

**Lecture Notes:**

- Canada is a liberal, market economy. Anyone may start almost any business. There are no fees, very few regulations and you don't need government permission.
- Canada is the 3rd easiest place to start a business out of 190 countries.
- Free enterprise refers to freedom from bureaucracy, ease and speed of starting, low cost and minimum regulation when starting and running a business.
- We don't know exactly how many businesses are in Canada, but we can guess based on tax data.

**Most recent estimate:**  
**~1.3 million self-employed tax payers**  
**~1.3 million businesses with employees**  
**~2.6 million businesses in total**  
**Most of these are “small”**

- **Note:** There is no formal definition for “small”.
- Various Canadian organisations define “small” in various ways:
  - Canadian Bankers Assoc: Less than \$500,000 in loans.
  - Export Development Corp: Less than \$1,000,000 in exports.
  - Industry Canada: A small manufacturer is one with less than 100 employees.
  - Industry Canada: A small service business is one with less than 50 employees.
- Approximately 1.3 million Canadians, ~7% of the working population, work alone.
- Another 1.6 million (~9%) work for businesses with 1 to 4 employees.
- Another 1.8 million (~10%) work for businesses with 5 to 9 employees.
- 26% of Canadians work with less than 10 others.
- 50% of Canadians work with less than 50 others.
- ~75% of Canadian businesses employ less than 5 people.
- ~85% of Canadian businesses employ less than 10.
- Small businesses, businesses with less than 100 employees, created 86% of net new jobs from 2007 - 2015.
- **SMEs**, small and medium-sized enterprises, create more than 80% of jobs.
- It's easy to start a new business but hard to keep it afloat for long.
  - ~30% of small businesses don't last 2 years.
  - ~50% of small businesses don't last 5 years.
- **Personality traits of entrepreneurs:**
  - 1. High Need for Achievement:**
    - **Need for power (N-Pow):** People who are authority motivated. They need to be influential. N-Pow produces a need to lead. These people need personal status and prestige.
    - **Need for affiliation (N-Aff):** People who need friendly relationships, motivated by interaction with others. N-Aff produces need to be liked, held in high regard. Team players.

- **Need for achievement (N-Ach):** People who seek achievement, want to attain challenging goals. N-Ach produces people who need accomplishment.
- Entrepreneurs seek challenges.
- Entrepreneurs set goals.
- Entrepreneurs take risks.
- Entrepreneurs have a very high need for achievement.
- 2. Locus of control:**
  - A person's belief about what causes good or bad results in his or her life.
  - The extent to which people believe that they can control events that affect them.
  - **Internal Locus of Control:**
    - People with internal locus of control believe that events result from their own behavior and actions.  
I.e. I control my destiny.
    - They try to influence others.
    - They assume their efforts will succeed.
    - Entrepreneurs have internal locus of control because they
      - recognise opportunities
      - assemble and mobilise resources
      - assume risks to realise rewards
  - **External Locus of Control:**
    - People with external locus of control believe that powerful others, fate, or chance determine events.  
I.e. Other people/factors/etc control my destiny.
    - Less likely to be leaders.
    - Less likely to take risks.
    - Less likely to start their own business.
- 3. Risk tolerance:**
  - **Risk** is uncertainty of outcome.  
I.e. Not knowing what will happen.
  - **Risk Intolerance:** New or previously unknown situations are threatening.
  - **Risk Tolerance:** New or previously unknown situations are desirable.
  - Entrepreneurs are risk tolerant.
  - Entrepreneurs start new businesses.
  - Entrepreneurs accept new opportunities.
  - Entrepreneurs know they might fail but they also know they might succeed.
- **Entrepreneurs - Family Background:**
  - Most entrepreneurs are the kids of entrepreneurial parent(s).
  - Entrepreneurial parent(s) are the single most telling indicator of entrepreneurial ambitions.
  - 80% of Canadian entrepreneurs have a heritage of family business.
  - There's 2 reasons to this:
    - 1. Nature:**
      - nAch and internal locus are inherited traits, so if your parent(s) have it, there's a good chance you will too.
    - 2. Nurture:**
      - You spend 20+ years watching, helping, learning and listening.
  - Immigrant families are more likely to start their own businesses.
  - Immigrants to Canada are **economic migrants**.

