

Executive summary

About the *Aboriginal Business Survey*

Aboriginal self-employment is on the rise. According to the 2006 Census, there are more than 37,000 First Nations, Métis and Inuit persons in Canada who have their own businesses, a significant increase of 85 percent since 1996.

Ninety-eight percent of all businesses in Canada are classified as small businesses (under 100 employees), and these small businesses employ half of the total labour force in the private sector. Like other small businesses across Canada, Aboriginal businesses create employment, economic prosperity and social well-being. The development of viable business opportunities is essential to the future prosperity of Aboriginal peoples, and for improving Aboriginal employment prospects, especially for the growing number of young Aboriginal job-seekers entering the labour market.

Yet, there is relatively little current information available on Aboriginal business owners. The last comprehensive study of Aboriginal businesses was conducted by Statistics Canada and Aboriginal Business Canada nearly a decade ago (2002).

The Canadian Council for Aboriginal Business (CCAB) embarked upon the *2011 Aboriginal Business Survey (ABS)* to address this knowledge gap and contribute to the understanding of the opportunities and challenges faced by Aboriginal businesses.

The *ABS* is a timely exploration of this growing business community. Our research seeks to deepen our understanding of privately-owned Aboriginal businesses, their goals and strategies, and to identify the key factors that contribute to growth.

The CCAB's goal is to widely communicate the research findings, so they can be used by Aboriginal people, businesses and communities, as well as by the mainstream business community and governments, to develop new tools and practices that fully realize the potential of Aboriginal small business in Canada.

The *2011 ABS* provides both demographic information, as well as insights into corporate governance, markets, competitive advantage and size of business (including number of employees and the number of Aboriginal employees). The research also examines trends in business growth (profitability, business income growth, financing, and obstacles to growth), use of private capital and government programs and Aboriginal business owners' perceptions of federal government Procurement Strategy for Aboriginal Business (PSAB) criteria.

The CCAB wishes to thank the supporters of the *Aboriginal Business Survey*; without their generous contribution, this initiative would not have been possible:

- Indian and Northern Affairs Canada
- IBM Canada Ltd.
- Royal Bank of Canada
- Canadian Education and Research Institute for Counselling
- First Air

As part of this research initiative, a unique and complementary survey has been conducted with Chief Executive Officers of Aboriginal economic development corporations (EDCs). EDCs are the economic and business development arm of a First Nations, Métis or Inuit government, and an important dimension of the Aboriginal business community. Many have become business success stories, and merit a better understanding of their success factors and limitations. The results of the EDC survey will be released separately in May 2011.

A copy of this report is available for download at www.ccab.com.

Research highlights

The number of Aboriginal business owners and entrepreneurs is growing at a rate that far exceeds that for self-employed Canadians overall.

The 2006 Census revealed more than 37,000 self-employed Aboriginal people in Canada, up from just over 27,000 in 2001 – an increase of 38 percent. During this time period, the rate of growth of self-employed Aboriginal people was five times that of self-employed Canadians overall (7%).

According to the 2006 Census, half (49%) of self-employed Aboriginal people are Métis, more than four in ten (45%) are First Nations, and two percent are Inuit. In *the 2011 ABS*, most First Nations business owners indicated that their business was located on reserve (72%).

Aboriginal businesses are diverse, and are not limited to any one region, industry sector or market.

Aboriginal entrepreneurs have built their businesses across the range of industries. They are well-established in the construction (18%) and primary sectors (agriculture, forestry, fishing and hunting, mining, and oil and gas extraction; 13%). Yet, just as many operate in knowledge and service-based sectors, such as education, scientific and technical services, or health and social services (28%).

Self-employed Aboriginal people can be found in all parts of the country, with the highest concentrations in Ontario (23%), British Columbia (22%) and Alberta (18%). Smaller proportions are located in Quebec (10%), Manitoba (10%), Saskatchewan (8%), the Atlantic provinces (5%) and the Territories (3%).

Most Aboriginal-owned businesses focus on their local community (85%) or their home province or territory (73%) to sell their goods and services. However, half have clients in other provinces or territories, and some do business internationally, both in the U.S. (26%) and outside North America (18%).

Aboriginal small business owners are succeeding, in terms of profitability and growth, but also in ways that go beyond the bottom line.

Aboriginal entrepreneurs are realizing business success. Six in ten (61%) Aboriginal businesses report profits for 2010. As well, one-third (35%) achieved increased revenues for 2009-2010, despite the lingering effects of the recent economic downturn. Sales remained stable for 37 percent of business owners surveyed.

These positive financial numbers only tell part of the story. Half (49%) of Aboriginal small business owners consider their business a success, not only because of profits and/or growth, but because they are doing work that is personally rewarding, and have a steady client base. By comparison, only one in ten report that their business has not been successful.

