

# For a more entrepreneurial and prosperous Quebec

Quebec businesses' contribution to the economy:  
challenges, recommendations, and shared responsibilities and priorities

## Summary

A study by Desjardins Group's Economic Studies  
in collaboration with the  
Centre for Interuniversity Research and Analysis  
on Organizations (CIRANO) 

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This publication is based on information made available on  
**April 22, 2014.**

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In the text and tables, the symbols **k**, **M** and **B** are used respectively to refer to thousands, millions and billions.



## FOREWORD

We live in a complex, global world. A world where politics, social issues, the financial sector, the environment and the economy are intertwined. This complexity naturally spurs considerable analysis and reflection.

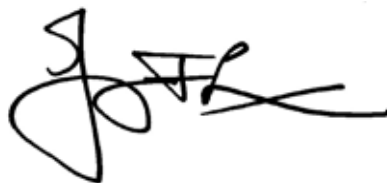
In this study, Desjardins Group Economic Studies and CIRANO provide a composite summary of the major studies and key thoughts on the challenges faced by Quebec businesses. An overview of the recommendations made by various groups and individuals regarding each issue has also been included, with a view to prioritizing our subsequent actions.

For certain aspects of the challenges that lie ahead, it comes down to individuals and entrepreneurs, what they choose to do and their will to succeed. But there are other aspects that we must attend to together: we must create an environment where entrepreneurship can flourish, support businesses in pursuing their goals, bring clarity to the playing field, make the “system” more agile and set our sights on common goals.

We’re in an open economy and other communities are seizing this opportunity, capitalizing on their strengths and competitive advantages. If we want to be successful in a global economy, we must address these issues.

Being satisfied with the status quo is not an option. If we want to stay ahead of the competition, it’s time for us—all of us—to take action. Whatever our role in the community, we must help our businesses forge ahead on the path to sustainable growth and long-term success.

Above all, this study is intended to be a call to action. Together, we can rise to this challenge!



**Monique F. Leroux**  
President and Chief Executive Officer  
of Desjardins Group



## PREFACE

In 2011, in conjunction with the Center for Interuniversity Research and Analysis on Organizations (CIRANO), Desjardins Group Economic Studies carried out a study of Quebec's economic challenges. In the same vein, here our work focuses specifically on the challenges facing Quebec businesses from the perspective of prosperity and entrepreneurship.

In Quebec, the driving role business plays is already acknowledged. As instruments of economic development and originators of wealth creation, Quebec businesses must grow to survive. The market conditions they face have become more complex, however. The new reality, along with more stringent standards and requirements, influences their operations and affects their prospects.

The many challenges facing business can be met, but all parties must put their shoulders to the wheel. Some of the challenges are more in the government's purview, while others specifically concern business, and many must be addressed by both. Other stakeholders—including those from academia and the business community—also have a major role to play.

This study summarizes the issues associated with each challenge, proposes potential solutions, and sets out most of the recommendations recently published in independent studies or by working groups. It then proposes a division of responsibilities between government and business. Lastly, so that work can begin as rapidly as possible, it sets out a list of priority challenges.

Desjardins Group Economic Studies and CIRANO encourage everyone to participate in the reflection process. Enhancing Quebec businesses' contribution to the economy will certainly lead to a more entrepreneurial and prosperous development of Quebec.

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## SUMMARY

This summary provides an overview of the contents of a more than 100-page study. **For brevity's sake, it includes no references to the very extensive literature consulted. Sources are listed only in the body of the study itself.** The diagram on page 8 illustrates the many challenges that must be met for businesses to increase their contribution to Quebec's prosperity.

Businesses drive a society's economy. The economy's prosperity therefore depends on how they perform. Subsequent to a 2011 study of the challenges and opportunities involved in ensuring lasting prosperity for Quebec, in conjunction with the Center for Interuniversity Research and Analysis on Organizations (CIRANO), Desjardins Group Economic Studies produced another discussion paper, this one targeting the challenges specific to Quebec's businesses.

### Part one: Portrait of Quebec business

Nearly all of Quebec's businesses are small and medium-sized enterprises (SMEs) and just over half are microbusinesses. Although few in number, large firms are by far the largest employers.

