

# SPECIAL REPORT

## TD Economics



June 19, 2017

### ABORIGINAL BUSINESSES INCREASINGLY EMBRACING INNOVATION

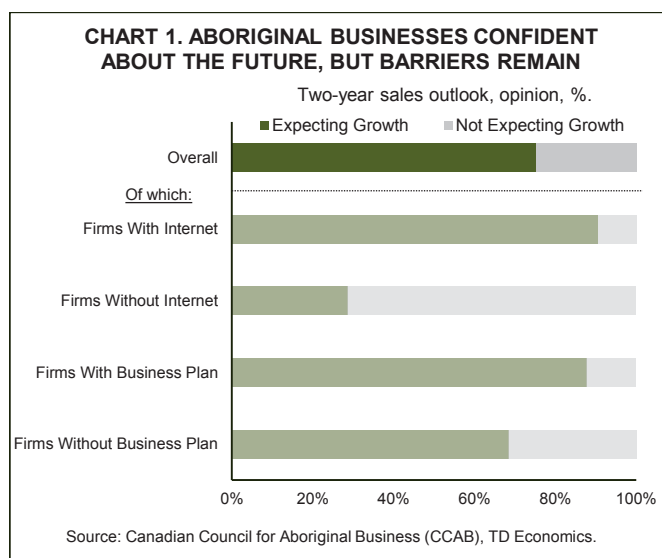
#### Highlights

- An increasingly dynamic small business sector will be critical to supporting future gains in living standards of Aboriginal Peoples in Canada.
- The 2016 Promise and Prosperity survey of Aboriginal businesses provides some good news on this front. The results point to an Aboriginal business sector that on balance is feeling optimistic about future growth prospects, and are achieving success through adopting new products/processes and expanding into new export markets.
- Aboriginal businesses operate across a wide gamut of industries as well as on- and off reserve. While still important, the resource sector directly comprises only one in ten Aboriginal businesses.
- However, significant barriers remain holding back rates of entrepreneurship below the national average. Finding the right talent can be difficult, business plans are less common, and infrastructure issues persist.
- Some government policies, together with favourable demographics, should help to address challenges in finding skilled labour, while changes in education, processes, and infrastructure spending should help ameliorate other impediments. Procurement policies can also help foster success.
- There are always bumps in the road, but the success and innovativeness of Aboriginal businesses speaks not only to their resilience, but a brighter future as well.

June 21<sup>st</sup> will mark National Aboriginal Day, a great opportunity to reflect on the many ways that Aboriginal people in Canada contribute to the fabric and economic dynamism of the Canadian economy. A key area of dynamism within the growing Aboriginal economy has been the small business sector (less than 100 employees). This report takes advantage of data from the 2016 Promise and Prosperity survey to examine the state of Indigenous small business in Canada, their successes and challenges, and considers ways to further grow the sector. We find that although numerous barriers to growth persist, Aboriginal businesses are increasingly becoming important and innovative contributors to the Canadian economy.

#### Taking stock of Aboriginal business

The Canadian economy has had its shares of ups and downs in recent years, from the downturn in commodity prices, to wildfires, to wild movements in key real estate markets. Just as Canadian businesses broadly have been buffeted by these shocks, so too have Canadian Aboriginal businesses. Leveraging the still-timely and detailed dataset from the Canadian Council



for Aboriginal Business (CCAB, a national organization representing and supporting Aboriginal-owned businesses) allows us a unique insight into how these businesses have been performing.<sup>1</sup> These data do not cover as full a universe of firms as Statistics Canada’s National Household Survey (of which the full results of the 2016 census will not be available until next year). But the CCAB survey is nevertheless, still provides reasonably extensive coverage (1101 firms surveyed). Moreover, questions about the key challenges and opportunities perceived by business leaders are often not included in other surveys (such as the census), but can provide valuable insight into the business landscape faced by these firms. As a result, the associated dataset forms the backbone of our analysis.<sup>2</sup>

Aboriginal businesses can be found in every major industry, though, like Canadian business more broadly, the sectoral composition of Aboriginal businesses is shifting. Indeed, perhaps bucking traditional notions around Aboriginal business and despite the run-up in commodity prices between 2010 and late-2014, less Aboriginal firms were active in mining, oil and gas and other primary industries in the most recent data (2016 survey: 9.2% of reporting firms; 2010: 13%), and the data points to a more diversified mix of industries overall.

