

Building Blocks for Strong Communities

Key Findings and Recommendations

Executive Summary

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Purpose of Study

- Examine SMEs and SMOs in Canada
 - Key characteristics and contributions to society/economy
 - Factors for growth/development
 - Public supports
- Make recommendations to improve public supports for SMOs
- Methodology included: literature review, key informant interviews, first-time data analysis, international experience

Why Improve Public Supports for SMOs?

- Recommendations based on
 - Analysis
 - Learnings from Canadian and international experience
 - “Market” failures/imperfections
 - Public policy rationale
- Policy rationale that emerged from and is substantiated by the study
 - Significant economic impact
 - Key services, contribution to community well-being/quality of life
 - Social capital, participation, inclusion, healthy democracy
 - Services for government (client; special relationship)
 - Social innovation at community level

Key Conclusions of Study

- SMEs and SMOs dominate their respective sectors and make significant contribution to Canadian society and economy
- There are important similarities but also key differences in characteristics and success factors for SMEs and SMOs
- Our knowledge of and public supports for SMOs lag far behind those for SMEs, which have been put in place since 1980s
- Many SMOs are struggling to perform role and face significant barriers to maximize contribution to society/economy
- Canada needs to build, over time, a comprehensive set of public supports for SMOs, drawing on learnings from Canadian and international experience and based on better knowledge and data

Key Areas to Improve Public Supports

- Improving data, knowledge and understanding of SMOs
- Providing information, tools, advisory and support services
- Facilitating and leveraging access to financing and improving public funding and financial supports
- Supporting innovation and technology
- Supporting networking and partnerships
- Addressing regulatory and other concerns

What We Learned

- Key characteristics, similarities and differences
- Success factors
- Public policies and supports
- *What works*

Key Characteristics, Similarities and Differences

- Two key distinctions
 - For-profit *versus* non-profit
 - Use/importance of volunteers
- Vastness and diversity of their sectors
 - 1.5 million SMEs
 - 160,000 registered charities and non-profit organizations
(May significantly underestimate size of both)
 - Active in all sectors of society and economy
 - 2/3 of SMEs in service sector
 - SMOS in sports/rec (21%), religion (19%), social (12%)
 - Huge differences (size, nature, sector of activity)
 - In particular . . . “size matters” (characteristics, challenges)

Key Characteristics, Similarities and Differences

- Predominance of small
 - Both SMEs and SMOs dominate their respective sectors
 - 98% of SMEs & SMOs have fewer than 100 employees
 - 44% of SMEs and 54% of SMOs have no employees
- Significant economic contribution
 - SMEs generate 43% of private GDP, employ 62% of workers in private sector, accounted for 80% of net employment growth in 1990s
 - SMOs employ 1 million, generate \$77 billion in revenues
 - Charitable & non-profit sector contributes 11X GDP of automobile manufacturing industry, 4X agriculture, 2X mining, oil & gas extraction

Key Characteristics, Similarities and Differences

- Volatility and “churning”
 - 2/5 SMEs do not survive beyond 2nd year; 8,800 net new SMEs annually
 - 10,000 charities in transition each year
 - Rate of expansion of charities may be slowing
- Financing SMES
 - Access greater variety of sources, formal/commercial & informal
 - Debt financing primary source (75% of long-term)
 - Smaller and knowledge firms use more informal, including owner savings and earned income
 - Larger, resource, goods firms use more formal
 - Government less important source for SMEs, used more by larger and some regions (West, Atlantic)

Key Characteristics, Similarities and Differences

- Financing SMOs
 - Access to fewer sources than SMEs, especially commercial sources
 - 40% of revenues from earned income
 - 39% from government
 - SMOs rely more on earned income than large organizations
 - Revenues highly concentrated; large organizations are 0.4% of all organizations but receive 31% of all revenues
 - Large organizations more likely to report growing revenues
 - Large organizations make greater use of government funding

Success Factors

- SMEs and SMOs define success differently
 - Growth (sales, profits, size, market share), as well as income and employment, for SMEs
 - Mission/results for individuals/communities for SMOs
- Why don't SMOs grow more
 - “Growth” not as relevant for SMOs’ success as for SMEs
 - Responsive to need, public awareness and priority
 - More dependant on public financing
 - Can “move to scale”
 - “Exporting” innovations/successes can be difficult (isolation, lack of resources, differing situations)
- Success factors include external, internal and vary across life cycle

Success Factors

- Management skills key for both SMEs & SMOs
 - Many SMEs see economic context, market, competition, taxation, etc. as key concerns
 - But internal/management critical (1/2 of bankruptcies)
 - Both SMEs and SMOs need to “professionalize” early in life cycle
 - SMO management “thin”; identify planning as key problem
 - Managing volunteer resources and Boards of Directors special management challenge for SMOs
- Including Entrepreneurship
 - Key for high-growth SMEs; Integral to role of SMOs in community
 - Multi-dimensional: interplay of individual, external environment, local institutions and resources, market, need/opportunity, networks/partnerships

Success Factors

- Human resources and skills
 - SMEs seeing skill and labour shortages driven by rising skill/knowledge requirements and demographics
 - Investment in training/learning critical, but Canada doing less than competitors
 - SMOs face similar human resources challenges (“right” staff; recruitment, training and retention) exacerbated by lower compensation levels
 - Problems greater among large organizations (94% of hours from paid staff, *versus* 41% for all SMOs)
 - Special challenges for SMOs around volunteers and Boards of Directors

Success Factors

- Financing is a greater challenge and different in nature for SMOs
 - Greater dependence on public financing
 - More difficult access to diversity of financing, especially commercial financing
- And SMOs face significant and particular challenges re: government/public funding
 - Over-reliance on project funding, as result of shift in funders' approach
 - Lack of stability (one-year contracts) and under-funding of true operating costs (incl. delivery of gov't services)
 - Competition for scarce resources
 - Increased accountability and administrative burden and red tape, demanding more resources and time