The vast majority of Quebec businesses are privately held and based on the traditional capitalist model; however, other models, especially cooperatives, have a strong presence, too.

### Part two: A host of challenges

#### Stimulate entrepreneurship, foster succession, and nurture business growth

Quebecers seem less inclined toward entrepreneurship than other Canadians. To stimulate entrepreneurship, we must develop Quebec's entrepreneurial spirit, particularly among young people, as well as streamline the regulatory burden and facilitate access to financing.

The ageing of Quebec's population raises the spectre of a problem with the next generation of entrepreneurs. To help retiring entrepreneurs plan for their succession, they must be steered toward the government programs and networks in place to support them; we must also facilitate access to financing for their potential successors.

Quebec has a lower business survival rate than other Canadian provinces. More support must be given to the process of transitioning from the first to the second year, a transition that is particularly difficult for businesses with

five or more employees. Businesses could also look to the practices of cooperatives for inspiration, as they have a much better survival rate than other kinds of enterprises. Such practices include pooling capital and sharing risk, expertise and interests.

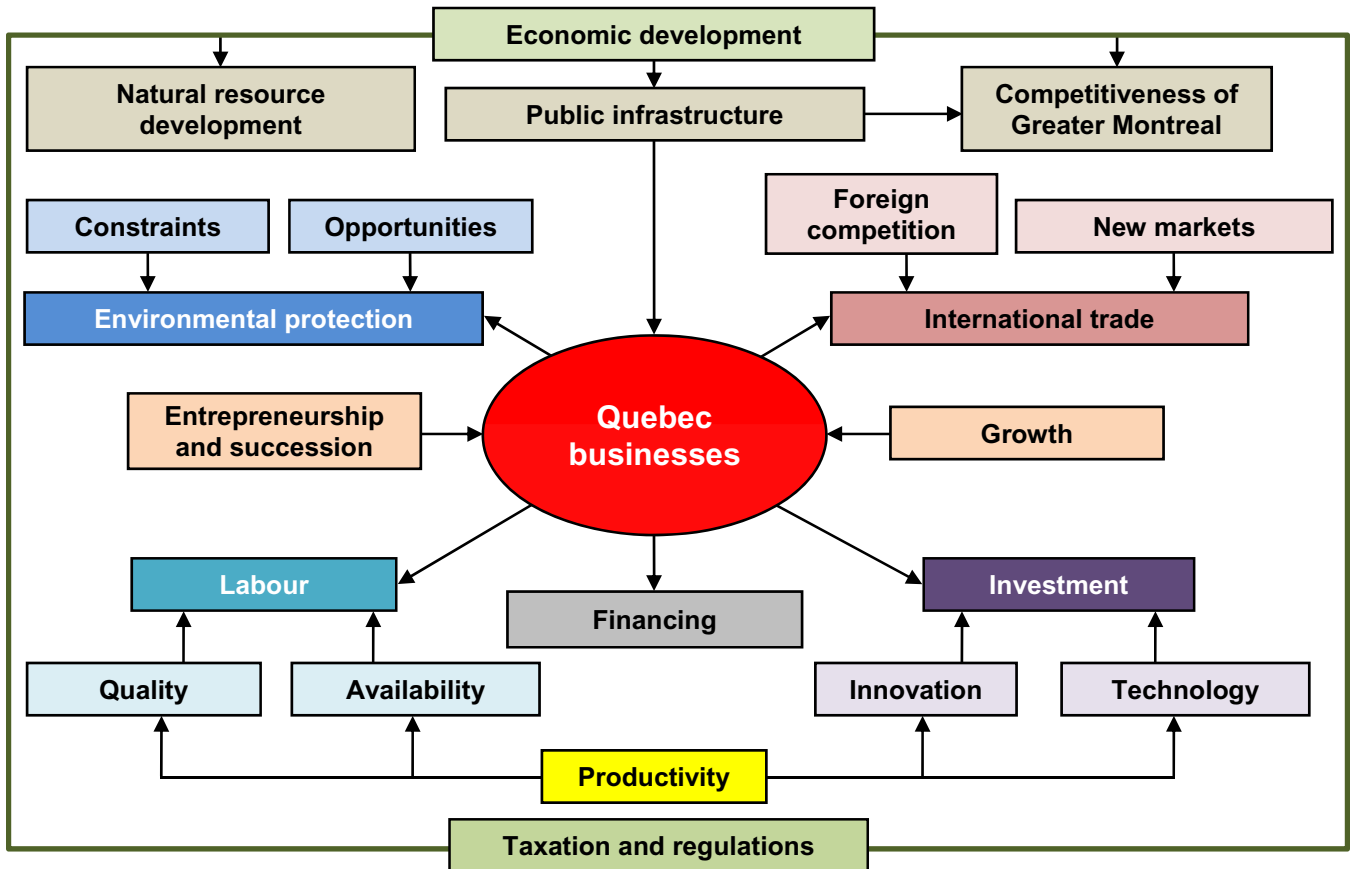
#### Improve productivity

In Quebec, labour productivity lags behind that of Canada as a whole, as well as behind numerous industrialized nations; moreover, it is rising more slowly. Quebec's performance in the area of innovation is likely one of the main causes. Investment in research and development (R&D) is considerable, but does not seem sufficiently fruitful. It appears that direct government assistance to R&D (subsidies and loans) would provide more stimulus than tax incentives. Also, R&D is not the only determining factor in innovation: other intangible assets, such as workforce training, are even more important. Quebec also lags behind in the area of investment in information and communication technologies (ICT). However, getting businesses to spend more money on ICTs is not enough: we also have to help them get more out of that investment. Lastly, businesses are not investing sufficiently in machinery and equipment beyond ICT. To encourage businesses to invest more, we must maintain financing assistance programs, reduce the business tax rate rather than create an investment tax credit—although this does not exclude the possibility of creating a targeted investment tax credit to achieve a specific economic goal—and increase the availability of skilled labour.

#### Improve labour availability and calibre

Labour is what powers business, but population ageing is making it harder to recruit staff. Measures to keep people in the workforce could make more labour available; this can be done by instituting incentives related to retirement income and adjusting tasks and working conditions to the aspirations of older workers. Another avenue involves better incorporating immigrants into the labour force through a variety of means, such as improving the process for recognizing foreign skills, developing more workplace