That said, even with the shifting industrial mix, Aboriginal businesses are overrepresented in several industries – not just mining and oil and gas extraction – where, representing 5.5% of reporting firms, the Aboriginal business share is nearly 5 percentage points higher than Canadian businesses as a whole – but also in information and cultural industries, and arts, entertainment and recreation (Chart 2).<sup>3</sup> On the flip

side, Aboriginal businesses are relatively under-represented in the finance and insurance, administration, and wholesale trade categories, and markedly underrepresented in health care and social assistance.

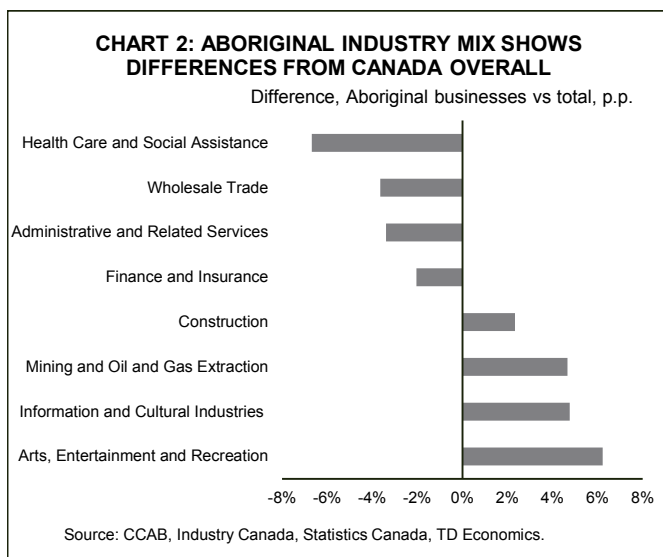
The relative differences vis-à-vis the broader universe of Canadian businesses may be a reflection of geographic or other structural constraints. More than 40% of survey respondents were located on reserve, which, given relative population densities and ongoing issues around the quality of infrastructure, may help explain some of the difference in the observed industry mix.

### Increasing share of firms report success

A key takeaway in the 2016 Promise and Prosperity survey was the relatively high levels of optimism. A significant portion of Aboriginal business leaders view their firms as either extremely or very successful (11% and 41% respectively) relative to the objectives that the business owners set for themselves. This shows an improvement over previous surveys, particularly in the share of “very successful” businesses (previously: 37% of respondents). Further reinforcing the positivity was a 15 percentage point increase in the share of firms reporting a net profit in their most recent fiscal year.

The share of successful firms varies by industry – among those in professional services, 54% of respondents reported being very successful, while that response was given by fewer than a quarter of ‘other service’ providers. Above average shares of very successful businesses were also observed in the administrative services, construction, consulting, manufacturing, and finance/insurance industries. No significant difference in business success was observed between firms located on or off reserve. Similarly, despite the survey occurring against a backdrop of softening commodity prices, the share of firms reporting as very successful in the mining/oil and gas sector was not meaningfully different than the broader sample of firms.

As the survey was conducted in 2015, it seems likely that the soft performance of the Canadian economy since then may have weighed on Aboriginal businesses. While an imprecise measure, employment statistics suggests that this has been the case, but that the impact was modest, as the Aboriginal unemployment rate ticked up 0.1 percentage point over this time, despite modest job gains.



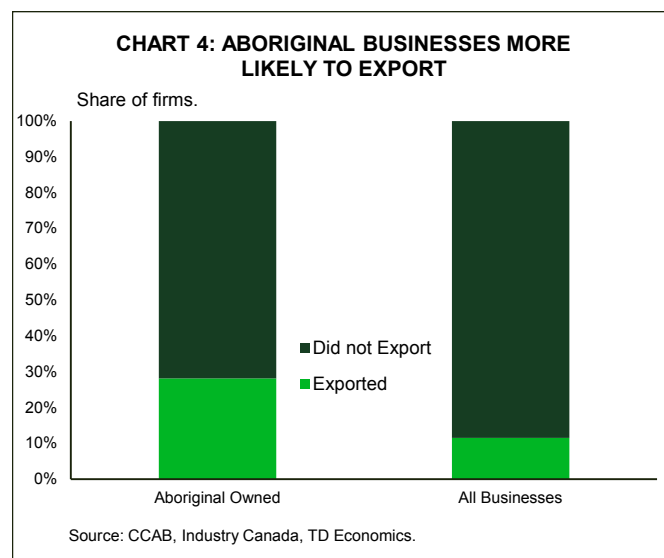
## Aboriginal businesses more innovative, more export-oriented

