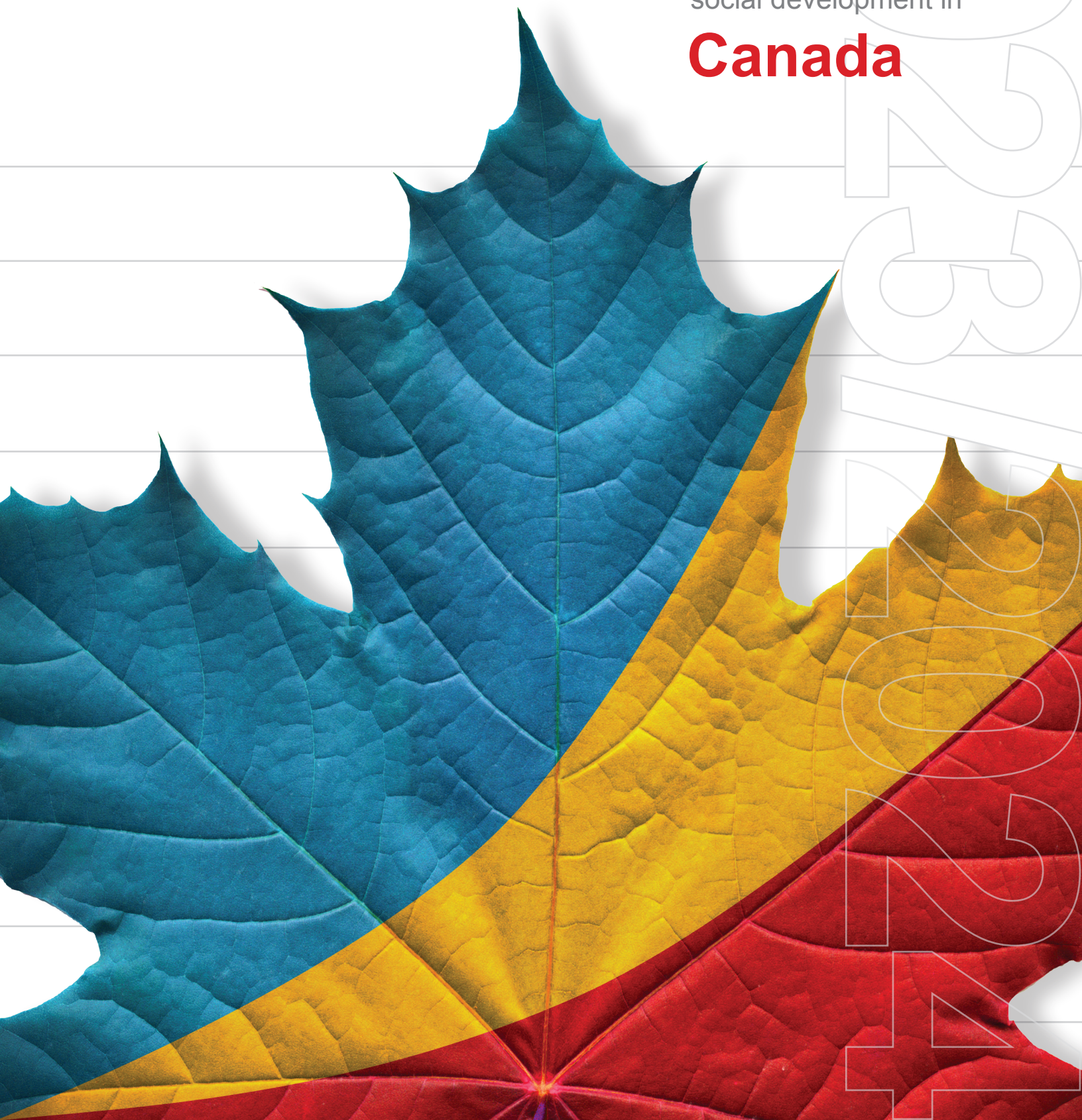




# Global Entrepreneurship Monitor

Driving wealth creation &  
social development in

## Canada



# 2023/24 GEM CANADA REPORT

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## EXECUTIVE SUMMARY

The Global Entrepreneurship Monitor (GEM) Project is widely recognized as the most comprehensive longitudinal study of entrepreneurship in the world. GEM offers a portrait of the individual entrepreneur in terms of attitudes, activities, and aspirations and allows for a more detailed demographic breakdown of how factors like age, education and gender play a role in entrepreneurial activity.

The GEM Canada Report 2023/2024 highlights how Canada measures up regarding its entrepreneurial activity. Comparisons are made between Canada and six other economies (USA, UK, Germany, France, and Italy), referred to throughout the Report as the ‘G6.’ The Report is based on data drawn from the GEM Adult Population Survey (APS), which was collected from May to July 2023.

A summary of key findings from the Report are presented below. More discussion of findings and Report recommendations can be found in section 6.

### Key Findings

The Report find that the Canadian population has more positive attitudes towards entrepreneurship in 2023 compared to 2022, with more Canadians intending to engage in entrepreneurial activity in 2023 compared to the previous 7 years (since 2016).

Canada’s rise in ‘perceived capabilities’ in 2023 suggests that Canadian entrepreneurs are more confident in the abilities to start a business. Together with Canada’s higher levels of ‘perceived opportunities’ and ‘knowing entrepreneurs,’ the Report suggests that entrepreneurship enjoys a high profile in Canada, with Canadian adults well positioned to engage in entrepreneurial activity.

However, Canada still shows a large perception gap between entrepreneurial opportunities and intentions, where almost six in ten adults that see good opportunities would not start a business for fear it might fail. Fear of failure remains a formidable obstacle to new startups in Canada again in 2023.

Canada's total early-stage entrepreneurial activity (TEA) is the highest amongst G6 economies in 2023. Canada's TEA rate has noticeably fluctuated in the past 5 years, with the TEA rate falling at the start of the COVID-19 pandemic, recovering somewhat, falling again and then increasing in 2023. One explanation for Canada's rise in TEA in 2023 is increasing demand in 'client-facing' service industries, fueled by Canada's surging population rate.

Canada also has the highest established business ownership (EBO) level compared to other G6 economies in 2023. However, the long-term EBO trend had been downward, which suggests difficulty in converting Canada's relatively high rate of startups into established businesses.

The Report finds that in 2023, Canada had more than two adults starting a new business for every adult owning an established one. The disproportion of new over established businesses in Canada reflects the challenge of sustaining a new business long enough for it to become established. This remains a persistent challenge for Canada, and one that has a direct effect on Canadian job growth and productivity.

Almost seven in ten Canadians were economically motivated to engage in entrepreneurial activity in 2023. The two economic motivations ('to build great wealth or very high income,' and 'to earn a living because jobs are scarce') increased from 2022 levels by 3% and 9% respectively. The economic motivations have noticeably fluctuated in the past few years, increasing in 2021, decreasing in 2022, and then increasing again in 2023.

Canada shows the highest rate of business discontinuance amongst G6 economies in 2023. Canada's rate of exits increased, while its rate of business continuation as a proportion of exits increased, suggesting less business churn in 2023. Variations in the level of established business exits for Canada also increased relative to TEA exits.

The Report shows that discontinuance factors are similar to 2022, with the most common factor being 'an opportunity to sell the business,' and the 'business was not profitable.' The most significant change in 2023 was a decrease in problems getting financing, and a decrease

in the pandemic as a discontinuous factor. Voluntary discontinuance factors, such as other business opportunities, an opportunity to sell the business, and family or personal reasons contribute to Canada's high rate of discontinuance.

Business angel activity for Canada increased in 2023, although Canada had the lowest average level of funds in the G6, a similar result to 2022. The year 2023 was identified as one of the most difficult on record to raise a funding round, as interest rates climbed, and global uncertainty became pervasive.

The Report finds that the highest level of total early-stage entrepreneurial activity for Canadian adults is in consumer-oriented services, which increased in 2023, while Canada's TEA rate in higher value sectors such as business-oriented services and the transformative sector decreased. One explanation is higher activity in services-producing industries, whose output bolstered overall economic growth during a challenging year for goods-producing industries.

Canada's established business ownership strength continues to be in the extractive sector, which is significantly higher than the TEA rate in this sector. One explanation is that factors such as regulatory and carbon policy uncertainty are making the sector less attractive for new entrants. Another factor relates to incentives to engage in entrepreneurship versus working in established businesses, given that jobs in the extraction sub-industry are amongst the highest paying.

Canada's EBO rate in business-oriented services is now higher than its TEA rate, which suggests that start-ups are transitioning into established businesses. Canada's EBO rate in consumer-oriented services is much lower than its TEA rate, which suggests that while many entrepreneurs enter this category, a high proportion are not transforming into established businesses. This may be influenced by Canada's high rate of discontinuance, with six in ten Canadians citing voluntary reasons for discontinuing their business.

The Report finds that the proportion of new Canadian entrepreneurs expecting to employ at least another six people over the next five years has been slowly increasing in recent years, approaching one in five in 2023, back above the pre-pandemic level in 2019. There is



also a significant increase in high job expectations amongst Canada's established business owners. Overall, growth aspirations have risen in 2023, which suggests that Canadian entrepreneurs and established business owners are more optimistic about prospects for growth and job recruitment over the next 5 years.

The Report finds that one in three new Canadian entrepreneurs had customers beyond Canada in 2023. Canada leads the G6 in level of export orientation by revenue for total early-stage and established business activity, almost twice the level of the USA. The importance of digital technology was highlighted in 2023, with five in 10 Canadian entrepreneurs and established business owners using digital technologies to sell their products.

An additional question was included in the Canadian GEM Adult Population Survey (APS) for 2023, which asked whether the new or established business was a franchise. The Report finds that almost a quarter of total early-stage entrepreneurial activity is based on the franchise model, with just over one in ten established businesses based on the franchise model. This is the first year that this question was asked in the APS, so there will be an opportunity to compare data in subsequent years and identify patterns and trends.

The Reports shows that Canada's highest total early-stage entrepreneurial activity contribution in 2023 comes from the 25-34 age group, which is consistent with previous years' results. All other age groups saw slight decreases from 2022 levels. Canada was one of seven economies (out of 45) in 2023 where younger people were more than twice as likely than older people to be starting new businesses. Canada was also only one of two economies in 2023 where a slightly higher proportion of younger people than older people were owning an established business.

The demographic shift to a younger cohort of entrepreneurs has several possible explanations. One is the rise in 'entrepreneurial intentions' in 2023, and although Canada has a higher fear of failure rate, younger people are less likely to have family and other responsibilities and may have less concern about the potential consequences of failure. Another is that younger people are more likely to be economically motivated to engage in entrepreneurship.

The Report finds that Canada is the only G6 country where non-graduates are more likely to be starting or running a new business than graduates. While economic conditions in 2022 may have favored those with higher levels of education who were older, because of better access to resources, technical skills and networks; it appears that conditions in 2023 are providing more opportunities for a younger cohort of entrepreneurs who do not possess university or college qualifications.

Canada had the highest relative gender gap amongst 46 countries in 2023. While the Canadian women total early-stage entrepreneurial activity level increased only slightly in 2023, the Canadian men TEA level increased by 6%, resulting in Canada's relative gender gap at its highest level since 2016. In comparing TEA and established business ownership rates by gender, Canada is the only G6 country where the ratio of women to men EBO exceeded that for new entrepreneurship. This suggests that Canada has a higher transition rate from new to established businesses for women vs. men compared to other G6 countries.

Canada leads the G6 with the highest level of economic motivations (e.g. 'to make money' and 'to earn a living') for both men and women, with these levels increasing from 2022 levels, particular for men. Despite the high level of economic motivations, Canadian men and women still show the highest level of 'making a difference' motivation, which is associated with building 'purpose-led' businesses.

The Report finds that Canada's National Entrepreneurship Context Index (NECI) score has been relatively stable in recent years, but in 2023, its score declined to less than sufficient, as did the USA and UK. None of Canada's 13 entrepreneurial framework conditions (EFCs) scored either the highest or the lowest amongst G6 countries, but Canada only had five EFCs assessed as sufficient (score  $\geq 5.0$ ) in 2023, compared to seven in 2022.

There were sharp decreases in Canada's scores for those EFCs most closely associated with government. The most significant drops were in Government Policy: Taxes and Bureaucracy, Government Policy: Support and Relevance, and Government Entrepreneurial Programs. Some of the downturn observed in 2023 may be associated with the gradual withdrawal of Canadian federal government funding which supported businesses and individuals during the pandemic.

Finally, additional questions in the 2023 National Expert Survey (NES) sought expert views of the sufficiency of social support available to women entrepreneurs, as well as how women entrepreneurs' access to resources compared to that of men. Canada scored poorly on the former, but much better on access to resources.

## Recommendations

A number of recommendations are drawn from the Report for further consideration.

### **1 Address Canada's high 'fear of failure' level.**

The Report finds that almost six in ten Canadian adults that see good opportunities would not start a business for fear it might fail. One of the challenges for Canada, as an innovation-driven economy, is that opportunities for employment are generally more abundant, offering individuals different alternatives to make a living. Government has an important role to play in nurturing an entrepreneurial culture, and making entrepreneurs feel safe to take risks. This may include leveraging Canada's social safety net, such as supporting women entrepreneurs and their families with affordable day care.

### **2 Promote and Support Younger Entrepreneurs and Business Owners.**

Canada's younger people are more than twice as likely than older people to be starting new businesses, with a higher proportion of younger people than older people owning an established business. Younger people are also less likely to be deterred by fear of failure than older people and are economically motivated to engage in entrepreneurship.

Canada is also the only G6 country where non-graduates are more likely to be starting or running a new business than graduates, which suggests that support for entrepreneurship be inclusive and more targeted to areas such as the trades. Canada has a high rate of ‘voluntarily’ discontinuance, and targeted assistance could include succession planning for older business owners and supporting a new generation to take over successful businesses across different industries versus focusing primarily on start-ups.

### **3 Boost Support for Women Entrepreneurship.**

Canada’s relative gender gap in 2023 is at its highest level since 2016, suggesting that more needs to be done to strengthen support for women to engage in entrepreneurial activity. Justification for boosting support for women entrepreneurship is seen in the GEM data, which shows that Canadian women have a higher transition rate from new to established businesses compared to Canadian men. However, GEM data also shows that there is insufficient social support available to women entrepreneurs, which includes support for being able to manage their business activities as well as their family commitments.

### **4 Explore the Impact of Franchising on Early-stage Entrepreneurial Activity.**

The Report finds that almost a quarter of total early-stage entrepreneurial activity is based on the franchise model, with just over one in ten established businesses based on the franchise model. While there is debate on whether franchisees are entrepreneurs, given that they typically operate within the confines of a franchisor’s established systems and procedures, this finding highlights the need to explore an understudied area of entrepreneurship.

## **5 Target Canada's Weak Entrepreneurial Framework Conditions.**

Government could consider targeting those underperforming entrepreneurial framework conditions that they have direct control over. These include Government Policy: Taxes and Bureaucracy, Government Policy: Support and Relevance, and Government Entrepreneurial Education in Schools. While the first two require a longer-term approach, the government can take more near-term steps to address the noted weakness in supporting entrepreneurship in the school system. Youth entrepreneurship is about fostering an entrepreneurial environment, a problem-solving mindset and an attitude of courage, and not just about starting a business. Government could boldly support entrepreneurship as a viable, exciting and valuable career option, but it requires strong support networks and access to capital which the government can provide.

# CHAPTER 1 INTRODUCTION

The GEM Canada Report 2023/2024 is the 11<sup>th</sup> year of a comprehensive survey of entrepreneurship in Canada. This report is based on data drawn from the Adult Population Survey (APS), which investigates the attitudes toward entrepreneurship of the general population and, more specifically, the perceptions, activities, and aspirations of individual entrepreneurs.

Canada is amongst 46 economies participating in the 2023 GEM Adult Population Survey, representing nearly 60% of current world population and 70% of global GDP. Over 136,000 individuals replied to APS questions about their attitudes, perceptions and activities related to entrepreneurship. An additional 2,000 experts from 49 economies offered their assessments for the National Expert Survey (NES), which examines entrepreneurial framework conditions in each of the participating countries.<sup>1</sup>

A key objective of the GEM Canada Report is to present new insights that can guide efforts aimed at equipping Canadians with the capabilities they need to launch and run their businesses and to create environments in which their ventures can thrive. The GEM method differs from most other sources of information about entrepreneurship which are based on firm level data. **GEM probes the individual, focusing on their role as an entrepreneur within their respective entrepreneurial ecosystem.**

The next section presents a brief overview of the Canadian economy in 2023 to provide further context for the Report.

## 1.1 Canada in 2023

Outside of 2020, Canada's economic growth in 2023 rose at its slowest pace since 2016, with real GDP rising by 1.1 per cent.<sup>2</sup> While Canada avoided a recession expected by many forecasters, the economy remained flat, influenced by high inflation and lower spending by Canadian consumers. Canadian exports declined, most notably

<sup>1</sup> GEM 2023/2024 Global Report, pp. 16-17. <https://www.gemconsortium.org/reports/latest-global-report>.

<sup>2</sup> <https://budget.canada.ca/2024/report-rapport/overview-apercu-en.html>.

in energy products, forestry products and building and packaging materials, and metal ores and non-metallic minerals, with commodity prices being a major factor in the contraction in these sectors.<sup>3</sup>

Canada showed a marked decline in business investment in 2023, as businesses continued to adjust to higher borrowing costs.<sup>4</sup> Many Canadian companies that survived the COVID-19 pandemic with the help of government support faced a ‘triple whammy’ of slowing consumer demand, rising borrowing costs and deteriorating productivity.<sup>5</sup> The conditions were worse for businesses in consumer-facing sectors such as retail, housing and accommodation, food, and recreation, which saw the largest increase in insolvencies and the worst deterioration in credit access.

Business closures outpaced openings during the first half of 2023 as many firms continued to navigate high input costs, workforce-related challenges, and higher borrowing costs. Except for January and May, the number of active businesses posted either no growth or negative growth in every month of 2023.<sup>6</sup> This was the first year on record that the number of active businesses did not increase for more than three consecutive months, except in early 2020, at the onset of the pandemic.

Both the working-age population and labour force expanded at a faster pace in 2023, within the context of strong population growth, spurred by high immigration.<sup>7</sup> The public sector was a key driver of job growth, especially in health care, with higher levels of employment generated compared to the private sector.