## Challenges to be met to ensure the prosperity of Quebec businesses



Source: Desjardins, Economic Studies



internships, intensifying language training, and encouraging the immigration of people with more education.

Because of technological advances and the offshoring to emerging nations of activities that call for extensive unskilled labour, businesses in advanced economies such as Quebec primarily need skilled labour. To expand the pool of skilled labour, we need to encourage young Quebecers to finish high school and pursue post-secondary educations. The ongoing battle to reduce the dropout rate must continue by supporting high school students who are at risk of dropping out, but first and foremost by preventing the problem at its earliest stages by taking action with children in disadvantaged neighbourhoods. Increasing the number of post-secondary graduates is dependent on numerous factors: better basic elementary and high school education, support measures for post-secondary studies, financial assistance and a better work-study balance. Lastly, workforce training is another way to get more skilled workers. SMEs in particular must invest more in training their employees. Developing or turning to training mutuals may be useful here. Businesses must also make workforce development part of their culture.

#### **Take on foreign competition and develop new markets**

The recent industrialization of many countries has transformed the context for international trade. Quebec businesses thus face a twin challenge: tackling the intensified competition from abroad and capitalizing on the huge potential created by emerging markets. To succeed, they must become more productive. They must also internationalize further. Many programs exist to support internationalization; however, more must be done to reach out to business, programs must be easier to access, and they must focus on a broad array of international activities. Moreover, to break into emerging markets, Quebec enterprises have to learn all they can about how business is done there, and establish contacts. Some organizations lead trade missions that are very useful in this area. Lastly, businesses would certainly benefit from a national strategy aimed at expanding Canada's presence abroad and achieving a better balance in terms of access to markets.

#### **Respect the environment**

It is normal for businesses to be subject to environmental protection legislation, but it is the government's duty to make sure that regulations are effective without pointlessly hindering competitiveness. In addition to doing everything possible to simplify administrative regulations, we have to help small and medium-size businesses comply with those regulations by providing the required tools and financing. Environmental regulations must be chosen based on a comparative analysis of the various options available

for achieving the intended goal while minimizing the associated social and economic costs. Moreover, studies show that it is in the interest of enterprises to make the concept of sustainable development part of their business strategy. Businesses must be made more aware of this fact and have the support needed to do so.