Aboriginal businesses are distinguished from Canadian businesses more broadly not just by their industrial mix and locations, but along a number of other dimensions. While different surveys do not yield a pure ‘apples to apples’ comparison, Industry Canada’s Key Small Business Statistics provides a reasonable benchmark for comparison.<sup>4</sup> Contrasting Aboriginal businesses with the broader universe of firms, two key areas of outperformance are immediately evident.

First, a higher share of Aboriginal businesses introduce new products/services, or new production/delivery processes relative to the broader Canadian small business sector (Chart 3).<sup>5</sup> This implies a higher propensity to innovate among Aboriginal firms. Among the major industries, particularly strong incidences of innovation were reported among those in the manufacturing (where 94% of firms reported introducing a new product and/or service), management (79%), consulting (76%), and education (74%) sectors.

Aboriginal businesses are more than twice as likely to have introduced a new product or service over the prior three years, and nearly three times more likely to have brought in new ways of doing things. The same Industry Canada study found that innovative firms are more likely to export. This leads directly to the second area of outperformance: exports.

Although, like most small businesses, Aboriginal firms are generally unlikely to be exporters, the share of firms that do export is again significantly higher than for Canadian businesses in general (Chart 4). Moreover, although the design of some sub-questions makes comparability challenging, the evidence suggests that Aboriginal firms that



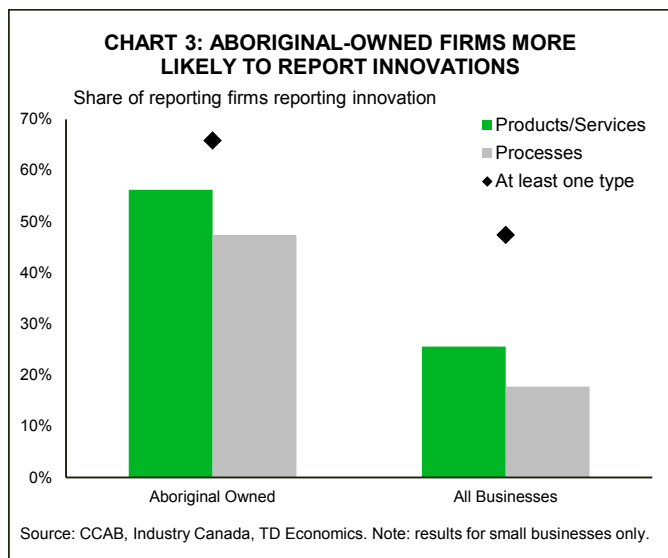
export are sending their products to a broader geographic base than other small exporters – more than half exporting to countries other than the United States. Although one might expect firms located on reserve to help explain why Aboriginal businesses are more likely to export, this does not appear to be a factor.<sup>6</sup>

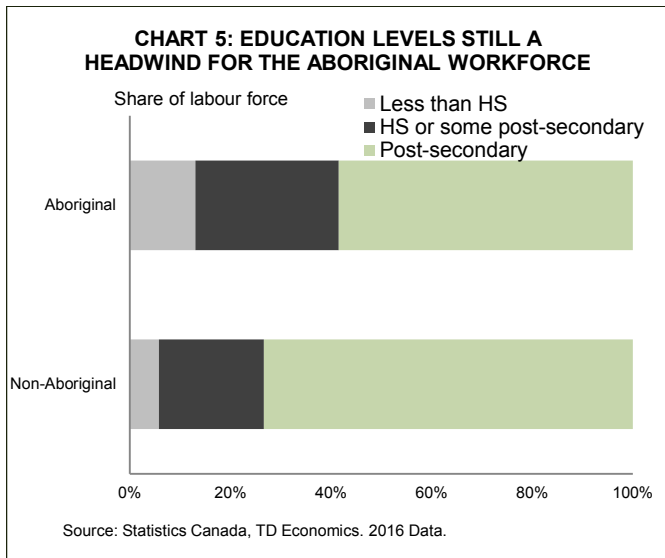
Indeed, there does not appear to be any meaningful relationship between on/off-reserve firm location and the firms’ propensity to export. The relatively small sample size of the CCAB survey makes getting at the source of increased export propensity challenging. This aspect of Aboriginal firms is clearly an area for further exploration to see what lessons can be drawn for Canadian small business as a whole.

