to BC on this measure.

III. BUSINESS DYNAMICS

The business world is characterized by a high degree of "churn," with many new entrants along with significant numbers of exits and diverse patterns of expansion and contraction among the existing pool of companies. In recent years, the rate of new firm entry in Canada has hovered around 3% annually. This is down from 3.5-4.0% a decade ago, indicating some decline in business formation in Canada.[5] The same trend is evident in the United States and some other advanced economies.[6]

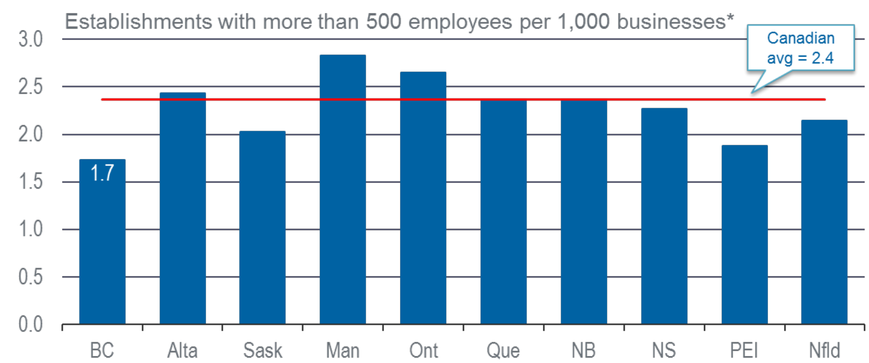
Many newly-formed firms don't have a long shelf life. About half of new Canadian business ventures close their doors within five years – they go broke, shut down for other reasons, or are acquired by another firm.[7] Of the businesses that survive for five years, most never grow enough to reach the 50-employee threshold. In fact, a majority of businesses in Canada that manage to survive for five years report little or no growth once they reach that point.

FIGURE 3: **BC HAS COMPARATIVELY MORE SMALL BUSINESSES THAN OTHER PROVINCES**



Source: BC Stats, Small Business Profile, 2017.

FIGURE 4: **BC HAS COMPARATIVELY FEW LARGE BUSINESSES**



Source: Statistics Canada, CANSIM 552-0005 *businesses with employees

Many researchers and policy-makers have a keen interest in **high-growth companies**, sometimes called "gazelles." There is no agreed definition of the term. Some studies treat job creation as the key indicator. One Canadian study of high-growth companies focused on those that boosted employment by at least 20% a year over a three-year period.[8] Based on this measure, perhaps 1-2% of all companies in Canada could be considered "gazelles." In the United States, the Kauffman Foundation has done extensive work on the characteristics and impacts of businesses that exhibit unusually strong growth. A few years ago, Kauffman researchers estimated that the top 1% of American companies, as proxied by their rate of employment growth, were responsible for two-fifths of economy-wide job creation, while the top 5% generated 2/3 of net new jobs.[9] These are remarkable results. High-growth companies – including relatively young firms – have also been shown to make

[5] Sylvain Leduc, Deputy Governor of the Bank of Canada, "Seeking Gazelles in Polar Bear Country," Bank of Canada Speech, October 3, 2017. Available at: www.bankofcanada.ca/2017/10/seeking-gazelles-in-polar-bear-country/.
[6] Kauffman Foundation, State of Entrepreneurship 2017 (http://www.kauffman.org/newsroom/2017/2/entepreneurship-is-on-the-rise-but-long-term-startup-decline-leaves-millions-of-Americans-behind).
[7] Leduc, "Seeking Gazelles in Polar Bear Country."
[8] Industry Canada, The State of Entrepreneurship in Canada, 2010.
[9] Dane Stagler, High Growth Firms and the Future of the American Economy, Kauffman Foundation Research Series on Firm Formation and Economic Growth, March 2010.

outsized contributions to innovation, via the introduction of new products, services and technologies.[10]

In a market economy like Canada, rapidly growing businesses are critical not just to job creation, but to economic dynamism more generally. The same is true of recently established firms. It follows that policy-makers should be paying close attention to the environment for both start-ups and high-growth enterprises.

> *"Statistics show that the shelf-life of new companies ranges between two extremes. About half...close their doors within five years of their creation. But younger companies that make a name for themselves tend to grow very rapidly. It is this propensity to grow by leaps and bounds that inspired the term 'gazelle'."*
>
> *Sylvan Leduc, Deputy Governor, Bank of Canada, "Seeking Gazelles in Polar Bear Country," October 3, 2017.*

IV. EMPLOYMENT

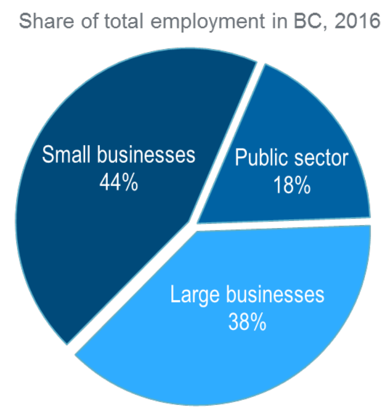
The overall distribution of employment in BC as of 2016 is shown in Figure 5. Enterprises with 50 or more employees ("large businesses," as defined by the BC government) were responsible for 38% of all jobs, small businesses (including the self-employed) for 44%, and the public sector for 18%.

Today, 1.95 million British Columbians earn their livelihood toiling in the broadly defined private sector. "Large" enterprises (50+ paid workers) account for 46% of these private sector jobs, while small businesses and the self-employed make up the rest. An important feature of the labour market in BC is the high rate of self-employment: almost 22% of private sector "jobs" are held by self-employed individuals. This is the highest share in Canada.[11] Some of the self-employed without paid help are "professionals" – e.g., lawyers, accountants, financial planners – while many others run tiny (often home-based) businesses in areas like home cleaning, home renovation, appliance and electronics repair, consulting, export-import, landscaping, hairdressing, etc. Many artists, writers, researchers, and child care providers are also found among the burgeoning ranks of BC's self-employed. By industry, small businesses with no paid employees are particularly common in business and professional services, construction, health/social services, and personal/household services.

British Columbia has enjoyed robust job growth over the past few years. Much of this strength has been due to a vibrant small business sector. The number of small business employees increased by 4% in 2016, while self-employment expanded by 1.8%. Meanwhile, the number of people working in large businesses[12] posted an impressive gain, climbing by 4.5%.