#### **Access to financing**

Access to financing, i.e. being able to obtain funds at a reasonable cost, is a prerequisite to business creation and development. Financing assistance programs, an important source of credit for SMEs, must be maintained; however, the plethora of programs must be examined to ensure they are coherent. Moreover, government aid must not replace private financing—it should complement it. An effort must also be made to make more venture capital available in the early stages of business growth. Blended public-private funds based on investment criteria that are geared to the needs of the venture capital market must be nurtured; programs to encourage angel investors must be maintained, as such investors provide expertise as well as funding.

#### **Address taxation and regulation**

Quebec's business tax rate is among the highest in Canada; Quebec also has one of the highest cost of regulation to GDP ratios. Tax assistance to businesses is very generous in Quebec and should be decreased; the funds thus saved could then be used to lower the tax burden on all businesses. Public assistance should be used to address market shortcomings or give businesses an incentive to adopt desired behaviours. Among other things, the business tax rate must be competitive. In terms of regulations, the recommendations are the same as set out above for the environment: the regulatory framework must be simplified, its impacts on business competitiveness must be taken into consideration, and SMEs must be given a hand with compliance as they do not have the same financial and administrative capability as large firms.

#### **Manage economic development**

To work well, be productive and competitive, businesses need quality public infrastructure. Investment in maintaining and rebuilding public infrastructure must continue, but the management of public investment needs to be improved: projects must be prioritized, the asset inventory must be updated, and oversight strengthened, in particular to prevent cost overruns. Initial project estimates must contain a contingency provision to reflect the high margin of error inherent in that stage of the project.

The Greater Montreal area accounts for nearly half of Quebec's population, jobs and economic output, so its strength has a ripple effect on the rest of Quebec.



Unfortunately, its economic performance leaves something to be desired. Yet it does have many assets, in particular its low costs for business. To encourage more corporations to come to the area, we would have to improve its roadways, make more skilled labour available, and lower the fiscal burden on business by reducing payroll taxes.

Natural resource development is a source of extraordinary growth for Quebec business, but it raises many environmental and social issues. First and foremost, we must decide whether it is worthwhile to develop our resources given the resulting social and environmental impacts. Then, several conditions seem indispensable for natural resource development to benefit Quebec's businesses: ensure the sustainability of renewable resources, make the call for tenders of major mining operations more accessible to Quebec goods-producing SMEs, and increase processing operations where it pays off.

**Part three: Shared responsibilities and priorities**

To start the ball rolling on the huge undertaking this document describes, everyone must buckle down. Some challenges primarily concern government while others mainly involve business. Some must be tackled by both.

**Primarily government responsibilities**

Since it is responsible for regulation and taxation, it is up to the government to ensure that the systems it establishes do

not overly hamper business operation. As it is responsible for education, it is also up to the government to take the required steps to reduce the dropout rate and increase the university graduation rate. The government must also ensure that businesses, especially SMEs, have access to the credit they require to develop, particularly venture capital, which some new start-ups sorely need. To stimulate entrepreneurship, among other things, we must promote an entrepreneurial culture, reduce the administrative burden on business developers, and streamline their access to financing. All of these actions are primarily within the purview of public authorities. Lastly, government is responsible for managing our public infrastructure and overseeing the development of natural resources.

**Primarily business responsibilities**

Even if the government provides them with all the required support, some actions depend on the drive of businesses to implement them. It is up to businesses to improve productivity. To achieve this, they must innovate further and invest in machinery and equipment, particularly ICTs. To improve productivity, they also need skilled labour. They must therefore invest more in workforce training. They are also responsible for equipping themselves to be better able to take on competition from abroad. In addition, business is primarily responsible for developing new markets. While there is reason to improve government programs to support internationalization, for example, the fact remains that it is

**Tableau 1  
Who must tackle the challenges to be met to ensure business prosperity?**

**Primarily government**

- . Stimulate entrepreneurship
- . Simplifying the regulatory framework
- . Improve the business tax system
- . Reduce the dropout rate
- . Raise the university graduation rate
- . Facilitate businesses' access to financing, including venture capital
- . Manage public infrastructure better
- . Steer natural resource development better