### No shortage of challenges

All businesses face ongoing challenges; however, they can often be particularly sizeable and unique to the Aboriginal experience. An instructive example of the variation is in hiring. All businesses face difficulties in finding the right people, but for geographic and other reasons, it can be particularly challenging for Aboriginal firms.<sup>7</sup> This issue is both frequently cited by Aboriginal business leaders, and persistent – showing up in all iterations of the CCAB survey, and works to keep small businesses small.

Often, the difficulty lies in finding the skillset that businesses need within the available pool of core working age (25 to 54 year olds) Aboriginal talent. Educational attainment remains below the non-aboriginal population, making it harder for employers to find and hire skilled Aboriginal workers (Chart 5).<sup>8</sup> Even beyond education, a significant challenge in finding Aboriginal talent results from a smaller





pool of labour relative to population – according to Statistics Canada, in 2016, an Aboriginal person in Canada aged 25 to 54 was about 70% more likely to be disengaged from labour markets, although the more rapid growth in the Aboriginal population means the pool of labour is nevertheless growing quickly.<sup>2</sup>

The resulting labour market struggles have created an interesting and somewhat unusual dynamic. In contrast to Aboriginal businesses, surveys of Canadian business more broadly, completed around the same time as the CCAB survey (such as the Bank of Canada’s Business Outlook Survey) suggest that Canadian firms were generally finding it easier to fill available positions, consistent with the overall economic softness of recent years.<sup>10</sup>

Access to capital is another area where Aboriginal businesses have a number of commonalities with their peers, but also face additional obstacles to navigate. An example of the similarities can be seen in how likely small business owners are to self-fund: data from the Canadian Federation of Independent Business, an industry group, when compared to the Promise and Prosperity results, shows that small businesses are just as likely to use personal savings to fund their operations regardless of whether they are Aboriginal-owned or not.<sup>11</sup>

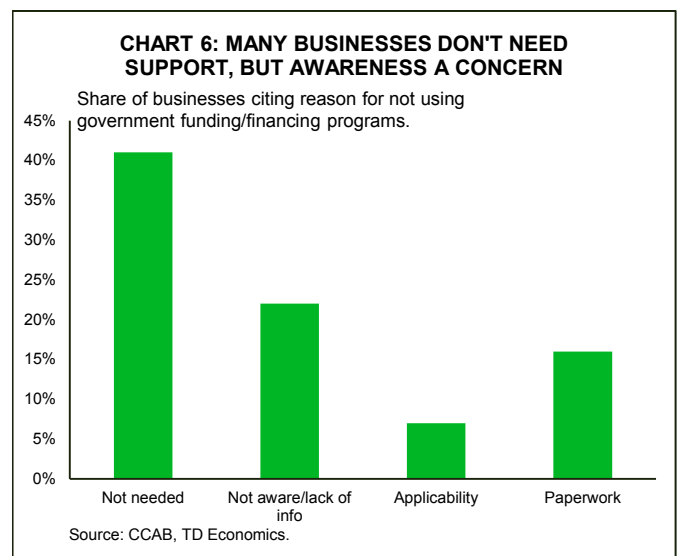
The commonalities do not extend to other forms of funding however, with Aboriginal business owners less likely to rely on financing, broadly defined. CCAB interviews suggest that a lack of information or knowledge may be a limiting factor, alongside other factors, such as cultural issues stemming from the historic marginalization of Aboriginal peoples, and complex eligibility and application requirements.<sup>12</sup>

Moreover, while a number of government programs exist to help fund Aboriginal businesses, reported uptake of these programs, at 13%, is low. To be sure, many (39%) of the firms that report not using government programs state that they do not need them – a positive sign (Chart 6). More concerning is that around 1 in 5 businesses report either not being aware of the programs, or a general lack of information. Additionally, roughly 1 in 6 respondents suggested that the paperwork associated with the programs was a barrier to usage, while applicability to specific businesses also featured, although reported by fewer respondents.

