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Beyond the Big Idea: Redefining and rethinking the innovation agenda

Supporting innovation in small- and medium-sized businesses

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Innovation is a key driver of economic growth, but there is a need to reframe thinking around what innovation is, why it's important, and how small- and medium-sized businesses (SMEs) fit into the discussion. Current narrow definitions of innovation exclude the vast majority of SMEs, and unintentionally reinforce the notion that Canadian businesses are not innovative enough. Contrary to these notions, over 80 per cent of SMEs report they have been innovative in their business in the past five years.

However, governments have often missed the mark when it comes to supporting small business innovation. Government programs are not top of mind when SMEs look for support, partly due to the complexity of applications and government red tape, even in those programs that are generally viewed as having a net benefit.

If they truly wish to support innovation, governments must understand that high-tech companies are not the only firms that innovate. In fact, all SMEs should be able to benefit from government's pro-innovation policies.

Examples of Innovation in Small Businesses

"We are dairy farmers and we installed activity monitors on all the livestock. This tracks their activity so we can get them pregnant sooner to increase production. Also on this system it tracks their eating and rumination and temperature in order to watch their health better and easier. Allows us to treat them sooner and make better decisions in their treatment and ration changes."

Innovation by an agriculture member, Ontario

"We have been making completely chemical free soft seating for allergy sufferers and people with low immunity systems. We have taken the lead on re-manufacturing older hardwood frame for furniture and using some new and some older techniques to create Eco- and People-friendly and sustainable furniture. We have saved thousands of quality furnishings from going to landfill further reducing garbage and recreating value on pieces from what would have been a cost to dump."

Innovation by a furniture retailer, Ontario

"Building new campsites to accommodate larger and different modern RVs and implemented new services for campers. Improvements to our golf course to increase accessibility for ageing demographic.

Innovation by a hospitality firm, BC

Introduction

We need to broaden what is meant by "Innovation"

Google. Apple. Shopify. These companies tend to come to mind when we talk about innovation. We picture it as something that takes place in a lab, or on a computer, usually in the high-tech field. But, for a small business, innovation does not necessarily mean developing a new iPhone. It could likely be a solution to a problem they are currently facing in their business. As they may lack the resources or capital available to bigger firms, they are forced to think creatively to come up with solutions to everyday problems. This could include coming up with a new way of marketing their services, tweaking a product for a new market, or a better tracking system to improve productivity. These innovations may involve using existing technologies in a new way or adopting a strategy that they have not applied before. Although these more "targeted" innovations can have a big impact on their bottom line and their productivity, they often find themselves excluded from larger conversations around innovation.

Canada usually fares poorly in rankings of OECD-type countries' progress or work on innovation; however, these measures may not tell the whole story. Rather than dwell

on these rankings, we need to refocus the current debate around innovation, away from why firms are "not productive or innovative enough" towards:

- **understanding what SMEs are doing in terms of innovative activities,**
- **understanding what they want to do, and;**
- **understanding what can be done to support them.**

The federal government has signalled a renewed focus on innovation through their Innovation Agenda. We believe that this will provide an opportunity for the government to ensure that small business owners are included in the conversation to "redesign and redefine how it supports innovation and growth [...]"[1].

CFIB surveyed its membership to better understand innovation from a small business perspective and to find ways forward that will help the broader business community. For instance, while many firms benefit from direct and indirect government funding to support innovation, member comments suggest that they would prefer governments build a business environment that is conducive to innovation. This report will present the main findings of this survey and suggest various solutions to support innovation in Canada.

Survey Methodology

CFIB conducted the *Small Business and Innovation* Survey from December 18, 2015 – February 3, 2016, across Canada. The password-protected online survey received 6,399 responses from small business owners across all sectors and provinces. The results are accurate to ± 1.2 percentage points, 19 times out of 20. Unless otherwise indicated, data in this report was obtained through the above survey.

What is "innovation"?

Responses and comments to CFIB's innovation survey clearly revealed a significant gap between small businesses' and governments' definition of the term "innovation". While this paper will not try to achieve a perfect definition of innovation that works for every stakeholder, the meaning of the word matters in certain circumstances. For example, when discussing eligibility criteria for various innovation support programs, if a government or agency does not consider your work as innovative, you will be denied financial support.

The Organization for Economic Co-operation and Development's (OECD) *Oslo Manual: Guidelines for Collecting and Interpreting Innovation Data*[2] includes four different types of innovation: product innovation, process innovation, organizational innovation and marketing innovation. All of these can be essential to enhancing a firm's productivity or commercial performance. In fact, in terms of increasing a

1. Government of Canada, Budget 2016 Growing the Middle Class, p. 109.
2 .OECD and Eurostat. (2005), Oslo Manual: Guidelines for Collecting and Interpreting Innovation Data, 3rd Edition, The Measurement of Scientific and Technological Activities, OECD Publishing, Paris.

firm's productivity, process innovation has been found to be more effective than product innovation[3].

The OECD also states that "the minimum requirement for an innovation is that the product, process, marketing method or organizational method *must be new (or significantly improved) to the firm* (emphasis added)". Under this definition, switching from a paper-based customer tracking system to an internet-based customer relations system, modified to suit that business's needs, is considered to be innovative. The business is then able to be more productive and, consequently, successful. As such, our survey and the subsequent results are based on this broader definition of innovation.

"(We developed) and (produced) a new blended wine using new strains of yeast, (and) innovative processes for vilifying grapes and for bottling the wine."

Innovation by a Winery, BC

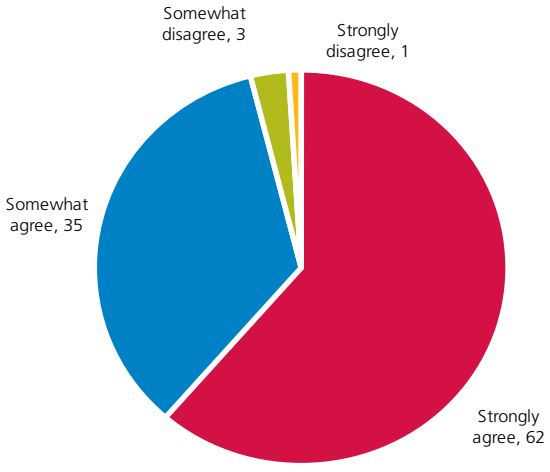
The Innovators

There is widespread agreement on the importance of innovation. Small business owners are nearly unanimous in saying that innovation is the key to a strong economy, with 97 per cent agreeing or strongly agreeing (see Figure 1). It allows firms to grow, thereby boosting job creation, improving employee salaries, increasing productivity and encouraging both foreign and domestic investments.

SMEs are uniquely placed in the marketplace to carry out innovative activities. Their size means they are often better able to quickly react to a

Figure 1

Innovation is important to a strong economy (% response)



3. Baldwin, J. and Gu, W. (2004), Baldwin, J. and Gu, W. (2004), Innovation, Survival and Performance of Canadian Manufacturing Plants, Statistics Canada, Catalogue no. 11F0027MIE — No. 022.

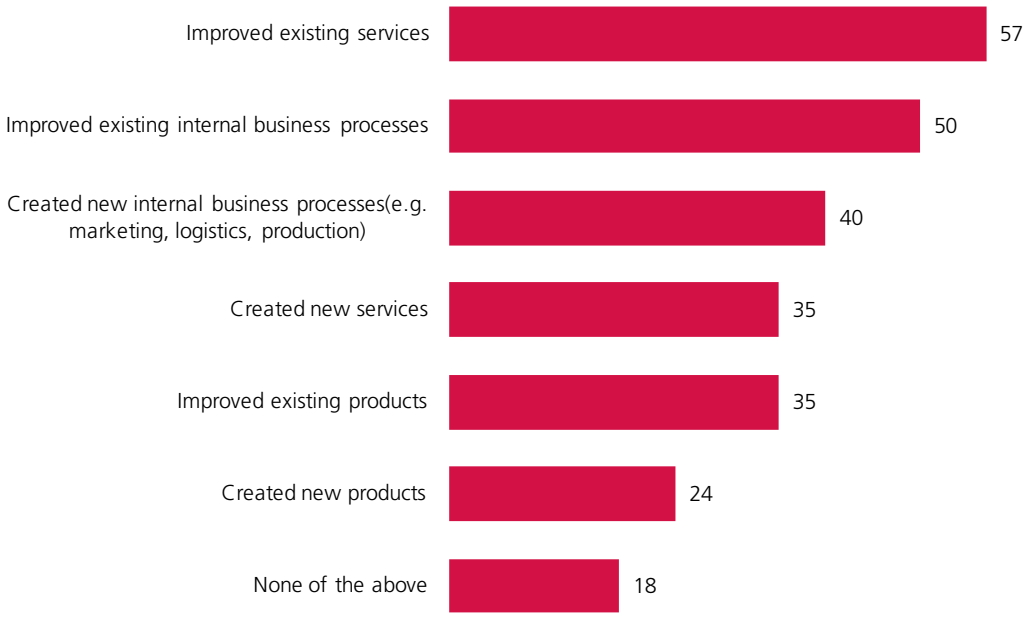
changing environment. Small businesses are more in tune to the needs of their customers, and are able to develop products and services accordingly.

Small business innovators will first look inward when making innovative changes. When asked what kinds of innovations they carried out in the past five years, the most common answers had to do with the improvement of existing services (57 per cent), the improvement of internal business practices (50 per cent), and the creation of new business practices (40 per cent) (see Figure 2).

In fact, over 80 per cent of respondents indicated they had implemented an innovative change within their company within the past five years. Only 24 per cent had created a new product, which further underlines the fact that innovation is not limited to new inventions.

Figure 2

Which of the following has your business done during the past 5 years? (% response)

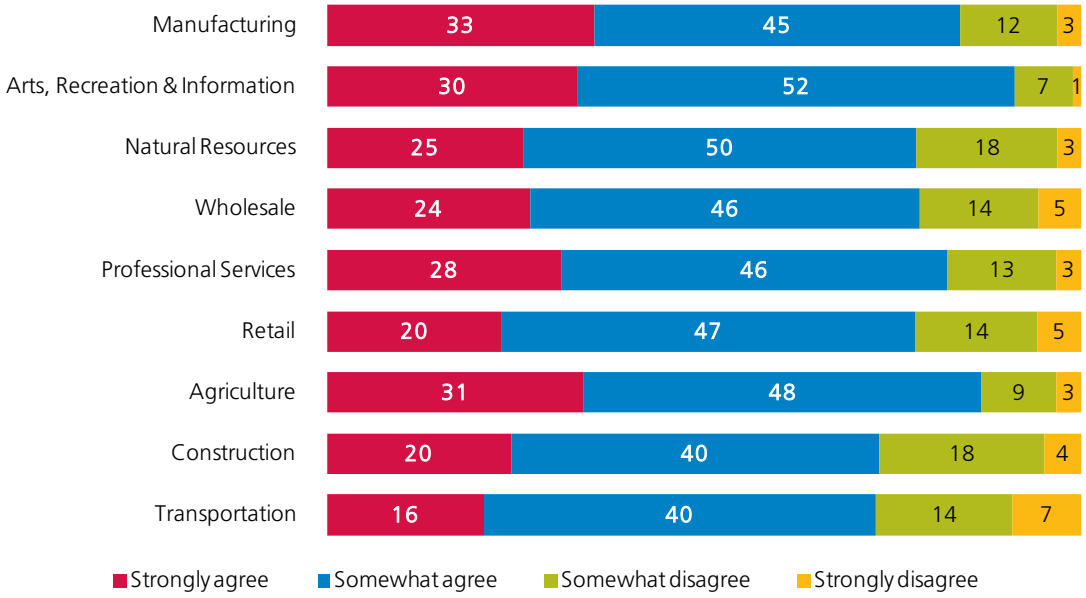


Additionally, innovation is not restricted to certain sectors of the economy. As Figure 3 illustrates, the majority of SMEs across various sectors believe that their business is innovative[4].

