

Is Helping Small Business

Sound Business?

Notes for an Address by

François Beaudoin

President and Chief Executive Officer

Business Development Bank of Canada

to the

Canadian Club, Toronto

CHECK AGAINST DELIVERY

December 4, 1995

Ladies and Gentlemen, my topic is:

Is helping small business, of itself, sound business?

There is no doubt today that whenever the general public thinks about the business world, they perceive Small Business as being at the top of Canada's economic 'Hit Parade'.

The sheer volume of media coverage on the subject, coupled with an outpouring of downbeat articles about the challenges being faced by larger businesses, has ensured the national prominence of small business.

Great efforts are being made by all sorts of people and institutions — political, academic and business — to help small business. To advance its perceived best interests.

On the financial front, there has been a substantial expansion of the chartered banks portfolio of loans to small business from 20 billion dollars in 1985 to 28 billion dollars ten years later.

Obviously, Federal government guarantees under the Small Business Loans Act have also significantly helped: loans of under 250 000 dollars to small business have jumped by 205 per cent between 1993 and 1994. That's from 1.5 billion dollars to 4.7 billion dollars.

In addition, there has been considerable growth of the venture capital industry over the last five years. Clearly, it has taken strides towards meeting the growing capital needs of small business. Total capital under management by the venture capital industry has leapt from 3.2 billion dollars in 1991 to 5 billion in 1994.

Among all the initiatives taken to help small business, those of the Business Development Bank of Canada surely represent a unique contribution.

For over fifty years, BDC has been the only coast-to-coast Canadian bank dedicated exclusively to small business.

At BDC, small business is our only business. We are the only national financial institution, and one of a mere handful in the world, to help entrepreneurs through a unique blending of conventional lending and venture capital, of management counselling and training services.

Our mandate is to take the higher risks often associated with supporting small business while being a profitable organization. Over the last six years, BDC has loaned more than 4 billion dollars to small business without costing the public purse a single penny.

The Bank's new mandate, enacted last July, widens our role as a vital complementary player to private sector financial institutions. This shows considerable political will to assist Canada's small business.

Our lending ceiling has been raised from 3.2 billion dollars to potentially 18 billion dollars, once our equity reaches the new maximum prescribed by law. Obviously, this maximum will take a number of years before it is reached, but it does give us the room to manoeuvre and the ability to support demand for small business financing.

Clearly, a lot of people right across Canada are putting a lot of effort and engaging a lot of resources to help small business.

But perhaps there is a question which we, as a society, have neglected to ask ourselves :

Is all this well-intentioned effort worth it?

Or, as the popular expression would have it, are we barking up the wrong tree? Would everybody's time, money and best efforts be better deployed in other fields of endeavour?

It is an intriguing question that bears more detailed scrutiny.

On the undoubted 'pro' side of the argument is the fact that small business now accounts for a full 57 per cent of Canada's Gross Domestic Product.

Small business has become Canada's Number One Job Creator. After posting a spectacular 49 per cent growth in employment for fifteen years,

small business has held the line for the last five years. For the same period, all other sectors have shown a steady decline in employment levels.

The increasing opportunities in small business have unleashed an impressive surge of entrepreneurship.

Each year we at the Bank actively assist over 75 000 of Canada's brightest and most innovative individuals. People who are truly knowledgeable in their chosen fields of expertise. We know just how determined they are to run their businesses efficiently and to grow.

Clearly, small business **MUST** be the way of the future!

On the debit side of our argument we have to ask ourselves: Is small business more effective at creating jobs than at creating permanent growth? Has the small business explosion really been nothing more than a redivision of a shrinking economic pie between more players?

It's a valid question, given the high failure rate among small businesses and the often precarious employment opportunities they offer. Only 50 per cent of small businesses survive beyond their fifth year. Many more falter before their tenth birthday. As well, a significant proportion also do not survive their first generation owners.

Which brings us to the next question.

Instead of expending so much effort on small business, shouldn't we be helping larger corporations?

We must acknowledge the multiple roles that, by virtue of their very size, only larger businesses can effectively play.

I am referring here to the corporate world's leadership in fields such as research and development, workforce training, the setting of industry standards, and so on - all those things that require true clout to have significant impact.

After all, the balance sheet, established creditworthiness and sheer staying power of larger corporations have always afforded much needed stability and momentum to the economy as a whole.

The fact is, bigger players were and still are needed to keep the economic playing fields in good shape.