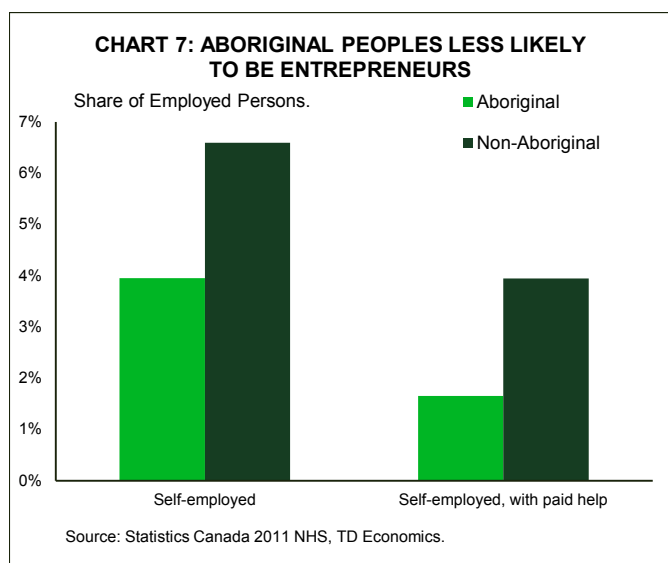
Finally, although the Aboriginal population is the fastest growing in Canada, the degree of entrepreneurship, as measured by self-employment, remains stubbornly below that of the Canadian population more broadly (Chart 7).<sup>13</sup> The relative difference is even larger for those self-employed with paid help (perhaps a more ‘pure’ measure of entrepreneurship). This implies that Aboriginal communities may be seeing ‘missed opportunities’ for additional firm creation and eventual expansion.

### Turning challenge into opportunity

Addressing these and other obstacles will result in a plethora of benefits for both Aboriginal communities and all Canadians. Increased entrepreneurship means new products, services, and ways of doing business alongside further employment gains -- for Aboriginal and non-Aboriginal people in Canada alike. Closing the education gap will help this goal, and, given that the Aboriginal population is both younger and faster growing than the overall population, help address some of the structural issues facing Canadian labour markets more broadly, notably population aging. More







business and (higher paying) employment mean higher tax revenues for the government (or the potential to reduce the tax burden), benefiting all Canadians.

Identifying goals is the easy part – getting there is the real challenge. Many policies have been tried, and many have failed. An entire corpus of research has emerged around these issues, and covering every angle is beyond the scope of this report. Indeed, to take the example of educational attainment, a plethora of programs and initiatives have been undertaken, spawning a plethora of analyses and evaluations. That said, as discussed in the Appendix, existing trends in educational achievement, demographics, and government programs point to an easing of the challenges facing Aboriginal employers in finding qualified talent. Beyond the education aspect, other challenges that Aboriginal businesses have communicated may have simpler and more immediate solutions.

Indeed, barriers to success may be as simple as the presence and quality of a firm’s internet connection. Being online (and on a reliable connection) has a strong, positive correlation with the success and innovativeness of Aboriginal businesses. While nearly 9 in 10 Aboriginal businesses do have an internet connection, of this group, 30% report their connection as being only somewhat reliable, or worse (not very reliable or not at all reliable). Certain areas, such as the Atlantic Provinces and reserves nationwide are also less likely to have an internet connection. In the case of reserves, internet connection difficulties are likely to be part of larger, persistent issues related to the quality of infrastructure broadly defined. While obviously not as serious as other infrastructure concerns, there is scope to drive further success through a clearly defined policy lever.

As previously illustrated in Chart 3, Aboriginal businesses are more likely to have introduced new products or ways of doing business, but digging deeper into the survey results shows that it may be possible to drive Aboriginal innovation further. Only around 31% of Aboriginal businesses surveyed by CCAB reported having a business plan in place. At the same time, those businesses that had a business plan in place were more likely to be successful, and more likely to be innovative. So, why don’t more Aboriginal businesses adopt formal business plans? The most commonly reported reason was a perception that a business plan is not needed or not important (41% of respondents), while 1 in 5 firms reported not having the time or staff. Clearly, this implies an opportunity to drive further success among Aboriginal businesses through highlighting the positive benefits of having such a document, or providing assistance (perhaps in the form of consulting-type services) to reduce the time burden associated with business plan development.