4. CFIB major industrial sectors are based on CIC codes. For a comparison of these codes with NAICS codes, refer to Appendix E.

Figure 3

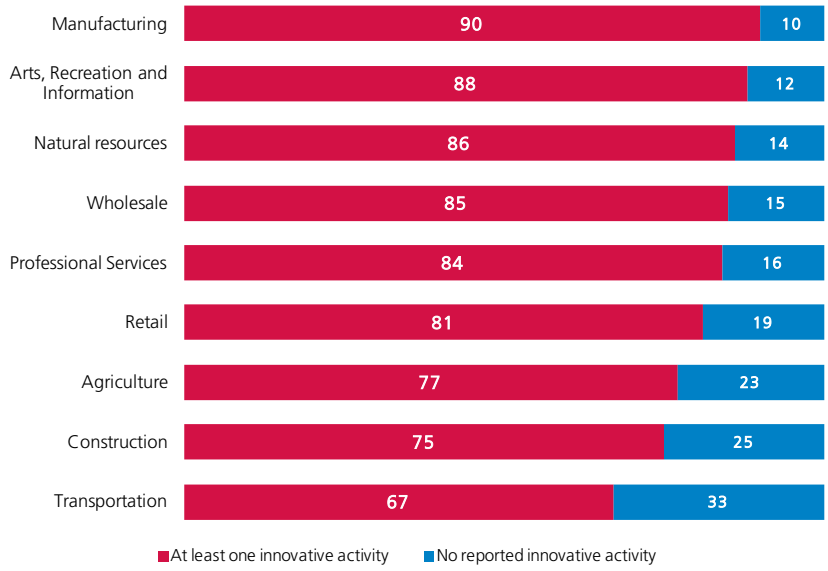
"I believe my business is innovative," by selected sectors (% response)



Innovation can be found in small businesses of all sectors, not just the ones traditionally thought of as "innovative". Though construction sector innovations look very different than those in retail, they both seek to solve problems and increase productivity. Supporting innovation in small business therefore cannot have one sector or type of innovation in mind, it must aim to support a wide variety of innovations across all sectors. As we see in Figure 4, innovation in Canada is widespread. Nine out of 10 manufacturing firms, eight out of 10 retail firms and two thirds of transport firms report having done some form of innovative activity in the past 5 years.

Figure 4

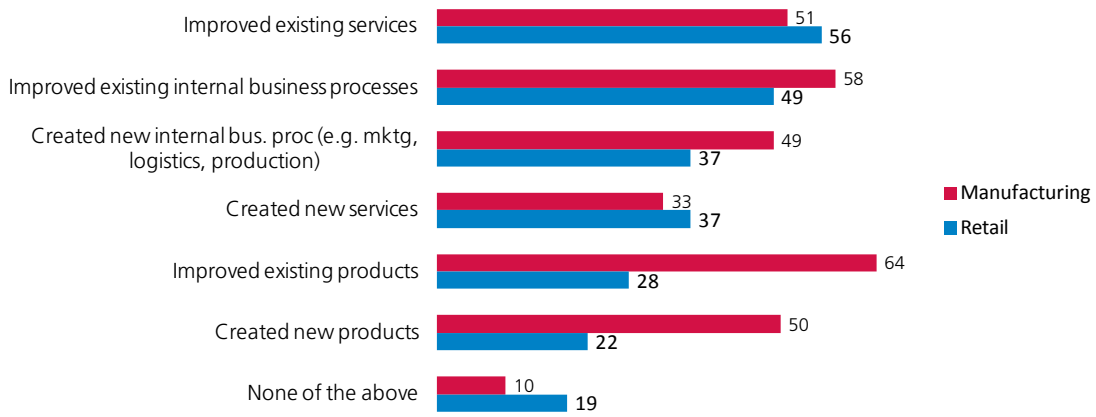
Innovative activity by selected sectors (% response)



Types of innovation differ greatly across various sectors of the economy. For example, according to the OECD, innovation in the service sector is often less formal, "more incremental in nature and less technological"[5]. Figure 5 below shows how SMEs in two sectors (retail and manufacturing) have prioritized their innovations differently. In the manufacturing sector, 50 per cent of businesses said that they have created new products, whereas only 22 per cent in the retail sector have done so.

Figure 5

Which of the following has your business done during the past 5 years? (retail and manufacturing sectors) (% response)



It is important to underline that no single type of innovation, whether it is product creation or the improvement of internal processes, will increase productivity in businesses across the board. Innovative activities tend to be as varied as the businesses that undertake them.

"We have produced new methods to repair sewers for our client. We have taken on 'LEAN' initiatives internally to streamline our business."

Innovation by a Transportation company, Ontario

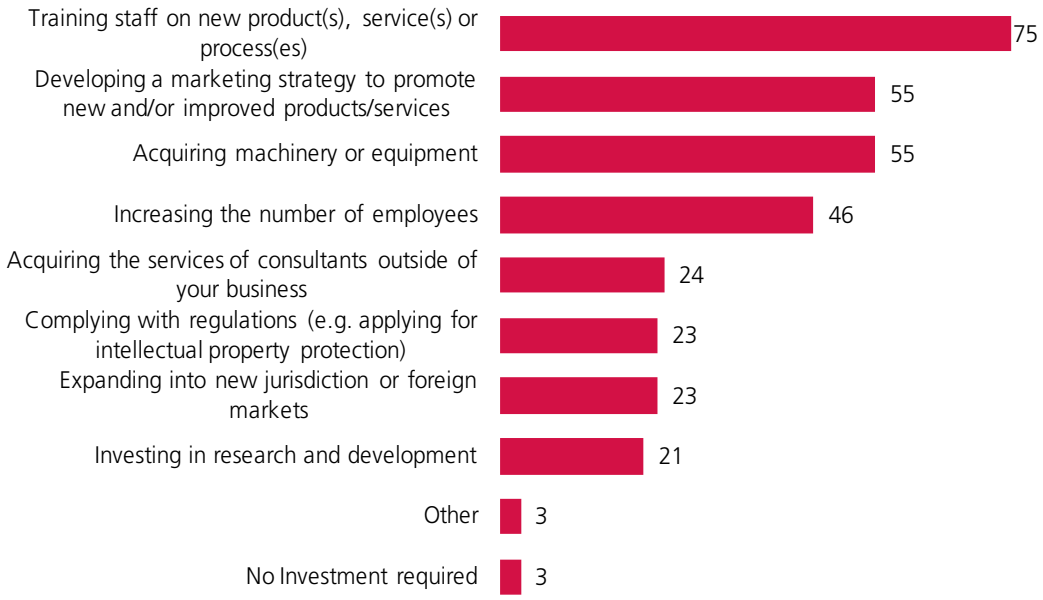
5. OECD and Eurostat. (2005), Oslo Manual: Guidelines for Collecting and Interpreting Innovation Data, 3rd Edition, The Measurement of Scientific and Technological Activities, OECD Publishing, Paris, p. 11

Innovative Plans

SMEs are continuously seeking ways to improve their products and services to grow their businesses. As they do so, the availability of skilled labour will become essential to their success. When asked about innovation-related investments they plan on making in the next two years, 46 per cent plan on increasing their number of employees and 75 per cent of business owners said that they planned on training staff on new products, services or processes (see Figure 6).

Figure 6

What type of investments will your business make in the next two years? (% response)



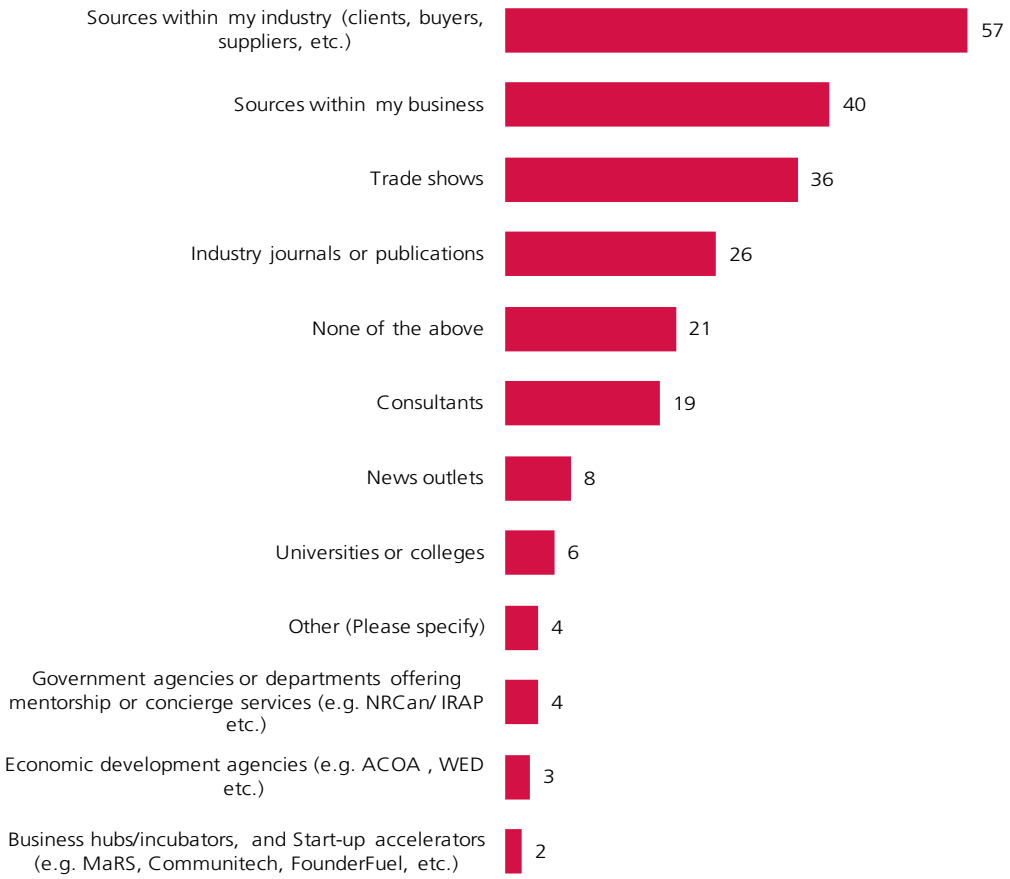
SMEs do their best to invest in their employees; for that reason, further support for training is essential in ensuring that businesses have the necessary resources to take on future innovative work. If a government wishes to support skills development, it normally provides funding to an academic institution (i.e. via formalized training). However, support for informal training can be more important for SMEs, as they often rely on on-the-job training to get their employees up to speed when introducing new technologies or equipment.

Another key investment that SMEs are planning to make in the next two years is in acquiring machinery or equipment. Businesses must continuously invest to ensure that they stay up-to-date to have the most productive and efficient tools at their disposal. Consequently, staying on top of newest technologies can be quite costly for SMEs.

Networks between businesses are important resources not only to connect with other like-minded firms, but also to learn about new innovations that can be implemented in their own operations. Many formal and informal networks currently exist, sometimes launched by public and private institutions, that aim to encourage innovation. It is clear that for SMEs of all sizes and ages, the key sources for information for new ideas and techniques are business contacts, trade shows and other sources within one's own industry. In contrast, those entities created or partially funded by governments (such as MaRS or the Industrial Research Assistance Program (IRAP)) are much less likely to be used as resources (See Figure 7).

Figure 7

Which of the following services has your business used to learn about innovative ideas and practices, and/or how to implement them within your business during the past 5 years? (Select as many as apply) (% response)



Though newer SMEs rely slightly more on business hubs and accelerators than older businesses for innovative ideas, only around 2 per cent reported using these services, perhaps due to the focus on technology-intensive firms rather than the broader SME population. Only 6 per cent of firms used universities or colleges to learn about innovative ideas.