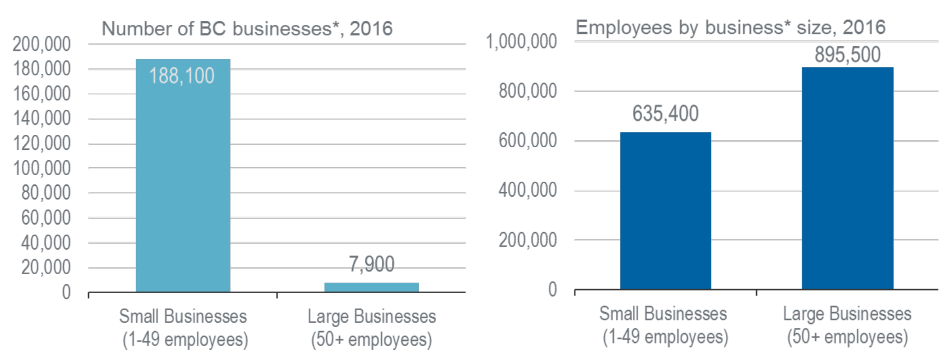
Looking at a longer time frame, between 2011 and 2016 the number

FIGURE 5: **SHARE OF TOTAL EMPLOYMENT IN BC, 2016**



Total employment in BC = 2,379,500
Note - small businesse includes self-employment
Source: BC Stats, Small Business Profile, 2017.

FIGURE 6: **LARGE BUSINESSES IN BC EMPLOY MORE PEOPLE**



Source: BC Stats, Small Business Profile, 2017. *businesses with employees

[10] OECD, The Innovation Imperative: Contributing to Productivity Growth and Well-Being, 2015.
[11] The figure for Canada was 19% in 2016.
[12] Those with 50 or more paid employees.

> *"[H]igh employment growth firms are not necessarily newly founded entrepreneurial start-ups but rather tend to be larger and more mature firms."*
>
> *David Audrestch, "Determinants of High Growth Entrepreneurship," report prepared for the OECD, March 2012., Cited in: Business Development Bank of Canada, High Impact Firms: Accelerating Canadian Competitiveness, May 2015, p. 2.*

of paid employees in the small business category grew by 6.6% in British Columbia. The number of people working in large businesses increased by 11% over the same period, while self-employment rose by 3%.

Focusing just on firms with paid workers (and thus ignoring the self-employed with no paid help), larger-sized companies (50 or more workers) employ significantly more British Columbians (895,500 as of 2016) than their smaller counterparts (635,400). Put another way, large business may account for 2% of the overall population of businesses in BC, but they provide jobs for 58% of all private sector employees. The remaining businesses with paid employees supply jobs for 42% of private sector workers (again, ignoring the self-employed).

The frequently-cited claim that micro and other small businesses are responsible for most private sector jobs, and for almost all net job creation, is not supported by the data. Particularly in a growing economy, all size categories of businesses typically are adding jobs over time.

V. SMALL AND LARGE BUSINESSES ACROSS OTHER DIMENSIONS

While media reports and government news releases commenting on small business issues often emphasize jobs, the economic impact of companies extends well beyond the labour market. This section touches briefly on some other aspects of business activity that help to illuminate the economic contributions of both smaller companies and enterprises in general.

Economic Output/GDP

The most widely cited measure of economic activity is gross domestic product (GDP), which represents the value a sector (or a firm) adds to the inputs it uses to produce goods and services, which are then sold in the marketplace. GDP is a way to gauge the total value of output in an economy as well as the "value-added" attributable to the production activities of different industries and firms.

In British Columbia, businesses with 0-49 employees accounted for 34% of total GDP in 2016.[13] This share is higher than the Canadian average of 31%, and second only to Alberta among the ten provinces. Saskatchewan and PEI are the two provinces in which small businesses produce the biggest shares of overall economic output.

On a per worker basis, value-added tends to increase in tandem with number of employees in an establishment, and often as well with the volume of sales. Both Canadian and cross-national data show that workers are usually more **productive** – they generate more GDP per hour worked – when they are associated with larger enterprises.

There are several reasons for this. One is that larger firms often have better-educated and more highly-skilled workforces, including at the management level. They also do more employee training. Another important factor is that larger enterprises as a group have a higher average ratio of capital per employee compared to micro- and other smaller firms. More capital per employee usually translates into greater economic "value" per hour worked. Various efficiency-enhancing activities, such as the use of information and communications technology (ICT), employee skills training, research and development (R&D), and the introduction of other types of innovations, are also positively related to firm size.

Other factors that may help to boost value-added per employee as companies grow include longer production runs (allowing fixed costs

> *"A common empirical observation in advanced economies is that large firms and plants have, on average, higher labour productivity than do small ones."*
>
> *Bank of Canada, "Productivity in Canada: Does Firm Size Matter," Autumn 2008, p.5.*

[13] Small Business Profile, Ministry of Jobs, Trade and Technology and BC Stats, 2017.

to be spread over more output), increased specialization of tasks, a greater propensity to sell outside of local markets, better access to varied sources of finance, and access to more experienced and highly qualified managers.

Researchers at Statistics Canada have reviewed patterns of investment and the adoption of new technologies across firm size categories. This research confirms that use of advanced production and process technologies increases with plant size in both the Canadian and U.S. manufacturing sectors. Another Statistics Canada study finds that, for the non-agricultural private sector, substantial gaps exist between large and small businesses in the use of technology, not only in advanced ICT applications such as a websites and online transactions, but also in the use of more basic IT applications. The data on employee skill training similarly reveal that it is more common in larger organizations.[14]