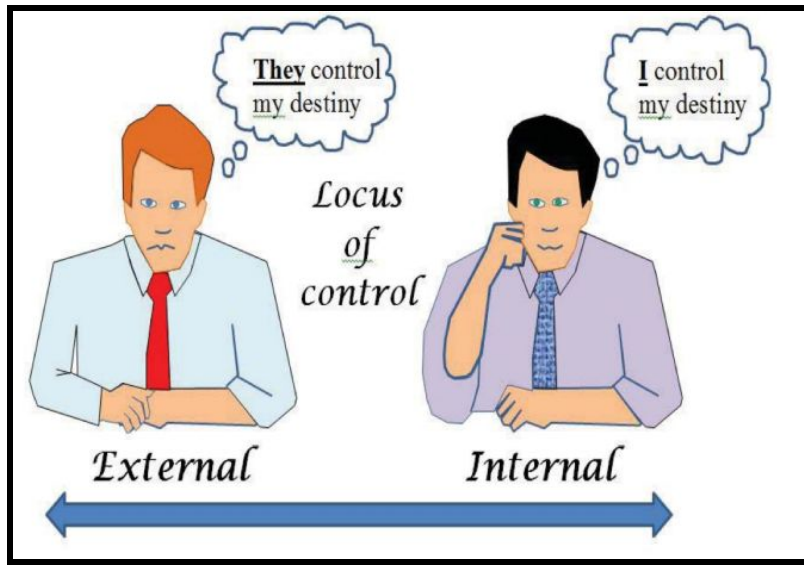
- Immigrants to Canada packed up lives, belongings, families, to improve economic well-being.
- Immigrants have:
  - High need for achievement.
  - Internal locus of control.
  - Willingness to take risks.
  - Confidence.

### **Textbook Notes (Chapter 7):**

- **The Number of Businesses in Canada:**
- **Free enterprise** is an expression used to indicate that individuals have the freedom to start and run businesses without bureaucracy and undue regulation.
- There are roughly 2.7 million businesses in Canada.
- **Most Canadian Businesses are Small:**
- In 2013, Statistics Canada identified 1.49 million Canadians who earned income from self employment.
- 90% of all Canadian businesses employ fewer than 10 people.
- There are 17.9 million Canadians with jobs. Of those 17.9 million people:
  - 3.6 million, about 20% of the working population, work in the public sector.
  - 14.3 million, about 80% of the working population, work in the **private sector**. Of these 14.3 million people, 2.8 million, about 15% of the working population, are self-employed.
- The **private sector** is the part of the economy that is run by private individuals usually with the aim of making a profit.
- **The Importance of Small Business in Canada:**
- There is no official definition of what is meant by a small business. Different organizations use different criteria such as number of employees, profit or revenue to constitute the definition of a small business.
- Industry Canada calls a goods-producing business small, if it has fewer than 100 employees while a service-producing firm is small if it has fewer than 50 employees.
- The Canada Small Business Financing Act defines a small business as a business with less than \$5 million in revenue.
- The Export Development Corporation defines small exporters as having sales of less than \$1 million.
- The Canadian Bankers Association defines small businesses as those that can borrow up to a maximum of \$500, 000.
- **SME** is a commonly used acronym for small and medium-sized enterprises, meaning any business with fewer than 500 employees.
- **Birth, Death and Survival:**
- Businesses have a better chance of surviving if the GDP is growing.
- The longer a business survives the better chance of it continuing to survive.
- Businesses may cease operations for a number of reasons:
  1. The owner may wish to retire and no one wants to continue the business.
  2. The owner wants to go back to school.
  3. Two businesses may merge into one.
  4. A large business may buy out some of its competitors.
  5. A business may close down even though it's making a profit. The owner may feel that the profit is not large enough to justify the time and effort.