Increasing entrepreneurship among the Aboriginal population is a clear win-win proposition from a jobs perspective. Bringing entrepreneurship rates in line with the non-Aboriginal population would result in the creation of as many as 200,000 additional jobs (net of the entrepreneurs themselves), for both Aboriginal and non-Aboriginal peoples alike, with the potential for many to be in historically economically depressed areas. With 1 in 5 business owners unaware of or lacking complete information about existing support for Aboriginal businesses/entrepreneurs, it seems likely that more than a few would-be entrepreneurs among the general population may also be unaware.

### **Government and business procurement can help drive success**

Just as Aboriginal businesses tend not to use government financing programs, only a small portion of firms (1 in 5) reported competing for federal government contracts, specifically the Procurement Strategy for Aboriginal Business (PSAB) set-asides. This is despite the positive upside to these projects: firms that did bid on PSAB contracts were more likely to report being “very” or “extremely” successful. Evidence thus suggests that set-asides act as a kickstarter of sorts, helping drive growth among those Aboriginal businesses that compete for (and receive) these contracts.

The positive impact of PSAB suggests that “social procurement”, or procurement that takes the impact on local economies into account, can further drive the success and expansion of Aboriginal firms. Importantly, social

procurement goes beyond government, to domestic and international supply chains more generally. Considering the impact on local communities is a win-win proposition, particularly in more remote communities. Large firms and/or governments gain important on-the-ground knowledge, experience, and connections, while local, often Aboriginal-owned firms receive a ‘bump’ of sorts, gaining valuable experience participating in large integrated supply chains that can be applied in future operations/bidding.

Non-Aboriginal, large and international businesses can fairly easily integrate social procurement principals in their day to day decision-making. For government procurement decisions, international trade agreements make the process more challenging. For example, NAFTA only allows for ‘set-asides’ for Aboriginal firms. Fortunately, the newly agreed CETA trade deal with the European Union allows a much greater amount of flexibility in procurement vis-a-vis Aboriginal firms. This aspect of the agreement should thus provide a useful template for future negotiations of international trade deals, such as the upcoming NAFTA renegotiation.

### Bottom Line

As we await the 2016 census data, the most recent snapshot contained in the Promise and Prosperity survey suggests that Aboriginal businesses are both feeling quite positive and doing well. Business leaders appear to be optimistic about the future, and although some relative concentrations remain, the mix of businesses on an industrial basis has become wider, suggesting greater resiliency. What’s more, these businesses score well on several key metrics – they are more likely to innovate than their broader Canadian counterparts, more likely to export, and more likely to export beyond the United States. Major challenges remain for Aboriginal businesses. Difficulties finding the right talent, funding issues, and a relative lack of entrepreneurship among the Aboriginal population are all working as headwinds. Moreover, infrastructure remains a challenge, particularly as it relates to internet connections. Fortunately, solutions to these issues can and have been identified, not just in this report, but also by a number of important thought leaders.<sup>14</sup> Ultimately, success for Aboriginal small businesses is success for the Canadian economy more broadly, and the progress to date and the innovativeness that these firms demonstrate point to a positive future.