Technology Access Centres

Technology Access Centres (TAC) allow smaller firms to partner with a college to access equipment, expertise and technologies that may not be available to them otherwise. If in-house R&D is out of reach due to lack of funds or time, these services can provide smaller firms the capacity to develop new products or improve their services.

Many of programs and partnerships offered by colleges and universities are focused on the high-tech sector, which could be why a broader range of SMEs do not access their services. Additionally, there could also be a lack of awareness among smaller firms of the services and partnerships offered by post-secondary institutions to the private sector. Government investments in innovation tend to target business hubs and academia; however, evidence shows that their reach is limited and they are seldom used by SMEs. In reality, the source for innovative ideas for SMEs is found outside academia, hubs and incubators. Therefore, channelling additional government funds towards these institutions may not be that effective in helping foster innovative ideas and practices in the broader SME community. We recommend that governments and academic institutions expand the scope of innovations they support beyond only technology-intensive projects to include a wider range of innovations, such as process and marketing innovations. Additionally, it is important that these services and programs are better communicated to the small business community and reduce the amount of red tape involved.

When business owners were asked how the government could best support innovation in their business, many emphasized that its role should not be to pick and choose winners, but rather to create an environment conducive to innovation. Many SMEs expressed concerns that grant applications for existing programs are subjective and inconsistent; excluding much of their work that they feel is innovative. Overwhelmingly, business owners responded that the best way government can help support SME innovation is through keeping taxes low and reducing red tape. This would help ensure that SMEs are allowed to compete and innovate on a level playing field.

Barriers to Innovation

Small business owners face multiple barriers when seeking to improve their operations through innovation, both from internal and external factors. Barriers to innovation for SMEs can look different than those for larger businesses. For example, smaller firms are more sensitive to shortages of labour and red tape. When looking at ways to ensure that the business environment is favourable to innovation, governments must consider the unique challenges that SMEs face.

Shortage of Labour

Figure 8 shows that respondents reported that the top barrier to innovation was the shortage of skilled labour (41 per cent). Firms need to find, attract and retain skilled labour, not only to successfully carry out innovative projects, but to survive as an organization. It should be no surprise that this is a significant barrier for innovation within small companies.

Figure 8

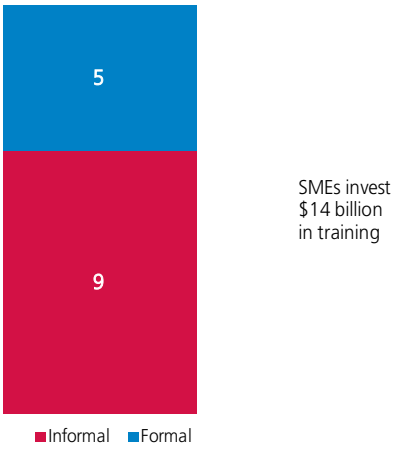
Which of the following challenges does your business face in creating or improving its products, services or processes? (% response)

As innovation often requires complex processes and new ways to approach problems, businesses invest a large amount into training their employees. Both formal training (e.g. via an educational institution) and informal, on-the-job training are essential in ensuring that workers have the skills that match up to the needs of businesses. Formal training can offer a rounded set of skills to workers. Informal training can specifically target the types of skills a small business needs to undertake an innovative activity.

When implementing new practices or services, informal training ensures that knowledge is shared and codified within the business. CFIB data has shown that, in 2014, small businesses invested over $14 billion

Figure 9

Annual training investment (in $ billions), by type of training



Source: CFIB, Small business, big investment: Improving training for tomorrow's workforce, 2015.

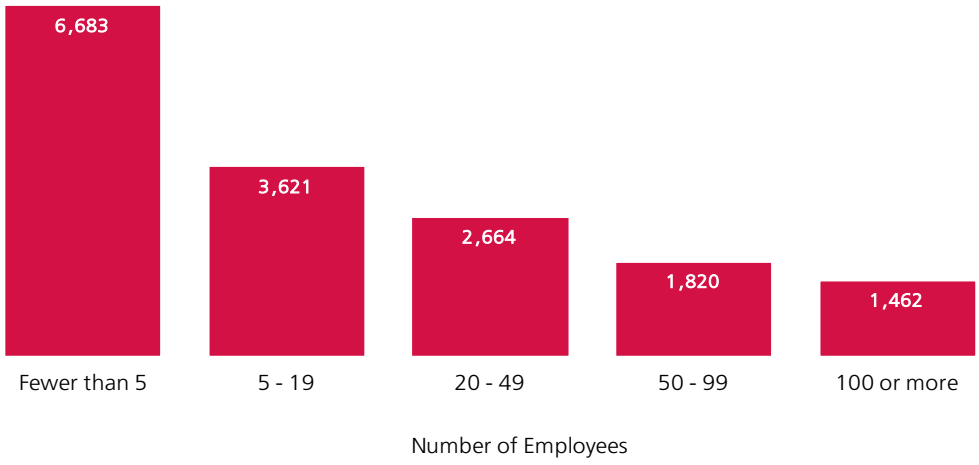
in both formal and informal training for their employees (see Figure 9). These investments not only help drive forward innovation, but also help to increase a business's productivity. However, there is a lack of recognition by policy makers of the investments SMEs make in informal training. As such, there are no dedicated tax credits or resources that these business owners can access in order to help them make further investments. We recommend that the government create a federal training tax credit that is focused on SMEs, recognizing the investments they make in informal training. In addition, existing government programs that only recognize formal training, such as the Canada Job Grant, should be made more accessible to small businesses by including informal training.

Red Tape

The second biggest challenge for SMEs seeking to innovate is government red tape (see Figure 8). Complying with government red tape not only costs a business owner's time, it also has major indirect costs: they have less time and money to invest into innovative activities.

Figure 10

Annual regulation cost per employee, by size of firm (in 2014 dollars)



Sources: CFIB, Canada's Red Tape Report, 2015.

Figure 10 reveals that the annual cost of regulation is a much heavier burden for the smallest firms. In the context of innovation, small firms face additional red tape when applying for tax credits, programs and grants with the government.

This is the case across various sectors, whether they need to apply for a patent or they need a new agricultural product approved. Even those programs that are generally well regarded, such as the Scientific Research and Experimental Development (SR&ED) tax credit, cause big red tape headaches, and involve a great deal of paperwork. Governments need to ensure that the rules around applying for government support are clear and accessible for smaller companies. For many SMEs, the cost of complying with red tape often rivals the support they receive. We recommend that red tape reduction remain a priority for the government by

ensuring that an "innovation lens" is applied when implementing new regulations, policies and taxes to ensure that these to not negatively impact a firm's ability to increase their productivity by innovating. Additionally, we recommend that the government continue to apply the One-for-One rule in order to ensure that the administrative burden on businesses remains low and SMEs are able to keep investing in innovations.

While many governments continue to promote innovation and want to improve productivity in small businesses, their actions in other files make innovation more challenging. Lecturing small firms to focus on innovation while imposing new regulatory pressures is counterproductive. For a spirit of innovation to take root across all government departments, programs, taxes and rules need to be reviewed with an innovation lens.

"Too much red tape and unreliable decisions. It costs as much money and manpower to administer the project as compared to what you actually receive."

Mechanical Contractor, New Brunswick

Cost of Innovative Projects

The cost of innovative projects is another significant barrier to respondents (see Figure 8). Financial risk can be much higher for smaller firms when investing in a new project, as many operate on tighter margins. This higher risk makes it a challenge to access stable sources of financing, especially through financial institutions. As a result, over a quarter of businesses said that accessing government grants, programs or subsidies was a challenge, and 19 per cent said they had difficulties accessing financing.

Governments must also keep in mind the impact of taxation on a firm's ability to generate business equity to pay for innovative projects. With an increase in CPP premiums in the near future, as well as plans for federal carbon pricing, the costs of innovating may become insurmountable for some small businesses. When asked how governments can best support innovation in their business, small business owners pointed to keeping taxes low as the best way to help them innovate and become more competitive on the world stage.

Many of these challenges are interconnected: the cost of innovative projects is tied to the ability to access financing; government red tape impacts whether a business is able to access government grants and subsidies; and access to financing can impact

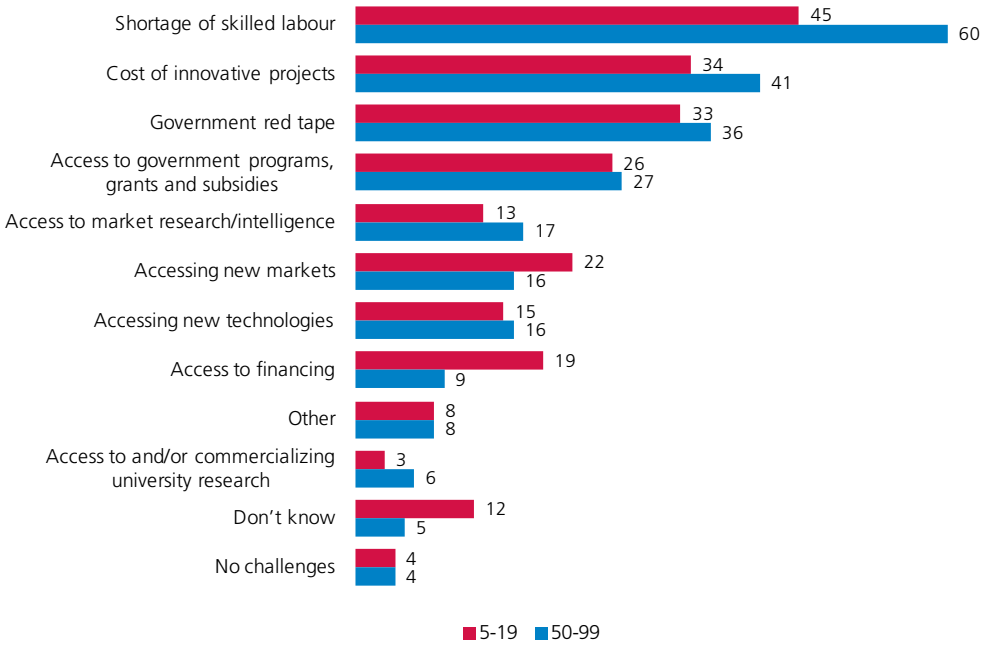
whether a business can access new technologies. These barriers should not be targeted separately – we should seek to address them as a whole.

Barriers by Size of Business

Our research also found that these challenges affect small businesses with fewer employees differently than larger SMEs. Figure 11 shows businesses with between 50 and 99 employees feel the effects of labour shortages more acutely than firms with between 5 and 19 employees.

Figure 11

Which of the following challenges does your business face in creating or improving its products, services or processes? (% response) (Firms with 5-19 employees vs. firms with 50-99 employees)



On the other hand, this data shows that smaller firms have greater difficulties accessing new markets and financing. Access to new markets is essential for SMEs to grow, though many face barriers at both provincial and international borders. Varying provincial regulations make it difficult and costly for smaller companies to understand and comply with all the different regulations. As such,we urge all governments to commit to eliminating trade barriers by finalizing an agreement on internal trade with harmonized regulations between all jurisdictions and a negative list where all goods and services are covered, unless specifically excluded. The mutual recognition of certifications would also allow to a better flow of qualified workers between provinces, which would help lessen the shortage of skilled labour.

When trading into the United States, many SMEs face unexpected costs. Over half of small business owners agreed or strongly agreed that U.S. border costs were much

higher than they had expected[6]. Some other challenges, such as government red tape and access to government programs and grants, were found to be challenging for both larger and smaller firms. Solutions to address these challenges should take into account the different needs of various sizes of businesses. One of the ways that governments can address this barrier is by ensuring that information is easily accessible and tailored to SMEs. Governments should also increase awareness of programs and services – such as the Trade Commissioner Service – that can help businesses looking to export navigate complex international markets and regulations.