**Primarily business**

- . Innovate more
- . Increase investment in ICT
- . Invest more in machinery and equipment
- . Invest more in workforce training
- . Tackle foreign competition more effectively
- . Incorporate the concept of sustainable development into business practices
- . Develop new markets

**Shared by government and business**

- . Foster succession
- . Improve the business survival rate
- . Extend employees' working lives
- . Better incorporate immigrants into the labour market
- . Comply with environmental regulations better
- . Nurture Greater Montreal's competitiveness

Source: Desjardins, Economic Studies

businesses that must make the first move if they want to be a link in the global value chain<sup>1</sup> or break into emerging markets. Lastly, it is up to business to incorporate sustainable development practices into their business strategy.

### Shared responsibilities

To foster succession and improve the business survival rate, government and business have to work hand in hand. Making more labour available is among their shared responsibilities. To extend workers' working lives, government's role is to institute pension plan measures, while the role of business is to give older workers working conditions that are more in line with their needs and aspirations. To enhance immigrants' integration into the labour market, government is responsible for better informing and training immigrants and must make a greater effort to accelerate recognition of foreign skills. For their part, businesses can help by offering internships and being more open to hiring immigrant workers. Also, while it is the responsibility of businesses to comply with environmental regulations, it is up to government to help them do so, especially SMEs, which do not always have adequate resources for the task. Government must also ensure that the regulations it institutes can be applied and do not pointlessly hamper business competitiveness. Lastly, government and business must work together to make Montreal more competitive.

### Contribution from other parts of society

Beyond government and business, numerous other stakeholders can have a hand in business prosperity. Academia is one such player: this study is based on a plethora of research that analyzes the problems facing business and proposes solutions to them. Business associations, tasked with defending members' interests, carry out high-calibre studies, put forward valuable recommendations, and are best placed to communicate their members' concerns to the public authorities. Unions, first and foremost concerned with protecting their members' interests, act as intermediaries between employers and employees and, as a result, are major stakeholders. Lastly, all citizens can participate in the prosperity of Quebec businesses. There are a variety of ways to do so, and every contribution counts.

The priority challenges are those that will seriously compromise the Quebec economy's medium- and long-term performance if they are not dealt with as quickly as

possible. Here, it is a matter of stimulating entrepreneurship and improving productivity.

### Challenge 1: Stimulate entrepreneurship

Prior to determining the best ways to ensure that Quebec businesses prosper, first and foremost, we must stimulate the creation of businesses. The key means for achieving that aim are facilitating access to financing and simplifying the regulatory framework. We must ensure that SMEs that want to invest have access to the financing they need and attract the venture capital start-ups require. In addition, to help businesses run smoothly and to keep from discouraging would-be entrepreneurs, it is critical to make regulatory compliance as easy as possible, and avoid regulations that pointlessly hamper business activity.

### Challenge 2: Improve productivity

To prosper, Quebec businesses absolutely must become more productive. If they do not, they will not only have a very hard time conquering new markets, but it will also be very difficult for them to take on foreign competition on their home ground. Here, the levers of choice are: improve the quality and availability of labour, innovate, and invest more. The primary focus must be human capital. When workers are more educated and better trained, they are not only more productive, they are more innovative, too. Moreover, with the exodus of labour-intensive production to emerging nations, what Quebec businesses need most are skilled workers. For those workers to be more productive, we have to give them the best tools and show them how to use them effectively. Investing in machinery and equipment is one good way to introduce the latest technology into a business. Furthermore, to innovate, it is not enough to simply invest in research and development; we have to make sure that investment pays off. We also need to understand that innovation is a concept that goes beyond simple invention. In a world with increasingly porous boundaries, Quebec businesses do not have a choice: if they want to stay competitive, they have to invest and innovate more.

### Other goals

The means used to tackle the priority challenges will also help achieve a number of other objectives that are closely tied to business prosperity. Thus, the measures taken to stimulate entrepreneurship—facilitating access to financing and streamlining regulations—are also among the avenues to take to foster the next generation of entrepreneurs and improve the business survival rate. Similarly, the solutions to implement to raise productivity—innovate, invest more, and improve the quality and availability of labour—are the very solutions that will better equip Quebec business to tackle foreign competition at home and abroad.