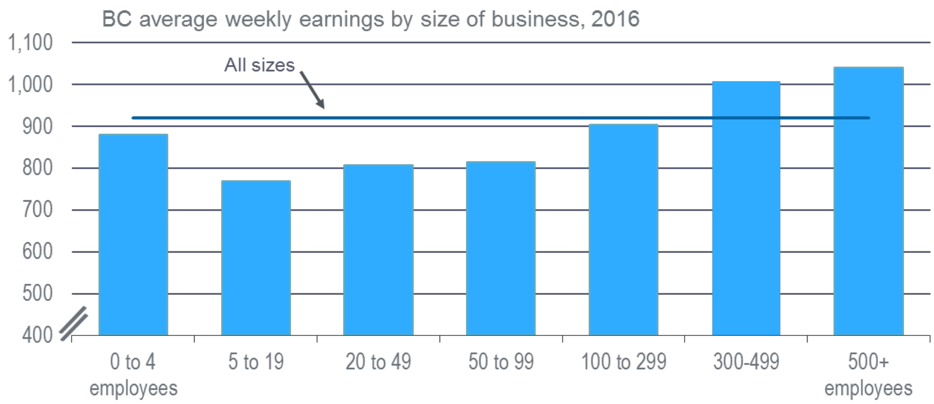
Employee Compensation

Given the positive relationship between worker productivity and plant or establishment size, it comes as no surprise that, on average, a positive relationship also exists between the size of businesses and employee pay and benefits.[15] Wage data reported by Statistics Canada confirm this. In BC, the average weekly wage for workers at establishments with more than 500 employees was $1,040 in 2016. The comparable pay for firms with fewer than 100 employees was between $770 and $810. Average weekly pay at micro businesses (0 to 4 employees) is somewhat higher ($880) but still well below what large businesses pay.

The Small Business Profile also reports wage differentials across firm size categories, but on an annual basis. In 2016, the average small business employee in BC earned $41,916, compared to $51,176 for employees of large businesses, a difference of almost $9,300.[16] Over the past five years, the gap widened. Nor should it be forgotten that non-wage benefits are also more common and extensive in larger firms.

> *"With large firms more productive than small ones, the productivity of a country would increase if its employment became [more] concentrqated in large firms, all else being equal."*
>
> *Bank of Canada, "Productivity in Canada: Does Firm Size Matter," Autumn 2008, p.8.*

FIGURE 7: **LARGE BUSINESSES PAY HIGHER WAGES**



Source: Statistics Canada, CANSIM table 261-0044.

Productivity

It is well known that British Columbia lags the Canadian productivity benchmark – and that Canada itself has a rather lacklustre productivity record among the advanced economies.

In 2016, BC's output per hour worked, which is the best indicator of productivity, was 3.5% below the Canadian level. This is equivalent to $1.70 per hour. While it may not sound like much of a difference, it is significant when one recognizes that 3.3 billion hours were worked in BC's business sector last year.[17] So, a seemingly small gap in business sector productivity vis-à-vis Canada translates into almost $5.6 billion fewer (inflation adjusted) dollars generated across the province's economy.

BC's productivity story is mixed. As evident in the next figure, the level of productivity has risen over the past two decades. There have been setbacks and periods

[14] See the sources cited in "Productivity in Canada: Does Firm Size Matter?," in footnote 1 above.
[15] We stress that this relationship exists at the aggregate business level. The situation varies across individual businesses. Some large companies have significant numbers of relatively low-paid employees.
[16] Small Business Profile, Ministry of Jobs, Trade and Technology and BC Stats, 2017..
[17] Statistics Canada, CANSIM table 383-0033. Note that the business sector excludes the public sector.

> *"Larger businesses are a key driver of productivity and employment needed for inclusive growth."*
>
> *Advisory Council on Economic Growth, Unlocking Innovation to Drive Scale and Growth, February 6, 2017, p.17.*

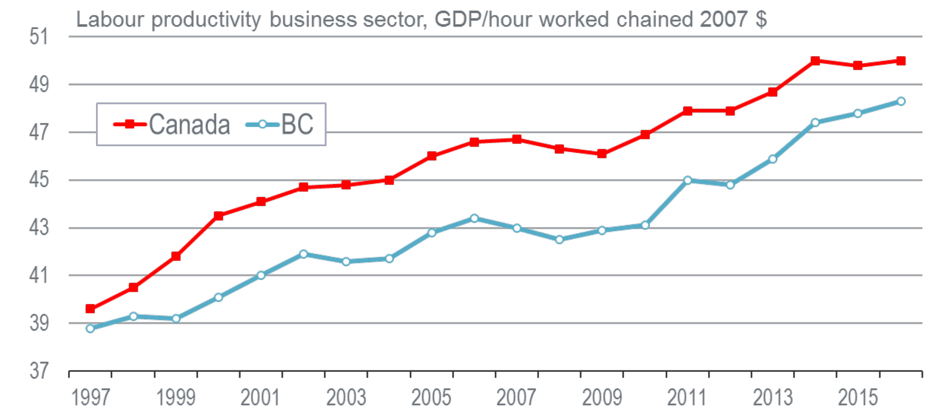
when productivity was flat, but the longer-term upward trend has resulted in productivity rising by a cumulative 24.5% since 1997 in the broad business sector. The increase for Canada was 26.3%. Among the provinces, BC ranked third in productivity growth between 1997 and 2017, behind Newfoundland and Manitoba.

While productivity has grown in BC over time, the level of productivity is still below the national average – and as noted above, Canada is a mediocre performer compared to other advanced economies. Industrial structure, the skills and education of the workforce, access to management talent, and investments in machinery, equipment and technology are among the factors that may contribute to below-average productivity. However, as discussed earlier, larger companies are generally more productive. It follows that scaling up more businesses should be a key element of an economic strategy that aims to increase productivity, raise wages/salaries, and improve the quality of jobs in the province.

Exporting

Cross-national research shows that, as businesses expand, they are more likely to engage in international commercial activity — including exporting, participating in external supply chains, and investing in

FIGURE 8: **BC'S PRODUCTIVITY LEVEL BELOW CANADA'S**



Source: CANSIM Table 383-0033.

The productivity performance of Canada's business sector is of continuing interest to policymakers and economists, which is understandable given the impact of productivity on living standards. The divergence in productivity performance between Canada and the United States has long been a central concern, with many studies pointing to a growing gap. Differences in the distribution of firms by size have been cited as one of the factors contributing to this gap. Many studies find higher concentrations of larger and more productive firms in the United States compared to Canada – and show that this plays a significant role in the pattern of cross-border productivity differences.

One Statistics Canada study explored the relationship between firm size and economic output. It quantified the relative importance of small and large firms in Canada and the United States, and then measured productivity levels of small versus large firms. Small firms occupy a bigger place in Canada's economy and overall business sector than they do in the United States.