## Provinces and Territories

In 2023, for the second consecutive year, real gross domestic product (GDP) grew in every province in Canada, except Newfoundland and Labrador, albeit at a slower pace compared with a year earlier for most. Nunavut was the sole Canadian jurisdiction where economic growth meaningfully accelerated, with a nation-leading 3.4% increase in 2023.<sup>8</sup> Ontario, British Columbia and Alberta were the largest contributors to economic growth.

<sup>3</sup> Highlights of Canada's merchandise trade performance - 2023 update (international.gc.ca)

<sup>4</sup> <https://www150.statcan.gc.ca/n1/pub/36-28-0001/2023010/article/00006-eng.htm>

<sup>5</sup> RBC Financial Markets Monthly, March 12, 2024: <https://thoughtleadership.rbc.com/u-s-outperformance-continues-but-no-sunshine-yet-for-the-canadian-economy/>

<sup>6</sup> <https://www.statcan.gc.ca/o1/en/plus/5898-number-active-businesses-continues-its-downward-trend-december>

<sup>7</sup> Recent Developments in the Canadian Economy: Fall 2023 (statcan.gc.ca)

<sup>8</sup> The Daily—Gross domestic product by industry: Provinces and territories, 2023 (statcan.gc.ca)

Higher output from services-producing industries in every province and territory bolstered overall economic growth during a challenging year for goods-producing industries in most of Canada in 2023.<sup>9</sup> Output from goods-producing industries rose in Nunavut, and slightly in Saskatchewan, New Brunswick and Prince Edward Island in 2023 but declined in all other provinces and territories. Growth in the value-added of services-producing industries decelerated in every jurisdiction except Manitoba, Saskatchewan and Nunavut in 2023. However, the overall growth in services kept seven provincial and territorial economies in positive territory in 2023.

Demand for services was spurred by Canada's highest rate of population growth since 1957 (the peak of the baby boom). The public sector (consisting of educational services, health care and social assistance, and public administration) was a significant contributor to growth in every province and territory.

## Summary

Overall, the economic conditions facing Canadian entrepreneurs in 2023 continued to pose challenges, particularly for entrepreneurs in goods-producing sectors. Business investment remained flat, contributing to lower productivity. Increasing demand in services was stimulated by Canada's high population rate, and the strong recovery of 'client-facing industries' that had been heavily affected by the pandemic, such as accommodation and food services, and the arts, entertainment and recreation sector.<sup>10</sup>

The GEM Canada Report 2023 seeks to present new insights that can guide efforts aimed at equipping Canadians with the capabilities they need to launch and run their businesses and can inform entrepreneurial practices and policies that contribute to Canada's economic growth.

<sup>9</sup> Ibid.

<sup>10</sup> <https://www150.statcan.gc.ca/n1/daily-quotidien/240501/dq240501a-eng.htm>



## 1.2 Overview of GEM

Entrepreneurship is an essential driver of societal health and wealth, and a key driver of economic growth. It stimulates the innovation required to exploit new opportunities, generates employment, promotes productivity, and helps to address society's toughest challenges as stated by the United Nations Sustainable Development Goals (SDGs).<sup>11</sup>

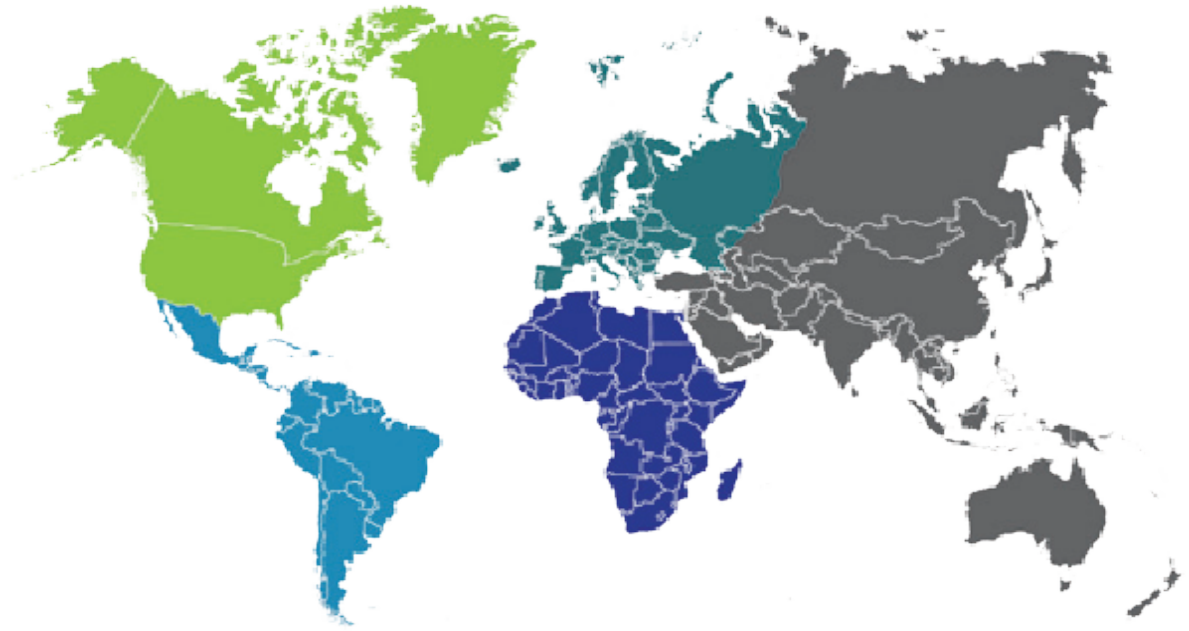
The Global Entrepreneurship Monitor Project (GEM) is widely recognized as the most comprehensive longitudinal study of entrepreneurship in the world. Launched in 1999, GEM has cumulatively surveyed over 3 million adults in 120 economies across the globe.

GEM began as a joint project between London Business School (UK) and Babson College (USA), which included ten developed economies; all members of the Organization for Economic Cooperation and Development (OECD): Canada, Denmark, Finland, France, Germany, Israel, Italy, United Kingdom (UK), Japan and United States of America (USA).

The 2023 GEM study represents the 25th consecutive year in which GEM has tracked rates of entrepreneurship across multiple phases of entrepreneurial activity, assessed the characteristics, motivations and ambitions of entrepreneurs and explored the attitudes societies have towards this activity. GEM conducts research across five world regions: North America, Latin American & Caribbean (LAC), Europe, Africa, and Asia & Oceania, as shown in Figure 1.1.

<sup>11</sup> GEM 2023/2024 Global Report, p. 15. <https://www.gemconsortium.org/reports/latest-global-report>.

**Figure 1.1: Five World Regions of GEM Participating Economies**



GEM seeks to understand entrepreneurship in national and global context, focusing on two key dimensions: i) the attitudes, activity, and aspirations of individual entrepreneurs; and ii) the national context and how it impacts entrepreneurial activity. In doing so, it hopes to identify policies that may foster the quality and quantity of the entrepreneurial activity in each country. More recently, GEM has expanded its mandate to include a range of ‘special topic’ reports on areas like youth, women, and senior entrepreneurship.

A key objective of GEM is to explore differences in national levels and types of entrepreneurship and to link these to job creation and economic growth. GEM brings together hundreds of researchers and policy makers from across the globe and includes more than one hundred academic and government institutions every year.

## 1.3 GEM Model and Methodology

### GEM Conceptual Framework and Methodology

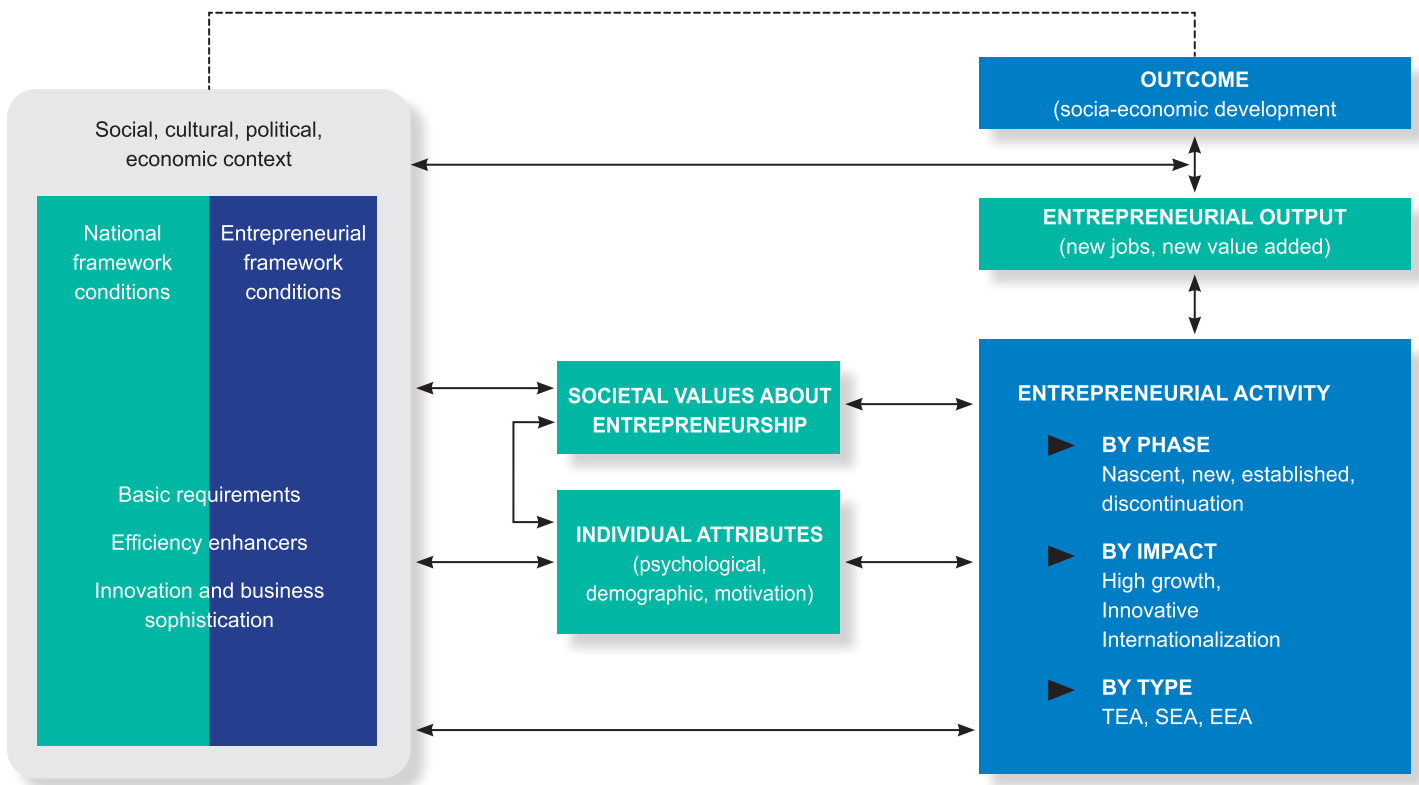
The Global Entrepreneurship Monitor (GEM) **defines entrepreneurship** broadly as: *“Any attempt at new business or new venture creation, such as self-employment, a new business organization, or the expansion of an existing business, by an individual, a team of individuals, or an established business.”*

At the heart of the GEM Conceptual Framework is a **focus on individual entrepreneurs**, and their personal aspirations and capabilities, as well as the nature of the entrepreneurial ecosystem. The GEM Conceptual Framework guides data collection activities and research, both of which contribute to GEM’s key aims:

- To uncover factors which encourage or hinder entrepreneurial activity, as related to societal values, individual attributes, and entrepreneurial framework conditions.
- To provide a platform for assessing the extent to which entrepreneurial activity influences socio-economic development (including economic and inclusive growth) within individual economies.
- To uncover policy implications for the purpose of enhancing entrepreneurial capacity and resulting outcomes in an economy.

The GEM Conceptual Framework is shown in Figure 1.2.

Figure 1.2: The GEM Conceptual Framework



Starting on the left-hand side of the framework, the **social, cultural, political and economic context** is represented through National Framework Conditions, which include entrepreneurial finance, government policy, government entrepreneurship programs, entrepreneurship education, R&D transfer, commercial and legal infrastructure, physical infrastructure, internal market dynamics and entry regulation, and cultural and social norms. These are assessed through a survey of selected experts on each of the framework conditions, as part of the National Entrepreneurship Context Index (NECI).

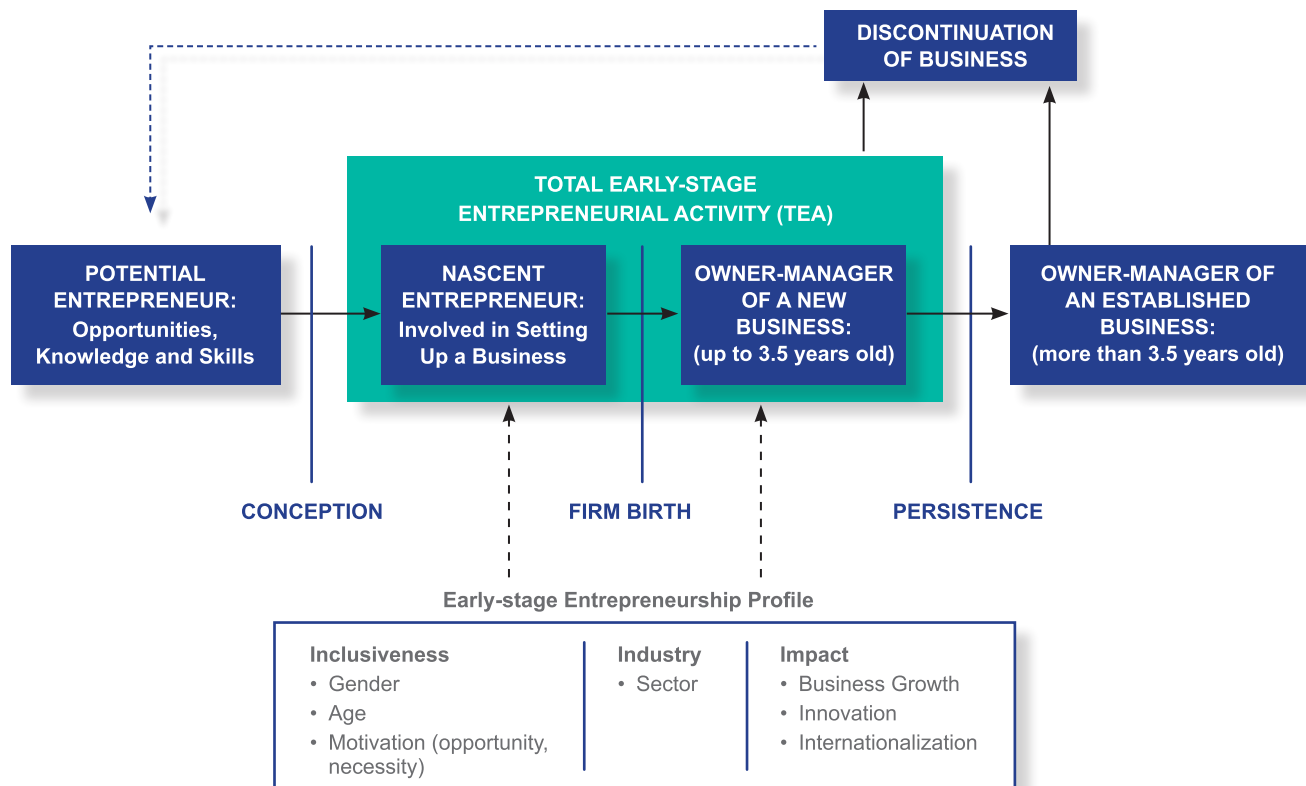
**Societal values** include societal beliefs about entrepreneurship as a good career choice, whether entrepreneurs have high societal status, the extent to which media represents entrepreneurship positively in an economy, and whether it is easy to start a business. Individual

attributes include demographic characteristics (i.e., gender, age, etc.), self-perceptions (i.e., perceived capabilities, perceived opportunities, fear of failure), and motives for starting a business (i.e., necessity versus opportunity).

Entrepreneurial activity encompasses **multiple phases of the business process** (i.e., nascent, new business, established business, discontinuation), potential impact (i.e., job creation, innovation, internationalization), and type of activity (such as total early-stage entrepreneurial activity or TEA, and employee entrepreneurial activity or EEA). Societal values, individual attributes, and entrepreneurial activity are assessed through a broad-based survey of the population called the Adult Population Survey (APS).

Overall, the GEM approach also views entrepreneurship as a process with distinct phases. As depicted in Figure 1.3, this process moves from the intention to start a business, to nascent entrepreneurship involving a new start-up, to owner-managers of a relatively new business, to owner-manager of a more established venture. Following this process approach, business exits (discontinuance) are also tracked.

**Figure 1.3: GEM Entrepreneurial Indicators**



A central measure of the GEM approach is Total Early-Stage Activity (TEA). This includes those in the process of starting a business (nascent entrepreneurs), and those running a young business (3 - 42 months old) but excludes those in the established business ownership (EBO) phase (firms older than 42 months or 3.5 years). By exploring these various phases—and especially the difference between total early-stage (TEA) and established business ownership (EBO)—the GEM approach offers insights not typically available from standard business statistics or official government measures.

With respect to data collection, GEM uses two main sources:

**The Adult Population Survey (APS)** – Data for the APS is gathered through a telephone survey of randomly selected adults, aged 18-99 years, conducted by an independent polling firm. Using the standard GEM questionnaire protocol, the APS covers a variety of questions on entrepreneurial attitudes, activities, and aspirations. The APS data provides a profile of representative data, weighted for age and gender to standard Canadian or regional demographics.

**The National Expert Survey (NES)** - The NES is a questionnaire completed by a group of experts in each country, using the instrument developed for the global GEM project. The survey presents a series of statements concerning support for entrepreneurship, and experts are asked to assess the degree to which each is true. Areas probed are based upon the framework conditions: entrepreneurial finance, government policy, government entrepreneurship programs, entrepreneurship education, R&D transfer, commercial and legal infrastructure, physical infrastructure, internal market dynamics and entry regulation, and cultural and social norms.

In summary, the two GEM Surveys, APS and NES, give substance to the GEM conceptual framework by identifying those factors that influence entrepreneurial activity; providing important policy implications for policymakers, practitioners and other stakeholders seeking to expand levels of entrepreneurship.

## Report Structure

The GEM Canada Report is presented in five chapters. Comparisons are made between Canada and five other economies (USA, UK, Germany, France, and Italy); referred to throughout the Report as ‘G6.’