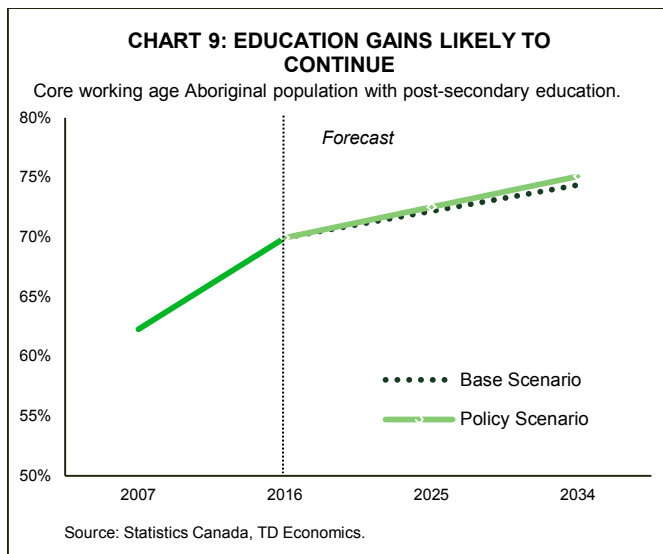
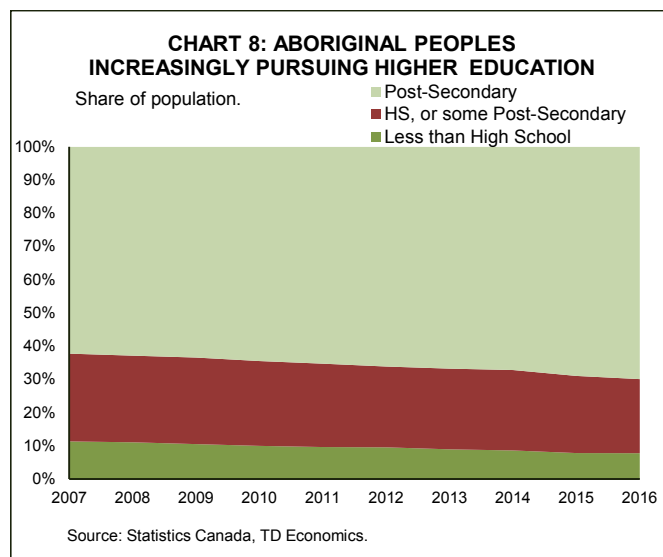
## Appendix: Education a challenge, but trends are favourable

A common thread that appears to underlie many issues facing Aboriginal businesses is the relatively lower educational attainment rates compared with the broader Canadian population. This undoubtedly reflects a number of factors, including challenges related to the remoteness of many communities and the tainted legacy of residential schools. Fortunately, recent trends, government policy changes, and favourable demographics for Aboriginal Peoples in Canada should help close the education gap.

To begin with, among Aboriginal Peoples in Canada aged 25 to 54, there has been a marked rise in education levels over the decade leading up to 2016. The share of this population that has completed post-secondary education rose more than 7 percentage points over this time, to reach 69.9% (Chart 8). This is certainly an encouraging development, although it should be noted that despite this gain, the education gap between Aboriginal and Non-Aboriginal Peoples actually rose slightly during this time, from a difference of 0.4 percentage points to a 0.6 percentage point gap in 2016. Moreover, significantly larger differences remain at higher education levels, with on/off reserve status a major factor.<sup>15</sup>

Recent federal government policy proposals that have been aimed at closing the education gap are likely to have an impact moving forward. Additional funds have been committed to the Post-Secondary Student Support Program as part of Budget 2017, and the government further intends to provide support to Indspire, a charitable organization that helps Aboriginal students attend post-secondary studies.<sup>16</sup> Funds have also been earmarked for the Aboriginal Skills and Employment Training Strategy. The overall scale of government commitments in Budget 2017 were modest in scope (the government expects the Post-Secondary Student Support Program expansion to support 4,600 students, for instance, against a 2016 education gap of approximately 60,000 individuals). That said, while there are more opportunities to drive improved educational outcomes (Such as those discussed in a 2009 TD Economics [report](#)), recent commitments should nevertheless help narrow the gap.

As is often the case in economics, the most significant driver to close the education gap is likely to be demographics. Given that the population of Aboriginal Peoples is faster growing than the Canadian population at large, it is also younger, and thus has greater potential for improving overall educational attainment. Although the strong gains seen in recent years are, for a number of reasons, not likely to be repeated, a further increase in the education levels of the working-age population is likely (Chart 9).<sup>17</sup> A simple demographic projection that holds the current level of educational attainment among younger Aboriginal People living in Canada constant gives a further 5 percentage point gain in the share of the population with post-secondary education (the 'Base Scenario'). Layering government policy changes on top of this (and assuming that the policies remain in place over the forecast horizon) results in an additional boost of about 0.7 percentage points – as shown in the 'Policy Scenario'. The result is that by 2034, roughly 3 of every 4 Aboriginal Persons living in Canada aged 25 to 54 are expected to have some form of post-secondary education. Thus, while it will take time, favourable demographics should help address skills shortages among the Aboriginal population, although continuing (and ideally, expanded) support from government, as well as organizations such as [Indspire](#), [AFOA Canada](#), and the [Canadian Council for Aboriginal Business](#), can drive a faster transition.