SMEs also face difficulties accessing international markets due to tariff and non-tariff barriers. Not only is it a financial risk expanding overseas, but SMEs often face large amounts of red tape such as complex regulations, discriminatory licences and permits, and certifications. International trade agreements, such as CETA, can help reduce these barriers by ensuring a more transparent, stable and predictable trading and investment environment for small businesses, while also allowing better technology-sharing with international companies. We encourage the government to continue engaging in trade agreements to provide Canadian SMEs better opportunities abroad.

In addition to the barriers listed in Figure 8, the impact of the low Canadian dollar was highlighted as a challenge by many business owners in the survey comments on their ability to innovate, as the dollar's fluctuations has a significant impact on firms' ability to purchase goods such as machinery and equipment from abroad. Additionally, currency fluctuations make it more difficult for SMEs to plan ahead and compensate for any potential losses.

To be clear, regardless of the type of innovative work being performed, it can be costly and filled with hurdles. But if governments want to foster innovation in small companies, they need to remove as many of these obstacles as possible.

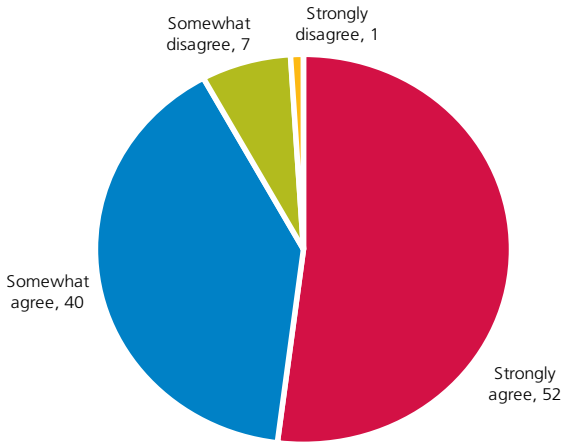
Financing

The cost of innovative projects is top of mind for many businesses; 92 per cent of businesses either strongly agree or somewhat agree that innovation requires a lot of investment (see Figure 12).

Though innovation is often perceived to be tied to research and development (R&D), only 37 per cent of businesses reported making minor or major investments in this area (see Figure 13). The manufacturing and natural resources sectors were the most likely to have made

Figure 12

Innovation requires a lot of investment on the part of businesses (% response)

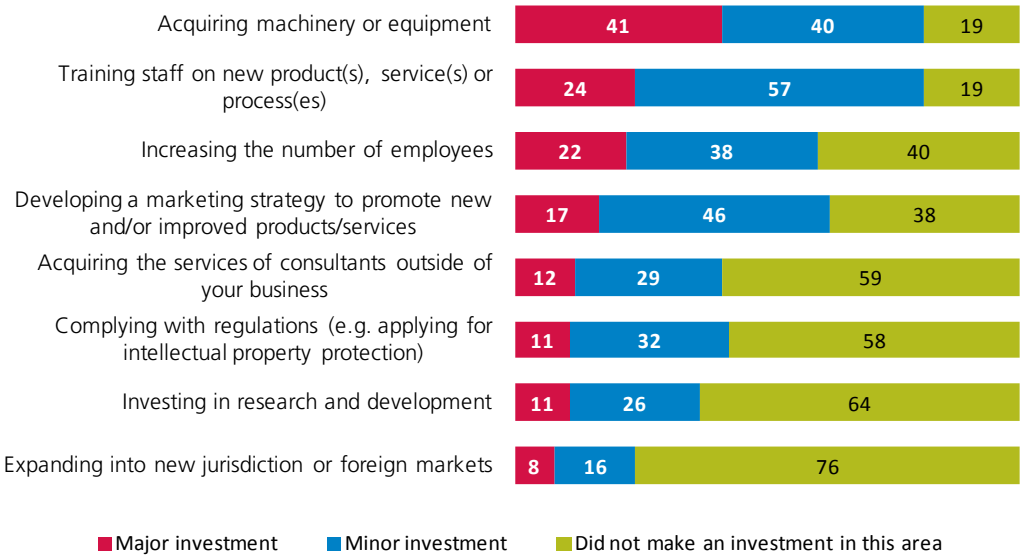


[6] *CFIB, Borders Survey, March-April 2015, n = 4,168*

these investments (see Appendix F). Conversely, over 80 per cent of businesses reported making investments in machinery or equipment. This is why it is essential to broaden the definition of innovation to include a wider range of activities. Investments in machinery or equipment are especially important for innovation in sectors such as agriculture and construction, where businesses rely heavily on equipment in order to increase productivity and efficiency.

Figure 13

Level of investment your business made in each of the following in the past 5 years.



The adoption of new technologies is essential for SMEs to innovate and transform their businesses. In order to boost productivity and be able to reach more customers, businesses are turning to new technologies such as cloud-based drives and online customer relations management tools. Examples of technology adoption can be found across all sectors, whether in a retail business switching to a paperless inventory system or a farmer using an online tool to track the productivity of her dairy cows.

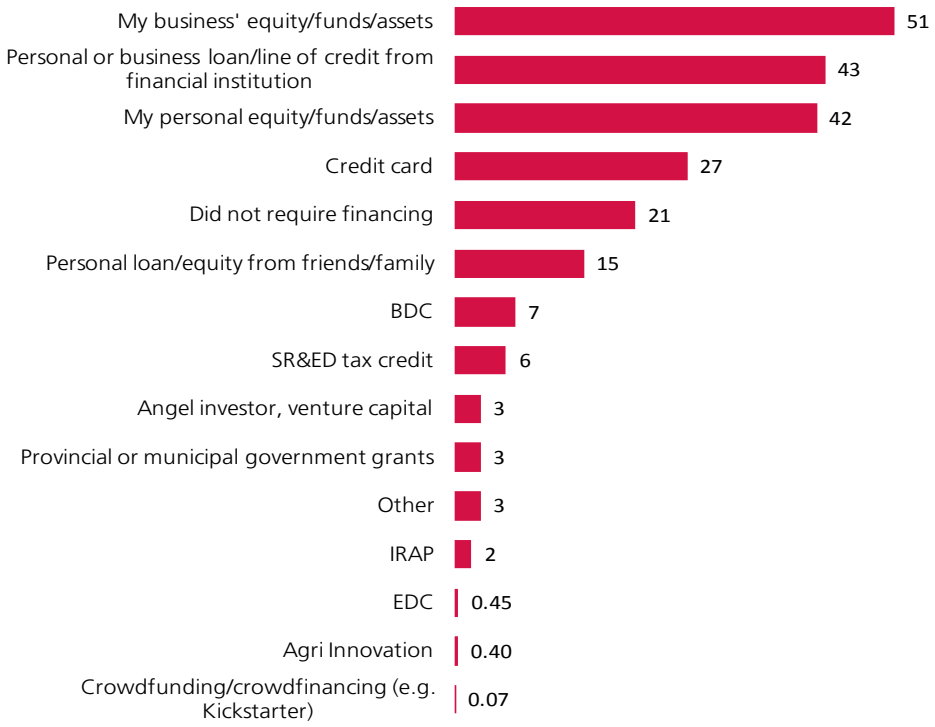
As SMEs tend to be more labour intensive, their investments in training (81 per cent) and in hiring (60 per cent) become that much more important. SMEs also make important investments in order to develop innovative marketing strategies, with over 60 per cent making both major and minor investments. For small businesses in sectors such as retail or personal services, the ability to reach new customers and markets is essential to grow their business.

This is not to say that SMEs do not invest in R&D, but investments in areas such as equipment or marketing reflect how small businesses have a tendency to undertake more “targeted” innovations, which seek to create or improve a specific product or process that directly addresses a problem or opportunity facing the firm.

For smaller companies with fewer resources, it can be a challenge to find adequate funding to undertake innovative projects. The most common source of financing is a business's equity, funds or assets (51 per cent). The cancellation of the reductions of the Small Business Tax Rate (SBTR) to 9 per cent will make it more difficult for many businesses to acquire the capital necessary to make investments in innovation. In addition, with upcoming increases in payroll taxes and plans for federal carbon pricing, SMEs will struggle to find the funds they need to reinvest in their business. As this is the most important source of financing for innovation, governments must ensure that businesses have access to the capital they need by keeping taxes low. Many business owners also rely on their own personal funds and assets (42 per cent), or a business or personal line of credit from a financial institution (43 per cent) (see Figure 14).

Figure 14

Which of the following sources of financing did your business rely on in creating/improving its products, services or processes during the past 5 years? (Select as many as apply) (% response)



A particularly troubling point is that over a quarter of the respondents said they used their personal credit cards in order to finance innovation within their business. This is strong evidence of the challenge many SMEs face in financing their efforts to enhance innovation in their business. Conversely, very few respondents reported relying on sources of government financing, with 7 per cent of businesses using the Business Development Bank of Canada's (BDC) services, and 6 per cent accessing the SR&ED tax credit.

The age of the business also helps determine their preferred sources of financing (see Table 1). Newer businesses (i.e. less than 5 years old) were much more inclined to use their own personal equity than ones that have been in operation for 11 or more years (63 per cent vs. 37 per cent), go to their family members and friends (26 per cent vs. 12 per cent), and use their credit cards (63 per cent vs. 37 per cent) to finance innovative activities. Interestingly, newer businesses accessed financial institutions as much as established ones (44 per cent vs. 41 per cent).

Table 1

Which of the following sources of financing did your business rely on in creating/improving its products, services or processes during the past 5 years? (By age of firm) (Select as many as apply) (% response)

	Years in business		
	1-4	5-10	11+
My personal equity/funds/assets	63	53	37
My business's equity/funds/assets	45	54	51
Personal or business loan/line of credit from financial institution	45	50	41
Credit card	44	38	23
Personal loan/equity from friends/family	26	21	12
Did not require financing	14	14	23
BDC	7	10	6
SR&ED tax credit	2	4	7
Angel investor, venture capital	6	4	2
Provincial or municipal government grants	3	2	3
Other	3	3	2
IRAP	1	1	2
EDC	0.40	0	0.55
Agri Innovation	0.20	0.15	0.49
Crowdfunding/crowdfinancing (e.g. Kickstarter)	0.20	0.30	0

The duration of an innovative project may span over a long period, some lasting several years. SMEs need a reliable, prompt source of funding in order to support their projects. When applying for government financing or tax credits, many SMEs are unsure about whether or not they will be successful, which can contribute to uncertainties for businesses looking for funds to innovate. These uncertainties can be stressful for small business owners, as they invest significant amounts of time and money into applications for financing. SMEs take a risk every time they apply for financing, as their projects risk being halted if they are unsuccessful. Governments can help ease these uncertainties by ensuring that businesses have enough equity to reinvest in innovation through lowering taxes, such as the SBTR, and helping businesses access capital through reintroducing a 100 per cent Capital Cost Allowance.

Crowdfunding (e.g. Kickstarter or Gofundme) has recently garnered significant media attention, but in reality it has not seen as much uptake among small businesses. Only 40 respondents out of over 6,000 respondents stated that they had used crowdfunding as a source of financing for innovation.

"We implemented cloud based project management software to enable us to identify scheduling conflicts over multiple active projects and creating contained documentation of all correspondence between ourselves and the customer."