Chapter 1 introduces the report and describes the GEM model and research method.

Chapter 2 investigates the attitudes and activity of Canadian entrepreneurs. This includes a discussion of perceptions of entrepreneurial skills, entrepreneurial activity and motivations, and discontinuance, exits and investment.

Chapter 3 examines economic participation by entrepreneurs in the Canadian economy. This includes examining GEM data related to industry sector, job creation and growth aspirations, export orientation, introduction of new products to the market, level of digital usage, and franchising orientation.

Chapter 4 examines the demographic dimensions of entrepreneurship in Canada for 2023, which considers factors such as age, education, and gender.

Chapter 5 examines Canada’s framework conditions to support entrepreneurship, based on results from the national expert survey (NES).

Chapter 6 provides a report summary and recommendations.

## CHAPTER 2 ENTREPRENEURIAL ATTITUDES AND ACTIVITIES

This chapter investigates perception of entrepreneurial skills, activity, motivations, and intentions in Canada in 2023.

### 2.1 Perceptions of Entrepreneurial Skills

GEM captures perceptions of entrepreneurial skills to shed light on the intention of Canadians to start a business. Five measures are used: 1) affiliation with/known an entrepreneur; 2) opportunities for entrepreneurship; 3) perceived entrepreneurial capabilities; 4) fear of failure; and 5) intention to start a new business in the next 3 years.

Figure 2.1 and Table 2.1 present Canadian data on the five measures for the period 2016-2023. A key observation is the increase in ‘entrepreneurial intentions’ in 2023, which shows the highest level since 2016. Canada’s level of ‘perceived opportunities,’ ‘knowing entrepreneurs’ and ‘perceived capabilities’ have all increased from 2022 levels. This suggests that more Canadians intend to engage in entrepreneurial activity in 2023 compared to the previous 7 years.

**Figure 2.1: Perception towards Entrepreneurial Skills: Canada (2016-23)**

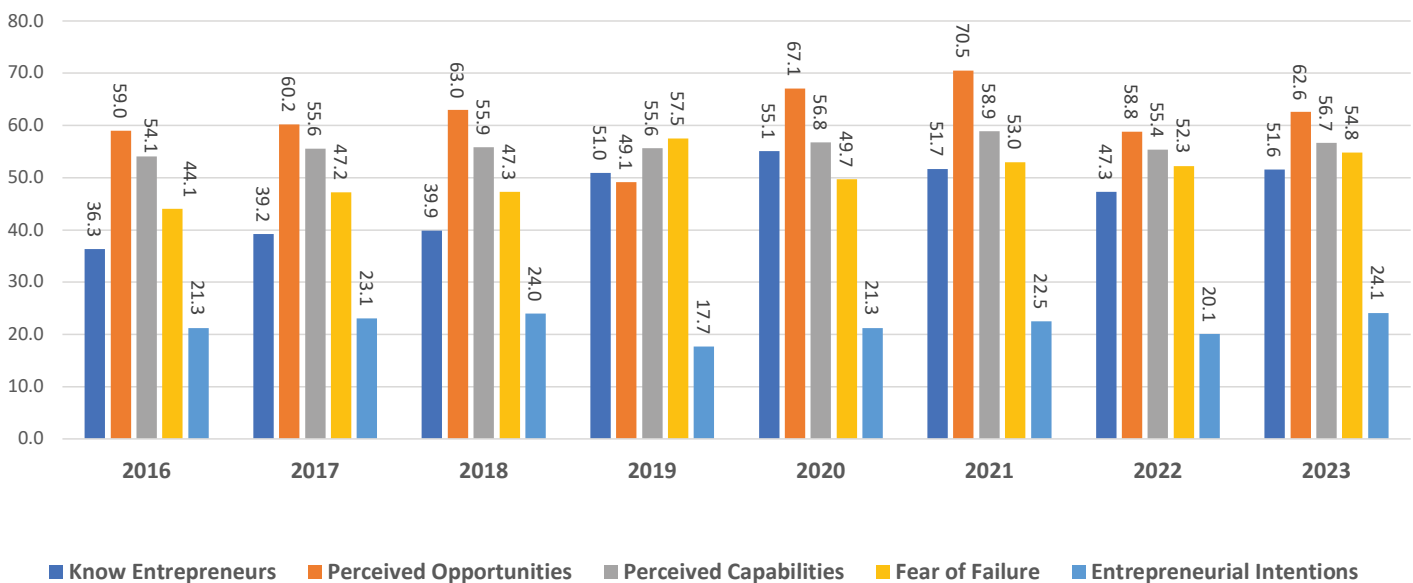




Table 2.1 shows that Canada’s perceptions towards entrepreneurship have increased across all five measures in 2023 compared to 2022, which saw a decrease across all five indicators. Canada’s fear of failure rate, traditionally high, increased in 2023, after a slight decrease in 2022.

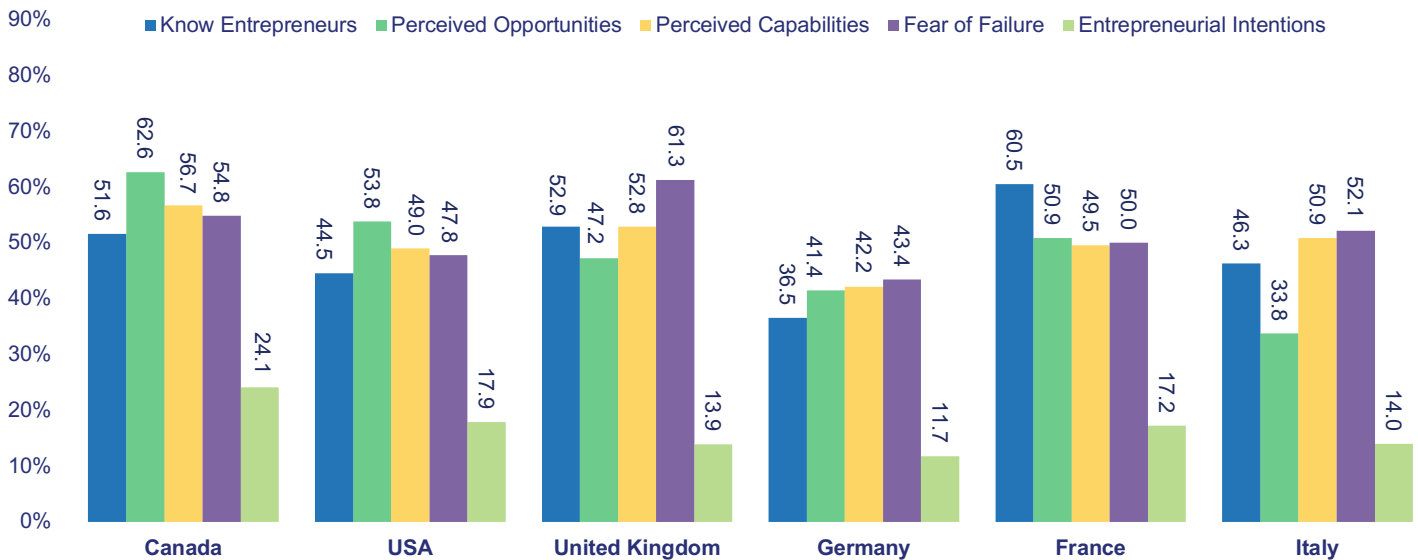
The ‘knowing entrepreneurs’ score in 2023 is similar to 2021, while the ‘perceived opportunities’ and ‘perceived capabilities’ scores both remain below 2021 levels. The good news is that more Canadians intend to start a new business in the next 3 years, but this is tempered by a high fear of failure rate, which is at its highest level since 2019.

**Table 2.1: Perceptions towards Entrepreneurial Skills, Canada (2016-23)**

Perceptions towards Entrepreneurial Skills, 2016-2023					
	Know Entrepreneurs	Perceived Opportunities	Perceived Capabilities	Fear of Failure	Entrepreneurial Intentions
2016	36.3	59.0	54.1	44.1	21.3
2017	39.2	60.2	55.6	47.2	23.1
2018	39.9	63.0	55.9	47.3	24.0
2019	51.0	49.1	55.6	57.5	17.7
2020	55.1	67.1	56.8	49.7	21.3
2021	51.7	70.5	58.9	53.0	22.5
2022	47.3	58.8	55.4	52.3	20.1
2023	51.6	62.6	56.7	54.8	24.1

In comparison to other G6 economies, Figure 2.2. shows Canada with the highest level in three of five measures, with ‘perceived opportunities,’ ‘perceived capabilities,’ and ‘entrepreneurial intentions’ noticeably higher than the USA (9%, 8% and 6% respectively).

**Figure 2.2: Perception towards Entrepreneurial Skills: G6 Comparisons**



Canada’s rise in ‘perceived capabilities’ in 2023 (which in 2022 was 11% lower than the USA), suggests that Canadian entrepreneurs are more confident in the abilities to start a business. Together with Canada’s much higher level of ‘perceived opportunities’ compared to other G6 economies, findings would suggest a solid foundation for new venture creation by Canadian entrepreneurs.

However, Canada still shows a large perception gap between entrepreneurial opportunities and intentions, where 55% of those seeing good opportunities would not start a business for fear it might fail. Canada’s fear of failure level in 2023, although lower than the UK, is 7% higher than the USA and at its highest level since at the start of the COVID-19 pandemic in 2019. GEM scholars have observed that fear of failure has been steadily rising in Canada, the USA, UK and France (and probably others) since 2001, indicating that it is not just a Canadian problem. However, the reason for the rise in fear of failure in these countries remains unclear.

Fear of failure remains a formidable obstacle to new startups in Canada. While two out of three Canadian adults see good opportunities to start a business, more than half of these would not do so for fear it might fail, despite the fact that GEM data shows Canada ranked 10th

out of 46 economies in ‘ease of starting a business.’ The Organization for Economic Cooperation and Development (OECD) identifies Canada as a particularly attractive country for international entrepreneurs.<sup>12</sup>

## 2.2 Entrepreneurial Activity and Motivations

Figure 2.3 shows Canada has the highest level of total early-stage entrepreneurial activity (TEA)<sup>13</sup> and established business ownership (EBO)<sup>14</sup> compared to other G6 economies in 2023. Canada’s TEA level is ranked 11<sup>th</sup> while its EBO level is ranked 16<sup>th</sup> out of 46 countries.

Canada’s TEA rate has noticeably fluctuated in the past 5 years, with the TEA rate falling at the start of the pandemic (2019–2020), recovering somewhat to 2021, falling by 4% in 2022, then increasing again by 3% in 2023. By comparison, the EBO rate for the USA dropped in 2023, as did its TEA rate. While the Covid-19 pandemic triggered an unanticipated surge in entrepreneurship in 2021, a number of macro-economic factors, notably slowing consumer demand, rising borrowing costs, and deteriorating productivity, may have contributed to less favorable market conditions for starting a new business in 2022.<sup>15</sup>

Market conditions for starting a business in 2023 have not improved substantially from 2022 and one explanation for Canada’s higher TEA level in 2023 is a combination of factors, observed during the COVID-19 pandemic, that have reemerged as drivers of entrepreneurial opportunity, ambition, and intention.<sup>16</sup> Another is the rise in demand for client-facing services by Canada’s surging population.

<sup>12</sup> <https://www.oecd.org/migration/talent-attractiveness/>. In a first-ever ranking focusing on international entrepreneurs, and based on the OECD Indicators of Talent Attractiveness, Canada was deemed by OECD 2023 Migration Policy Debates report to be the most attractive country for immigrant start-up founders. The indicators measure the relative attractiveness of countries from a multidimensional perspective on the metrics of quality of opportunity, income and tax, future prospects, skills environment, family environment, inclusiveness, quality of life, and visa and admission policy.

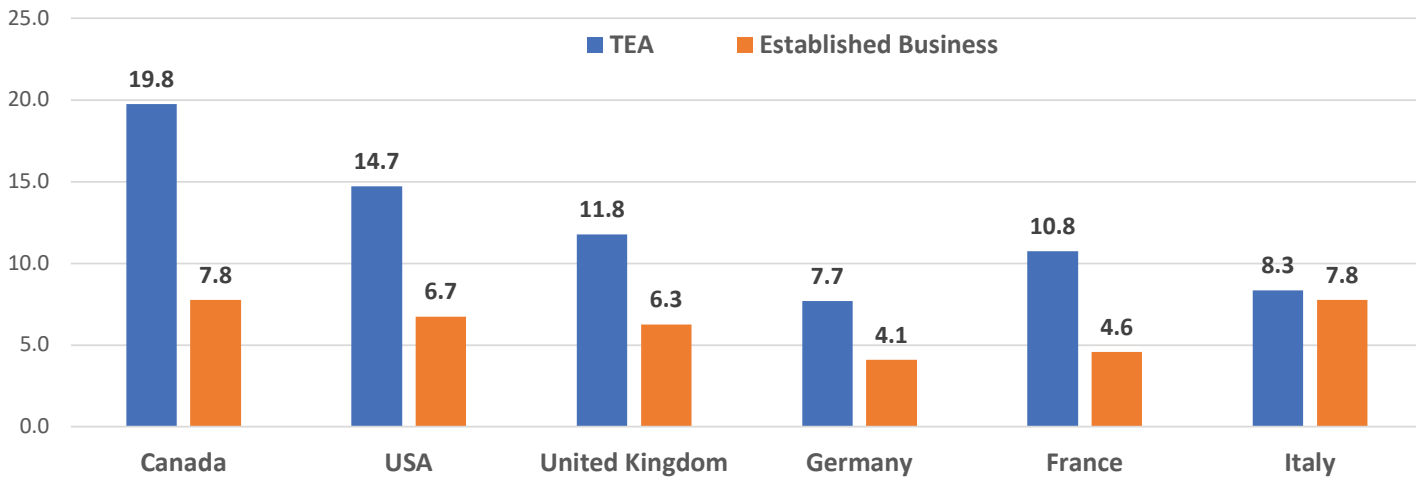
<sup>13</sup> **Total early-stage Entrepreneurial Activity (TEA)** describes entrepreneurial activity during the period preceding and immediately after the actual start of a firm. TEA includes ‘nascent entrepreneurs’ (those actively establishing a new business who have not paid salaries for more than 3 months) and entrepreneurs (owner-managers) of a new firm which is less than 42 months old but more than 3 months.

<sup>14</sup> **Established business ownership (EBO)** describes a business existing for over 42 months (3.5 years).

<sup>15</sup> RBC Financial Markets Monthly, March 12, 2024: <https://thoughtleadership.rbc.com/u-s-outperformance-continues-but-no-sunshine-yet-for-the-canadian-economy/>

<sup>16</sup> According to Fikri and Newman (2024), these factors include the ability of professional and creative workers to provide their services online via digital connectivity, changing consumer habits and the shift of economic activity to residential areas and suburban centre, and tech-enabled business applications brought about by pandemic-era disruptions, particularly in sectors such as transportation and warehousing, healthcare, accommodation and food services, and retail. How the Pandemic Rebooted Entrepreneurship in the U.S., Harvard Business Review. <https://hbr.org/2024/01/how-the-pandemic-rebooted-entrepreneurship-in-the-u-s>

Figure 2.3: TEA and EBO Rates: G6 Comparisons



A small increase in Established Business Ownership in 2023 is encouraging, with Canada tied with Italy for the highest EBO level. However, the long-term EBO trend had been downward, which suggests difficulty in converting Canada’s relatively high rate of startups into established businesses. This remains a persistent challenge for Canada, and one that has a direct effect on Canadian job growth and productivity. It is recognized that, on average, employment gains from expanding incumbent firms in most years will be offset by losses at downsizing ones, with the increase in net job creation coming from high-growth young firms.<sup>17</sup>

Figure 2.4 sheds further light on TEA rates by examining entrepreneurial motivations based on responses to four questions: 1) to make a difference in the world; 2) to build great wealth or very high income; 3) to continue a family tradition; and 4) to earn a living because jobs are scarce. Figure 2.4 identifies less variation in entrepreneurial motivations between Canada and the USA than between Canada and other G6 economies in 2023.

<sup>17</sup> Ibid. Startups also drive productivity because they adopt and commercialize new technologies, adapt old and introduce new business models, advance innovation, sharpen competition, and make better use of the economy’s resources, including its people, than market incumbents.

**Figure 2.4: TEA Motivations: G6 Comparisons**

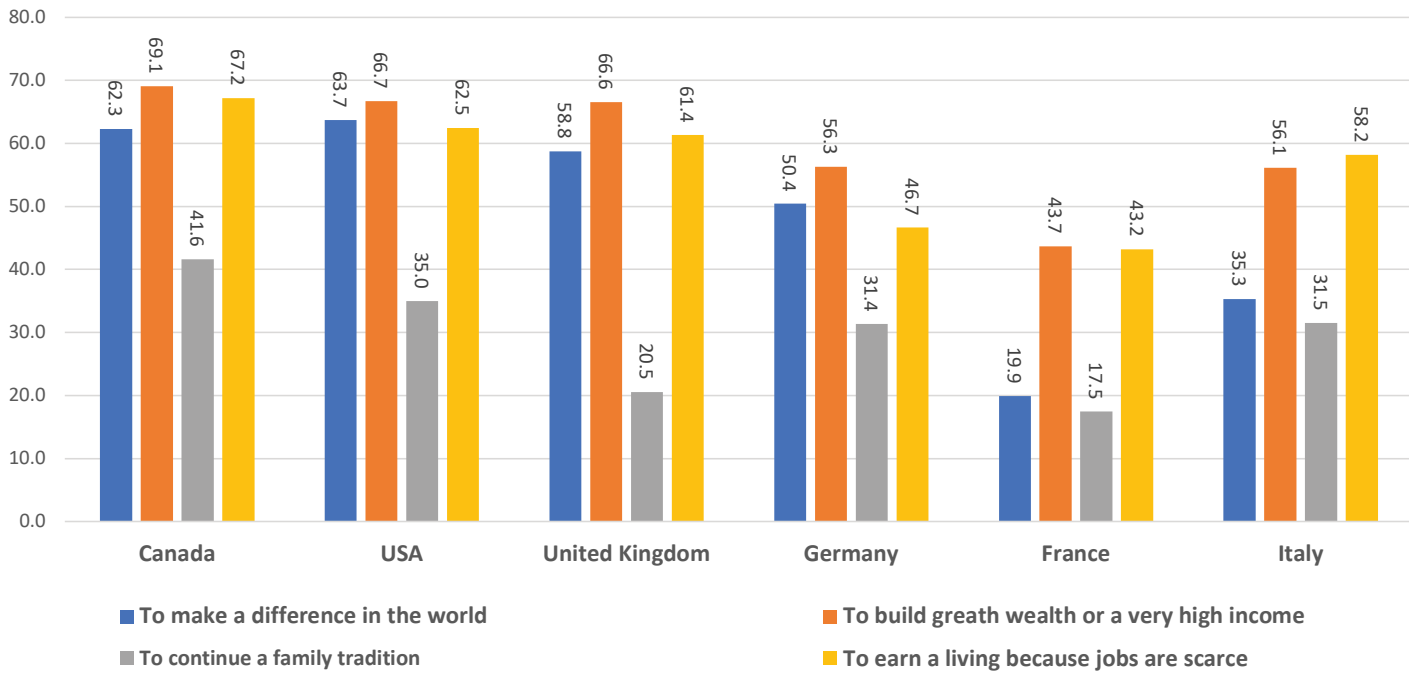


Figure 2.4 shows the leading motivation for Canadian entrepreneurs in 2023 is ‘to build great wealth or very high income’ (69%), which rose by 3% from 2022. The 2<sup>nd</sup> leading motivation, ‘to earn a living because jobs are scarce,’ rose by 9%, with Canada, the USA, and Italy all showing a significant rise in the ‘earn a living’ motive in 2023. The 3<sup>rd</sup> highest motivation, ‘to make a difference in the world,’ consistently scores higher for Canada (and the USA), compared to other G6 countries. This motivation suggests the emergence of purpose-driven businesses.