The simple truth, that small business frequently relies upon larger business for growth, is too easily forgotten. Small business does not exist in isolation and, in many cases, depends upon the good health of larger corporations.

Major corporations have always been excellent incubators within which future entrepreneurs learn and hone essential management skills. Major

corporations are also one of the most important sources of work for small business, through subcontracting and outsourcing.

Major corporations play an important role as taxpayers, 'enjoying' higher rates of corporate taxation. They also play a unique social role through their sponsorships and charitable works.

Yet while we continue to sing the praises of small business, little has been heard on behalf of larger businesses. Were they just a passing phase, whose time has come and gone? Will we only recognize their vital role too late, when we have lost the momentum, the ability and the will to launch and sustain large corporations?

For the ten year period upto 1989, Canada's larger businesses exhibited a modest yet sustained growth of 19 per cent.

Since 1989, globalization has revealed some of the weaknesses of our economy.

Before globalization, it was fairly easy to be big and nimble in a protected marketplace. When it floats in zero gravity, even the biggest dinosaur can look amazingly agile.

Only when exposed to the new economic reality did we discover the ill effects of prolonged weightlessness.

As a result, we saw a tidal wave of downsizing, rightsizing and re-engineering that led many to wrongly conclude that Corporate Canada had a serious and probably permanent disability.

All had to undergo a crash diet. Many did not make it!

Between 1989 and today Canada lost over 260 businesses employing more than 500 people. And some of these businesses were once very large indeed!

In the same period, 1 500 businesses employing between 100 and 500 people have disappeared.

That's close to 2 000 larger corporations that are no longer in play to exercise their stabilizing and vitalizing influence on our economy.

So what lies ahead of us? Are we, by default, building an economy totally dominated by small business?

We must avoid the pitfall of drawing conclusions from a snapshot in time, while forgetting the rest of the movie and the overall plot. Small is good in that it offers hope for system renewal, but clearly it is the journey, not the overall destination.

Surely, what Canada needs is to create more larger corporations!

Companies big enough to hold their own on a world stage. Companies also big enough to generate prosperity in our local markets, a prosperity that numerous small companies can participate in.

Most likely, these larger corporations of tomorrow will emerge from the ranks of the smaller businesses of today. That is the main reason we need to be helping small business.

Our challenge here is to boost the performance of promising players. We need to improve their prospects for growth and enable them to achieve their full potential.

The strategic direction we ought to follow is surely that of a steady process of small business enhancement and development. This is the only viable way to enable Canada to field enough large corporations.

The good news is, there ARE fast-lane sectors of the economy in which small companies can move to becoming larger very quickly. Even during the last recession, companies in those sectors posted healthy growth.

I'm referring to knowledge-based enterprises which spearhead the so-called New Economy, companies in pharmaceuticals and health services, telecommunications and computers, scientific instrument and equipment.

I'm also referring to those companies that have taken full advantage of Free-Trade and NAFTA, and expanded their horizons and sales efforts beyond the domestic market and into world markets.

In a world context, Microsoft is probably the most outstanding example of a knowledge-based enterprise which has grown at exponential rates. In Canada, we have similar examples and they have names like IMAX, Softimage, Ballard Power and Newbridge.

When it comes to export-oriented companies, examples that come to mind include Blackcomb Skiing Enterprises, which attracts to Whistler no less than 1-point-5 million skiers per year, a great number of which come from abroad. Or Wrebbit, a 3-D puzzle manufacturer with a unique product which exports more than 85% of its production.

So to answer my original question: Is helping small business, of itself, sound business?

If we support small business just for small business sake — as an end in itself — it will cause us to lose sight of the overall game plan, which is to allow as many companies as possible to develop into larger corporations. It will also greatly disperse our finite resources and thereby leave Canadian companies, and the Canadian economy, forever vulnerable to cherry-picking by stronger competitors.

But as long as we target the right players and provide them with the right tools, my answer is a resounding Yes! Helping small business IS sound business.

It is sound business from an economic standpoint. And it is sound business from a social and human standpoint. A climate in which small business can bloom and grow, where it is positively encouraged, is our best hope for harnessing all the drive, all the talent and all the enthusiasm of the upcoming generation.

This is what the Bank's new mandate is all about. We have the tools, the focus and the ability to make a difference. We have it within our grasp to become a catalyst for positive structural change. It is an exciting prospect.

Ladies and Gentlemen: We're making good business out of helping small business - and that's our only business.

Thank you.