- Business failure means that the business has failed to provide its owner with sufficient profit, stimulation or enjoyment to want to continue.
- Despite failure rates, Canadians start new businesses in remarkable numbers.
- **Entrepreneurs:**
- There are four psychological attributes of the entrepreneurial personality:
  1. A desire to achieve challenging goals.
  2. A belief in one's own ability to influence affairs.
  3. A willingness to tolerate some uncertainty.
  4. Self-confidence
- **The Need for Achievement:**
- American psychologist David McClelland suggested that people are driven by three motivational needs:
  1. **Need for Power (nPow):** In need theory, one of three human motivators. People with a need for power are motivated to have authority and they need to be influential. They will choose careers that offer status and prestige.
  2. **Need for Affiliation (nAff):** In need theory, one of three human motivators. People with a need for affiliation need to have friendly relationships and are motivated by interaction with others.
  3. **Need for Achievement (nAch):** In need theory, one of three human motivators. People with a need for achievement are motivated by a sense of personal achievement. They like to set and attain challenging goals for themselves, and accomplish tasks.
- In subsequent research, McClelland found other characteristics of achievement motivated people:
  - The sense of achievement is more important than material or financial reward.
  - The accomplishment of the task gives greater personal satisfaction than receiving praise or recognition.
  - Financial reward is regarded as a measurement of success, not an end in itself.
  - Security is not a prime motivator, nor is status.
- **Locus of Control:**
- A second behavior frequently observed in entrepreneurs is internal locus of control. This concept was developed by Julian Rotter.
- **Locus of control** refers to the extent to which someone believes that they can control the events that affect them. Everyone falls somewhere on a continuum between having

an internal versus external locus of control.



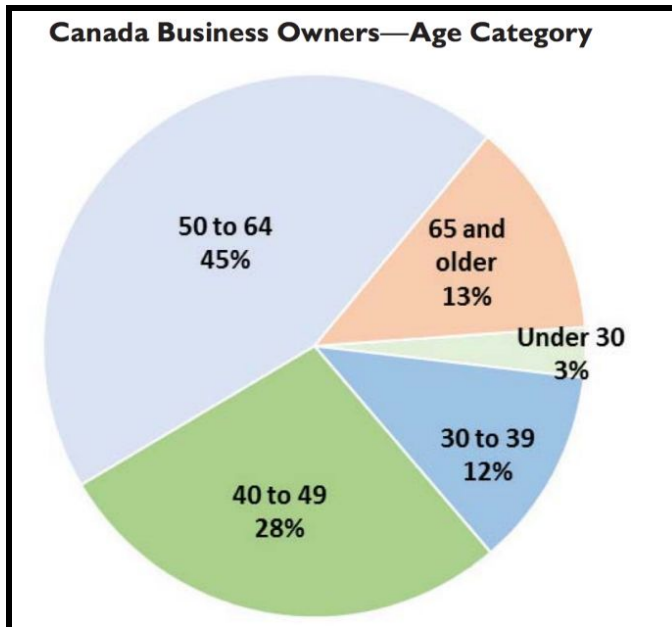
- **Internal locus of control** is the belief that outcomes in life are influenced by a person's own behavior, and that an individual's actions and efforts help shape their fate.
- **External locus of control** is the belief that outcomes are the result of fate, luck, or powerful outside forces, which the individual cannot control.
- Research has shown that people with a high need for achievement also tend to have an internal locus of control.
- An individual with an internal locus of control takes responsibility for their successes and failures, attributing outcomes to his or her own ability and effort. In contrast, an individual with an external locus of control will equate the outcome to the ease or difficulty of the task, luck or being in the right place at the right time.
- Entrepreneurial people have an internal locus of control.
- **Risk Tolerance:**
- Risk occurs when you don't know how things will work out.
- Individuals who are **risk averse** see new or unknown situations as threatening.
- **Risk aversion** is a tendency to regard new or previously unknown situations as threatening.
- On the other hand, **risk tolerant** people see new or previously unknown situations as exciting and possibly desirable.
- **Risk tolerance** is a tendency to regard new or previously unknown situations as exciting and possibly desirable.
- Entrepreneurs exhibit moderate risk-taking propensities.
- Note: Being risk tolerant is not the same as risk seeking or being careless of the consequences. Entrepreneurial personalities are not gamblers. Entrepreneurs take **calculated risks**. A **calculated risk** is an enterprise undertaken after the advantages and disadvantages have been considered and the probability of various outcomes have been calculated.
- **Self Confidence:**
- People who set ambitious goals for themselves, believe that they can influence the people and the environment around them, and who are willing to undertake new uncertain ventures must be imbued with self-confidence.