The two economic motivations (‘building great wealth or very high income,’ and ‘earning a living because jobs are scarce’) were agreed by almost seven in 10 Canadian entrepreneurs. The economic motivations have noticeably fluctuated in the past few years, increasing in 2021, decreasing in 2022 (particularly the ‘earn a living’ motivation, by 12%) and then increasing again in 2023.

Higher levels of economic motivators may suggest the rise in ‘necessity entrepreneurship’ (e.g. starting a business without other income options), which can occur during economic downturns. At the same time, opportunity-seeking entrepreneurship (e.g. have job options but participate in entrepreneurship because they can exploit a new technology, increase their income, pursue a passion, etc.) may also increase as markets undergo disruption, as observed during the COVID-19 pandemic in 2021.

### 2.3 Discontinuance and Exits<sup>18</sup>

Figure 2.5 shows Canada with the highest rate of business discontinuance amongst G6 economies, which has risen slightly from 2022. Canada’s rate of exits increased by 2% in 2023, while its rate of business continuation as a proportion of exits increased from 2022, suggesting less business churn in 2023. Variations in the level of established business exits for Canada also increased relative to TEA exits. By comparison, the USA’s exit rates decreased by 2% in 2023, while its rate of discontinuation as a proportion of exits decreased.

**Figure 2.5: Life Cycle of Entrepreneurship: G6 Comparisons**

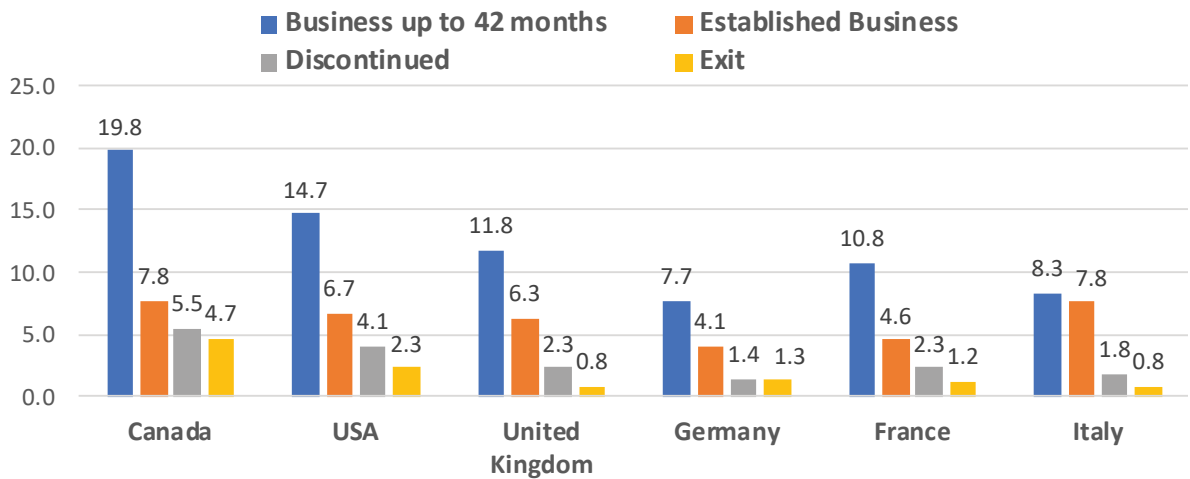
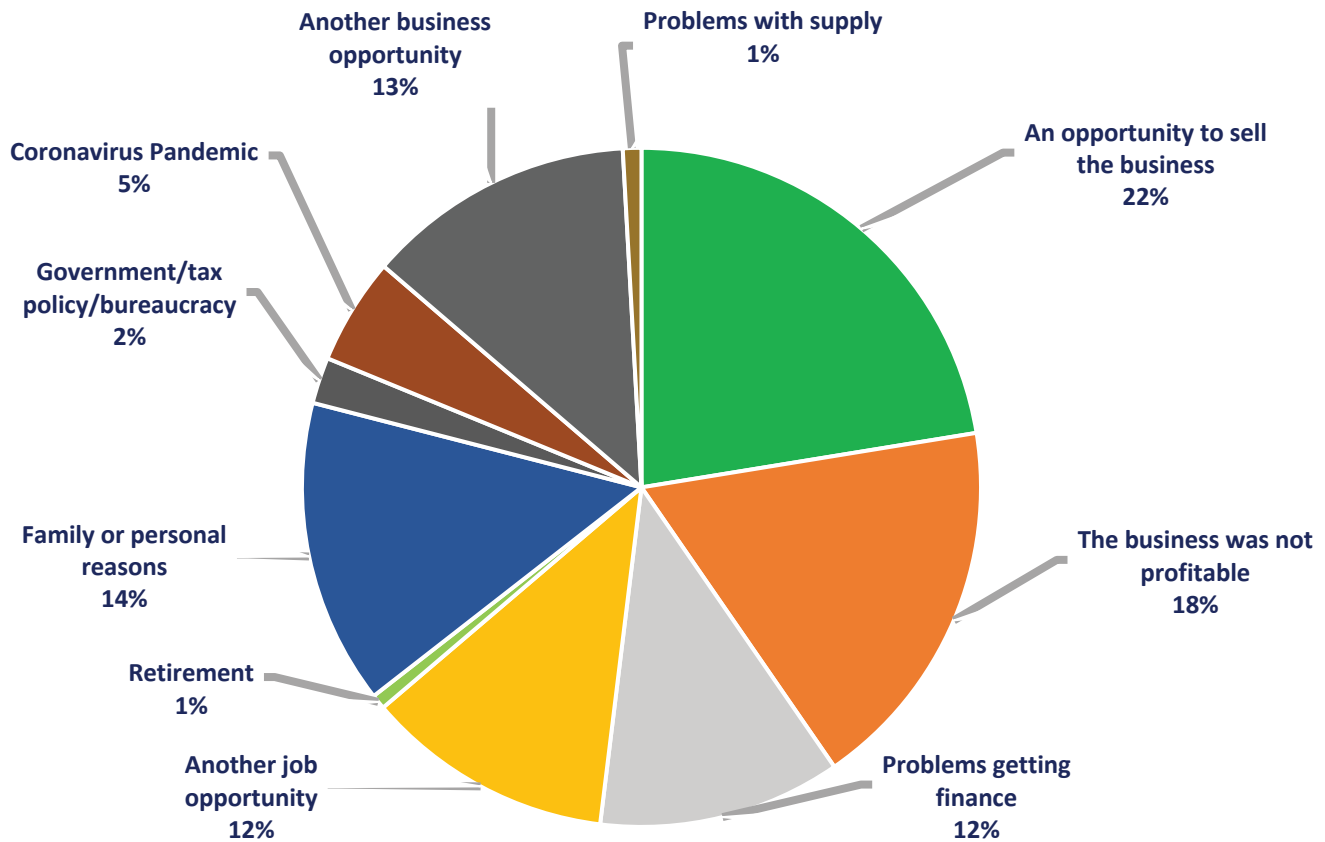


Figure 2.6 shows a breakdown of discontinuance factors for Canadian entrepreneurs in 2023, which are similar to 2022 levels. The highest rated factors were ‘an opportunity to sell the business,’ which increased slightly from 2022, and the ‘business was not profitable,’ which

<sup>18</sup> The GEM Adult Population Survey (APS) asks whether the individual has, within the past 12 months, sold, shut down or quit a business they owned and managed. Subsequent APS questions ask those individuals who reported exiting a business whether that business continued after they left, or not.

decreased by 3% from 2022. The most significant change in 2023 was a decrease in problems getting financing, by 4% from 2022, and a decrease in the coronavirus pandemic as a discontinuous factor, by 3% from 2022.

**Figure 2.6: Discontinuance Factors for Canadian Entrepreneurs**



Voluntary discontinuance factors, such as other business opportunities, an opportunity to sell the business, and family or personal reasons contribute to Canada’s high rate of discontinuance.

## 2.4 Business Angel and Informal Investment<sup>19</sup>

Figure 2.7 identifies Business Angels as an important source of funds for new businesses, particularly in Canada and the USA. The rate of business angel activity for Canada increased by 3% in 2023, while the USA rate decreased slightly from 2022 levels. Rates for the other G6 economies were similar to 2022 levels.

<sup>19</sup> Informal investment in entrepreneurship is defined as the percent of respondents who provided funds to an entrepreneur. GEM reports this percentage alongside data on average level of funds provided (in USD).

Figure 2.7: Business Angel Investment: G6 Comparisons

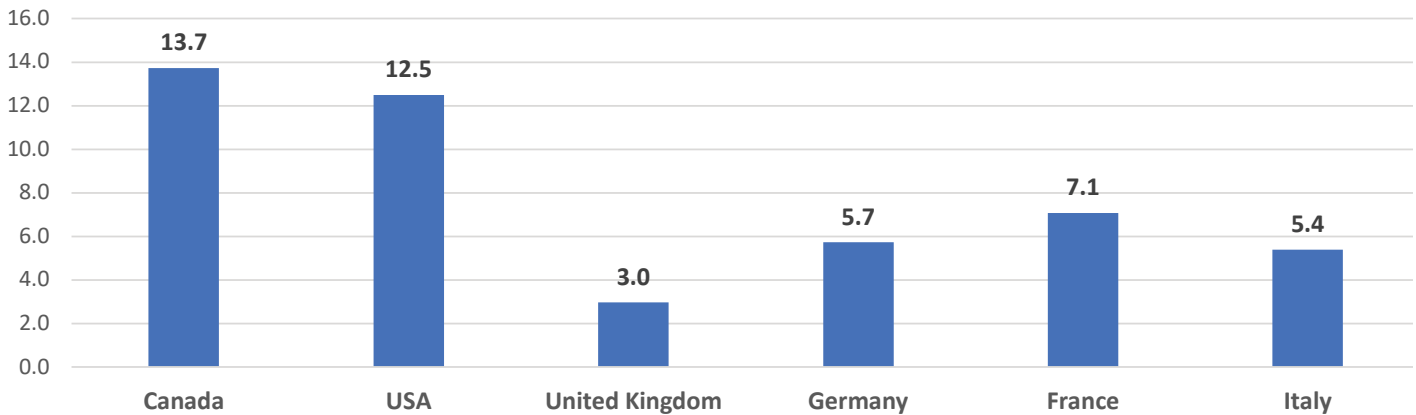
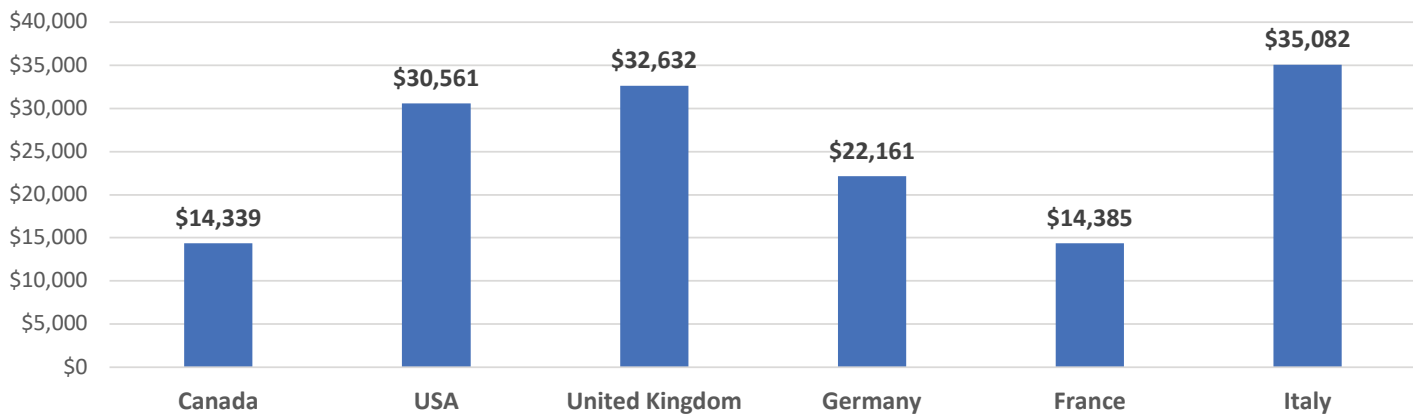


Figure 2.8 shows Canada with the lowest average level of funds in the G6, a similar result to 2022. However, Canada's average level increased by \$6,128 from 2022, while the USA average level decreased by \$10,578.<sup>20</sup> The UK and France saw significant increases in 2023, while Germany saw a significant decrease in average level of funds.

Figure 2.8: Informal Investment: G6 Comparisons



The year 2023 was identified as one of the most difficult on record to raise a funding round, as interest rates climbed, and global uncertainty became pervasive.<sup>21</sup> The USA saw the highest number of startup bankruptcies in a decade, with investors applying more rigorous financial criteria to startups that included the ability to demonstrate strong revenue, capital efficiency and strong gross margins.

<sup>20</sup> According to the National Angel Capital Organization (NACO), the median size of investment in Canada in 2022 was \$82,500, marginally lower than in 2021, and much lower than in earlier years. 2023 Report on Angel Investing in Canada, <https://digital.builtbyangels.com/link/1015792/28/>

<sup>21</sup> What did it Take to Raise a Series A Round in 2023? <https://news.crunchbase.com/venture/seed-to-series-a-funding-2023-jones-kruze/>.



In summary, GEM data for 2023 shows that Canada has more than two adults starting a new business for every adult owning an established one (Figure 2.3). The disproportion of new over established businesses in Canada reflects the challenge of sustaining a new business long enough for it to become established.

One set of factors relates to obstacles in Canada's entrepreneurial ecosystem, which include lack of access to finance, trade and regulatory barriers and other policy and non-policy barriers (further discussed in Chapter 5). For example, although Canada's rate of business angel activity is high in 2023, as shown in Figure 2.6, the average level of funds supporting entrepreneurial activity is the lowest amongst G6 economies (Figure 2.7). Another set of factors relates to Canada's high level of voluntary discontinuance.

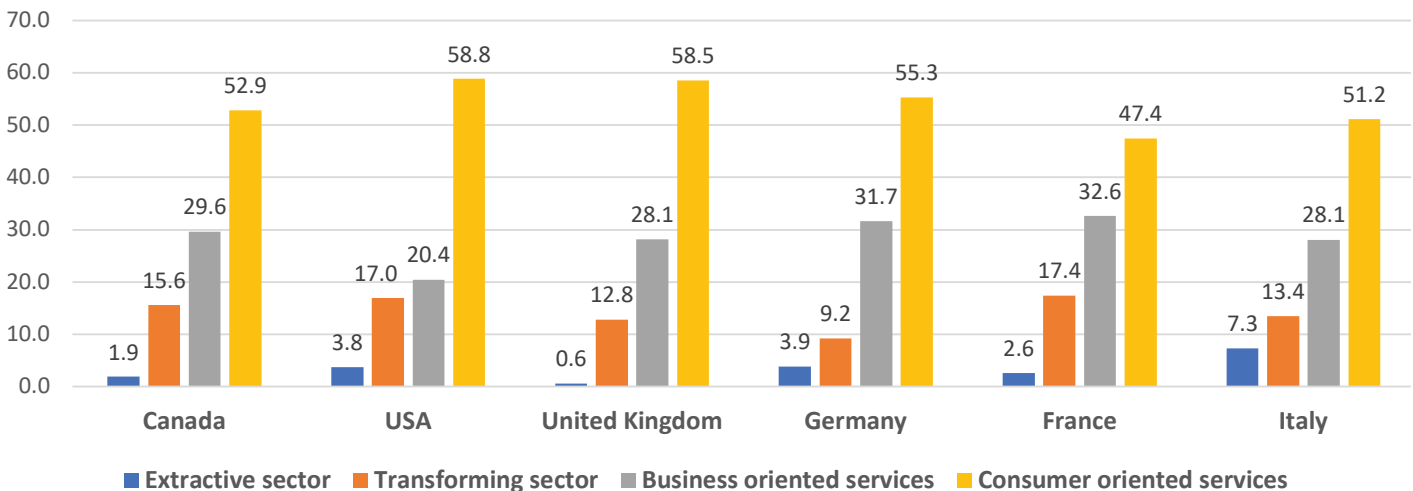
## CHAPTER 3 ENTREPRENEURSHIP IN THE ECONOMY

This chapter examines economic participation by entrepreneurs in the Canadian economy in 2023, using GEM data to assess industry sector, job creation and growth aspirations, export orientation and introduction of new products to the market.

### 3.1 Industry Sectors<sup>22</sup>

Figure 3.1 shows consumer-oriented services having the highest TEA rate for all G6 economies in 2023. This sector, comprising retailing, personal services, and hospitality, is characterised by high entry and exit rates, given low market entry barriers, low start-up costs, and a higher level of market competition. Canada’s TEA rate in this sector increased by 10% in 2023, after falling between 2021 and 2022.