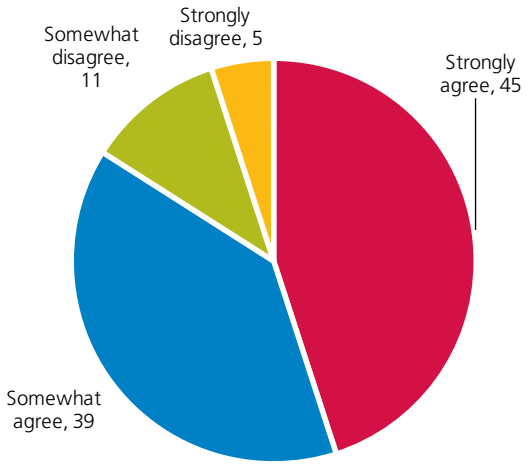
Innovation by a Manufacturing firm, Ontario

Government Support

Many governments push innovation as a solution to a stagnant economy. As a result, various grants and programs are set up to help promote innovation, often going to a firm or cluster of firms in a high-tech field. This focus leads many SMEs to believe that their business is not thought by government to have much potential to innovate. A clear majority of SMEs (84 per cent) "somewhat" or "strongly" agree that when governments talk about innovation, they aren't talking about their business (see Figure 15). They feel as though their innovative activities are excluded from the innovation conversation. Additionally, there are doubts among small businesses that governments understand their needs when it comes to innovation. Figure 16 reveals that almost nine out of ten respondents indicated that governments do not understand how to help businesses become more innovative.

Figure 15

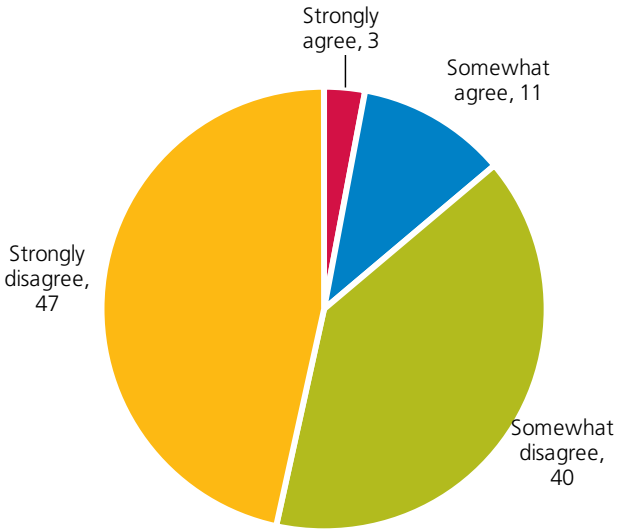
"When governments talk about innovation, they aren't talking about my business." (% response)



Though Canadian governments have taken steps to help provide resources for firms seeking to innovate, many of these are focused on R&D activities, or startup/incubator-type environments, and consequently leave out the majority of Canada's small companies. Online resources, such as the Government of Canada's Concierge program, have attempted to bring some awareness to major programs and tax credits, but their impact seems limited. Governments should measure their existing programs' impact to ensure that they are adequately reaching SMEs and properly informing them of available government support.

Figure 16

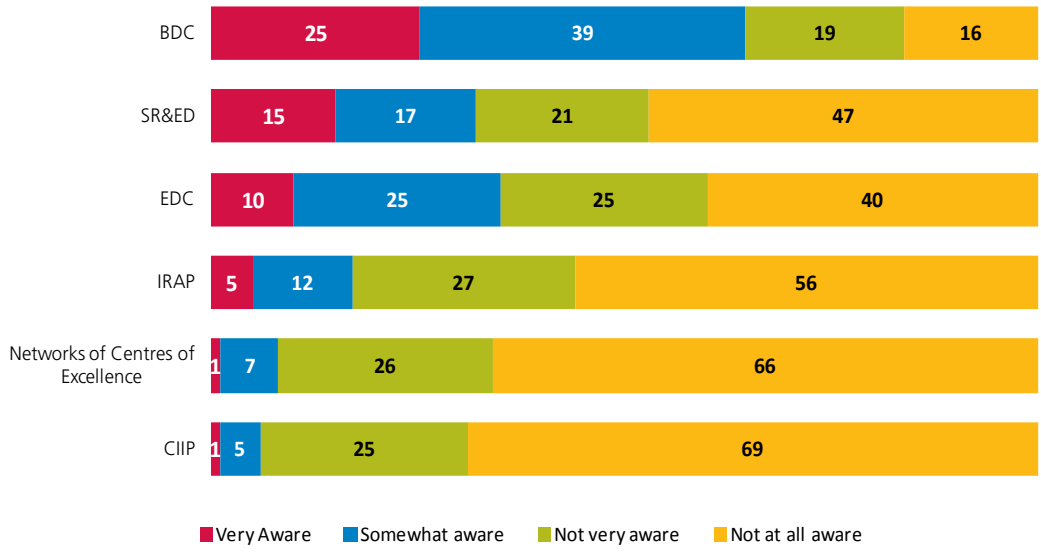
"Governments understand how to help businesses to be more innovative." (% response)



Awareness among SMEs of the availability of government programs and tax credits outside of SR&ED and BDC remains very low. Our survey found that 83 per cent of small business owners said that they were either "not very" or "not at all" aware of the Industrial Research Assistance Program (IRAP) (see Figure 17). Though, according to feedback we received from our survey comments, those that use it seem pleased with the program. Additionally, only 8 per cent and 5 per cent of SMEs had heard of the Networks of Centres of Excellence and the Canadian Immigrant Integration Program (CIIP), respectively.

Figure 17

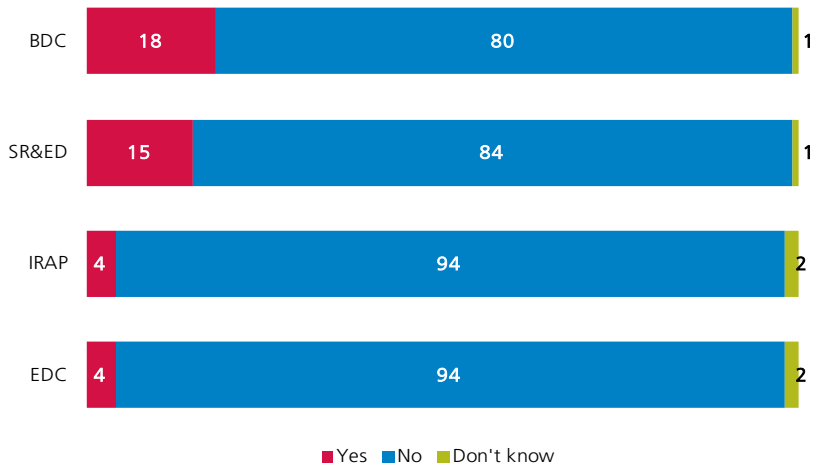
How aware are you of the following government programs or organizations that support innovation? (% response)



Due in part to this lack of awareness, most SMEs are simply not using the programs and tax credits offered by the government. The government "program" most often accessed by SMEs was BDC; yet only 18 per cent of SMEs reported using their services (see Figure 18).

Figure 18

Has your business applied for the following government programs or used the services of the following organizations during the past 5 years? (% response)



The SR&ED credit was the second most-used at 15 per cent. Only 4 per cent of SMEs had reporting using either the Industrial Research Assistance Program (IRAP) or Export Development Canada (EDC). This lack of awareness is coupled with the fact that many of these credits and programs, such as SR&ED, are focused on a narrower view of innovation. Many SMEs do not bother even applying for these programs, either because they assume that their projects fall outside their scope, or the red tape involved in the application process is – or is perceived to be – too costly and time consuming.

The services offered by some of these programs, such as mentoring, can be especially important to small businesses just dipping their toes into the world of innovation, or accessing new markets, in the case of EDC. The guidance they provide can be essential for businesses looking to undertake a new project or enter a new market. However, as most SMEs are not even aware of these services, they are often underutilized.

Businesses who have successfully accessed innovation support programs said the funding was helpful to move forward with innovative projects. However, many were frustrated with the application process, describing it as slow and complex due to the significant amounts of red tape involved (see *CFIB Member Comments 1*; for further comments see Appendix C). The complex language and technical terms used in the application documents and process can be confusing to many small business owners, contributing to the overall red tape they face when dealing with the

government. Some innovative activities are more difficult to quantify or report as they are gradual or part of continuous product development.

"We have created an app for both android and iPhone which helps us to interact and get our product out to many more mobile users. We know that over 63 % of people visiting our website are coming in through mobile devices."

Innovation by a tourism company, BC

CFIB Member Comments 1: ***CFIB Members Report on their experiences using government programs or services of organizations***

Positive

"IRAP technical consultants have assisted with market and technical research and go-to-market training. SRED technical and financial auditors have provided guidance to assist in the processing of our SRED application. The IRAP go-to-market training helped greatly in developing market strategies and preparing our company for the deployment of our new products."

Telecommunications Service Provider, Alberta

"SRED and IRAP helped cover the cost of the time and resources needed to improve the services we provide."

Contractor, Saskatchewan

"BDC consulting service has provided much needed information. BDC has made it possible for us to obtain timely financing for computer equipment, warehouse space and equipment."

Electrician, Alberta

"The SR&ED tax credit allowed us to continue to develop a new, expensive system, which would have been impossible to do without the credit. They also allowed us to inject a portion of the credit into developing new products."

Manufacturer, Quebec

Negative

"I thought BDC was there to help but once the project got underway they threw up so many hurdles and so much red tape that contractors were refusing to work with me. They delayed payments, changed parameters, obsessed over minor details, and kept telling me that never, ever in the history of BDC had there been a case of an entrepreneur living in one province with a business in a different province."

Tourism Company, British Columbia

"Rather than spend (waste) my time chasing grants I would rather be actually INNOVATING. I only have so much time available."

Tool Manufacturer, Saskatchewan

"We apply for SR&ED, but [only a] very narrow scope of projects [is] allowed. Much difficulty writing up the SR&ED claim so that it is accepted. We use a consultant, who takes 25 per cent of the claim in return."

Industrial Equipment Supplier, Ontario

"Impossible to plan around SRED funding because it takes on average two years to receive."

E-learning Company, Ontario

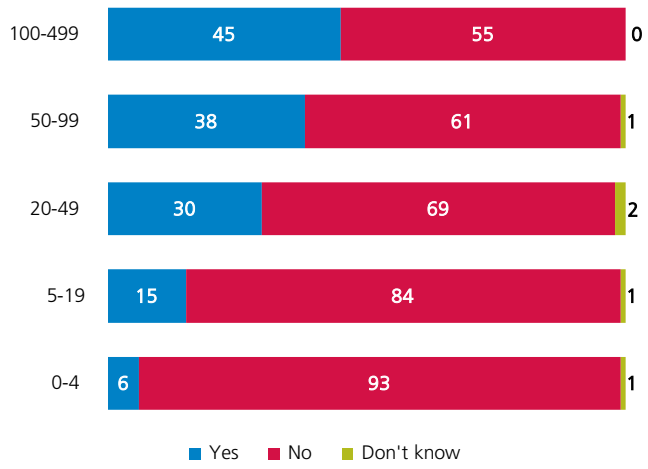
"Too much red tape and unreliable decisions. It costs as much money and manpower to administer the project as compared to what you actually receive."

Mechanical Contractor, New Brunswick

The size and age of a business has a dramatic impact on whether businesses are inclined to access government programs. This is especially the case with SR&ED. Survey responses showed the larger a firm is, the more likely it is that they have attempted to access the SR&ED tax credit. Figure 19 shows that only 6 per cent of businesses with four or fewer employees and only 15 per cent of firms with five to 19 employees have applied to SR&ED, whereas 45 per cent of firms with between 100 and 500 employees have applied. This may be due to the fact that larger SMEs have more resources to dedicate to a SR&ED application, whereas smaller companies may not have the staff or time available. Moreover, more than double the number of firms who have been in business for 11 or more years have applied to SR&ED, compared to firms who are between two and four years old (see Appendix F). Newer firms are often less aware of available tax credits and programs, and lack the resources or the expertise necessary to apply for complex and time-consuming grants and tax credits.