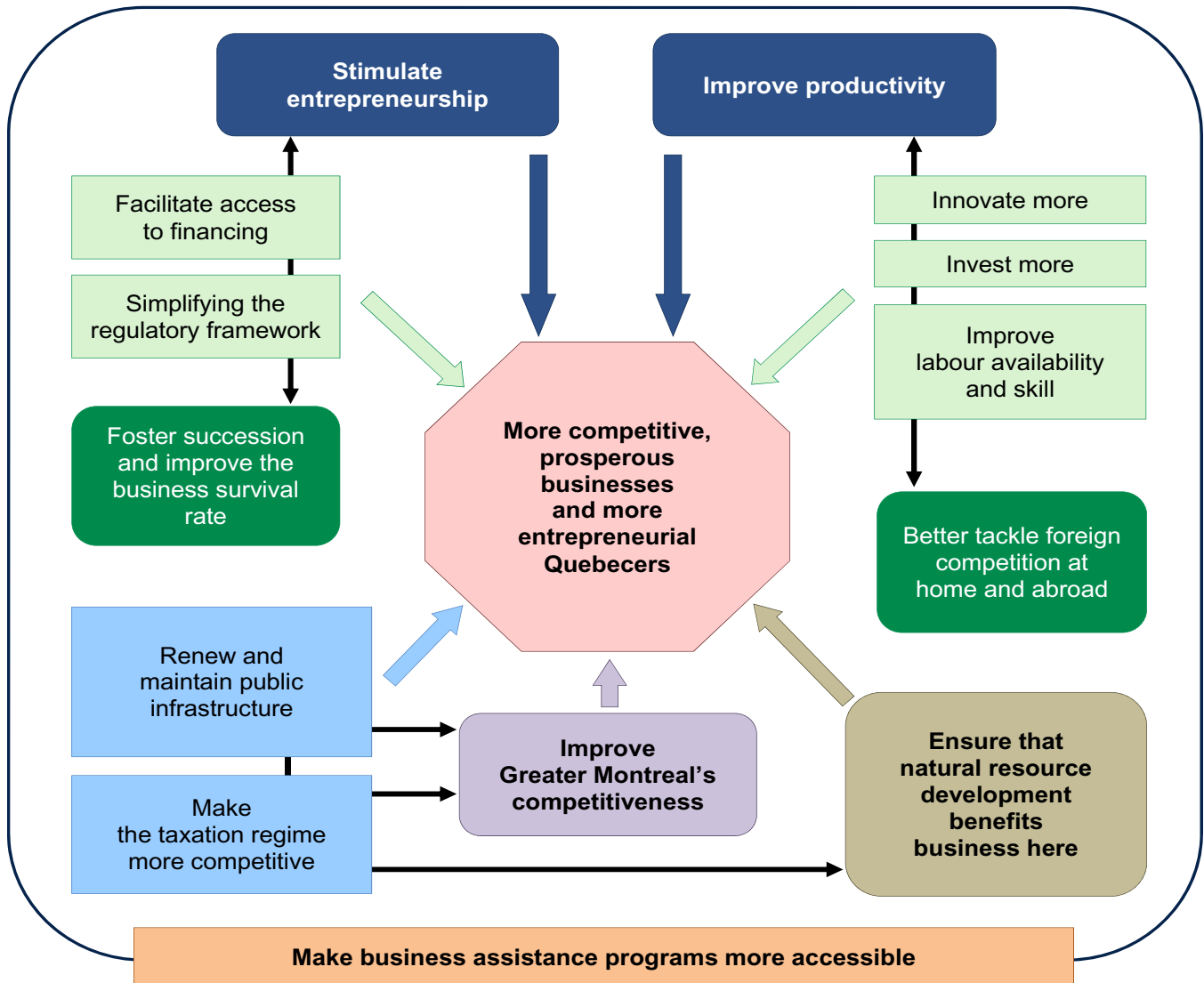
<sup>1</sup> "A global value chain describes the full range of activities undertaken to bring a product or service from its conception to its end use and how these activities are distributed over geographic space and across international borders." Source: Aaron Sydor, "Global Value Chains: Impacts and Implications" Editor's Overview, Foreign Affairs and International Trade Canada, 2011, p. 1, [www.international.gc.ca/economist-economiste/assets/pdfs/research/TPR\\_2011\\_GVC/02\\_Editors\\_Overview\\_e\\_FINAL.pdf](http://www.international.gc.ca/economist-economiste/assets/pdfs/research/TPR_2011_GVC/02_Editors_Overview_e_FINAL.pdf).