**Figure 3.1: Distribution by sector (TEA): G6 Comparisons**



Canada’s TEA rate in higher value sectors such as business-oriented services and the transformative sector decreased by 4% and 6% respectively from 2022 levels. One explanation, observed in Statistics Canada data for 2023, is higher activity in services-producing industries, whose output bolstered overall economic growth during a challenging year for goods-producing industries in Canada.<sup>23</sup>

<sup>22</sup> GEM respondents were asked to describe the nature of their new businesses, which were classified using four-digit codes from the International System of Industry Codes (ISIC). The businesses were then assigned to one of four broad categories: 1) Extractive (e.g., mining, agriculture); 2) Transforming (e.g., manufacturing, logistics); 3) Business oriented services (ICT, professional services, etc.); and 4) Consumer oriented services (including retailing, restaurants and personal services).

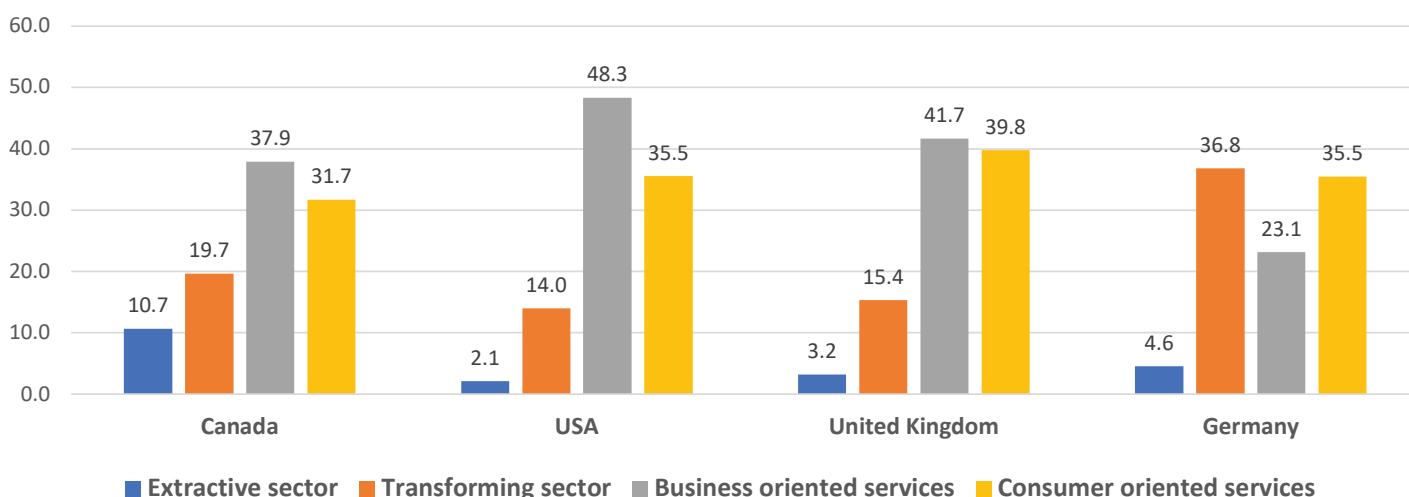
<sup>23</sup> <https://www150.statcan.gc.ca/n1/daily-quotidien/240501/dq240501a-eng.htm>.

The TEA rate in the extractive sector did not change from 2022 but this rate has fluctuated in the past few years. Canada had the highest TEA rate in the extractive sector amongst G6 economies in 2021, but this rate dropped below the USA and France in 2022 and is now also below Germany and Italy in 2023.

Figure 3.2 suggests that Canada’s EBO strength continues to be in the extractive sector, compared to the USA (business-oriented services) and Germany (transforming sector). Canada’s EBO rate for the extractive sector in 2023 is significantly higher than its TEA rate, a result similar to 2022.<sup>24</sup>

There are a number of possible explanations for the gap between total early-stage and established business activity in the extractive sector. One is that, in addition to high entry barriers, factors such as regulatory and carbon policy uncertainty are making the sector less attractive for new entrants. Another factor relates to incentives to engage in entrepreneurship versus working in established businesses (e.g. ‘crowding out effect’). Jobs in the extraction sub-industry are amongst the highest paying within Canada’s goods producing industry, paying approximate 2.2 times more than the Canadian average total compensation.<sup>25</sup>

**Figure 3.2: Distribution by sector (EBO): G6 Comparisons**



<sup>24</sup> Collectively, the extractive industries (mining, quarrying, and oil and gas) accounted for over 5% of Canada’s total GDP in 2023, or approximately \$112 billion. <https://www.capp.ca/wp-content/uploads/2023/12/The-Economic-Impact-of-Canadian-Oil-and-Gas.pdf>.

<sup>25</sup> Ibid. The Oil and Gas Extraction sub-industry is the largest goods producing industry in Canada and is 20% bigger than the next largest sub-industry, Engineering and Other Construction Activities, and 30% bigger than the Residential Building Construction industry. When direct, indirect, and induced jobs are considered, the oil and gas sector employs almost 1 million people in Canada.

Turning to other sectors, Canada's EBO rate in business-oriented services increased by 4% from 2022 and is now higher than its TEA rate, which suggests that start-ups are transitioning into established businesses.

Canada's EBO rate in consumer-oriented services decreased by 5% in 2023 and is 21% lower than its TEA rate. This suggests that while many entrepreneurs enter this category, a high proportion are not transforming into established businesses. A decrease in the EBO rate is likely influenced by Canada's high rate of discontinuance, with six in 10 Canadians citing voluntary reasons for discontinuance and four in 10 Canadians citing involuntary reasons, which include lack of profitability or problems getting financing.

### 3.2 Job Creation<sup>26</sup>

Table 3.1 presents total early-stage activity and established business ownership 5-year growth aspiration rates for Canada for the period 2019 to 2023. Canada's lowest job growth expectations increased from 2022 (+13%), where just over one in 10 adults starting or running a new business expect to employ no more people in five years' time. The proportion of new entrepreneurs expecting to employ at least another six people over the next five years has been slowly increasing in recent years, approaching one in five in 2023, back above the pre-pandemic level in 2019, and ranking Canada 12th among 45 economies. Table 3.1. also shows a significant increase in high job expectations amongst established business owners in 2023.<sup>27</sup>

**Table 3.1: Five Year Growth Aspirations: Canada, 2019-23**

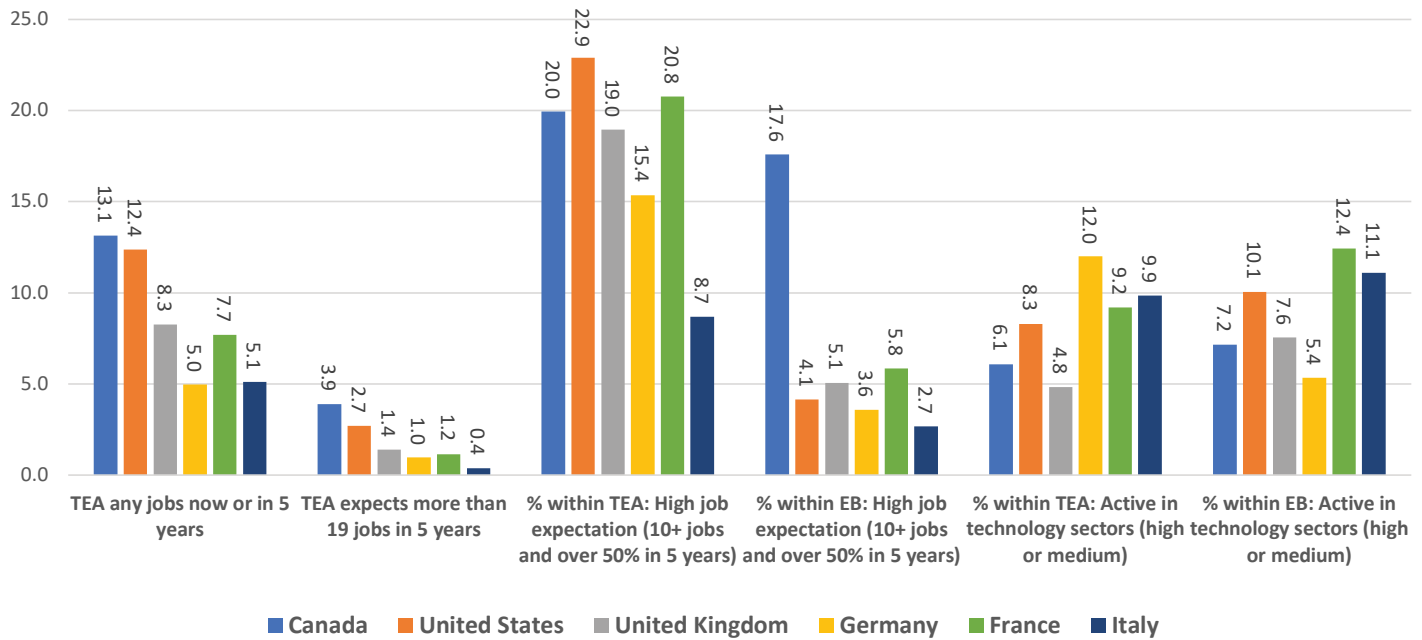
	TEA any jobs now or in 5 years	TEA expects more than 19 jobs in 5 years	% with TEA: High job expectation (10+ jobs & over 50% in 5 years)	% with EBO: High job expectation (10+ jobs & over 50% in 5 years)	% within TEA: Active in technology sectors (high or medium)	% within EBO: Active in technology sectors (high or medium)
<b>2019</b>	12.2	3.0	18.2	8.8	4.6	5.9
<b>2020</b>	9.8	2.1	12.9	4.4	5.5	4.4
<b>2021</b>	12.7	2.6	15.9	12.2	8.4	9.5
<b>2022</b>	10.0	2.2	17.4	6.4	5.6	8.6
<b>2023</b>	13.1	3.9	20.0	17.6	6.1	7.2
Difference: 2022 vs. 2023	+3.1%	+1.7%	+2.6%	+11.2%	+0.5%	-1.4%

<sup>26</sup> Job creation is an expected outcome of entrepreneurial activity and an important measure of growth that contributes to national wealth. GEM asks early-stage entrepreneurs and established businesses how many employees (other than the owners) they have now and expect to have in the next five years. The difference between current and expected employees indicates growth expectations.

<sup>27</sup> While GEM measures growth aspirations rather than actual growth, it nevertheless provides the best available indication of growth expectations by entrepreneurs and established businesses.

Figure 3.3 compares Canada with other G6 economies in job growth aspirations (10+ jobs) for 2023. Canada's growth aspirations for established business owners are much higher than other G6 economies, with Canada leading the G6 in the level of high growth aspirations for total early-stage activity in the next 5 years. Where Canada ranks less favorably amongst G6 economies is in medium or high growth aspirations in technology sectors for both total early-stage and established business activity.

**Figure 3.3: Five-Year Growth Aspirations: G6 Comparisons**



Overall, growth aspirations have risen in 2023, which suggests that Canadian entrepreneurs and established business owners are more optimistic about prospects for growth and job recruitment over the next 5 years.

### 3.3 Export Orientation<sup>28</sup> and Digital Use

Figure 3.4 shows Canada's high level of export orientation by revenue for total early-stage and established business activity compared to other G6 economies. Both levels have risen slightly in 2023 from 2022 and are almost twice the level of the USA. These results suggest that Canadian entrepreneurs continue to seek external markets for their goods and services, despite a more subdued performance overall in Canada's merchandise trade in 2023, influenced by factors such as the lowering of commodity prices, and the easing of supply chain pressures.<sup>29</sup>

Figure 3.4: High Export Orientation by Revenue: G6 Comparison

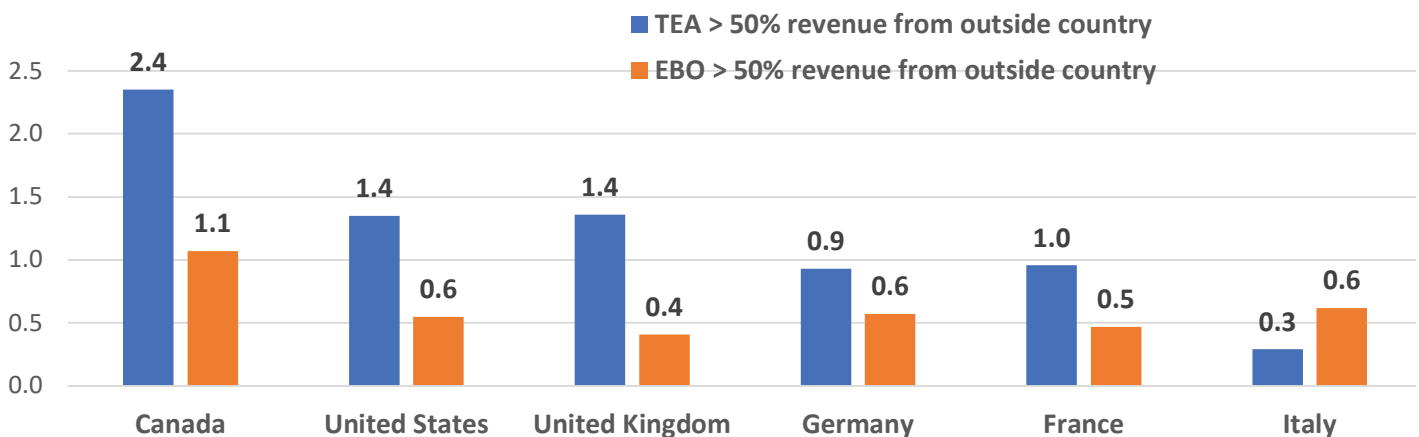
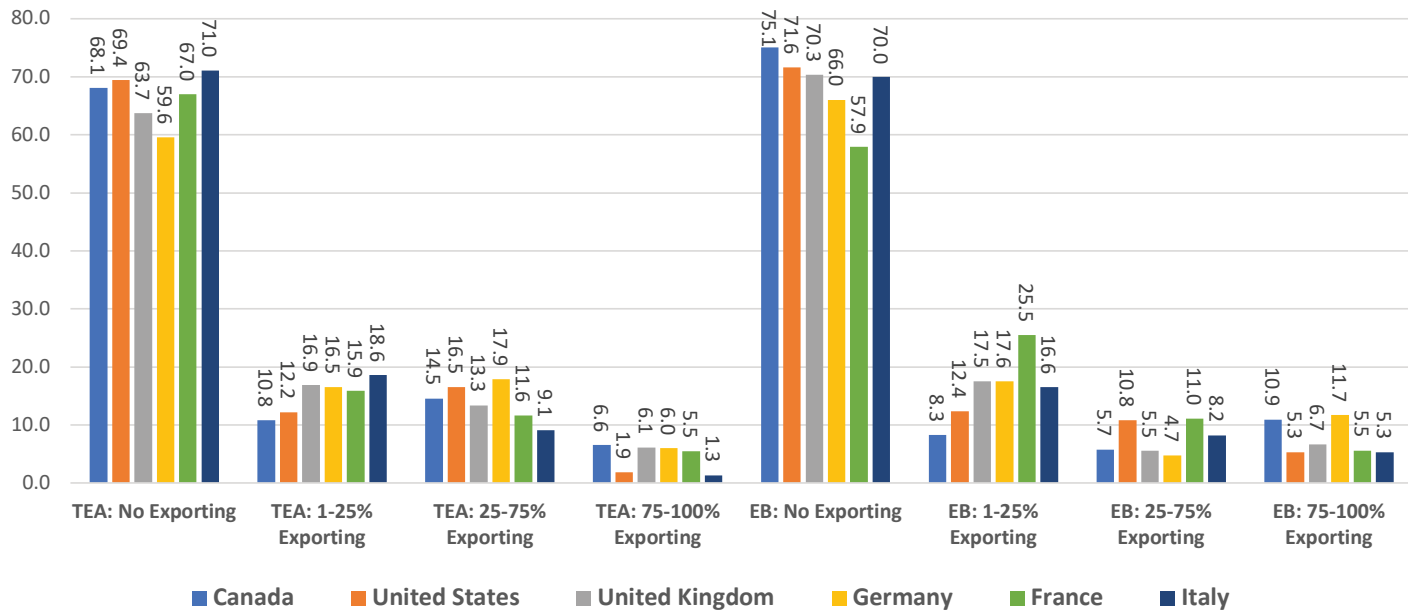


Figure 3.5 shows Canada's comparative export orientation strength, with Canada leading the G6 with the highest level of entrepreneurs anticipating 75% or more of their revenue from export and the 2nd highest level of established businesses anticipating 75% or more of revenue from export, behind Germany. One in three new entrepreneurs had customers beyond Canada in 2023.

<sup>28</sup> Export orientation is recognized as an indicator of productive entrepreneurship and innovation in an economy. GEM data captures three measures to assess the level of export orientation for entrepreneurs: 1) percentage of revenues from outside Canada; and 2) level of export orientation, defined as more than 50% of revenue from outside the country.

<sup>29</sup> [https://www.international.gc.ca/trade-commerce/economist-economiste/analysis-analyse/merchandise\\_trade-commerce\\_marchandises-2023.aspx?lang=eng](https://www.international.gc.ca/trade-commerce/economist-economiste/analysis-analyse/merchandise_trade-commerce_marchandises-2023.aspx?lang=eng)

**Figure 3.5: High Export Orientation by TEA and EBO: G6 Comparisons**



While the level of export orientation for Canadian entrepreneurs varied only slightly from 2022 results, 2023 saw an increase for established businesses anticipating 75% or more of revenue from export, and a decrease for established businesses anticipating 1-75% of revenue from exports. This result may relate to the shift in export activity for Canada in 2023, where exports for consumer goods and industrial products contracted and exports of machinery and transportation equipment increased, possibly favoring larger, export-orientated businesses.<sup>30</sup>

Figure 3.6 shows Canada with the highest level of national scope for new products or processes amongst G6 economies, with 3% of entrepreneurs producing products or processes new to the country.<sup>31</sup> Products or services new to the world are much less common, with only 1% of entrepreneurs reaching international markets with new products or processes. Both levels for Canada increased slightly from 2022.

<sup>30</sup> [https://www.international.gc.ca/trade-commerce/economist-economiste/analysis-analyse/merchandise\\_trade-commerce\\_marchandises-2023.aspx?lang=eng](https://www.international.gc.ca/trade-commerce/economist-economiste/analysis-analyse/merchandise_trade-commerce_marchandises-2023.aspx?lang=eng)

<sup>31</sup> GEM questions inquire on the scope of the new business (whether they had local, national, or global customers); the scope of their new products/services (whether they were new to customers locally, nationally or globally); and whether technologies/procedures were new locally, nationally or globally.