Figure 19

Use or attempted use of SR&ED during the past 5 years, by number of employees (% response)



The SR&ED program has benefited many Canadian small businesses, but as indicated in the previous section, it also has many challenges. **For more on these issues, see Appendix A for added thoughts on the program.**

A large number of SMEs report having to rely on specialized consultants to apply for SR&ED tax credits due to the complex nature of the application and onerous reporting requirements. These consultants are quite costly, with many of them taking a percentage of the credit as compensation if the claim is successful. The time to process claims is quite lengthy as well, providing little flexibility or certainty for SMEs who undertake innovation to solve an immediate issue or demand. But the greatest issue is not the cost of using a SR&ED consultant, it is that applying for the tax credit is so complex that it almost requires paying someone thousands of dollars to do it.

While the government must ensure it is issuing tax credits (and by extension, taxpayer funds) in a fair and transparent manner, the lengthy processes and strict requirements are hardly innovation-friendly. We must ask ourselves whether the government is nimble enough to respond to short term innovation needs, and whether the process put in place to obtain funding actually *impedes* innovation.

There is a particular government emphasis on encouraging young entrepreneurs to focus on innovation in their start-ups, which can involve a significant amount of financial risk. Newer and smaller businesses are often those who need immediate financing and support the most. The data shows they are at a disadvantage when it comes to accessing traditional bank lending and government support designed specifically to help them grow their business. Governments must ensure that, before creating more programs or making further investments, existing programs can be accessed by those who need them the most. They must also ensure that all programs undergo thorough evaluations to ensure that they are actually working and meet the needs of the business community, and those deemed ineffective are eliminated.

CFIB Member Comments 2: ***CFIB Members Report on how governments could best support innovation in their business****:*

"Let businesses run their own affairs and stop the government red tape at every turn. This is time consuming and an utter waste. [...] All other Provincial and Federal and Municipal regulation, forms, taxes and so on means it cost a small company like ourselves hundreds of thousands of dollars that could be put to better use."

Packaging Supply Store, Quebec

"In my experience, any grants or programs around innovation require the company to be operating in a High-Tech industry. We are a construction company but still require innovation in our business and industry to remain competitive. We would find value in grants that are aimed at internal innovation. Consulting, Technology, Employee Training, etc."

Concrete Contractor, Alberta

"Training funding or grants to help assist the costs of certification exams etc. or programs for expanding on innovative business technology services."

Digital Printer, Saskatchewan

"Removing red tape and making business more aware of what is available and to whom it is available."

Art Supply Store, Alberta

"Small businesses have the least available funding to improve and grow with new ideas. While all costs for innovation and improvement are deductible, there is no real government support to spend those funds and you chance the failure of your small business. It appears only larger corporations have the personnel & funds to obtain government funding though programs like SRED."

Foam Rubber Supplier, British Columbia

"Governments are terrible at picking winners and losers. They should stop giving money away and focus on creating the proper environment for job creation (i.e. lower taxes and a stable regulatory regime)."

Elevator Manufacturer, Ontario

"Stay out of giving businesses tax money and decrease taxes so businesses have more of their own capital to invest in their business."

Security System Supplier, New Brunswick

Recommendations

"You need three things to start a business: ***Money, Time and People,*** *in that order. Your first problem is to get enough money to get to break even and feed yourself and your employees. The second problem is having enough time to do everything you need to do within a limited budget as you prove your business model. Your third problem, if you become profitable, is finding enough skilled people to grow your business."*

High-tech firm, Ontario

Innovation is not an end point. Rather, it is a term representing the ways businesses use to increase productivity and create jobs. Encouraging innovation means creating a favourable business environment that makes it easier and more attractive to innovate. Rather than designing the next innovation support mega-program, or artificially creating clusters in the favourite industry *du jour*, governments should focus on needs of *existing* businesses, which would enable small businesses to actively pursue their own innovations.

Our recommendations address barriers to innovation, such as red tape or the shortage of skilled labour, that prevent or discourage many businesses from innovating. It is clear the federal government is anxious to launch a broad, new innovation strategy. We strongly recommend that they be mindful of the unique needs of small business innovators when developing innovation solutions; these should be practical, accessible, and outcome-oriented.

Innovation Lens

Governments will frequently put up roadblocks to innovation in the form of red tape. Innovation is stymied when businesses are focused on complying with onerous policies, regulatory requirements and are faced with a lack of information. SMEs are often confronted with the difficult choice of complying with government red tape or being able to have the time and money to undertake innovative work. We recommend that the government apply an "innovation lens" when implementing new

regulations, policies and taxes to ensure that these do not negatively impact a firm's ability to innovate. This lens will ensure that SMEs won't have to choose between being compliant and being innovative.

Currently, there exist several federal policies that risk holding small firms back from being able to reach their full potential to innovate. These policies should be looked at through an innovation lens to ensure that they do not negatively impact SMEs ability to innovate. They include:

- Increase Canada Pension Plan premiums for employers
- Carbon taxes
- The cancellation of further reductions to the Small Business Tax Rate
- Workplace regulation changes that affect productivity (e.g. flexible working hours, statutory holidays, etc.)

Innovation Deduction

Introduce an "Innovation Deduction" that would allow businesses to claim up to $100,000 per year spent on new equipment or technology, in the year of purchase. This could be similar the United States' Expense Deduction Bill (Section 179 Deduction).

U.S. Section 179 Deduction:

In December 2015, President Obama signed a bill which allows small businesses to deduct up to $500,000 a year in capital property investments from their taxes. This can include computers, property, software, machinery, office equipment, vehicles, and other business equipment. This deduction was created in order to encourage small businesses to make investments in equipment that will help boost their productivity.

Access to New Technologies

Technology and digital adoption remain some of the most important ways for SMEs to innovate and increase their overall productivity. However, the costs of purchasing or upgrading equipment can be prohibitive for many smaller companies. Lifting these barriers is essential in ensuring that SMEs can remain competitive in an ever-evolving marketplace.

- Reintroduce a 100 per cent Capital Cost Allowance (CCA) rate for technology purchases to allow new investments by businesses in order to improve access to new technologies and help spur innovation;
- Improve technology and information sharing initiatives between the federal government, educational institutions, and the business community by ensuring that businesses are aware of the resources available to them and removing barriers to accessing resources such as red tape. As businesses rely on sources in their own industries for information on innovation, this could be achieved

through working with industry associations to help promote services offered by the government and post-secondary institutions, such as Technology Access Centres.

Fewer Unnecessary Government Regulations

Red tape often chokes innovation by placing overwhelming barriers for many entrepreneurs. Government regulations and paper burden can make it more difficult for SMEs to be flexible and responsive to innovation needs. In order to create a business environment that supports innovation and entrepreneurship, governments must always be careful to avoid introducing unnecessary red tape. Its costs to business are significant, and it reduces the size of overall investments into innovations, negatively affecting productivity. On a related point, allowing a better flow of people and goods between provinces will allow SMEs to improve productivity and could serve as a launching pad for global exports. If we want SMEs to be competitive and innovative on an international scale, we must first ensure that they have access to markets within their own country.

- Make red tape reduction a priority by carefully weighing the need for any new regulation against its impact on small business. A key aspect to this is strengthening the One-for-One rule and using the Small Business Lens when implementing new regulatory requirements;[7]
- Ensure that accountability measures remain in place to ensure that the regulatory burden does not become a roadblock to SME innovation. Continue to publicly measure and report government regulations and include regulatory requirements in legislation and policy as part of the baseline count;
- Improve government communications, program information and application forms for innovation support programs by ensuring that all information provided is written in plain language. Government officials should also provide straightforward and consistent advice regarding programs and requirements in a timely manner;
- Review the government's Concierge service to ensure that it is providing small business owners with information about all government programs that may be useful or relevant to the work they are doing. Make sure that the service also provides information to SMEs undertaking innovative work outside the high-tech sector;
- Provide timely and simple feedback and decision-making in cases dealing with funding or other financial matters. Government regulators and customer service agents should be mindful of the unique risks and limitations that small businesses face when seeking financing for innovation;
- Engage with provincial and territorial governments to ensure that the new agreement of internal trade is implemented and eliminates current barriers to labour, goods and services between provinces and territories. Mutual recognition

[7] See Canada's Red Tape Report 2015 (http://cfib.ca/a6928e) for greater analysis on sources of red tape frustrations for small business owners, and how governments can address these irritants. For more information on the CFIB's work on the red tape file, please see www.cfib.ca/redtape.

of trades, skills and certifications is a critical ingredient to reducing the shortage of skilled labour for SMEs. Additionally, open borders between provinces will allow for SMEs to grow their market share and better network with other like-minded innovative Canadian companies.

- Reduce barriers to international trade to allow SMEs better access to new markets and new technologies abroad by cutting red tape at the border and reducing the overall costs of trading. Provide easily accessible and SME-focused information on trade and raise awareness of trade programs and ensure that they are relevant for SMEs;
- Continue to engage in international trade agreements, such as CETA, that aim to reduce tariff and non-tariff barriers to trade for SMEs such as red tape, discriminatory licences and permits, and certifications. Trade agreements such as these ensure a more transparent, stable and predictable trading and investment environment for small businesses. Additionally, they allow for better technology-sharing with companies outside Canada.

Access to Skilled Employees and Encouraging the Next Generation of Innovators

Skilled labour remains the top concern of SMEs looking to innovate. As significant funds are already being invested in post-secondary institutions, governments must ensure that these investments translate into actual results for small businesses. The focus should remain on job-ready graduates who are able to fill labour gaps across sectors of the economy.

- Review existing tax credit programs to promote hiring and retention, and introduce new tax credits such as an EI training credit or EI holiday for youth hiring that recognize the investment in both formal and informal training made by small employers when they expand their payroll;
- Recognize the importance of informal training in small businesses by designing a federal training tax credit based on existing government reporting and filing requirements, such as payroll-based EI;
- Work with the provinces to reform the education system to improve basic skills training, including building job-readiness skills, and to reach out more to the small business community when creating curriculums;
- Streamline temporary and permanent immigration programs to allow easier and faster access to human resources to help with innovation. Recent changes to the Temporary Foreign Worker Program are a step in the right direction in helping employers deal with labour shortages, and we hope the government's review of the program will result in effective changes to the program;
- Ensure that the number of economic migrants allowed into Canada is not reduced so that employers can continue to access the skilled workers they require.
- Better co-operation and coordination with other levels of government, as well as post-secondary institutions, to focus funding on programs linked to the employment market;

- Better communication by governments with small business owners on which programs and services that may be able to assist with training in their business.

Access to Financing and Government Programs

Businesses often look to government financing and other forms of support to help kick-start their innovations. However, many programs are either targeted towards larger businesses, or are not built with small business realities in mind, making it difficult for SMEs to access them. Governments must ensure that innovation policies target the business community's actual needs, rather than around government policy goals, by providing support for innovation outside the R&D and high-tech fields.

- Review the 60+ government programs focused on innovation and merge them into one or two effective and accessible programs that respond to the needs of the small business community. This should be done by implementing transparent measurements and determining concrete outcomes such as productivity and job creation;
- Consider a federal "investor tax credit", similar to what is currently available in New Brunswick, to individuals who invest in small businesses;
- Allow savings collected in their Registered Education Savings Plans (RESP) to be used towards start-up costs for a business venture. Not all entrepreneurs follow a traditional education path, and it would encourage more young Canadians to pursue entrepreneurship and encourage savings to be invested into new businesses and innovations.
- Allow an easier process to self-direct small business owners' RRSP contributions into their own businesses;
- Expand the scope of programs under the federal government's *Innovation Agenda* to also support innovative work outside the high-tech sector and ensure that consultations are expanded to include innovators outside these sectors;
- Ensure that financing resources/options that already exist, such as SR&ED and IRAP, meet the needs of smaller businesses by ensuring that they are accessible and support a variety of innovations;
- Reduce the complexity and administrative burden of applying for government support, and ensure that responses and funding are provided in a much timelier manner;
- Have decisions on approving funding for new technologies or practices made by industry experts
- Better outcome-based metrics and targets, which are based on an expanded definition of innovation, are needed to ensure that the programs being created and the investments being made are achieving measurable results, such as job creation, exports and productivity;
- Improve government customer service and reduce red tape by implementing service standards for program and credit applications and publicly reporting the results;

- Ensure that government agencies are as nimble and responsive as possible to meet the changing needs of Canada's entrepreneurs.