In 2008, as measured by nominal GDP per hour worked, labour productivity in large Canadian firms was $75.6/hour worked. For small companies, it was only $35.7/hour worked. In the U.S., labour productivity was also higher for larger firms ($59.2/hour worked) than for small firms ($39.7/hour worked). But, in the U.S. the gap between small and large firms was less, with small American businesses on average about 67% as productive as large businesses.

The other dimension that impacts aggregate productivity is the relative contribution of large and small firms across the two countries. In 2008, small firms in Canada accounted for two-thirds of total hours worked in the business sector, compared to 56% of hours worked in the U.S. private sector. The differences in the economic role of smaller firms and in their level of productivity compared to larger firms reinforce each other, with both forces acting to depress Canadian business sector productivity relative to U.S.

The paper concluded that, since aggregate productivity is the weighted sum of the productivity of the underlying enterprises that make up the economy, changes in the size distributions of businesses and in the relative productivity of small versus large firms will result in changes in aggregate productivity. Increasing the proportion of larger, more productive firms in the economy, while holding constant their relative productivity, would boost overall business productivity. Increasing the productivity of small firms while holding constant their relative importance (as measured by the share of hours worked) would also lift aggregate productivity.

In terms of the gap in labour productivity between Canada and the United States, "the joint effect of making both of these changes is substantial. In the early 2000s, decreasing the share of small firms in Canada to levels in the United States and reducing the relative productivity gap between small and large firms to U.S. levels would have eliminated almost all of the [cross-border] productivity gap."

John Baldwin, Danny Leung and Luke Rispoli, "Canada-United States Labour Productivity Gap Across Firm Classes, Statistics Canada (January 2014).

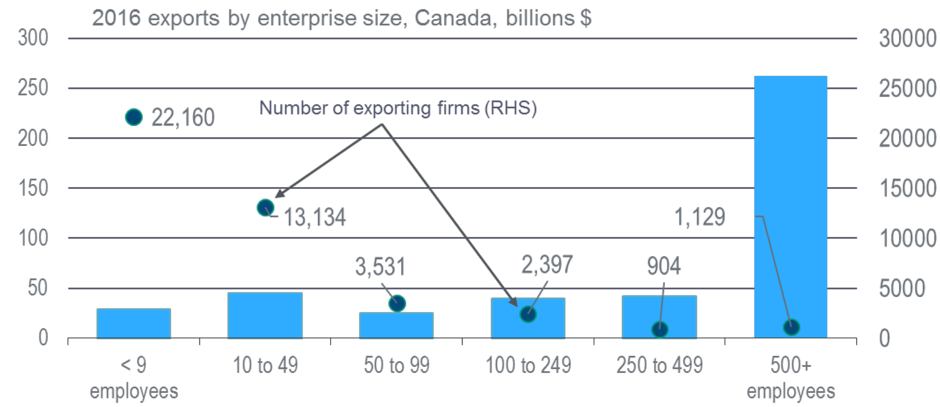
outside markets. In most advanced economies, at least half of national exports comes from enterprises with 250+ employees.[18] In some countries, the biggest firms – those with 500+ employees – dominate the national export statistics.

Canada follows the general OECD pattern, with larger businesses playing a dominant role in the country's export profile. There are more than 43,000 exporting enterprises in Canada.[19] Just 2.6% of these have more than 500 employees, yet they provide 60% of the country's merchandise exports. Another 2.1% of exporters have between 250 and 499 employees and contribute close to 10% of national exports. At the other end of the scale, there are roughly 35,300 exporters with fewer than 50 employees. This group of smaller firms represents 82% of all exporting enterprises in Canada and accounted for roughly 17% of the value of merchandise exports in 2016.[20]

In British Columbia, small businesses make a bigger contribution to the export base. In 2015, there were approximately 7,000 exporting enterprises in the province; of these, nearly 6,000 were small businesses (= 86% of all exporters). Just 972 were "large businesses" with more than 50 employees.[21] In BC's case, small businesses contributed nearly 43% of the value of merchandise exports, more than twice the proportion at the national level.

While small businesses make up a majority of exporting firms (but not of the value of exports), among the overall population of small businesses exporting is an unusual activity: just 1.5% of BC small businesses directly sell to foreign customers, meaning 98.5% do not.[22] The fact that small businesses account for a larger share of exports in BC than at the national level could be seen as a positive sign, one that suggests growing engagement with international markets by local SMEs.[23]

FIGURE 9: **LARGE BUSINESSES ACCOUNT FOR MOST EXPORTS**



Source: Statistics Canada, CANSIM Table 228-0070.

British Columbia is home to roughly 15% of Canada's small business exporters. Ontario hosts 43%, more than twice as many as Quebec (20%). While Ontario has many more small business exporters, the **export intensity** (that is, the average value of exports per exporter) of those businesses is quite low, at $1.7 million per firm. As a result, Ontario was responsible for only 23% of the Canada's small business exports in 2016, in value terms, despite hosting 43% of all Canadian exporters. Prince Edward Island was the only other province with an export intensity as low as Ontario's. At the other end of the spectrum, small business exporters in Saskatchewan shipped $9.9 million per company, while those in Alberta exported $9.5 million per business. Alberta, with 10% of the country's small business exporters, accounted for 31% of the value of Canada's small business exports. The export intensity of small business exporters in BC was $2.7 million per firm, putting us in between Ontario and Saskatchewan/ Alberta -- and ranking fifth among the ten provinces.

Business Innovation

The accelerating pace of scientific and technical change is one of the most fundamental trends shaping the economic landscape. From health care to manufacturing to environmental goods and services, the development and application of new technologies and other forms of knowledge is redefining the way business is done. This has profound implications for the ability of

[18] OECD, "Selling to Foreign Markets: A Portrait of OECD Exporters," Statistics Brief 16, 2011; www.oecd.org/dataoecd/28/27/47014723/pdf.
[19] These figures on the value of exports by business size are from Statistics Canada, CANSIM table 228-0070. The data are for 2016.
[20] It should be noted that prior to the collapse of global oil prices in 2014-15, small businesses directly supplied a smaller share of Canada's merchandise exports – closer to 15%.
[21] Small Business Profile, Ministry of Jobs, Trade and Technology and BC Stats, 2017.
[22] Ibid.
[23] On the other hand, it may reflect the fact that BC is home to comparatively few large firms.