### **Conclusion**

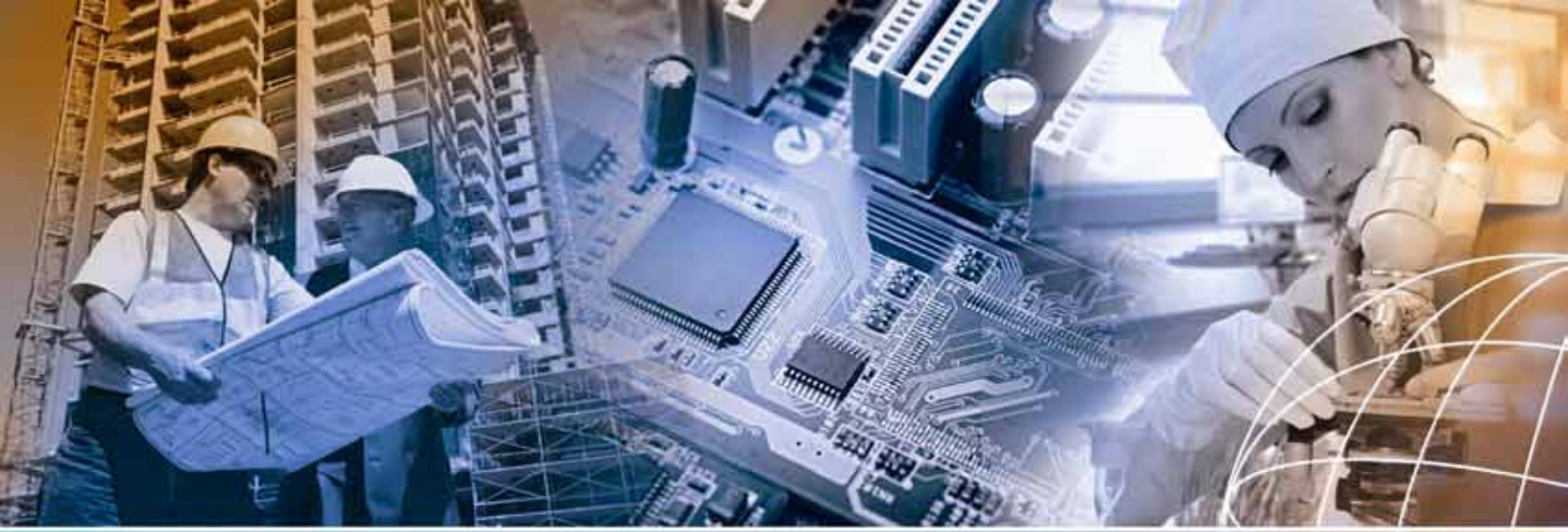
Following a close analysis of the environment in which Quebec businesses operate, and having identified the many challenges they are faced with, we must conclude that Quebec businesses' contribution to the economy can be improved. There is no shortage of solutions for achieving that end. Numerous experts have studied the problems of Quebec businesses and drafted recommendations for dealing with them. Yes, Quebec businesses can be made more powerful and more prosperous, and Quebecers can become more entrepreneurial. If each of us shoulders our own responsibilities and gets down to work, we will achieve that goal. The key to success lies in the desire to change how we operate and move ahead.

## Primary challenges and means to leverage to increase businesses' contribution to Quebec's economy



Note: The diagram sets out the main challenges to be met (rectangles with rounded corners) and means to leverage to succeed (rectangles) The priority challenges—stimulate entrepreneurship and improve productivity—are at the top of the list (dark blue). Although these levers are linked with specific challenges, they in fact help ensure the prosperity of all businesses, as illustrated by the many arrows that point to the centre.

Source: Desjardins, Economic Studies



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