Success Factors

- SMEs and SMOs have some similar challenges in financing
 - Smaller, start-up and knowledge SMEs have difficulty accessing formal/commercial financing
 - Smaller profits, uncertain return-on-investment, fewer assets/collateral, lack credit history and ‘track record’, may take time to show results, need “incubation” period
 - Similar financing challenges for smaller and start-up SMOs, for similar reasons
 - Exacerbated by nature and mission (profits? return-on-investment? “political” risk)
 - Both SMEs and SMOs may have “informational asymmetries” and management/capacity issues that make financing difficult

Success Factors

- Innovation critical for both SMEs & SMOs
 - Broad definition applied by/for both
 - Seen as most important factor for SMEs' growth/success, usually measured in market terms (R&D etc.)
 - Is *raison d'être* for SMOs – creative solutions to address community and individual needs
 - R&D not as relevant for SMOs; community is “laboratory”
 - Similar key factors: size (more “radical” innovation?), management skills, entrepreneurial spirit, human resources (volunteers for SMOs), interaction with local environment and resources, networking and partnerships
 - SMOs have many attributes key to innovation: tacit knowledge and hands-on experience; social and interpersonal interaction and learning; local networks
 - “Clusters” can help
 - Commercializing innovation difficult for SMEs, “exporting” it for SMOs; both face financing difficulties (but gov't \$ for SMEs)

Success Factors

- Technology is also a key success factor
 - Smaller organizations use more basic technologies
 - Costs, lack of knowledge/information/expertise
 - Diversity of needs – size-related
- As are Networking and Partnerships
 - Essential to access/exploit information, knowledge and expertise, technology; key to innovation
 - Can help reduce costs, improve efficiency
 - More developed networks for SMEs than SMOs

Success Factors

- External factors and Government policies and frameworks are important
 - For SMEs, markets/demand, taxation and regulatory complexity and burden
 - For SMOs, difficulties in obtaining charitable status and limitations on disbursement and “political” activity
 - Accessing and competing for government business (procurement) a challenge for both SMEs and SMOs

Public Policies and Supports

- Impressive array of GoC supports for SMEs developed since 1980s
- Internationally, governments pursue
 - Framework policies (taxation, regulatory)
 - Have department/agency responsible, political interface
 - Information, tools, advisory, referral services
 - Financial support and leverage private financing
 - Support innovation and technology
 - Support infrastructure and “intermediaries”
 - Facilitate/provide fair access to government business

Public Policies and Supports

- *What works?*
 - Blanket, one-size policies don't
 - Money isn't only or best answer
 - Linked to broader economic & regional development
 - Design loan programs appropriately
 - Access to information, tools, expertise
 - Encourage networking, partnerships
 - Supporting innovation and access to technology

Recommendations

- Based on
 - Learnings from Canadian and international experience
 - Expanding/adapting supports for SMEs
 - Special characteristics/challenges of SMOs
 - Addressing “market imperfections”
- Need to set priorities
- Respect diversity of sector and different needs
- Put in place over time and based on knowledge and testing

Improving Our Knowledge and Understanding of SMOs

- Comprehensive approach/plan for data
- Improve integrity of CRA data and support compliance
- NSNVO on on-going basis
- Develop tax measures
- Test approaches in key areas (tools, information, pooling/sharing (“hub”), “exporting” innovations
- Test funding approaches (“passporting,” full cost-recovery for operating costs)
- Develop and test results-based accountability framework

Information, Tools, Advisory and Support Services

- Make information, expertise, technical assistance, advisory and referral services widely available, as for SMEs
- On-line, one-stop-shopping website and information, tools and links
- Tools and specialized supports, notably financial and HR

Facilitating and Leveraging Financing and Improving Funding

- Support access to private financing and diversification of financing sources
 - Loan/guarantee programs
 - Tax incentives
 - Charity Bank
 - Social entrepreneurship models
- Improve government/public sector funding
 - Full cost-recovery of operating costs (UK *Compact?*)
 - Multi-year and renewable funding commitments
 - Improve front-end (e.g. passporting)
 - Streamline administrative processes
 - Results-based accountability framework

Innovation and Technology

- Support to develop organizational capacity for innovation and for testing innovative solutions
- More flexible criteria and terms and conditions to encourage risk-taking and innovation
- Assistance for technology acquisition/development
- Tax measures to encourage private investment in innovation and technology

Networking and Partnerships

- Financial support for SMOs to address common issues (e.g. volunteers, management skills), develop tools
- Support for pooling/sharing of resources, knowledge and expertise (e.g. new technologies, financial and HR systems), including “hub & spoke” approaches
- Support for testing and “exporting” innovations
- Support for development of organizational infrastructure (e.g. umbrella organizations, “intermediaries”)
- Sectoral partnerships and initiatives, tools

Regulatory and Other Concerns

- Definition of “charity”; “advocacy”/education activities; disbursement issue
- Allowable business activities for charities
- Procurement policies and access to government business
- Liability insurance

Conclusion

- Small- and medium-sized organizations, both SMEs and SMOs, play a critical role in communities in Canada
- Recognizing the economic impacts of SMEs, governments began in the 1980s to undertake research about SMEs and put public policies and supports in place
- Governments have come somewhat later to understand the significant contribution of small- and medium-sized community organizations to Canadian society and the economy
- A comprehensive system of supports for SMOs needs to be put in place in Canada, over time and based on greater knowledge and understanding of community organizations, their role, and both similarities and differences with SMEs