> ***"...innovation drives an economy's ability to create more economic value from an hour of work, thereby increasing economic output per capita. The resulting productivity growth creates potential for rising wages and incomes, and thus for a higher standard of living."***
>
> *Council of Canadian Academies, Expert Panel on Business Innovation, Innovation and Business Strategy: Why Canada Falls Short, 2009, p.27.*

countries and regions to prosper. It is also reshaping the world of work.

Innovation ultimately involves new or better ways of doing things that have economic value. New ideas and technologies that stay in the lab may increase the stock of human knowledge, but only when they migrate to the commercial realm do they tend to yield significant economic benefits. In any modern economy, innovation has become a critically important driver of growth, competitiveness, and gains in living standards.[24]

Innovation in a business context can be thought of as activities that fall under the following umbrella:[25]

- Product innovation – developing and bringing to market new/improved products.
- Process innovation – making changes in the way goods/services are produced or delivered to customers, typically by using new/more sophisticated technologies.
- Direct firm investments in research, product development, and the acquisition of capital goods, technologies and software that embody advanced knowledge.
- "Soft" innovations – changes in management, marketing and organizational practices and functions that lead to improvements in productivity, quality and customer service, or that build/strengthen linkages with business clusters and external sources of expertise.

Firm size and scaling are related to an economy's innovation performance and potential. For example, the availability of resources to spend on research and development (R&D) is tied to the size of businesses. While large companies make up a tiny proportion of all businesses, between 2011 and 2013 they accounted for over half of R&D spending in Canada. Despite representing 98% of all businesses, small firms undertook 27% of all R&D spending. Medium-sized businesses, which make up about 2% of all Canadian enterprises with employees, accounted for 18% of R&D spending.[26]

How does BC stack up on innovation? According to the Conference Board of Canada's innovation scorecard, we do a bit better than Canada and have improved our position over the last decade or so. But we continue to have a mediocre record when judged against international peers.[27] Figure 10 summarizes the Conference Board's assessment of how the various provinces perform relative to peer jurisdictions. BC scores particularly well on entrepreneurial ambition and venture capital, but we underperform on productivity, business R&D, patenting, and the share of the workforce engaged in research, science and engineering.

Arguably, the prevailing small business character of the private sector weighs on innovation in BC – even though the province has lots of small innovative firms. Contrary to what many believe, the presence of larger companies is positively correlated with innovation. Some 90% of worldwide business R&D is performed by companies with more than 250 employees, with close to 80% done by firms with 500 or more. In Canada, 75 companies are responsible for half of private sector R&D.[28]

While there is no shortage of innovative SMEs in BC, the reality is that bigger companies have a greater capacity to finance innovation, to commercialize new ideas, to forge

> ***"Canada's lagging innovation performance is, in large part, a story of business inaction on innovation -- particulrly, poor commercialization efforts."***
>
> *Conference Board of Canada, "Innovation: Provincial and Territorial Ranking, September 2015."*

[24] Advisory Council on Economic Growth, Unlocking Innovation to Drive Scale and Growth, February 2017, available at: www.budget.gc.ca/aceg-ccce/home-accueil-en.htm.
[25] OECD, The Innovation Imperative.
[26] Key Small Business Statistics 2016, Innovation, Science and Economic Development Canada, Small Business Branch.
[27] Conference Board of Canada, "Innovation: Provincial and Territorial Ranking," September 2015; www.conferenceboard.ca/hcp/provincial/innovation.aspx?pf=true.
[28] Alexandra Bibbee, "Unleashing Business Innovation in Canada," OECD Economics Department Working Paper No. 997, October 2012.

and sustain alliances, to hire and develop engineers and scientists, to deploy new process technologies, to draw benefits from participating in industry clusters, and to be part of collaborative arrangements with universities and external research and commercialization organizations. A structural weakness of the BC economy is that the province has only 7,900 enterprises with more than 50 employees, out of a total of 404,000 businesses. The typical technology company here has fewer than 10 employees, and only a handful of firms in the sector employ more than 500. We believe the paucity of larger enterprises is an impediment to building globally competitive industry clusters in BC — and to developing a more innovative economy generally. This is another reason why the province would benefit by fostering an environment that stimulates the growth of local businesses.

> *"One of the problems with Canadian innovation is that even though our entrepreneurs are good at launching companies, very few companies achieve significant scale."*
>
> *Advisory Council on Economic Growth, Unlocking Innovation to Drive Scale and Growth, February 6, 2017, p.4.*

VI. SUPPORTING SCALING UP

Scaling up more BC businesses would bring many economic benefits. Most fundamentally, it would raise overall business sector productivity — a pre-requisite for lifting real wages over time. Because high-productivity firms tend to pay more than low-productivity firms, workers in BC on average would gain from

FIGURE 10: **CONFERENCE BOARD OF CANADA: INNOVATION REPORT CARD (SEPTEMBER 2015)**

Innovation

1	Sweden	A
2	Denmark	A
3	Finland	A
4	U.S.	B
5	Ont.	B
6	Switzerland	B
7	Netherlands	B
8	Que.	B
9	Austria	B
10	B.C.	B
11	Norway	B
12	**Canada**	C
13	Germany	C
14	Japan	C
15	Alta.	C
16	Australia	C
17	Belgium	C
18	U.K.	C
19	France	C
20	N.S.	D
21	Sask.	D
22	N.L.	D
23	Man.	D
24	Ireland	D
25	P.E.I.	D–
26	N.B.	D–

the presence of more large companies — as well as more rapidly-growing businesses. In addition, the enhanced innovation and export capacity that accompanies business growth would put the province in a better position to develop globally-competitive industry clusters.

In thinking about public policies that can support firm scaling, a significant challenge lies in identifying the businesses with the greatest growth potential. We can't really know who these are, ex ante. Do fast-growing firms expand on an essentially random basis, perhaps reflecting the uneven distribution of entrepreneurial talent and other fortuitous circumstances? Or are they more likely to emerge in certain sectors, such as those undergoing disruptive technological change? In a small economy like BC, are the most promising fast-growth companies concentrated in export-oriented sectors? Whether measured by the rate of job creation or by increases in top-line revenues, are "gazelles" drawn exclusively from the ranks of newer firms, or do they also include well-established enterprises?

In truth, there are conflicting views and evidence on these and related questions in the academic and policy literature. It is not a simple task to come up with a set of policy recommendations to accelerate business scaling. However, we believe it's worthwhile to take a stab at it.