Future success will be evaluated primarily on the basis of stability and profitability. Aboriginal business owners rate stability (80%) and profitability (74%) as their most important business objectives for the coming year, followed by personal and/or family employment, growth and community service.

Aboriginal business owners also report the advantages of having a greater degree of control, independence and flexibility, and the ability to set their own hours.

Successful Aboriginal small businesses are distinguished by their use of annual business plans and innovation.

The Aboriginal business community was segmented into three categories of success, based on their profitability and sales growth over the previous fiscal year, and their expected income growth. The most successful group includes firms with all three of these profit and growth characteristics, representing one-quarter (26%) of all Aboriginal businesses. One in ten (11%) Aboriginal businesses comprise the low-success group, having none of these features of success.

Only a minority of Aboriginal small businesses had a formal business plan in place the previous year, but this is more common among the most successful businesses (33% vs. 19% among the low-success firms).

One hallmark of successful Aboriginal small businesses is their use of innovation. These businesses are more than twice as likely as the low-success group to have introduced new products or services, or new processes, in the past three years.

Aboriginal small businesses create jobs for Aboriginal and non-Aboriginal people alike.

The majority (63%) of Aboriginal small businesses are very small, with no employees. Almost four in ten (37%) Aboriginal entrepreneurs have at least one paid employee, which is consistent with Canadian entrepreneurs generally. Aboriginal business owners in the primary (55%) and construction (50%) sectors are most likely to employ others, while those in the service sector are least likely to do so (27%).

Aboriginal businesses provide an important source of employment for other Aboriginal peoples. The large majority (86%) of Aboriginal businesses with employees employ at least one Aboriginal person. On average, Aboriginal people comprise 62 percent of the employees of these firms.

Aboriginal entrepreneurs rely primarily on their own resources for both start-up and ongoing financing, and access to financing is considered one obstacle to growth.

To start a business, Aboriginal entrepreneurs rely most heavily on personal savings (55%), compared with business loans or bank credit (17%), credit from government programs (17%), or loans from Aboriginal lending institutions (15%). Personal savings are similarly the primary financing source for start-up small- and medium-sized enterprises (SMEs) across Canada.

Personal savings are also a main source of financing the ongoing operations of Aboriginal businesses (75% say it is important), together with retained earnings (74%). Other important sources of financing include business (62%) or personal (55%) loans from financial institutions, Aboriginal lending agencies (52%), and government grants or loans (51%).

Aboriginal small business owners consider access to financing, and access to equity or capital to be obstacles to their growth plans (these two issues are rated as obstacles by 43% and 38%, respectively). Yet, they also have a number of other concerns including, among others, overall economic conditions, competition and the sheer cost of doing business.

On-reserve businesses are experiencing less growth than off-reserve businesses, and one key reason may be greater difficulties accessing financing.

Business loans or credit from financial institutions have been less central to the start-up of on-reserve businesses (13% say they were a main source vs. 19% among off-reserve firms) and to the financing of their ongoing operations (26% say they are not at all important, vs. 18% among off-reserve firms).

Lack of access to financing may contribute to the lower growth experienced by on-reserve businesses. Three in ten (29%) saw their sales increase in the previous year, compared to four in ten (39%) off-reserve businesses. Expectations for future growth are also less widespread (61% expect sales revenues to grow in the next two years vs. 76% among off-reserve firms), despite placing a similar emphasis on growth as an objective for the coming year.

On-reserve businesses tend to be smaller (i.e., have no employees), are less likely to be incorporated (since it would make them ineligible for tax exemptions under the Indian Act) and more focused on local markets.

Many Aboriginal entrepreneurs are navigating their business planning (or growth) without outside advice or support.

Relatively few (38%) Aboriginal small business owners have an individual or organization that has provided them with particularly valuable business guidance or advice. In fact, most cannot envision the type of guidance they would most like to have. There appears to be an overall lack of awareness of the kind of information that is available to help successfully guide these small business owners.

A minority (29%) have used any government programs in the start-up or maintenance of their business. Reasons for not using such programs include a lack of awareness about what is available, a lack of perceived value to their business or being deterred by perceptions of “red tape.”

Despite the challenges of small business ownership, there is widespread confidence about the future.

There is a notably widespread sense of optimism about the future. Nationally, seven in ten (71%) Aboriginal businesses anticipate revenue growth in the next two years. This is consistent with the degree of optimism expressed by Canadian SMEs generally.

Most Aboriginal businesses owners see themselves maintaining their personal commitment to their business for some time to come. Seven in ten say it very likely that they will still be running their business five years.

Recommendations

With the release of this research, it is our hope that the sharing of findings and broad-based recommendations will contribute to a deeper understanding and positive attitudes of decision-makers about the challenges and opportunities faced by Aboriginal businesses. Our recommendations are meant to begin a discussion that we hope will lead to further recognition of the new Aboriginal business reality in Canada – a source of significant opportunity across virtually all industry sectors.