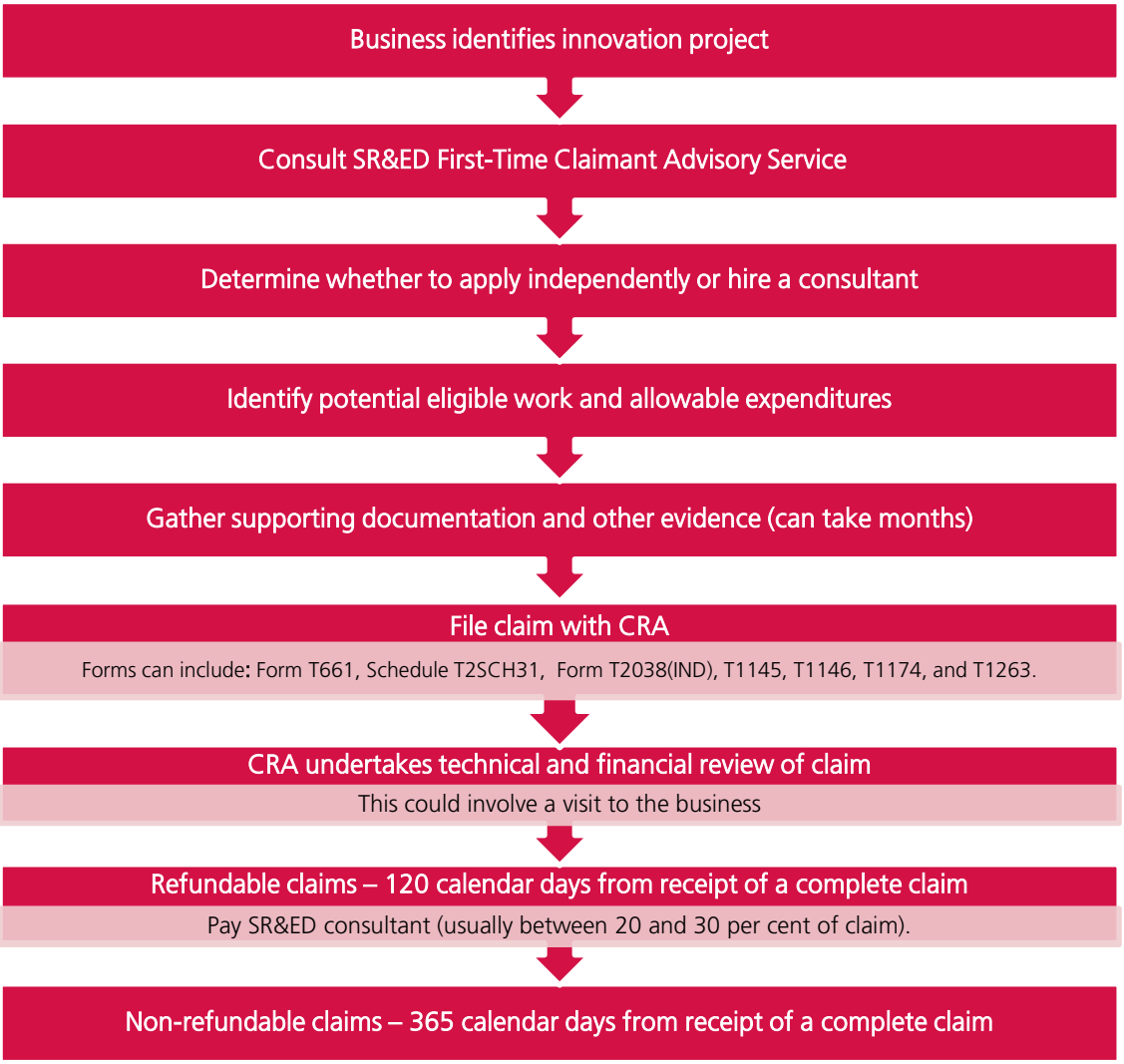
Lower Taxes

As innovation requires significant investments on the part of businesses, governments need to ensure that they have the required resources available to them. Business equity remains the number one source of innovation financing for SMEs. Therefore, it is essential that governments reduce the tax burden on SMEs in order to allow them to build more equity that can be reinvested into innovative projects.

- Minimize the impact of payroll tax increases (e.g. the proposed Canada Pension Plan increases) and a potential carbon tax by lowering the small business rate to 9 per cent over four years.

Appendix A – The SR&ED tax credit

It is important to discuss the SR&ED tax credit, given its place as the biggest tax credit aimed at supporting innovation in the country. As we have seen, many businesses have benefitted greatly from the program, but there are still quite a number of longstanding concerns around issues such as eligibility, timeliness, complexity and consistency. Before we delve deeper into the pros and cons of the program, here is a summary of the process involved in obtaining the SR&ED credit.



Government of Canada, Scientific Research and Experimental Development Tax Incentive Program. Retrieved May 2016: http://www.cra-arc.gc.ca/txcrdt/sred-rsde/menu-eng.html

It should be no surprise that one of the most frustrating aspects of applying for the SR&ED credit is the process's timeline. Not only does the application itself take a significant amount of time to draft, but firms are also subjected to lengthy waiting times to find out whether they have been approved for the credit. Smaller firms with refundable claims are notified by CRA within 120 calendar days from receipt; whereas larger firms with non-refundable claims are notified within 365 calendar

days. Many SMEs are forced to put projects on hold while they wait to find out whether they will receive the funds that are often essential for them to be able to continue. But it is especially important to note that the above chart shows what is essentially *the best-case scenario* of a SR&ED application. For small businesses grappling with problems of "making payroll on Thursday", it is hard to see larger programs like SR&ED as anything more than a "nice to have".

Appendix B - CFIB members' innovation examples

"We have upgraded most of the equipment in our shop, computers, one of the printers and added a large format laminator, and a perfect binding machine for books. Our customer service has also improved with happier staff which means happier customers."

"We now use the internet to do marketing to our customers. This takes up about 25 per cent of our advertising budget where in 2014 it was zero. This is a huge change for us. Stepping away from traditional marketing media such as radio and newspaper is a very large change in our efforts to reach our current and future customers."

"Improved the efficiency of our home construction schedules by hiring in-house trades, improved the internal financial reporting, added Facebook, and an improved website for marketing."

"We are now manufacturing our own improved plant growing trays in Abbotsford, instead of importing them. Our trays help plants grow faster and healthier, reducing costs for our customers which are located all over North America."

"Designed and built new type of multi-purpose rock drill. Kept developing light-weight reverse circulation drill systems for Canadian mining industry."

"Created a component type of pipe insulation used on small piping in drilling and other industries that requires no skilled journeymen to install."

"We have put together a process where we provide a dust suppressant surface for communities that currently have gravel roads, that is close to asphalt surfacing, but is about 1/3 the cost."

"[We] invested in training and equipment for the installation, repair, commissioning and testing of emergency generators for both the home and commercial markets. As well we have been working on sales and installation of solar systems."

"We designed and built a software program and incorporated Industrial cameras that allow CCTV systems to be deployed on drilling rigs and other industrial applications."

"Reinvented lighting system for makeup. Changed from a neon system to an LED one. Structured it in a box to make it completely portable."

"We developed a website that would allow our clients and prospective clients to get home and auto insurance quotes for themselves."

"We improved our business process by adding a CRM system to track clients, quote activity and marketing."

"We are one of the leaders in providing outsourced EDI services. Our aged software needed to be totally rewritten and in doing so we provide several additional service for our clients to use including business analytics."

"Development and production of a new blended wine using new strains of yeast, innovative processes for vilifying grapes and [for] bottling the wine."

"Researched a lot of ventilation ideas until we came to one that was the most efficient and effective for the dairy industry, including the best way to hanging/install fans"

"We have upgraded our internal information technology to allow information access from anywhere we can receive data service. This allows real time access to customer information to improve our ability to serve."

"Created a new digital software platform for the agricultural retail sector that will increase connectivity with their farm customers and improve sales and cut costs."

"We are developing new flavours of cheese, Beer cheddar, Horseradish Cheddar, and we recently have created a smoked cheddar. Although the ideas for these are not new, they would be in fact new to us. We have also bought a new computer system and software for traceability, inventory control, and marketing reports."

"Created a host of new task management protocols for interns and staff to diversify responsibility, build a stronger sense of ownership amongst the team, and better contextualize decision-making."

"[W]e have created an app for both Android and iPhone which helps us to interact and get our product out to many more mobile users. We know that over 63 % of people visiting our website are coming in through mobile devices."

"Summit Earth Navigator is a GPS GIS system that helps our customer with environmental compliance. We also implemented a new ERP system that improves our companies turn-around time and corporate governance."

"Altered product formulations to be more cost effective, perform to a greater degree, [and] be more competitive in marketplace."

"We have implemented Barcoding, integrated our online ordering, upgraded our phones and CRM software, we are moving toward automated weight and cube centers for our outgoing shipments and hope to continue to refine all of these and expand our web integration."

"We designed and supplied lights for Nav Canada for the air traffic controllers in the control room. They have been installed in Toronto and two other Canadian airport control towers so far. These lights were designed to reduce glare for the air traffic controllers so that they could see their computer monitors better. We designed them and had a Canadian company manufacture them."

"The product is a 3D nano scale white light identification system to be used in fine art authentication. It eliminates the need for re-authenticating artwork which in certain cases costs thousands of dollars and takes months of waiting. The system prevents art fraud by recognizing forgeries and delivering scientific proof of fraudulent art works."

Appendix C - CFIB Members views on using government programs or services of organizations

"Grants, SR&ED and funding have supplied critical injections of cash needed to stay innovative, relevant and in compliance with industry standards. Funding, in particular SR&ED, [has] been a lifeline to stay competitive in the food industry."

"BDC consulting service has provided much needed information. BDC has made it possible for us to obtain timely financing for computer equipment, warehouse space and equipment."

"The amount of time to do the paperwork and fill it all out had to hire a consultant to help and cost money so did not help after being audit we lost a large amount because they said it did not qualify."

"We take advantage of both federal and provincial apprentice training grants/rebates. By offering these grants/rebates it helps our business to be more cost effective and we can then look at paying the money ourselves for better more efficient equipment, tools, vehicles and so on."

"SR&ED tax credit has allowed us to develop new product which is expensive, especially the testing to meet regulations."

"The [SR&ED] program took a lot of paper work documenting everything. The amount of time and labour into the program was a break-even process. The BDC was very helpful in lending us money but the interest rates were high, [which] did not help us in the long run."

"BDC supported providing me a start-up loan, but I had to use my house as collateral for that. None of the other programs apply to my business, which has been growing steadily for the past 5 years and provides employment for over 20 people at any 1 time. The government money seems to only go to companies that have huge-scale projects they want to proceed with, or to projects that are technology-based, which none of mine are."

"SRED, despite being laborious and convoluted, has afforded us with an opportunity to undertake research that has translated into marketable products."

"The biggest problem with SR&ED is that the inspections take place many years after the work is done, and they can reverse the credit retroactively, all depending on the examiner."

"I am a technical consultant for the wine industry. Most of my clients are small businesses who wouldn't be able to afford my services if I were unable to organize SR&ED tax credits to help offset my fees and the innovations that I introduce to their operations."

