Small businesses are important to economic development. They are job creators and drivers of our local economy, helping to stimulate economic growth and innovation. Small businesses sustain nearly half of all Canadian jobs and 30 percent of our GDP.

**Adaptability** Small businesses are flexible to challenges, since they have small, intimate teams that can respond quickly to changes in the business environment.

**Innovation** Small businesses can mitigate the risk of stifling innovation through bureaucracy and process with a less 'set-in-stone' structure.

**Lower Overhead** Operating on a smaller scale allows these businesses to reduce costs in areas such as heating, lighting, office space, and compensation, which also results in lower costs for clients and stimulates business development.

Despite these strengths, small businesses face many challenges that can make it difficult to thrive. While Calgary is a leader in entrepreneurship and small business ownership, there are always areas where we can improve. Ensuring that Calgary’s economy continues to grow in innovation and productivity will cement Calgary’s role as a prominent competitor in the global marketplace.

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**Calgary is Canada’s Small Business Capital**

Small to medium sized businesses (SMEs) are of particular importance to Calgary's economy because almost 95 percent of all Calgary businesses are made up of SMEs. Calgary has the largest concentration in Canada of small businesses on a per capita basis (38.8 per 1,000 population), and is also the young entrepreneurial capital of Canada.

Aside from having a large population of SMEs, Calgary’s micro-enterprises (1-4 employees), a subset of small business, are the city’s fastest growing employment segment at 23.3 percent over 10 years. In 2011, there were 112,300 self-employed Calgarians. For the past 10 years, Calgary has maintained its position as the city with the second highest total growth in self-employment at a rate of 30.9 percent. While Calgary’s climate for small business is relatively healthy, the shortage of skilled labour and the overall tax burden remain issues for small business, both of which can affect long-term growth.

**What are some common challenges of small business?**

A survey conducted by the Chamber this year identified some of the areas in which small businesses are struggling. The shortage of skilled labour is a major issue, and some businesses feel obliged to pass on business opportunities because they are understaffed or may lack human resource capacity. Some other areas that were identified as challenging included:

- Government and taxes
- The general cost of conducting business
- Growth-related problems, such as business sustainability and expansion, attracting new customers, and growth management
The Chamber’s survey revealed that the biggest challenge that individual businesses and business overall are facing is finding qualified staff. Calgary is facing a labour shortage with an aging population and decreasing birth rates. Alberta’s vacancy rate saw the biggest increase from 2009 to 2013, far exceeding the national average, and every other province, in jobs left unfilled (Figure 1). The shortage of skilled labour is a major issue, and some businesses feel obliged to pass on business opportunities because they are understaffed or may lack human resource capacity. According to a CFIB survey, the shortage of qualified labour across Western Canada is severely impacting the ability of entrepreneurs and small to medium sized businesses (SMEs) to be successful. This year, 79 percent of firms in the region experienced difficulty in hiring for the past three years, and 44 percent expect the hiring process to become increasingly difficult.

Impact on Business Owners
How are business owners reacting to this? According to CFIB, one in two business owners have raised wages to help attract and retain labour, while also using less traditional tactics such as offering flexibility such as the option to work from home and flexible working hours, providing leased vehicles, and retention bonuses.

A poll by CFIB identified that the top three ways that the labour and skills shortage has affected their businesses are the inability for the owner to take any time away, poor quality applicants, and increased labour costs, which were significantly more amplified in the prairies than in other provinces such as British Columbia. Other issues include reduced productivity, high turnover, deteriorating customer service, higher training costs, delayed or cancelled expansion, reduced hours of operations, and sudden closure. 71 percent reported working longer hours when they are unable to hire qualified staff, and when they were able to hire, 68 percent say they were forced to choose from poor quality applicants.

Businesses are forced to cope by hiring candidates that are not fully qualified for the position, which means increased investment in training costs. Some businesses are attempting to get by through hiring fewer employees, or by increasing the salaries and benefits of the good employees they do have in an attempt to retain them.

As a result, Alberta is leading the country in wage growth with an increase of 16.8 percent since 2009, while the national average of wage growth from 2009 to 2013 was 10.7 percent.

The labour shortage is not only affecting Canadian businesses, but also our economy as a whole: fifty percent have ignored new business possibilities because the lack of staff limited their capacity to take advantage of new growth opportunities, which could limit small business growth in Calgary.

What can be done?
Currently, Western Canada is dependent on overtime and delayed retirement as a temporary fix to the labour shortage, but this is not sustainable since employees cannot work overtime and delay retirement indefinitely. In order to address long term labour issues, it is necessary to address Calgary’s challenges in affordability and cost of living, as well as Calgary’s ability to tap into underutilized labour pools such as new Canadians and Aboriginals.

Immigration
Within the next five years, 100 percent of our new labour growth will come from new Canadians, making immigration policies a priority for business in Calgary. When newcomers arrive in Canada, they live, work, and contribute to cities, and yet the

My biggest challenge has been staff! Recruiting the right person for the job, training, and ensuring expectations are met. Without the right people in place it’s difficult to grow the business and take time off.

-Calgary Chamber Member
federal government provides most of the support for new Canadians. The municipality should bear greater responsibility for integrating new Canadians in the workforce, and make efforts to remain an attractive option for new labour, beyond economic opportunities, and strive to become more socially and culturally attractive as well in order to retain new labour.

Aboriginal Engagement
Calgary also has a large urban Aboriginal population: our largest untapped source of labour. Every year, 25,000 Aboriginal youth in Canada become of age to enter the labour market. This group is an important resource in solving the labour shortage, however their potential is limited by education and employment issues. While there are many programs citywide that promote educational and employment aid, there is less commitment to addressing retention of Aboriginal employees. To improve retention, businesses hiring Aboriginal employees can implement initiatives such as mentorship programs or cultural awareness to help better integrate employees.