Based upon the findings in the *Aboriginal Business Survey*, CCAB recommends that the following actions be considered in order for more Aboriginal businesses to achieve success. These recommendations are made with four key audiences in mind: financial institutions, government, Aboriginal entrepreneurs, and organizations with the interest and capacity to work with Aboriginal businesses.

1. Improve access to capital for Aboriginal businesses.

Access to capital and financing are often cited as a major barrier to Aboriginal business start-up and expansion – particularly for businesses on reserve. These barriers provide an opportunity for financial institutions and government to evaluate their current offerings and better market their services to this growing business community.

Our research suggests Aboriginal entrepreneurs generally view working with financial institutions in a positive light. This provides a foundation for both Aboriginal and mainstream financial institutions to offer programs, services and information of greater value to these business owners. With access to capital often cited as an obstacle to business growth, and difficulties accessing financing a possible explanation for the underperformance of on-reserve businesses relative to those located off-reserve, financial institutions can offer financing for Aboriginal small businesses that more effectively meets the particular needs of these businesses.

Aboriginal entrepreneurs are most likely to want advice related to financial issues, accounting or business management, offering financial institutions the opportunity to become true mentors in these areas.

While Aboriginal business owners generally view banks as supportive of business performance rather than as impediment to the process, very few think of their bank as a key source of guidance or advice about their business. Financial institutions can enhance their Aboriginal business services by acting in the role of business advisor.

Government can support the more than 37,000 Aboriginal small businesses by building greater awareness of existing government programs through more effective marketing and outreach.

2. The creation of provincial and municipal Aboriginal procurement strategies.

The current federal Aboriginal procurement strategy has added to the capacity of Aboriginal businesses seeking to bid on government contracts. Provincial governments, Crown corporations and even municipal governments can implement procurement programs that will support eligible Aboriginal businesses seeking to make government a customer.

The federal Procurement Strategy for Aboriginal Business (PSAB) assists Aboriginal businesses to become familiar with bidding on federal contracts through contract set-asides. At a relatively small cost to government and taxpayers, PSAB helps to strengthen Aboriginal business bidding capacity, competitiveness, and Aboriginal employment. With six in ten of those survey respondents who have bid or considered bidding on a contract satisfied with the PSAB criteria, this program appears to have the support of those Aboriginal entrepreneurs who are familiar with it.

The Manitoba Government was one of the first provincial governments to emulate PSAB with the introduction of the Aboriginal Procurement Initiative. Aboriginal companies hire, train and retain Aboriginal people. Like Manitoba, other provincial governments, Crown corporations, and even municipal governments, should capitalize on the chance to support Aboriginal business in their respective jurisdictions.

3. Business planning by Aboriginal business owners is a critical success factor.

Focusing efforts on the development of a business plan could improve Aboriginal entrepreneurs' prospects for success.

Business success among Aboriginal entrepreneurs appears to be linked to the use of an annual business plan. Business plans are vital because they provide a clear picture of the desired future of a company. The creation and implementation of a business plan is not only good business practice, but it can be essential to obtaining start-up or ongoing financing. Aboriginal small business owners who learn more about and implement annual business plans are likely to see the benefits in their business performance.

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4. Building stronger networks will lead to sharing of expertise and knowledge among and between Aboriginal businesses.

Aboriginal businesses tend to operate in isolation from other businesses and business organizations – there is need for more active support systems that offer mentorship and advice to help small businesses operate more effectively.

There is an opportunity to build stronger Aboriginal business networks – locally, regionally and nationally. Relatively few Aboriginal small business owners identify professional groups or individuals to turn to for business advice. Even fewer know what type of business guidance they would seek even if it were available.

This business community could benefit from mentorship offered by Aboriginal organizations, chambers of commerce or other companies. One effective strategy may be to foster the development of networks at the local or regional level.

CCAB will use this important study as a foundation to better serve its mandate. CCAB intends to:

- Expand its Aboriginal Business Mentorship Program;
- Advocate for government Aboriginal procurement strategies; and
- Work proactively with financial institutions, government and other Aboriginal organizations to improve access to capital.

Methodology

The results of the 2011 ABS are based on a telephone survey conducted with a representative sample of 1,095 self-identified First Nations (on- and off-reserve), Métis and Inuit small business owners (defined as those with 100 employees or less) between September 10 and November 19, 2010. The research was conducted by Environics Research Group, one of Canada's leading public opinion research firms and the organization which conducted the *Urban Aboriginal Peoples Study* on behalf of the Environics Institute.

Information from the 2006 Census was used to establish quotas of Aboriginal entrepreneurs based on identity group, region, business type and size. Qualified respondents were located through various databases and organizations as well as a communications campaign alerting Aboriginal businesses to the study. A referral approach was also used to augment sample identified through other sources.

The design and interpretation of the 2011 ABS was guided by a Research Advisory Board of recognized experts from the private sector and government.