

January 24, 2011

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Minister of Economic Development,
Innovation and Export Trade
World Trade Centre Montréal
380 Saint-Antoine Street West, 5th floor
Montréal, Quebec H2Y 3X7

**RE: NOTICE OF THE BOARD OF TRADE OF METROPOLITAN MONTREAL AS PART OF THE
CONSULTATIONS ON ENTREPRENEURSHIP STRATEGY**

Dear Minister,

The Board of Trade of Metropolitan Montreal strongly supports the steps you have undertaken to equip Quebec with a strategy to stimulate and strengthen entrepreneurship. Much more than simply starting a business, entrepreneurship is that state of mind that enables one to find innovative solutions, dare to develop them, and ignore the obstacles that arise along the way. Whether it is through a new product, improved service, or a new way of doing things, the entrepreneur shapes society and its evolution. Yet, the deterioration of entrepreneurship is a reality that is worrisome for the city's business community, and that requires special attention. To that end, the Board of Trade presents its opinion as part of the consultations on entrepreneurship strategy.

The current situation

We will not bother repeating a factual description of the entrepreneurship situation in Quebec. However, we would like to emphasize the extent to which entrepreneurship is a nerve centre for our collective future.

In addition, let us keep in mind that, around the world, governments are competing to find the best ways of stimulating entrepreneurship. Faced with such fierce competition, the Government of Quebec must be innovative and ambitious. A profound transformation of our programs and mentalities is necessary.

This required action is even more urgent given that the entrepreneurship situation in Quebec continues to lag behind that of other comparable regions in North America. A survey carried out by Léger Marketing for the *Fondation de l'entrepreneurship* shows that, among 18-34 year-olds, Quebec has two times fewer business owners (3.4%) than the rest of Canada (8.6%). This same survey shows that young Quebec entrepreneurs are also less educated and have lower income than their Canadian peers.

While Quebecers start up fewer businesses than their neighbours, it should also be noted that their businesses have less chances of surviving and staying in business. In Quebec, the survival rate after five years is therefore 50.6%, whereas in Canada it is 57.8%. In addition, an MDEIE study reveals that a Quebec company in its second year of existence is two times less likely to make it to its third year (20%) than a Canadian business (10%).

In Montréal, while the situation is also worrisome, it presents itself in a somewhat different way, due to the strong presence of immigrants who, overall, are more inclined to take on the adventure of entrepreneurship. This is why, for example, at Info entrepreneurs we find that 40% of the clientele is made up of immigrants, and that this proportion is 30% at the Montréal Metro SAJE, even though immigrants make up only 21% of the population of Montréal. This relatively stronger performance among

immigrants, which no doubt reflects the typical immigrant go-getter personality, perhaps also points to a certain cultural malaise among native Quebecers vis-à-vis the act of starting a business. It is this cultural malaise that needs to be corrected.

Given its impact on innovation and the creation of wealth, we absolutely must raise the rate of entrepreneurship, which represents a difficult collective challenge.

Issue #1: The image of the entrepreneur and entrepreneurial culture

Entrepreneurial intentions stem from the economic context, education, popular culture, personal stories, and a range of other social conditions. We must understand the interactions of this entrepreneurial network as a whole if we are to encourage the emergence of a new generation of entrepreneurs.

Many believe that the image of the entrepreneur is not given enough value in Quebec. This is, at least, the impression emerging from the media or the milieus involved in entrepreneurship. Personalities from the economic sphere also regularly denounce this situation in public forums¹. However, while phenomena like entrepreneurial intentions or the rate of entrepreneurship are largely documented by government sources, surveys, and economic analyses, the image of the entrepreneur still remains misunderstood and largely based on anecdotal comments.

In the 2006 edition of its *Health Report*, the Board of Trade reported that, in 2004 and 2005, the percentage of Montrealers who considered entrepreneurship to be a desirable career choice was similar to that of other large cities in Canada. The same study, which was based on data from the Global Entrepreneurship Monitor (GEM), revealed that the proportion of the population claiming that creating a company increased one's social status was also equal to that in the rest of Canada.

The variation seen in the numbers, the specificity of the questions, and the geographical limits within which the survey was conducted do not, however, allow us to conclude that the image of the entrepreneur is a positive one, or that the numbers can be applied to Quebec as a whole. Clearly then, we must further document this question to better define the issues surrounding entrepreneurial culture.

What is Quebecers' relationship to risk and to failure? What value do we place on entrepreneurial success? What constitutes entrepreneurial success? What value is placed on entrepreneurship in school? In the family? In the media? Are certain sectors of activity more highly valued than others? How does the economic situation affect entrepreneurial intentions? Do young people have a sufficient understanding of the entrepreneurial world? And how does their understanding compare to that of young people in Ontario? The United States? Europe?

The Ministry must base itself on the answers to these types of questions in order to draw up a strategy to stimulate entrepreneurial culture. Public policies must find their bases in sound science, and must not be limited to perceptions in popular culture.