"We have been involved with the SR&ED program for 8-10 years. During that time we have been audited twice. Our agricultural innovations for the greenhouse and crops are not traditional. Therefore, we seem not to fit into the "Cookie Cutter" programs. So it is always like trying to fit a square peg in a round hole. Because of this, we have been turned down in certain programs. IRAP is currently covering some of the labour costs during the early commercial stage/ late R and D stage of the project."

"They seem to support the very large companies and aren't much help when we call."

"Have only applied for SR&ED and it is proving to be quite difficult to access credits."

"They have and have not. The cost of developing and or filling out all the paperwork has created jobs for consultant[s]."

"SR&ED was a big help in the early years but recently we have been subjected to lengthy technical audits with unfair rulings as a result of company ownership (some employees were employed by the parent company of the company claiming the SR&ED credit)."

"[In the] beginning it was a fairly simple process, we would hire a rep to do the work, it is far more involved now - quite limited as to what you can get money for."

"In the past SR&ED has been very helpful but they turned down our most recent project even though it (after several go-rounds) has been a significant improvement in one of our key processes."

"Helped us to advance our innovation journey, we are farther along and stating the commercialization phase on some products because of the government funding."

"Allowed us to [purchase] additional equipment and create 5 new jobs to increase productivity."

"Last SR&ED audit was only 50 % accepted (even though we use SR&ED consultants) & audit was conducted by several auditors (one senior) who decided yelling was an efficient way of trying to prove a point. I have already informed the SR/ED advisor I will not do a SR&ED next year."

"SR&ED was helpful one time because the dollar value made it worth using a specialized firm to submit the application. If the project is less than $10,000, the firm's fees to submit the application are as high as $10,000. We feel that we are unable to correctly fill out the application when are projects are under $10,000. Our R&D investments are about $10,000 a year, so we feel like it's not worth applying. If the SR&ED requirements weren't so complicated we could do it ourselves!"

"The Research and Development has been very helpful for many years however lately they have placed far more emphasis on the documentation than the actual innovation itself."

Appendix D - CFIB Members views on how governments could best support innovation in their business

"I wish the government would stop trying to pick winners in different sectors, and focus instead on general tax relief."

"Broaden their understanding of innovation. Reimburse businesses that used equipment for the prototype. Especially in construction, equipment has a life time of decades and so a used piece of equipment is every bit as functional as a new piece and much more affordable. I think that government is often dazzled by the "show" rather than the result. Small innovations can cumulatively [produce] large innovations and enhance productivity."

"I think governments could assist businesses in going paperless, applying computer software and new systems to do so."

"Cut taxes or increase CCA for new technologies."

"Develop liaison with research centres and industry. Make these centres places of technology transfer and industry support. Governments have closed doors in agricultural cooperation with industry and carry on as a service to themselves in horticultural and nursery research which they have largely abandoned."

"[Remove] regulatory burdens. The single greatest impediment to innovation and business growth is government."

"Programs to assist in employee training on innovative products and technologies within the trade. Learning new innovative methods are typically learned on the job and at the expense of the employer. Schooling for apprentices teaching them about innovative technologies."

"Our present innovation focus is just to create ways to get around legislative barriers they have put up. They reject sound science and move backward in time."

"[By] eliminating the red tape and allow companies to innovate with far less restrictions and cost. It seems innovation always carries with it some punitive action from government."

"Innovation and growth is usually a result of a genuine need in a good business environment. My opinion would be less government involvement is usually better. However, government needs to support a business environment that includes competitive tax levels, energy and labour costs etc."

"Learn what medium and small business needs to be innovative. Large industry does not create as many jobs as our sector does but the government concentrates on providing financing and programs which benefit larger industries like the automotive and eastern based manufacturing."

"Reduce paperwork burdens and relax laws so us business owners can do what we do best; invent and improve, innovate in our fields, grow our businesses and create jobs."

"Reduce the paper burden and regulations to be approved for funding. I know of one instance where the requirement of audited [financial] statements would have cost more than the funds applied for in a program."

"[Support university] technical and scientific sectors that we can hire to assist with innovation."

"There are a lot of programs that help cover the cost of employees, but usually to become innovative there is a significant amount of equipment required as well, and finding financial support to purchase equipment is tough. Also, finding grants that lets you leverage your existing testing equipment is tough. Several, of the programs I have seen will cover testing equipment that is only good for that project."

"[A]fter research is completed in Canada, [traditionally] the new Idea or product leave the country because banks do not finance these projects. They are considered to risky and do not fit [their] brick and mort[a]r mentality of there [institutions]. [An] innovation bank should be set up where developers can apply to for funding to create [their] products here in Canada."

"Make the programs easier to find, more readily available, more inclusive. When we talk about building our own equipment to use in the field we never think to look for government assistance with financing our projects because we feel the process would be too cumbersome, we don't have the time or man power to go through the paperwork process to apply for government funding."

"In my experience, any grants or programs around innovation require the company to be operating in a High-Tech industry. We are a construction company but still require innovation in our business and industry to remain competitive. We would find value in grants that are aimed at internal innovation."

"Decrease red tape on financial resource and support programs. The time commitment required for application and reporting is not cost effective for the dollars provided."

Appendix E - North American Industry Classification System (NAICS) Codes in comparison to CFIB industry codes

CFIB Codes	NAICS Code and Sector	
Wholesale	41	Wholesale trade
Retail	44-45	Retail trade
Construction	23	Construction
Professional Services	54	Professional, scientific and technical services
Personal, Misc. Services	81	Other services (except public administration)
Finance, Insurance, Real Estate & Leasing	52	Finance and insurance
	53	Real estate and rental and leasing
Social Services	61	Educational services
	62	Health care and social assistance
Hospitality	72	Accommodation and food services
Enterprises & Admin. Mgmt.	55	Management of companies and enterprises
	56	Administrative and support, waste management and remediation services
Transportation	48-49	Transportation and warehousing
	22	Utilities
Manufacturing	31-33	Manufacturing
Agriculture	11	Agriculture, forestry, fishing and hunting
Arts, Recreation & Information	71	Arts, entertainment and recreation
	51	Information and cultural industries
Natural Resources	21	Mining, quarrying, and oil and gas extraction

Source: Statistics Canada, North American Industry Classification System (NAICS) Canada 2012. Accessed May 2016: http://www23.statcan.gc.ca/imdb/p3VD.pl?Function=getVD&TVD=118464

Appendix F – Additional Data

Figure 20

Please indicate the level of investment your business made in research and development during the past 5 years, as part of its innovative work (by sector) (% response)

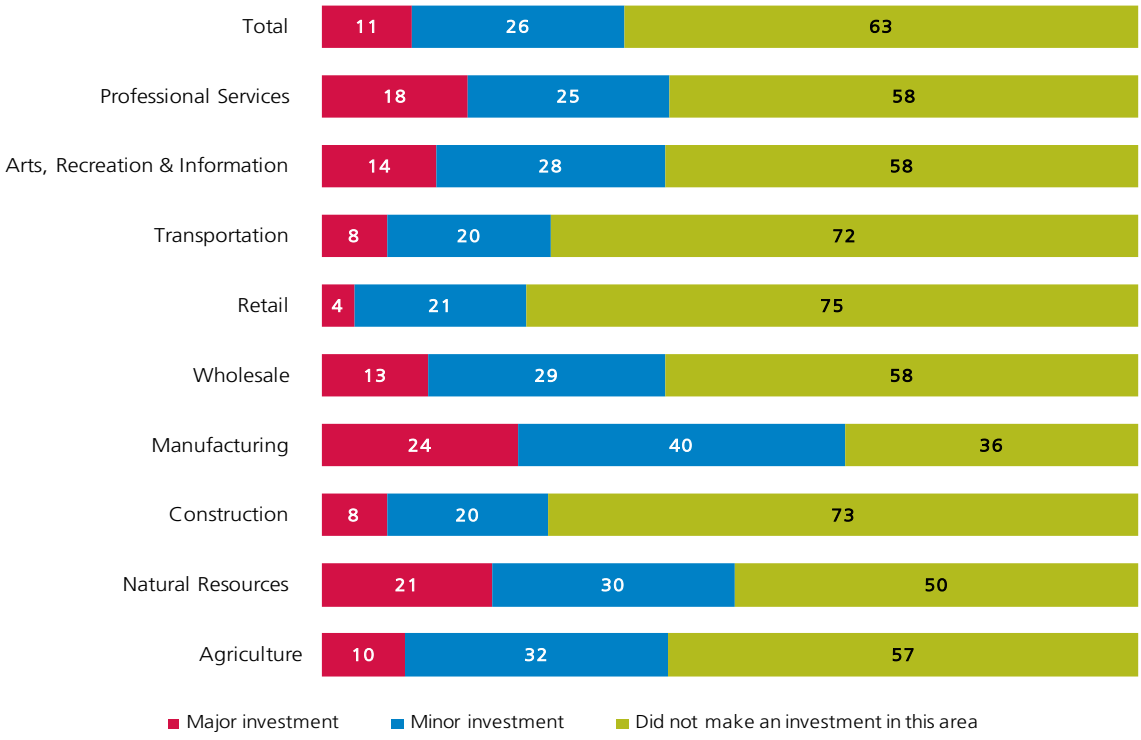


Figure 21

Use or attempted use of SR&ED during the past 5 years (by province) (% response)

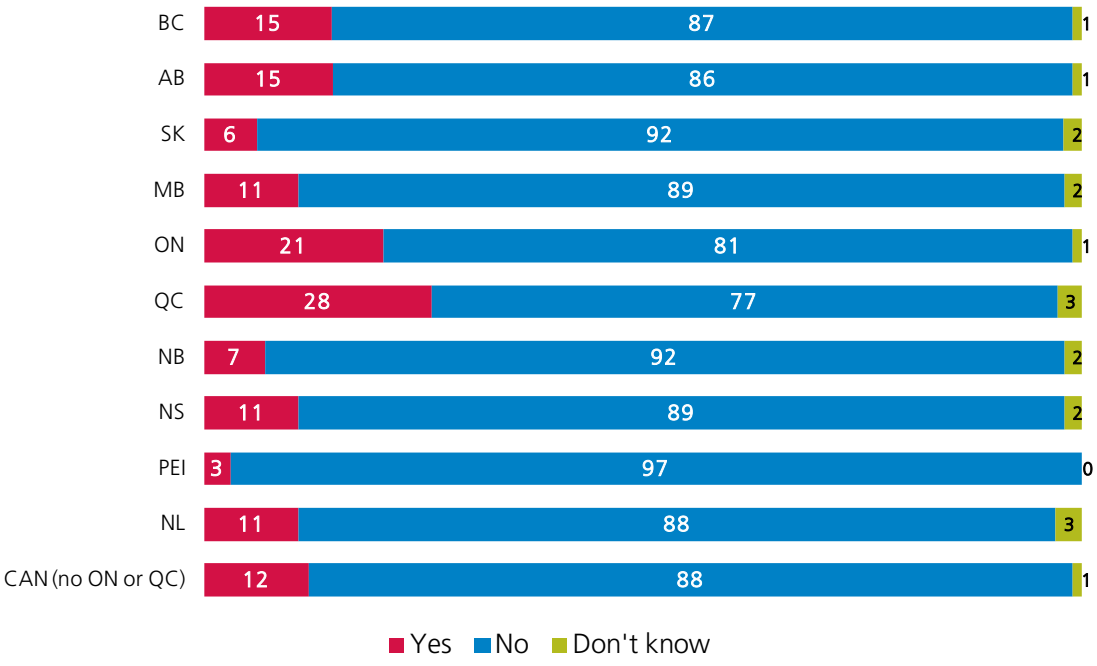


Figure 22

Use or attempted use of SR&ED during the past 5 years by age of firm (% response)