Figure 3.6: New Product Market Combination % of TEA: G6 Comparisons

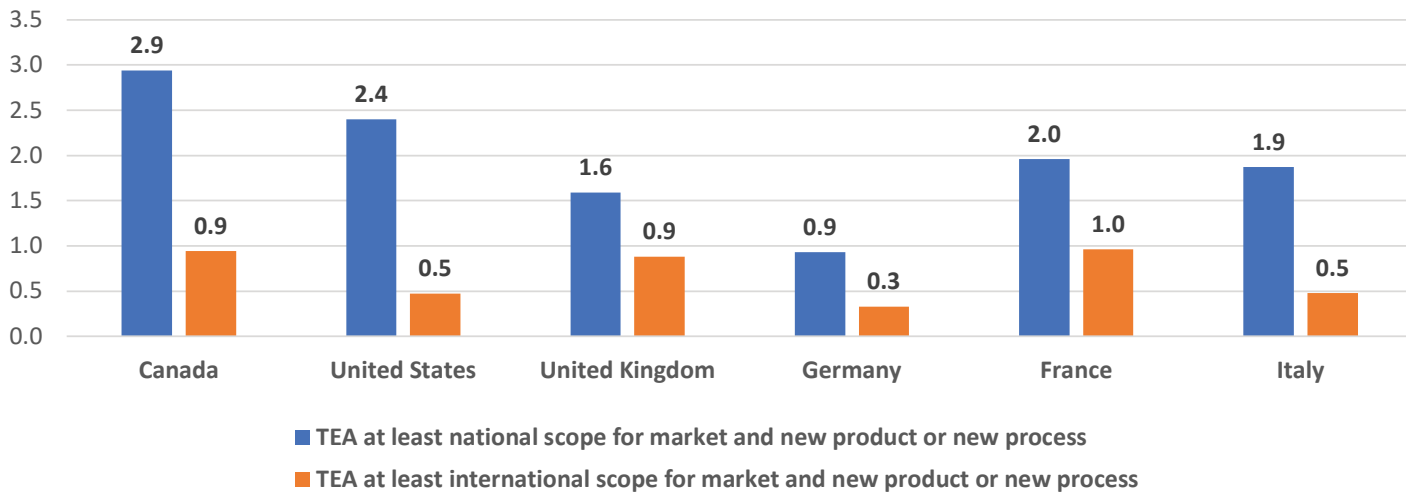


Figure 3.7 shows the level of digital technology usage by new entrepreneurs amongst G6 countries.<sup>32</sup> Canada has the 2nd highest level, below the UK, with five in 10 Canadian entrepreneurs using digital technologies to sell their products.

Figure 3.7: Digital Technology Usage, TEA: G6 Comparisons

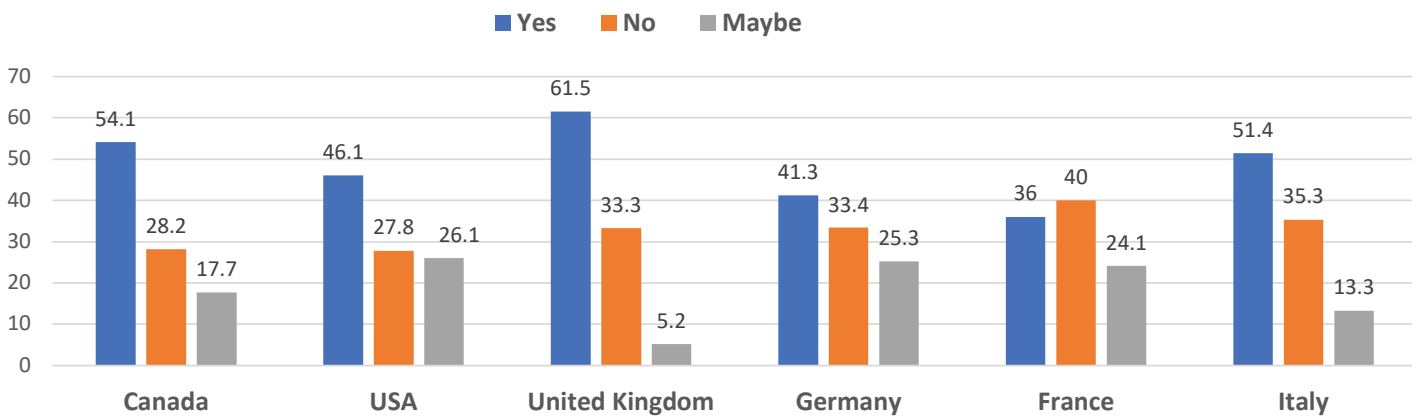
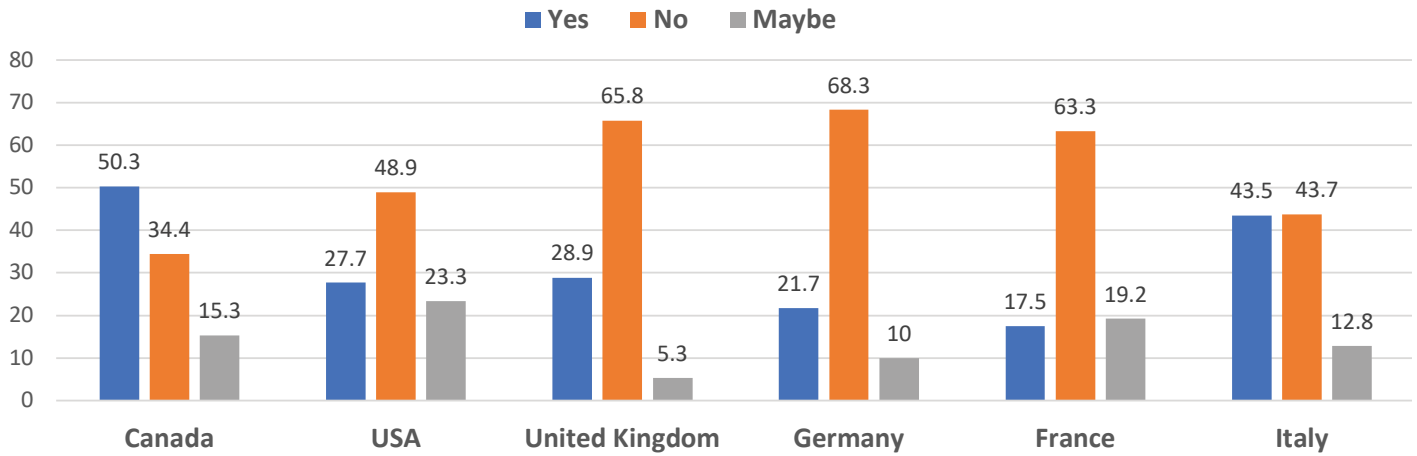


Figure 3.8 shows the level of digital technology usage by established businesses amongst G6 countries. Five in 10 Canadian established businesses use digital technologies, compared to three in 10 for the USA and UK and two in 10 for Germany. Digital use is slightly lower by Canadian established businesses compared to new entrepreneurs, with higher differences seen across the other G6 countries.

<sup>32</sup> In the 2023 GEM APS, both new and established entrepreneurs were asked whether, in the next six months, they expected their business to use more digital technologies to sell their products.



Figure 3.8: Digital Technology Usage, EBO: G6 Comparisons



Statistics Canada data shows that, beyond the growth in e-commerce, the COVID-19 pandemic further stimulated the need by businesses to use digital technologies.<sup>33</sup> Small businesses in finance and insurance, information and culture, professional services and wholesale trade industries were consistently among those reporting the highest digital tech adoption rates.

### 3.4 Franchising Orientation

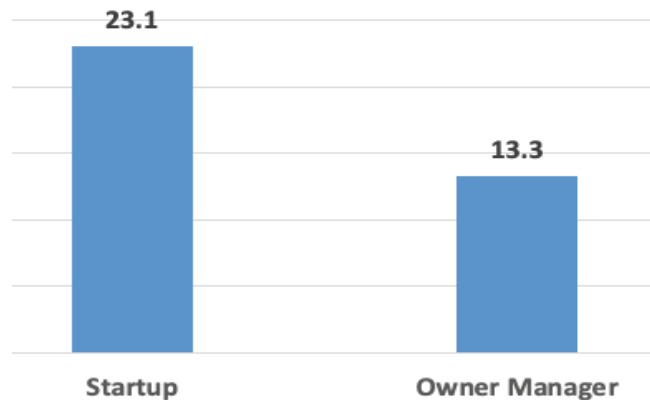
An additional question was included in the Canadian GEM Adult Population Survey (APS) for 2023 regarding franchising. The question asked respondents whether the new or established business was a franchise. This is the first year that this question was asked in the APS, so there will be an opportunity to compare data in subsequent years and identify patterns and trends.

Figure 3.9 shows that almost a quarter of total early-stage entrepreneurial activity is based on the franchise model, with just over one in ten established businesses based on the franchise model.

<sup>33</sup> Survey of Digital Technology and Internet Use (SDTIU). In 2021, more Canadian businesses used information and communication technologies (85%) compared with 2019 (80%). Some of the most used technologies were company-wide computer networks (53%), industry specific software (46%) and Internet-connected smart devices (22%).

<https://www23.statcan.gc.ca/imdb/p2SV.pl?Function=getSurvey&Id=1318258>

Figure 3.9: Franchising Orientation: TEA and EBO Comparison



The high adoption of the franchise model is a surprising finding. Yet, according to the Canadian Franchising Association (CFA), Canada has the 2nd largest franchise industry in the world, behind the USA, with approximately 1,300 franchise systems, 76,000 franchised outlets, and 4,300 new franchise outlets open in Canada each year.<sup>34</sup> About 40% of the franchise systems in Canada are a part of the food industry.<sup>35</sup>

CFA data shows that the number of women franchisees has grown by 35% in the past decade, and women now own 37% of all franchises in Canada.<sup>36</sup> Several reasons are cited for why franchising is attractive for women, which include having a proven business model to build off, along with a supportive network of fellow franchisees and franchisors.

<sup>34</sup> Canadian Franchising Association, [Franchising-In-Canada-Facts-Stats.pdf \(cfa.ca\)](#)

<sup>35</sup> [Food Franchise Report | Franchise Direct Canada](#)

<sup>36</sup> [Women and Franchising in Canada | Franchise Direct \(franchisedirectcanada.com\)](#)

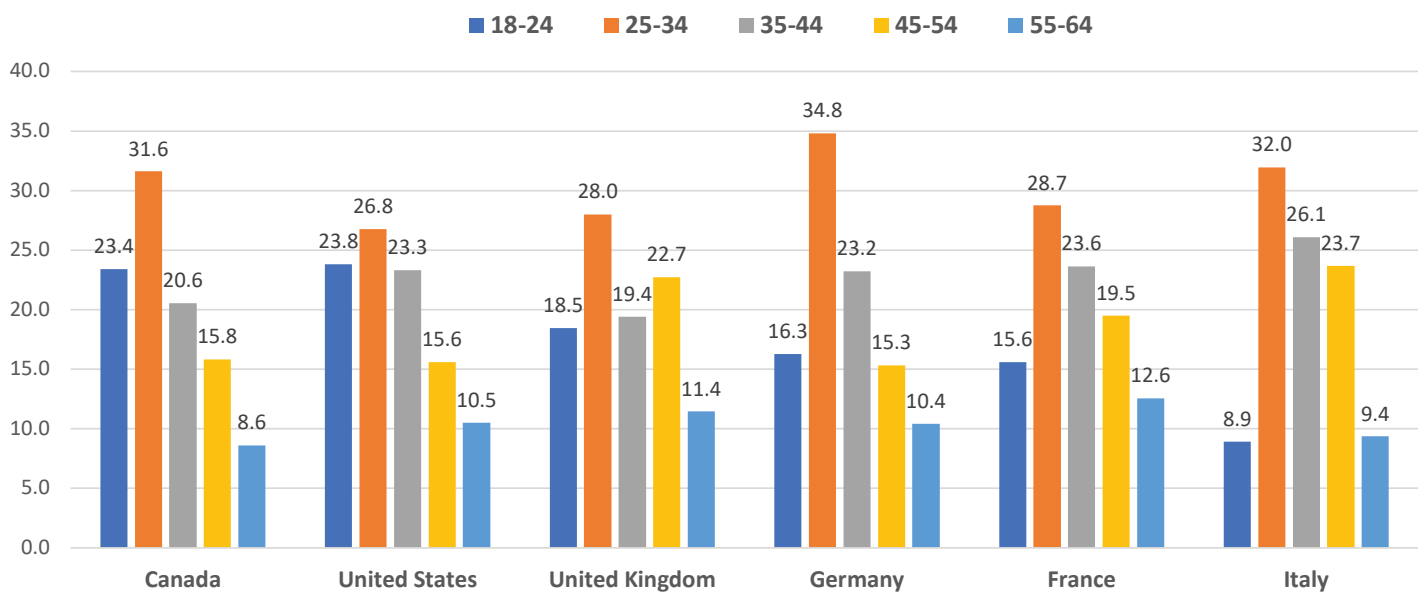
## CHAPTER 4 DEMOGRAPHICS OF ENTREPRENEURSHIP

This chapter examines the demographic dimensions of entrepreneurship in Canada for 2023, which considers factors such as age, education, and gender.

### 4.1 Age

Figure 4.1 shows TEA rates by age category for G6 countries. Canada’s highest TEA contribution comes from the 25-34 age group, which is consistent with previous years’ results. Canada has the 2<sup>nd</sup> highest TEA rate in the 18-24 age group amongst the G6 economies and lowest TEA rate in the 55-64 age group.

**Figure 4.1: TEA Rates for Canadian Entrepreneurs by Age**



The TEA rate for the 18–24-year age group increased by 7% in 2023, after showing a significant decrease (-12%) between 2021 and 2022. All other age groups saw slight decreases from 2022 levels. Canada was one of seven economies in 2023 where younger people were more than twice as likely than older people to be starting new businesses. Canada was also only one of two economies in 2023 (out of 45) where a slightly higher proportion of younger people than older people were owning an established business.<sup>37</sup>

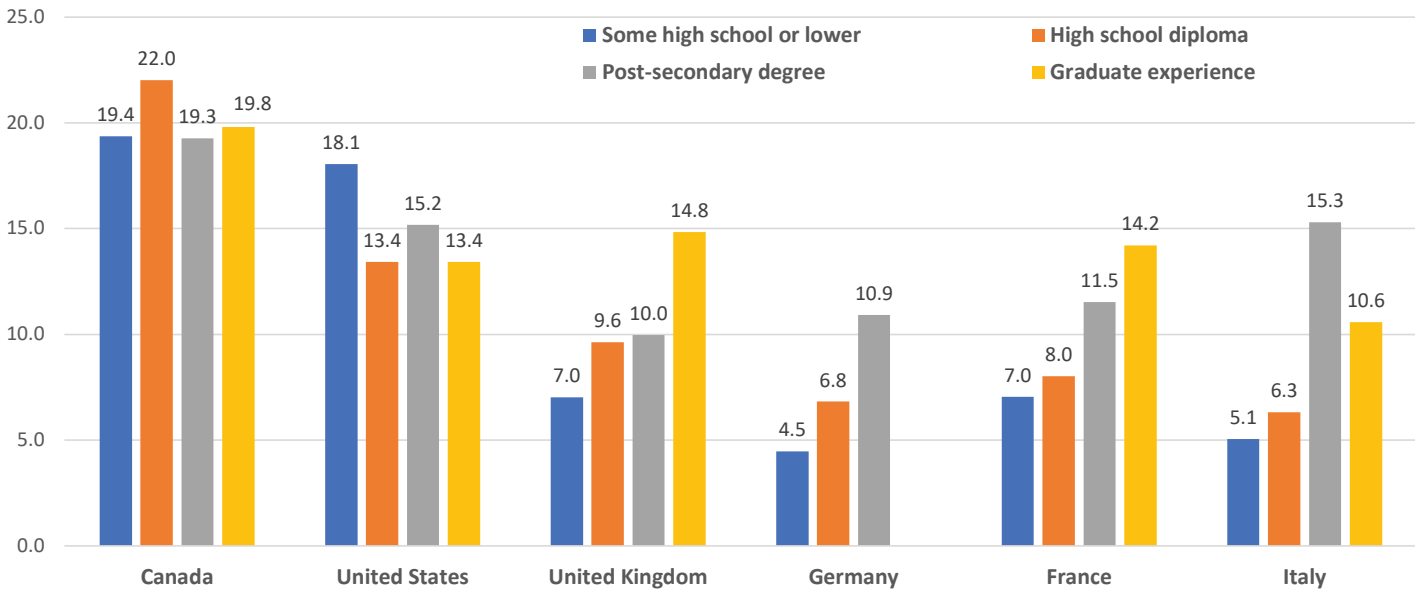
<sup>37</sup> <https://www.gemconsortium.org/reports/latest-global-report>, p. 68.

There are several possible explanations for the demographic shift to a younger cohort. One is the rise in ‘entrepreneurial intentions’ in 2023, and although Canada has a higher fear of failure rate, younger people are less likely to have family and other responsibilities and have less concern about the potential consequences of failure. Another is that younger people are more likely to be economically motivated to engage in entrepreneurship, with ‘building great wealth’ and ‘earning a living’ agreed by almost seven in 10 Canadian entrepreneurs in 2023.

### 4.2 Education

Figure 4.2 compares Canada’s TEA educational levels with other G6 economies. It shows Canada with high rates across all educational levels, with Canada the only G6 country where non-graduates are more likely to be starting or running a new business than graduates; the result of a significant increase in ‘some high school’ and ‘high school diploma’ levels between 2022 and 2023 (10% and 11% respectively). The graduate educational level rate for Canada also dropped by 7% in 2023.