Below, we outline some high-level recommendations that – in our view – would make BC an attractive location for high-growth businesses and facilitate the development of larger locally-based firms.

Tax Policy

Canada's business tax structure features significantly lower statutory rates and effective tax burdens on "small business" income, including income earned by the self-employed with incorporated businesses. This differentiates Canada from many other advanced economies that maintain less variation in the tax treatment of business income.

Most Canadian governments have opted to provide small businesses with preferentially low tax rates on earnings. Presumably, policy-makers have been persuaded that such a tax regime will encourage growth, or at least help to sustain a thriving small business community. But whatever its benefits may be, the current structure of business taxation in Canada (including BC) is not well-aligned with the goal of business growth. Indeed, the tax regime may discourage some companies from expanding. It is not far-fetched to worry that some companies in BC may eschew strategies that focus on growth, instead opting to preserve the non-trivial tax advantages that come from staying small. Other business owners may choose to split their operations into several distinct, smaller entities to maximize the benefits of lower small business tax rates for individual enterprises. In both cases, the result, at the margin, is that the economic gains from businesses scaling up are reduced – and the incentives for firms to grow are weakened.

The gap between general corporate tax rates and the rates small businesses pay has widened in the last few years. Ottawa and BC have both lowered small business tax rates (or are planning to do so soon) and raised the income thresholds that define which firms qualify as “small.” Recently, the federal government announced that it will trim the small business tax rate to 9% from 10.5% by 2019. Meanwhile, in British Columbia the government has moved to reduce the province’s already low small business tax rate to 2%, even as it hikes the general corporate tax rate.

In British Columbia, the applicable combined federal-provincial income tax rate more than doubles once a business reports an annual income (profit) of $500,000. By 2019, the statutory corporate income tax rate facing BC businesses with earnings above $500,000 will stand at 27%; for firms below the $500,000 threshold, it will be 11%. Thus, by 2019 the tax rate for medium-sized and larger companies in BC will be 2.5 times higher than the rate charged to smaller firms.

Economists have described this as a “tax wall” that can deter business growth and prompt some companies to organize and structure their activities mainly to retain access to preferential tax rates – not because it otherwise makes business sense to do so. The Federal Department of Finance examined the firms claiming the small business tax rate in Canada. While the vast majority of small businesses report low levels of taxable income, a higher concentration (or “clustering”) of businesses taking advantage of the reduced small business tax rate was observed at the specified income thresholds. This relationship has held over time, as small business income thresholds have been pushed higher.[29]

Another benefit of “staying small” may flow from the design of research and development tax credits. Government tax support for business R&D constitutes the largest and most costly public program in Canada to encourage business innovation. These tax credits are significantly more generous for small Canadian-controlled private corporations (CCPCs) than for medium-sized and larger firms. That’s because at the national level and in most provinces, tax credits for private sector research and development are linked to firm size. Small CCPCs making qualified R&D-related expenditures receive federal tax credits equal to 35% of their expenditures; larger companies receive a lower credit, equal to 20% of such expenditures. Plus, there are strict limits on the quantum of R&D spending eligible for tax support, putting larger firms that do more R&D at a further disadvantage. The higher federal tax credit rate for small businesses is phased out between $10 million and $50 million of qualifying expenditures.

As with the small business tax deduction, differential R&D tax credit rates may act as a “tax wall” for innovative companies that aspire to grow. Most provinces, including British Columbia, top up the federal R&D tax credits with their own variants, based on the same design. With small firms getting higher tax incentives for R&D, the required rate of return for projects declines, which means the economic value of R&D projects may diminish due to larger public subsidies provided to smaller-scale projects.

To address the growth-inhibiting features of the business tax regime, policy-makers should look to modify elements of the existing system. For British Columbia (and Canada), steps consistent with this general approach could include the following:

- Reduce the basic corporate income tax rate, to narrow the gap vis-à-vis the small business rate.
- Nudge current preferential small business tax rates higher, as Quebec has done, or introduce graduated/tiered increases to reduce the impact of the “tax wall” that currently kicks in at $500,000.
- Introduce tax incentives for the sub-set of businesses that invest to expand and improve their capital stock and facilities in British Columbia. Here, one option could be investment tax credits (ITCs) for businesses that acquire

[29] Taxation of Small Businesses in Canada, Department of Finance Canada (2012). https://www.fin.gc.ca/taxexp-depfisc/2013/taxexp1303-eng.asp.

new machinery, equipment, advanced process technologies — or that spend to upgrade their facilities/plants within the province. Such ITCs should be available to all companies undertaking qualifying investments in productive assets to grow their business and become more competitive. Another option could involve reducing or eliminating tax on income in excess of that earned[30] during the prior year for those companies (of any size) that can show they are investing in their British Columbia businesses (in people, plant, equipment, or working capital).[31]

- Absent action by the federal government, BC should explore ways to tweak its R&D support programs to provide stronger incentives for companies to grow. One element of this could include the development of a "commercialization tax credit" that would augment existing R&D tax credits and enhance the ability of BC companies to successfully move innovative products, services and ideas to market.

Leverage Public Sector Procurement

Public sector procurement is another area that could be used to enhance the growth prospects of BC and other Canadian companies. Across Canada, governments spend $100 billion every year to purchase goods and services.[32] The question is how to leverage the large sums of money allocated to public procurement to accelerate the growth of innovative SMEs.

In its 2011 review of federal programs to stimulate R&D and business innovation generally, the Jenkins panel advocated modifying government procurement policies and practices to help innovative Canadian firms achieve quicker market traction.[33] The federal government's Advisory Council on Economic Growth recently echoed this view, calling on policy-makers to deploy "strategic procurement…to support innovation and help small companies scale up and gain the credibility to become integrated into global supply chains."[34]

Improved market access, including to markets where the public sector has significant buying power (such as health care), can enable innovative companies to establish a domestic track record prior to venturing into foreign markets. When locally-developed products, services and technical advances secure a domestic customer foothold, the companies selling these products and services have a better chance of export success.

We recommend that the BC government review the proposals around strategic procurement outlined by the Advisory Council on Economic Growth in its February 2017 report to the federal Minister of Finance. These proposals include establishing set-asides for public sector procurement of innovative local products and services, and making greater use of "solution-oriented" procurement instead of relying on pre-selected technologies.