- **Children of Entrepreneurs:**

- Research consistently shows that an individual with a parent who runs their own business or is self-employed is much more likely to run their own business than the general population.
- 80% of Canadian small business owners come from a background of family business.
- Individuals that grow up with an entrepreneurial family will receive three types of inheritance:
  1. **Entrepreneurial inheritance:** The characteristics and values that are acquired from exposure to an entrepreneurial parent.  
Children will learn to value hard-work through witnessing their parent's efforts. As a result, the children of those with entrepreneurial personalities will be drawn to entrepreneurial activity themselves.
  2. **Vocational inheritance:** An individual's tendency to observe and learn work or job related skills and aptitudes from their parents.  
For example, children of farmers will become familiar with using farm equipment. Furthermore, they learn about crop rotation, fertilization.  
If young people observe and learn from practitioners from an early age, it will ease their entry into the field.
  3. **Economic inheritance:** The tendency for the children of entrepreneurs to receive financial capital to support their desire to start a business.  
Entrepreneur families may be more willing to provide financial capital.
- **Immigrant Entrepreneurs and the Children of Immigrants:**
- Immigrants and the children of immigrants are thought to make great entrepreneurs.
- The majority of immigrants to Canada are **economic migrants**. **Economic migrants** are people who move from one country to another in order to improve their economic well-being and that of their family.
- Immigrants are both pulled and pushed into entrepreneurial careers.  
Immigrants may be pulled into an entrepreneurial career by their self confidence and willingness to take risks to achieve their goals.  
Immigrants may be pushed into starting their own enterprise because despite how clever or well educated they might be, they lack the social networks, contacts, experience and track record to secure paid employment working for another.



- **Entrepreneurs are Older Than the Average Canadian:**
- More than half of Canadian businesses are owned by people over the age of 50.



- The reasons why entrepreneurs are often older are:
  1. Businesses need money. Research shows that two-thirds of new enterprises were financed primarily by the entrepreneur's personal savings. These savings are gotten from decades of paid employment.
  2. Entrepreneurs need contacts. They need to find suppliers, accountants, legal advisors, etc. Contacts are developed from decades of being in the industry and trusting people to work with.
  3. Entrepreneurs need credibility. A proven track record in an industry is the best means of securing the help and cooperation of both contacts, as well as securing the confidence and trust of potential customers.
  4. For an achievement oriented, confident young person with an entrepreneurial personality, a few years of paid employment may be a necessary investment in shaping the odds of later success in their favour.

#### **Textbook Definitions:**

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- **Economic migrants:** Someone who moves from one country to another in order to improve their economic well-being and that of their family.
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- **Free enterprise:** An expression used to indicate that individuals have the freedom to start and run businesses without bureaucracy and undue regulation.
- **Internal locus of control:** The belief that outcomes in life are influenced by a person's own behavior, and that an individual's actions and efforts help shape their fate.

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- **Private sector:** The part of the economy that is run by private individuals usually with the aim of making a profit.
- **Risk aversion:** A tendency to regard new or previously unknown situations as threatening.
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