Figure 4.2: TEA Educational levels: G6 Comparisons

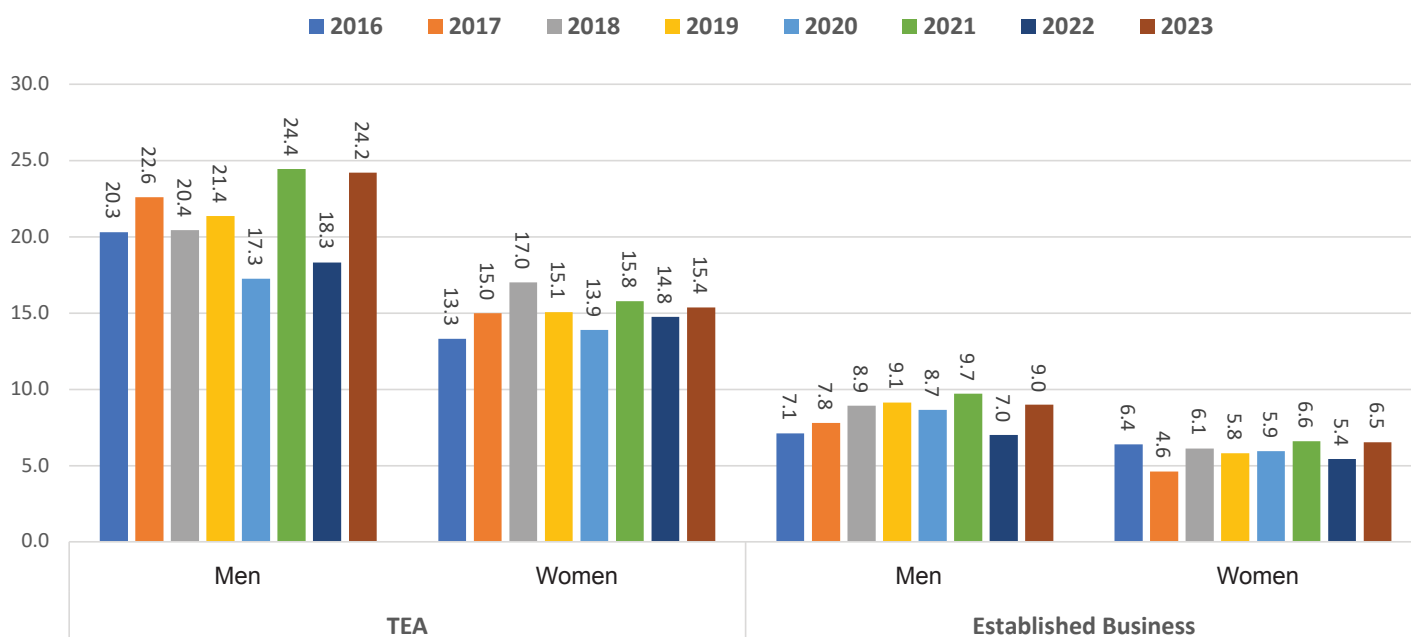


While economic conditions in 2022 may have favored those with higher levels of education who were older, because of better access to resources, technical skills and networks; it appears that conditions in 2023 are providing more opportunities for a younger cohort of entrepreneurs who do not possess university or college qualifications.

### 4.3 Gender

Figure 4.3 shows Canadian total early-stage activity and established business rates by gender for the period 2016-23. Canada had the highest relative gender gap amongst 46 countries in the 2023 GEM global study. While the Canadian women TEA level increased only slightly in 2023, the Canadian men TEA level increased by 6% from 2022. Canada’s relative gender gap is now at its highest level since 2016.

**Figure 4.3: TEA and EBO Rates by Gender: Canada (2016-23)**



The relative gender gap in Canada’s established businesses has also increased in 2023, despite the women EBO level now at its 2<sup>nd</sup> highest level since 2016. The men EBO level rose by 3% in 2023, following a 3% decrease in 2022 (which was its lowest level since 2016).<sup>38</sup> In referring to Figure 4.3, the ratio of women to men Established Business Ownership exceeded that for new entrepreneurship in 2023.

Figure 4.4 shows total early-stage activity rates by gender for G6 economies in 2023, which highlights Canada’s high relative gender gap. Canadian TEA levels for men and women increased from 2022 levels. By comparison, USA TEA levels for men and women both dropped (by 4% and 5% respectively), with the gap between Canadian and USA men particularly high.

<sup>38</sup> This suggests that either more equality between genders starting new businesses has yet to fully work its way into established businesses, or that businesses started by women may have a lower rate of transition into established businesses than those started by men, [GEM Global Entrepreneurship Monitor \(gemconsortium.org\)](https://gemconsortium.org), p. 88.

Figure 4.4: TEA Rate by Gender: G6 Comparisons

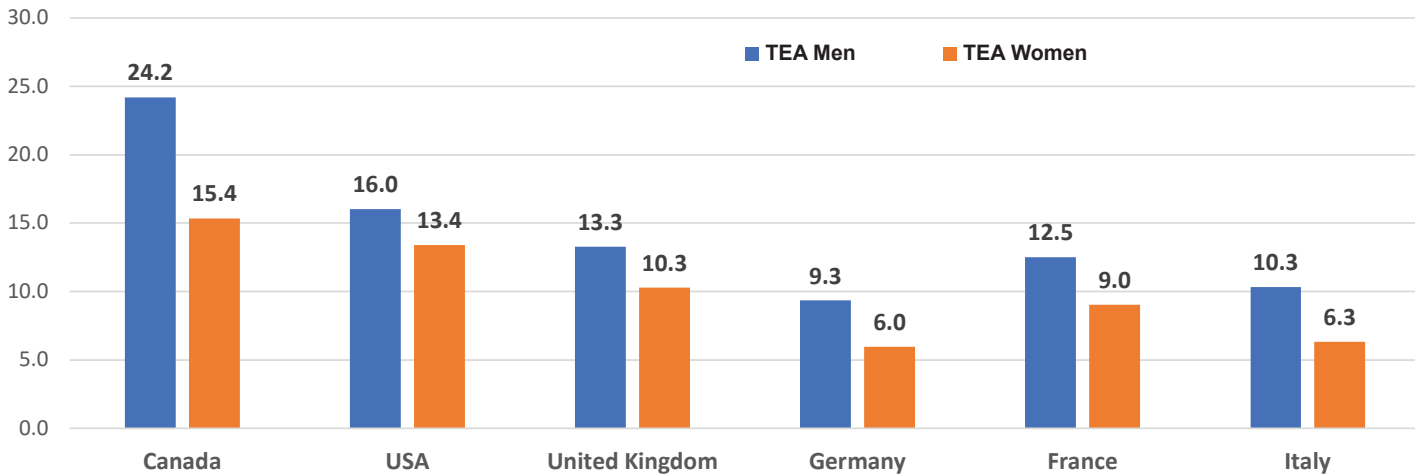
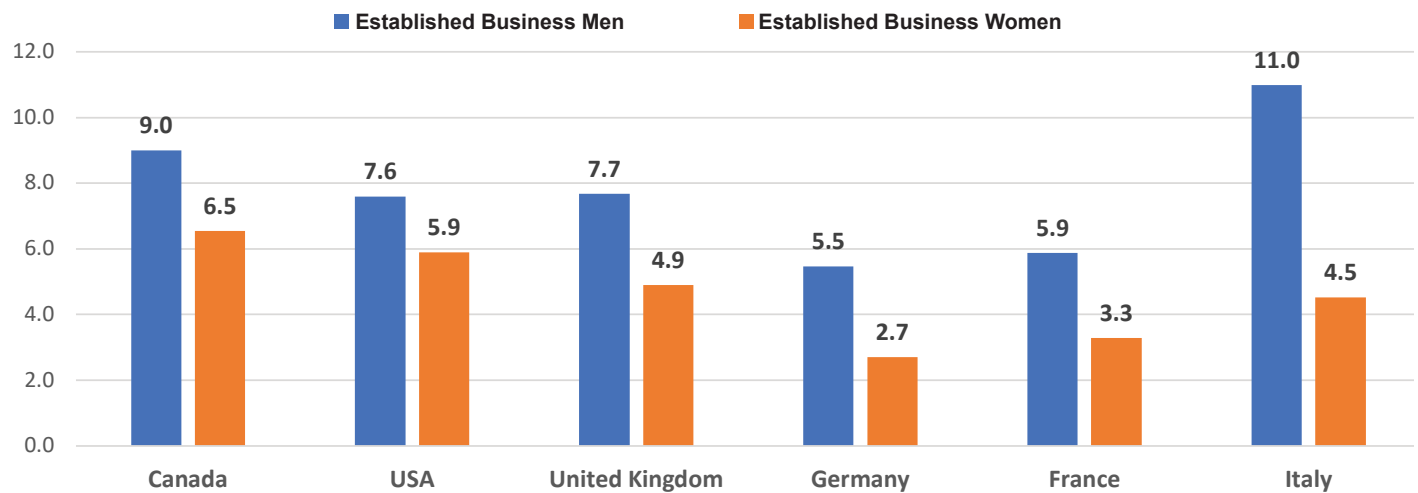


Figure 4.5 compares EBO rates by gender for the G6 economies, which shows Canada with the highest EBO rate for women and 2<sup>nd</sup> highest rate for men, behind Italy.

Figure 4.5: EBO Rate by Gender: G6 Comparisons

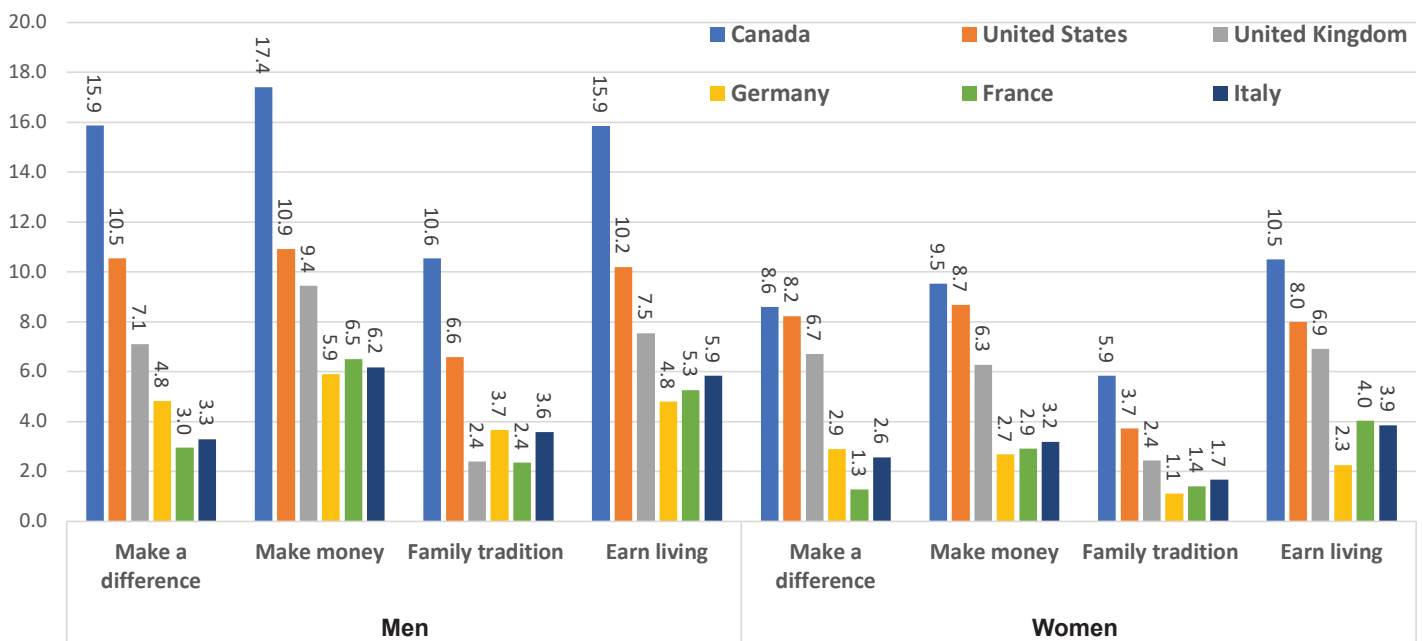


In comparing TEA and EBO rates by gender, Canada is the only G6 country where the ratio of women to men Established Business Ownership exceeded that for new entrepreneurship. This suggests that Canada has a higher transition rate from new to established businesses for women vs. men compared to other G6 countries.

## Gender: Motivations

Figure 4.6 shows TEA motivations by gender amongst G6 economies. Canadian women show the highest level ‘to earn a living’ amongst G6 comparators, while Canadian men show the highest level ‘to make money.’ Canada leads the G6 with the highest level of economic motivations (e.g. ‘to make money’ and ‘to earn a living’) for both men and women, with these levels increasing from 2022 levels, particular for men. The motivation ‘to carry on a family tradition’ showed the lowest level for Canadian men and women, similar to 2022.

Figure 4.6: TEA Motivations by Gender: G6 Comparisons



In summary, GEM results for 2023 show Canada with the highest level across all four motivations for both men and women, which contrasts with 2022, where all four motivations declined from the previous year. We associated this decline with Canada’s drop in TEA level and suggest that the rise in motivation levels in 2023 is associated with Canada’s higher TEA level in 2023.

Despite the high level of economic motivations, Canadian men and women still show the highest level of ‘making a difference’ motivation, which is associated with building ‘purpose-led’ businesses.

## CHAPTER 5 FRAMEWORK CONDITIONS FOR ENTREPRENEURSHIP

This chapter summarizes findings from GEM’s National Expert Survey (NES) and considers how Canada measures up regarding its entrepreneurial framework conditions (EFCs). Thirty-six experts were asked to express their views about 13 framework conditions that can either foster or constrain entrepreneurial activity.

The economies completing the NES were then ranked using the National Entrepreneurship Context Index (NECI). The NECI helps to identify areas where there are gaps between the EFC ratings in relation to the importance placed on them. Research confirms the importance of having healthy conditions across all aspects of the environment to enable productive entrepreneurship.<sup>39</sup> The NECI is the average of the pooled expert scores across the 13 entrepreneurial framework conditions.

Figure 5.1 presents NECI scores for Canada and the other G6 economies in 2023. France ranks first, followed by Canada, USA and Germany. Canada’s NECI score has been relatively stable in recent years, but in 2023, its score declined to less than sufficient, as did the USA and UK.

**Figure 5.1: National Entrepreneurial Conditions Framework (NECI) Ratings, G6 Comparison**

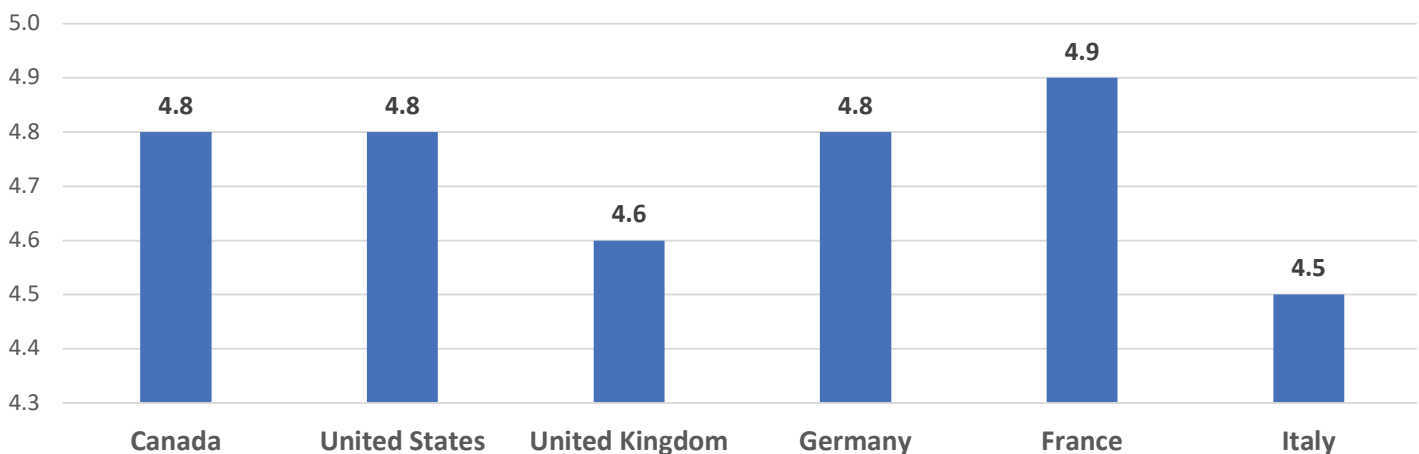




Figure 5.2 illustrates Canada's framework condition scores in relation to other G6 economies. It shows Canada to be similar to G6 countries in some entrepreneurial framework conditions (EFCs), such as entrepreneurial level of education (vocational, university) but substantially different in others, such as cultural and social norms.

**Figure 5.2: Entrepreneurial Framework Conditions: G6 Comparisons**

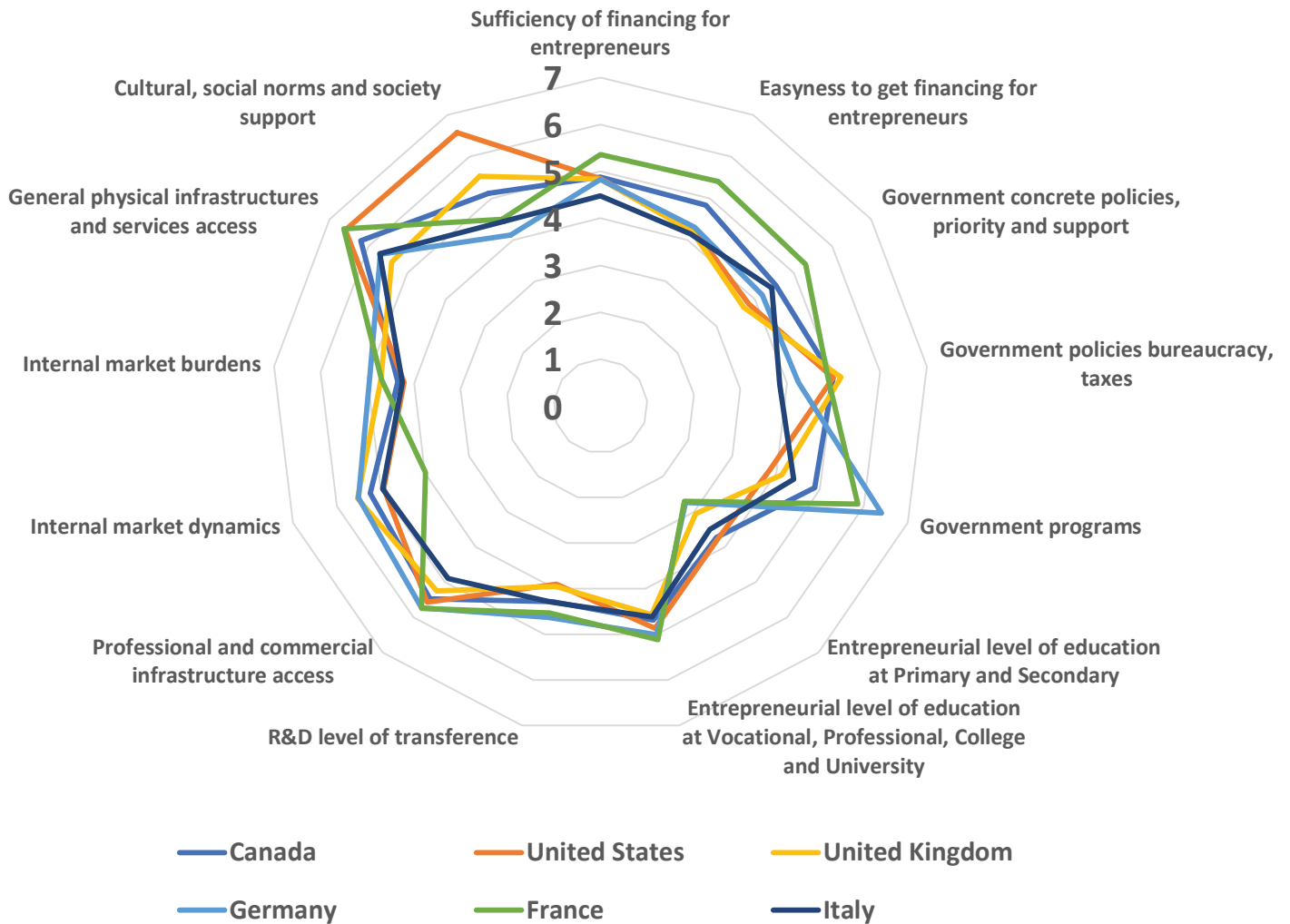


Table 5.1 shows each of the 13 entrepreneurial framework condition scores for Canada and other G6 countries. Table 5.1 shows that Canada's highest EFC score was in general physical infrastructure and its lowest score was in entrepreneurial level of education in primary and secondary.