> ***"In strategic procurement, the government uses its leverage in the purchase of goods and services to pursue indirect benefits such as promoting growth…helping commercialize new products, or scaling up companies."***
>
> *Advisory Council on Economic Growth, Unlocking Innovation to Drive Scale and Growth, February 6, 2017, p.25.*

Supercluster Initiative

The Business Council believes the provincial government should fully support BC's bid to build a Digital Supercluster in the province, as part of Ottawa's ongoing national "Supercluster" initiative. British Columbia has notable strengths and capabilities in several areas of digital technology (data generation, data analytics, and visualization platforms). The federal Supercluster Initiative will provide up to $950 million to develop and advance a handful of industry clusters across the country. Strong private sector funding and support is a critical factor in determining the industry clusters to be selected through the initiative. The intention is to tap into and leverage the strengths of existing innovative industries, as well as related research and talent, to create conditions for the emergence of a small number of commercially viable Canadian superclusters.

The Supercluster Initiative has the potential to speed commercialization and augment capacity in strategic platform technologies. It is well-documented that strong industry

[30] Beyond the small business threshold.
[31] This idea was suggested by the Institute for Competitiveness and Prosperity, Small Business, Entrepreneurship and Innovation.
[32] Advisory Council on Economic Growth, Unlocking Innovation to Drive Scale and Growth, p. 25.
[33] Innovation Canada: Call to Action – Special Report on Procurement, Jenkins Expert Panel, 2011.
[34] Ibid., p. 25.

clusters provide fertile ground for the growth of innovative SMEs. Developing sizable anchor companies, together with a concentration of SMEs and service providers and a deep pool of local talent, is a key ingredient in building an ecosystem that fosters the growth of innovative businesses. In our view, this reinforces the need for British Columbia to develop a stronger base of larger companies in industry sectors where the province hopes to be globally competitive.

Exporting

As discussed earlier, as companies grow they typically develop deeper and more extensive connections to external markets. Collectively, both large companies and mid-sized firms are more active in exporting than smaller businesses. Selling to foreign markets allows companies to grow beyond the limits of the domestic customer base — and to benefit from economies of scale while doing so.

There are barriers to selling products and services abroad, however. Among other things, exporting means becoming familiar with the needs, rules and business practices of different jurisdictions, taking on currency risk, establishing new marketing and sales capabilities, and increasing production capacity to create the ability to sell to international customers. A 2015 survey by the Business Development Bank of Canada highlighted five common challenges facing mid-sized Canadian exporters (100 to 500 employees):[35]

- adapting their products/marketing programs to the requirements of foreign markets;
- higher costs and logistical/administrative issues when selling abroad;
- determining the right international growth strategy;
- building/managing relationships with suppliers/intermediaries in foreign markets;
- identifying cost-competitive suppliers in foreign markets.

To help overcome the complexity, additional costs and capital requirements, and extra risks that typically arise when venturing outside of the home market, the province could consider providing incentives to BC firms that export. Because British Columbia is a small economy, most local companies that manage to achieve significant growth must sell to — or otherwise do business in – external markets.

The specifics of any programs in this area would have to be studied to understand the implications for government finances and ensure compliance with trade agreements, but among the options worth exploring are the following:

- Exemptions from Provincial Sales Tax (PST) paid on business inputs[36] used to produce goods and services which are sold in international markets. This could be structured so that companies receive exemptions on a portion of the PST they pay on business inputs, depending on the value or proportion of revenues derived from exporting.
- Broaden PST exemptions, especially for industries that are export-focused. Capital equipment and production machinery used in the natural resource and manufacturing industries is already exempt from PST. Similar exemptions could be extended to other industries that are active in exporting – perhaps based on the share of an industry's revenues derived from export sales. Alternatively, the list of qualifying PST exemptions could be expanded incrementally to include other types of business inputs that are significant production cost items for export-oriented industries.

We also recommend that the BC government continue to work with private sector organizations to provide information and improve supports for SMEs looking to export goods and services. Developing a stronger cadre of exporting companies would boost overall business sector productivity, generate additional income for BC residents, and lead to more high-paying jobs in the province.

[35] BDC, High-Impact Firms: Accelerating Canadian Competitiveness, May 2015; available at: www.bdc.ca.
[36] A wide array of business inputs are subject to the PST in British Columbia, including business purchases of capital goods (e.g., machinery, equipment, vehicles, furniture), construction materials, office supplies, and some services (e.g., communication and legal services).

> *"Access to capital is critical in fueling the growth of tech companies. To address the funding challenge at all stages of growth, we need a long-term view that builds on a strong foundation and positions BC to attract capital in greater amounts."*
>
> *BC Tech, 4 Point Plan for Growth, 2016*

Access to Growth Capital

Canada boasts a well-developed and diverse financial system that generally does a good job allocating capital across sectors and areas of business activity. At the start-up stage, new firms in Canada typically tap capital from personal/family resources, angel investors, and financial institutions. In the high technology sector, most companies at the seed and early stages are able to secure funding to support initial growth. The situation is more complex for some high-growth firms, however, especially in industries where innovation is at the core of business success.

The Advisory Council on Economic Growth identified two areas where it judges that capital supply shortfalls exist in Canada:[37]

- fast-growing "expansion-stage" SMEs focused on developing and commercializing new technologies;
- "established high-impact" SMEs across a variety of industry sectors.

Financing issues are particularly relevant for technology companies beyond the very early stage and, more generally, for some high-growth SMEs seeking expansion capital. As one recent study noted, referring specifically to the technology sector, "Canada disproportionately invests in seed and early stage companies," while investments in later stage technology firms have lagged and trended lower.[38]

Over time, more equity capital has become available for innovative Canadian SMEs, but "deal sizes" are small compared to the United States. Expansion capital for high-growth firms overall appears to be harder to source in Canada than the U.S., and, once again, "deal sizes" for later-stage ventures tend to be relatively small. Canadian high-growth SMEs are significantly more likely to report facing financing constraints than SMEs in general — or similar firms in the United States.

To increase the growth capital available to innovative SMEs, the Advisory Council advocates a stepped-up federal government effort and new programs to stimulate investments in and value-added support for "high impact" SMEs. Its recommendations include leveraging modest amounts of federal government money to attract larger flows of private money to increase the volume of risk capital available to high impact firms, via a new Matching Fund structure that would operate at arm's length from the government. The Advisory Council also recommends that the federal government work with the private sector to establish one or more "Business Growth Funds" to provide "patient capital" for Canadian SMEs looking to scale up. Our understanding is that some progress has been made on this latter front over the past year of so.