## ENDNOTES

- 1 The analysis in this report is based in large part on the 2016 Promise and Prosperity survey, carried out in 2015 by the Canadian Council for Aboriginal Business ([www.ccab.com](http://www.ccab.com)). We would like to express our gratitude to them for making this data available to us. This was the third time the survey had been undertaken (previous survey results were published in 2014 and 2010). Covering 1101 private, Aboriginal owned firms, all regions and major industries are included. Respondents included Metis (52%), First Nations (47%) and Inuit (2%) business owners. Among First Nations businesses, slightly more than half (56%) were located on reserve, a significant decline from the 72% share recorded in 2010. Covering all of Canada, some geographies are slightly under-represented relative to their overall population share – for instance, Ontarian businesses make up 25% of the survey sample, somewhat lower than the near-40% overall populations share would suggest. Conversely, some prairie provinces, notably Saskatchewan, are relatively over-represented. Although it is a robust, well-designed survey, the sample size, combined with the multitude of Aboriginal experiences across, groups, provinces, on/off-reserve, etc. mean that data quality becomes an issue as the subset of businesses examined becomes more granular. Accordingly, this report focuses on aggregate groups sufficient in size to maintain data reliability. ([return to text](#))
- 2 For further information on this report and the broader research series it is part of, please see <https://www.ccab.com/research/ccab-research-series/promise-and-prosperity/>. ([return to text](#))
- 3 Note that these figures are business count based. ([return to text](#))
- 4 See [http://www.ic.gc.ca/eic/site/061.nsf/eng/h\\_03018.html](http://www.ic.gc.ca/eic/site/061.nsf/eng/h_03018.html). Note that this data is likely to include some Aboriginal businesses. ([return to text](#))
- 5 Note that the broader definition of innovation used in the Industry Canada study (further including organizational and marketing innovations) results in an upward bias to the ‘just one type’ figures, suggesting an even larger positive gap between Aboriginal businesses and their broader Canadian counterparts. ([return to text](#))
- 6 The argument being that due to potentially more remote geography, firms on reserves may already need to deliver goods/services over some distance, making the transition to exporting easier. There is however, evidence to suggest that the converse is true, with off-reserve firms in B.C. and Ontario more likely to exporters. ([return to text](#))
- 7 This challenge is confirmed in the data, as on-reserve firms are more likely to report difficulty finding qualified Aboriginal employees. ([return to text](#))
- 8 This problem is less acute for Aboriginal women. See the 2015 TD Economics report [Aboriginal Women Outperforming in Labour Markets](#). ([return to text](#))
- 9 Source: Statistics Canada CANSIM table 282-0228. ([return to text](#))
- 10 See <http://www.bankofcanada.ca/publications/bos/>, specifically the Autumn 2015 and Winter 2016 surveys. ([return to text](#))
- 11 See <http://www.cfib-fcei.ca/cfib-documents/rr3412.pdf>. ([return to text](#))
- 12 Note that the CCAB’s qualitative research findings in this area are based on conversations with businesses in Ontario. See <https://www.ccab.com/research/ccab-research-series/promise-and-prosperity/promise-and-prosperity-2016-qualitative-research-with-aboriginal-businesses-in-ontario/>. ([return to text](#))
- 13 This analysis is based on the Statistics Canada National Household Survey, 2011. All computations, use and interpretation of these data are entirely that of the author. ([return to text](#))
- 14 See, for instance recent reports by [Canada’s Public Policy Forum](#) and [The Canadian Chamber of Commerce](#). Moreover, while beyond the scope of this report, implementation of the recommendations of the [Truth and Reconciliation Commission of Canada](#) will help address the injustices of the past and so help pave the way to a better future for all Aboriginals living in Canada. ([return to text](#))
- 15 Note that this data is based on post-secondary education broadly defined. Less timely data suggests that a significantly larger gap remains at the University degree level and above. ([return to text](#))
- 16 See <http://www.budget.gc.ca/2017/docs/plan/chap-01-en.html#Toc477707322>. ([return to text](#))
- 17 This projection is based on Statistics Canada’s projections under the “moderate convergence of fertility” scenario. See <http://www.statcan.gc.ca/pub/91-552-x/91-552-x2015001-eng.htm>. ([return to text](#))





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