None of Canada's EFCs scored either the highest or the lowest amongst G6 countries. By comparison, the USA has two of the lowest scores (R&D level of transference, and government programs) and two of the highest scores (culture and societal support, and general physical infrastructure).

**Table 5.1: Entrepreneurial Framework Condition Scores: G6 Comparisons**

Entrepreneurial Framework Conditions (EFC)	Canada	USA	UK	Germany	France	Italy
Sufficiency of financing for entrepreneurs	4.9	4.9	4.8	4.8	<b>5.4</b>	4.5
Easiness to get financing for entrepreneurs	4.8	4.3	4.2	4.3	<b>5.4</b>	4.1
Government concrete policies, priority and support	4.5	3.8	3.7	4.2	<b>5.3</b>	4.4
Government policies bureaucracy, taxes	5.0	5.0	5.2	4.2	4.9	3.9
Government programs	4.9	3.9	4.1	6.4	<b>5.9</b>	4.4
Entrepreneurial level of education at Primary and Secondary	3.7	<b>3.8</b>	3.1	2.7	2.7	3.5
Entrepreneurial level of education at Vocational, Professional, College and University	4.7	4.9	4.6	5.0	<b>5.1</b>	4.6
R&D level of transference	4.3	3.9	4.0	<b>4.6</b>	4.5	4.3
Professional and commercial infrastructure access	5.5	5.6	5.3	5.7	<b>5.8</b>	4.9
Internal market dynamics	5.2	4.9	<b>5.5</b>	5.5	4.0	5.0
Internal market burdens	4.4	4.2	4.7	<b>5.0</b>	4.7	4.3
General physical infrastructures and services access	6.2	<b>6.6</b>	5.4	5.7	<b>6.6</b>	5.7
Cultural, social norms and society support	5.1	<b>6.6</b>	5.5	4.1	4.5	4.4

Overall, Canada's entrepreneurial environment, based on its entrepreneurial framework condition scores, did not improve in 2023. Canada only had five EFCs assessed as sufficient (score  $\geq 5.0$ ) in 2023, compared to seven in 2022.<sup>40</sup>

There were sharp decreases in Canada's scores for those EFCs most closely associated with government. The most significant drops were in Government Policy: Taxes and Bureaucracy (from 5.8 to 5.0), Government Policy: Support and Relevance (from 5.2 to 4.5) and Government Entrepreneurial Programs (from 5.6 to 4.9). Some of the downturn observed in 2023 may be associated with the gradual withdrawal of Canadian federal government funding which supported businesses and individuals during the pandemic.

Additional questions in the 2023 National Expert Survey (NES) sought expert views of the sufficiency of social support available to women entrepreneurs, as well as how women entrepreneurs' access to resources compared to that of men. As with many economies in the GEM global study, Canada scored poorly on the former (score of 4.0), but much better on access to resources (5.9, placing Canada 8<sup>th</sup> out of 49 economies).

<sup>40</sup> GEM global findings show that high income is no guarantee of a positive environment in which to start a business, just as low income need not prevent the attainment of a high-quality environment in which to start and grow a business. GEM 2023/24 Global Report, p. 101. <https://www.gemconsortium.org/reports/latest-global-report>.

## CHAPTER 6 SUMMARY AND RECOMMENDATIONS

This chapter summarises findings of the Report under the following headings: perceptions of entrepreneurial skills; entrepreneurial activity; entrepreneurship in the economy, demographics, and framework conditions. This is followed by recommendations based on the Report findings.

### Perceptions of Entrepreneurial Skills

The Report find that the Canadian population has more positive attitudes towards entrepreneurship in 2023 compared to 2022, with more Canadians intending to engage in entrepreneurial activity in 2023 compared to the previous 7 years (since 2016).

Canada's rise in 'perceived capabilities' in 2023 suggests that Canadian entrepreneurs are more confident in the abilities to start a business. Together with Canada's higher levels of 'perceived opportunities' and 'knowing entrepreneurs,' the report suggests that entrepreneurship enjoys a high profile in Canada, with Canadian adults well positioned to engage in entrepreneurial activity.

However, Canada still shows a large perception gap between entrepreneurial opportunities and intentions, where almost six in ten adults that see good opportunities would not start a business for fear it might fail. Fear of failure remains a formidable obstacle to new startups in Canada. While two out of three Canadian adults see good opportunities to start a business, more than half of these would not do so for fear it might fail, despite the fact that GEM data shows Canada ranked 10<sup>th</sup> out of 46 economies in 'ease of starting a business, with the OECD identifying Canada as a particularly attractive country for international entrepreneurs.

### Entrepreneurial Activity

Canada's total early-stage entrepreneurial activity (TEA) is the highest amongst G6 economies in 2023, ranking it 11<sup>th</sup> out of 46 countries. Canada's TEA rate has noticeably fluctuated in the past 5 years, with

the TEA rate falling at the start of the pandemic, recovering somewhat, falling again and then increasing by 3% in 2023. One explanation for Canada's rise in TEA in 2023 is increasing demand in 'client-facing' service industries, fueled by Canada's surging population rate.

Canada also has the highest established business ownership (EBO) level compared to other G6 economies in 2023, ranking it 16<sup>th</sup> out of 46 countries. However, the long-term EBO trend had been downward, which suggests difficulty in converting Canada's relatively high rate of startups into established businesses.

GEM data for 2023 shows that Canada has more than two adults starting a new business for every adult owning an established one. The disproportion of new over established businesses in Canada reflects the challenge of sustaining a new business long enough for it to become established. This remains a persistent challenge for Canada, and one that has a direct effect on Canadian job growth and productivity

Almost seven in ten Canadians were economically motivated to engage in entrepreneurial activity in 2023. The two economic motivations ('to build great wealth or very high income,' and 'to earn a living because jobs are scarce') increased from 2022 levels by 3% and 9% respectively. The economic motivations have noticeably fluctuated in the past few years, increasing in 2021, decreasing in 2022, and then increasing again in 2023. Higher levels of economic motivators may suggest the rise in 'necessity entrepreneurship' (e.g. starting a business without other income options) but can also include opportunity-seeking entrepreneurship (e.g. have job options but participate in entrepreneurship because they can increase their income, pursue a passion, etc.).

Canada shows the highest rate of business discontinuance amongst G6 economies, which has risen slightly from 2022. Canada's rate of exits increased in 2023, while its rate of business continuation as a proportion of exits increased, suggesting less business churn in 2023. Variations in the level of established business exits for Canada also increased relative to total early stage exits.

Discontinuance factors in 2023 are similar to 2022, with the most common factor being ‘an opportunity to sell the business,’ which increased slightly from 2022, and the ‘business was not profitable,’ which decreased by 3% from 2022. The most significant change in 2023 was a decrease in problems getting financing, and a decrease in the coronavirus pandemic as a discontinuous factor. Voluntary discontinuance factors, such as other business opportunities, an opportunity to sell the business, and family or personal reasons contribute to Canada’s high rate of discontinuance.

Business angel activity for Canada increased by 3% in 2023, although Canada had the lowest average level of funds in the G6, a similar result to 2022. The year 2023 was identified as one of the most difficult on record to raise a funding round, as interest rates climbed, and global uncertainty became pervasive.

## **Entrepreneurship in the Economy**

The highest level of total early-stage entrepreneurial activity for Canadian adults in 2023 is in consumer-oriented services. Canada’s TEA rate in this sector increased by 10% in 2023, after falling between 2021 and 2022. Canada’s TEA rate in higher value sectors such as business-oriented services and the transformative sector decreased by 4% and 6% respectively from 2022 levels. One explanation is higher activity in services-producing industries, whose output bolstered overall economic growth during a challenging year for goods-producing industries.

Canada’s established business ownership strength continues to be in the extractive sector, which is significantly higher than the TEA rate in this sector. One explanation is that factors such as regulatory and carbon policy uncertainty are making the sector less attractive for new entrants. Another factor relates to incentives to engage in entrepreneurship versus working in established businesses (e.g. ‘crowding out effect’), given that jobs in the extraction sub-industry are amongst the highest paying.

Canada's EBO rate in business-oriented services is now higher than its TEA rate, which suggests that start-ups are transitioning into established businesses. Canada's EBO rate in consumer-oriented services is 21% lower than its TEA rate in 2023, which suggests that while many entrepreneurs enter this category, a high proportion are not transforming into established businesses. This may be influenced by Canada's high rate of discontinuance, with six in 10 Canadians citing voluntary reasons for discontinuing their business.

Growth aspirations have risen in 2023, with the proportion of new entrepreneurs expecting to employ at least another six people over the next five years slowly increasing in recent years, approaching one in five in 2023. There is also a significant increase in high job expectations amongst Canada's established business owners. This suggests that Canadian entrepreneurs and established business owners are more optimistic about prospects for growth and job recruitment over the next 5 years.

One in three new Canadian entrepreneurs had customers beyond Canada in 2023. Canada leads the G6 in level of export orientation by revenue for total early-stage and established business activity, which are almost twice the level of the USA. The importance of digital technology was highlighted in 2023, with five in 10 Canadian entrepreneurs and established business owners using digital technologies to sell their products.

An additional question was included in the Canadian GEM Adult Population Survey (APS) for 2023, which asked whether the new or established business was a franchise. The Report finds that almost a quarter of total early-stage entrepreneurial activity is based on the franchise model, with just over one in ten established businesses based on the franchise model. According to the Canadian Franchising Association (CFA), there are approximately 1,300 franchise systems in Canada, with approximately 4,300 new franchise outlets opening in Canada each year. This is the first year that this question was asked in the APS, so there will be an opportunity to compare data in subsequent years and identify patterns and trends.

## Demographics

Canada's highest total early-stage entrepreneurial activity contribution comes from the 25-34 age group, which is consistent with previous years' results. All other age groups saw slight decreases from 2022 levels. Canada was one of seven economies in 2023 where younger people were more than twice as likely than older people to be starting new businesses. Canada was also only one of two economies in 2023 (out of 45) where a slightly higher proportion of younger people than older people were owning an established business.

The demographic shift to a younger cohort of entrepreneurs has several possible explanations. One is the rise in 'entrepreneurial intentions' in 2023, and although Canada has a higher fear of failure rate, younger people are less likely to have family and other responsibilities and have less concern about the potential consequences of failure. Another is that younger people are more likely to be economically motivated to engage in entrepreneurship, with 'building great wealth' and 'earning a living' agreed by almost seven in 10 Canadian entrepreneurs in 2023.

Canada is the only G6 country where non-graduates are more likely to be starting or running a new business than graduates. While economic conditions in 2022 may have favored those with higher levels of education who were older, because of better access to resources, technical skills and networks; it appears that conditions in 2023 are providing more opportunities for a younger cohort of entrepreneurs who do not possess university or college qualifications.

Canada had the highest relative gender gap amongst 46 countries in 2023. While the Canadian women total early-stage entrepreneurial activity level increased only slightly in 2023, the Canadian men TEA level increased by 6%, resulting in Canada's relative gender gap at its highest level since 2016. In comparing TEA and established business ownership rates by gender, Canada is the only G6 country where the ratio of women to men EBO exceeded that for new entrepreneurship. This suggests that Canada has a higher transition rate from new to established businesses for women vs. men compared to other G6 countries.



Canada leads the G6 with the highest level of economic motivations (e.g. ‘to make money’ and ‘to earn a living’) for both men and women, with these levels increasing from 2022 levels, particular for men. Despite the high level of economic motivations, Canadian men and women still show the highest level of ‘making a difference’ motivation, which is associated with building ‘purpose-led’ businesses.

## **Framework Conditions for Entrepreneurship**

Canada’s National Entrepreneurship Context Index (NECI) score has been relatively stable in recent years, but in 2023, its score declined to less than sufficient, as did the USA and UK. None of Canada’s 13 entrepreneurial framework conditions (EFC) measures scored either the highest or the lowest amongst G6 countries, but Canada only had five EFCs assessed as sufficient (score  $\geq 5.0$ ) in 2023, compared to seven in 2022.

There were sharp decreases in Canada’s scores for those EFCs most closely associated with government. The most significant drops were in Government Policy: Taxes and Bureaucracy, Government Policy: Support and Relevance, and Government Entrepreneurial Programs. Some of the downturn observed in 2023 may be associated with the gradual withdrawal of Canadian federal government funding which supported businesses and individuals during the pandemic.

Additional questions in the 2023 National Expert Survey (NES) sought expert views of the sufficiency of social support available to women entrepreneurs, as well as how women entrepreneurs’ access to resources compared to that of men. As with many economies in the GEM global study, Canada scored poorly on the former, but much better on access to resources.

## Recommendations

A number of recommendations are drawn from the Report findings for further consideration.

### **1 Address Canada's high 'fear of failure' level.**

The Report finds that almost six in ten Canadian adults that see good opportunities would not start a business for fear it might fail. One of the challenges for Canada, as an innovation-driven economy, is that opportunities for employment are generally more abundant, offering individuals different alternatives to make a living.

Government has an important role to play in nurturing an entrepreneurial culture, and making entrepreneurs feel safe to take risks. This may include leveraging Canada's social safety net, such as supporting women entrepreneurs and their families with affordable day care.

Government can leverage traditional and social media of the network of entrepreneurial support providers and recommit to programs at institutions that specifically address those gaps in entrepreneurial thinking. Another suggestion is to strengthen mentoring and support from established entrepreneurs with profiles similar to their mentees (e.g. youth, women, "LGBTQIA2S+", aboriginal, etc.) to bolster confidence and encourage better decision making with respect to engaging in entrepreneurship.

### **2 Promote and Support Younger Entrepreneurs and Business Owners.**

Canada's younger people are more than twice as likely than older people to be starting new businesses, with a higher proportion of younger people than older people owning an established business. Younger people are also less likely to be deterred by fear of failure than older people and are economically motivated to engage in entrepreneurship.

Canada is also the only G6 country where non-graduates are more likely to be starting or running a new business than graduates, which suggests that support for entrepreneurship be inclusive and more targeted to areas such as the trades. Canada has a high rate of ‘voluntarily’ discontinuance and targeted assistance could include succession planning for older business owners and supporting a new generation to take over successful businesses across different industries.

### **3 Boost Support for Women Entrepreneurship.**

Canada’s relative gender gap in 2023 is at its highest level since 2016, suggesting that more needs to be done to strengthen support for women to engage in entrepreneurial activity. Justification for boosting support for women entrepreneurship is seen in the GEM data, which shows that Canadian women have a higher transition rate from new to established businesses compared to Canadian men. However, GEM data also shows that there is insufficient social support available to women entrepreneurs, which includes support for being able to manage their business activities as well as their family commitments.

### **4 Explore the Impact of Franchising on Early-stage Entrepreneurial Activity.**

The Report finds that almost a quarter of total early-stage entrepreneurial activity is based on the franchise model. While there is debate on whether franchisees are entrepreneurs, given that they typically operate within the confines of a franchisor’s established systems and procedures, this finding highlights the need to explore an understudied area of entrepreneurship.

One question is whether the franchising model, which is common in the consumer-oriented sector, is contributing to Canada’s high level of total early-stage entrepreneurial activity in this sector, and how franchising might be used to enter more value-added sectors, such as business-oriented services. It also appears that franchising may be an important market entry strategy for women entrepreneurs.

## **5 Target Canada's Weak Entrepreneurial Framework Conditions.**

Government could consider targeting those underperforming entrepreneurial framework conditions that they have direct control over. These include Government Policy: Taxes and Bureaucracy, Government Policy: Support and Relevance, and Government Entrepreneurial Education in Schools.

While the first two require a longer-term approach, the government can take steps to address the noted weakness in supporting entrepreneurship in the school system. Youth entrepreneurship is about fostering an entrepreneurial environment, a problem-solving mindset and an attitude of courage, and not just about starting a business. Government could boldly support entrepreneurship as a viable, exciting and valuable career option, but it requires strong support networks and access to capital.

Some suggestions include broadening co-op programs that allow students to get paid while they pursue their entrepreneurial endeavour for the duration of the co-op term and supporting programs, such as Futurpreneur's 'Side Hustle' program, which allows part-time entrepreneurs to access funding and mentorship as they look to grow their early-stage businesses.

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## ABOUT THECIS

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- **Networking.** Providing opportunities for exchange of ideas through breakfast meetings, workshops and conferences.
- **Education.** Dissemination of information through Newsletters, events and other informal education activities, particularly for graduate students.

For more information about THECIS go to [www.thecis.ca](http://www.thecis.ca)

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### **More information**

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The 2023/2024 GEM Global report is available at [www.gemconsortium.org](http://www.gemconsortium.org)

Although GEM data were used in the preparation of this report, their interpretation and use are the sole responsibility of the authors and the GEM Canada team.



## NOTES



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