At this point, we do not see a case for the BC government earmarking additional taxpayer dollars to increase the pools of growth capital available to local SMEs, other than by expanding the Small Business Venture Capital program (see below). In general, we believe it makes sense for the federal government to take the lead in this area, given the unmatched policy, financial and regulatory resources and tools at its disposal, including the Business Development Bank of Canada, the Industrial Research Assistance Program (IRAP), and the various federal small business financing programs. As part of the ongoing retooling of Ottawa's innovation strategy and policies, British Columbia should ensure that the province's interests and views on how to improve the financial environment for innovation and business growth are communicated to federal Ministers, senior officials, and MPs.

> *"The...growth investment gap in Canada can be solved. First, improving the capital supply to underfunded growth-stage [technology] companies can have an immediate impact by accelerating growth and shortening exit timelines. Second, adequately funding the next generation of companies throughout their life cycle, not just at early stages, can enable them to become market leaders..."*
>
> *Yaletown Partnersl,*
> *Canada's Technology Investment Gap, 2016*

[37]Unlocking Innovation to Drive Scale and Growth, p. 17, and the sources cited therein.
[38]Yaletown Venture Partners, Canada's Technology Investment Gap, 2016; available at: www.yaletown.com.

Industry experts believe that British Columbia's Small Business Venture Capital (SBVC) program has been successful in channeling equity investments to promising SMEs, at a modest cost to the Treasury. The program provides an incentive to invest in early-stage companies via a 30% tax credit for individuals who invest in eligible businesses. The province should continue to enhance and expand the SBVC program as fiscal circumstances permit.[39] And the federal government should look at the BC program as a model for a national "angel tax credit" scheme targeted at increasing expansion capital for innovative SMEs.

Finally, we note that in 2016 the BC government set aside $100 million for a new fund to invest in promising BC technology companies in sectors like IT, clean tech, digital media and life sciences. The intention was to address continued early-stage capital funding gaps and develop a stronger venture capital system in the province. This program builds on BC's earlier support for the Renaissance Fund, launched a decade ago. The effectiveness of these BC-specific funding initiatives for innovative SMEs remains to be determined. Looking ahead, we recommend that BC coordinate with and work to leverage the benefits that may flow from federal government programs designed to increase the risk and expansion capital available to "high-impact" SMEs.

Talent Attraction/Retention

Of all the barriers to firm scaling in Canada, those linked to talent are perhaps the biggest impediments to business growth.

As a province, we need to do more to develop, attract and retain the talent required to build successful medium-sized and larger companies. Some of this involves investing in post-secondary education to develop the right kinds and mix of skills, including advanced skills via graduate and professional programs. Smart immigration policy is another key ingredient, with a particular focus on attracting immigrants with expertise that can help our companies grow and increase their engagement with international markets and supply chains.

Because BC is a small market with a limited number of large locally-based companies, the management skills and global business knowledge necessary to drive and steer business growth are in short supply within the province – including in sectors like clean technology, life sciences, advanced manufacturing, and ICT. The picture is similar across Canada, as documented in a 2016 study commissioned by the Lazaridis Institute at Wilfred Laurier University. As the authors of that study concluded: "The low density of established technology firms in Canada leaves the technology eco-system woefully under-resourced with respect to experienced executive talent."[40] We believe this comment also applies to some industries beyond the technology sector, including advanced manufacturing, health care/health innovation, and other segments of the increasingly diverse service economy.

The dearth of top talent to manage and grow innovative companies and research organizations underscores the critical role of smart and nimble immigration policy as part of the toolkit to facilitate business scaling in Canada and British Columbia.

We applaud the federal government's new Global Skills Visa initiative, including the commitment to process applications within weeks instead of many months or even years. As Ottawa continues to review the Temporary Foreign Worker (TFW) program, we recommend adjustments to allow the recruitment of workers with in-demand skills in areas such as technology, product development, and global supply chain management. British Columbia should continue to press Ottawa for a larger annual allotment under the Provincial Nominee Program and ensure that PNP slots are available for applicants with the experience and qualifications to support the growth of BC companies.

The BC government has signaled an intention to direct an incremental $100 million annually into post-secondary education programs in fields such as engineering, technology, data science, design, and the skilled trades.[41] We support this. The Business Council also advocates a collective effort – by government, business and educators — to expand the reach of work-integrated learning and co-op models across the education system, as recently proposed by the Business Higher Education Roundtable.[42]

[39] According to the September 2017 BC budget update, the SBVC program cost the government $27 million in 2016-17.
[40] Lazaridis Institute, Wilfred Laurier University, "Scaling Success: Tackling the Management Gap in Canada's Technology Sector," March 2016; available at: www.wlu.ca/academics/faculties/lazaridis-school-of-business.../reserach.htm.
[41] As referenced in the NDP's 2017 election platform document.
[42] See http://bher.ca.

> *"Federal and provincial governments' small and medium-sized enterprise policies should focus on those firms that demonstrate the desire and capacity to grow to become large enterprises"*
>
> *Competition Policy Review Panel, Competing to Win: Final Report, June 2008, p.75.*

VII. CONCLUSION

Despite some recognized competitive strengths, British Columbia must contend with a number of disadvantages that can hamper business growth/business development. We have too few large locally-based companies and a weak corporate head office sector overall. On both of these indicators, we trail many peer jurisdictions across North America that outperform British Columbia in GDP and income per capita. We have a middle-of-the-road, albeit improving, record on business innovation. In recent years, BC has posted some solid gains in international exports, with more of our SMEs becoming engaged in global markets over time. But when the value of exports is measured on a per employee basis, BC continues to lag behind other provinces. The high and rising cost of living in urban regions of British Columbia underscores the need to expand employment opportunities in occupations and industries that offer above-average compensation – something that remains an ongoing challenge.

The Business Council is convinced that more can be done to assist BC companies in scaling up. This paper has discussed the economic benefits that would flow from the presence of more high-growth firms and the development of a stronger base of significant-sized companies. We encourage government decision-makers to take a fresh look at the current mix of policies in the areas of taxation, business investment, innovation, public procurement, trade, skills and immigration, and industrial development – all with an eye to creating an environment that is conducive to scaling up BC businesses.

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