Affordability
Calgary has a lack of affordable housing, making it difficult to attract and retain labour in certain fields, including the service industry, such as teachers and police. Affordable housing boosts economic development by equipping the labour force with affordable homes and increasing their disposable income, meaning households spend less of their monthly income on housing costs and more on goods and services that support the local economy. Without adequate housing, Calgary will not gain the labour it needs, and will risk falling behind in a global economy.

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**Job Vacancy Rate, by Province (2009 and 2013)**

Figure 1 “The State of the Canadian Labour Market,” Department of Finance Canada, 2014.
Government and Taxes

The Chamber survey also revealed that Calgarians view government, taxes and the general cost of conducting business as other issues affecting Calgary business overall. Competitive tax systems help attract investment and economic growth. Tax reform that acknowledges the role of small business in the health of the Canadian economy can boost Canadian entrepreneurship. Given the importance of small business to Calgary’s economy, it is important that policymakers focus on how tax systems impact business. In the Canadian Federation of Independent Business’ 2013 report on small business provincial tax, Alberta is identified as being the overall most competitive province, but does not top the list in two categories: corporate income tax and property and capital tax. An unregulated and uneven tax rate ratio between what businesses pay in municipal property taxes and what homeowners pay in property taxes has created a gap between the taxes that businesses pay and the services they receive in return; businesses in Calgary pay 4x more in property tax than residential properties. In order to improve competitiveness in these categories, the province should reduce, but not eliminate, the small business corporate income tax rate. The City should attempt to move away from its overreliance on business property taxes, while also taking steps to close the tax rate gap between businesses and individuals.

At a minimum of $700 per room and an average of $1200-$1500 for a room and a kitchen, it is very hard for an average wage earner to live in the city and especially for any that have dependents. It creates an environment of working poor.

-Calgary Chamber Member

In November and December of 2013, the Government of Alberta engaged with small business owners across Alberta, producing a report on how to improve the tax climate for businesses in the province. From those engagement sessions, survey respondents expressed how the government could establish a role as an enabler rather than an enforcer of entrepreneurship, in order to foster a more collaborative relationship between government and business through providing information on trends in the labour market or new export markets. Furthermore, financial support for start-up and entrepreneurial endeavours will help accelerate small business in Alberta.

Alberta’s tax climate for small business is the most competitive in the country, but there are improvements that can be made in order to maintain our top position. Healthy debate continues over the small business tax, with some advocating for the tax to be cut completely in order to broaden the ability for new business and entrepreneurs to start up. Eliminating the small business tax completely is risky, however, and may do more harm than good for Calgary businesses. Instead of removing the tax completely, one report recommends some areas of reform of the tax system to incentivize small business growth. The report argues that eliminating the tax could create a “taxation wall” which could result in businesses actively breaking up into smaller, less-efficient units in order to take advantage of tax benefits, and encourage individuals to create small corporations to reduce personal tax liabilities, instead of entering the market with the goal of business growth. In this sense, eliminating the small business tax hampers growth.

Instead, the report argues for a new taxation system that encourages growth through incentivizing initiatives that increase cash flow, initiatives such as incentives for investment in depreciable assets, capital gains incentive for small businesses going public, and reducing the lock-in effect of capital gains. Essentially, the report advocates for policies that help small business in overcoming economic barriers to growth by instituting growth incentives.

Currently, Alberta is the only province without an incentive program aimed at encouraging private investment in local
businesses that are in need of capital. The Alberta Economic Development Authority issued a report that ranked Alberta as one of the least competitive jurisdictions in terms of venture capital investment and non-resource export growth. In British Columbia, the program allowed the average company that participated to raise a total of $2.14M of equity investment, and for every one dollar of provincial tax credits issued, recipient companies generated $1.98 in provincial taxes. By implementing a venture capital tax credit, investment in Alberta small business would be incentivized, which would help address the need for economic diversification, which is vital to the long-term stability and growth of the Alberta economy.

**Strategic Procurement**

One way that the government can financially support small business is through strategic procurement. As a city struggling to address infrastructure deficits and high housing costs, Calgary should call on its thriving and innovative business community to help forge new and more efficient solutions to its challenges by identifying a problem and then turning to the business community to craft innovative solutions, allowing more small businesses and start-ups to grow.

Consider Barcelona, who has announced an international call for businesses and entrepreneurs to propose solutions to municipal problems such as bicycle thefts, digitizing museum and archive collections, conducting business impact studies, monitoring pedestrian flows, and empowering support systems to reduce social isolation. Any individual or start-up company has a chance at winning the contract if they provide an innovative solution. As a city that is almost wholly made up of small business ventures, Calgary should capitalize on their innovation for practical municipal solutions, while at the same time supporting one of the engines of our economy.

I would like to see the government offer more incentive to enter certain industries, and more government follow-up to ensure people are treated well.

-Calgary Chamber Member
Government policies alone cannot solve challenges that small businesses face. There is a role to play by all Calgarians – citizens, educational institutions, and the business community. Recommendations include:

- Employ strategic procurement methods in order to help small Calgary businesses secure contracts and market legitimacy, while exploring innovative solutions to problems such as affordable housing and the labour shortage
- Continue to promote entrepreneurship through reducing regulatory burdens on SMEs and facilitating partnerships between start-ups and established business ventures
- Create a greater ability at the municipal level to support new Canadians by equipping them with the language and cultural skills necessary to maximize their participation in the labour force
- Prioritize employment and retention of Aboriginal employees through establishing mentorship programs and intercultural programming
- Review the small business tax environment to incorporate additional growth incentives, where appropriate
References