Finally, while many deplore the fact that the economics course has been dropped from the Secondary V curriculum, it should be noted that in the second cycle of high school, the "Contemporary Economic Environment" is now taught over the entire course of study in the "Social Sciences." How do we measure if this new method is preferable to the old one? Should a course on the economy, the business world, and entrepreneurship be added to this training? These are important questions that must be subjected to well-designed evaluation.

¹ See the statements by Charles Sirois (Argent, September 17, 2010) and Gérald Fillion (Les carnets, October 12, 2010)

The Board of Trade recommends that: in 2011-2012, the Ministry carry out a comprehensive study of the image of entrepreneurial culture in Quebec. The Ministry should also establish comparisons between Quebec and other regions in the world. The data and research method used by the Global Entrepreneurship Monitor may prove useful in this process. The Ministry should collaborate with the Department of Education to ensure adequate training in economics, notably for high school teachers.

Issue #2: The support structure in Montréal

In Montréal, there are several organizations that assist entrepreneurs with their start-up process, growth, exports, etc. The MDEIE's consultation document draws up a list of some thirty national organizations and over a thousand regional and local organizations that deal with entrepreneurship. According to the "Entrepreneurship in Montréal" strategy, 85 organizations on the island of Montréal work with businesses or entrepreneurs. Several of these organizations find themselves competing, as they offer similar, or even identical, services.

The "*A City That Lives Up To Our Aspirations*" report, commissioned by the Board of Trade, produced by a group of experts on governance and taxation issues, and co-chaired by Marcel Côté and Claude Séguin, estimates the number of people working for economic development organizations to be around 1,200. The report cites the multiplicity of organizations as a major source of the ineffectiveness of economic development efforts in the metropolitan region.

Considering the great amount of money and effort invested, it should come as no surprise to learn that more entrepreneurs make use of government resources in Quebec (23.1%) than in the rest of Canada (10%). Quebec's lag in terms of entrepreneurship in part explains the multiplicity of public and private initiatives, but the inability of the resources as a whole to improve the situation is disappointing. However, while the many resources yield little results, we believe that the fragmentation of these resources is in part responsible for this failure.

The Côté-Séguin report recommended the implementation of a framework agreement on economic development in Montréal. This agreement could establish the terms of two of the report's other recommendations: to abolish the regional conferences of elected officials whose territory corresponds to a municipality, and to streamline the network of Local Development Centres (CLD), Economic and Community Development Corporations (CDEC), and Young Entrepreneurs Assistance Services (SAJE) to a limited number of poles.

The streamlining and consolidation of organizations supporting entrepreneurship must be an expression of the will to clarify things and, above all, to strengthen and improve effectiveness and accountability. The Board of Trade believes that certain existing organizations that have demonstrated their expertise and effectiveness should serve as mainstays for this consolidation. We are asking the government not to integrate expert support services for new entrepreneurs into the civil service itself. The business community is very sceptical of the idea of entrusting civil servants with the task of advising and supporting new entrepreneurs in their business process.

Once this streamlining has taken place, the Ministry will be able to create a banner identifying the mandates and functions each of the various organizations fills. Clear branding in the form of a logo will allow the organizations to be more easily identified and will better convey what they have to offer entrepreneurs, in addition to pointing entrepreneurs in the right direction.

The Board of Trade recommends that: the Ministry proceed with an in-depth streamlining of the economic development structure in Montréal, and that it establishes clear banners to identify the various organizations and resources it finances. The Ministry should continue with the approach of entrusting specialized organizations to provide support and guidance to new entrepreneurs, rather than entrusting

this role to civil servants.

Regarding the support structure for entrepreneurship in Montréal, there would also be many advantages to treating the metropolitan region as a whole, rather than as five regions. The administrative divisions that often characterize this type of initiative are perhaps relevant for most regions of Quebec but are unproductive for the Greater Montréal region.

Metropolitan regions are characterized by widely available resources, as well as by highly mobile people and workers. In this context, entrepreneurs regularly move between what the Government of Quebec defines as different administrative regions, which in fact make up the territory of a single urban whole. A start-up entrepreneur can therefore live in Montréal, be employed in Longueuil, start a business in Laval, and have suppliers in the Montérégie region. To facilitate things for this entrepreneur, government effort must be better coordinated. In addition, the recommended streamlining of organizations mentioned above should reduce the distortions caused by location requirements new businesses must meet to qualify for support programs. A start-up business should never have to change district in order to qualify for these public programs. It should be up to the programs to adjust themselves and to be flexible.

The MDEIE should take inspiration from the example of certain ministries that have already begun to better acknowledge Montréal's metropolitan reality. An example is the Department of Employment and Social Solidarity, which recently produced the *Plan emploi métropole*, which deals with the metropolitan reality of the job market, or the Department of Transportation, whose Montréal region office plays a predominant role in the region.

The Board of Trade recommends that: the Ministry take stock of Montréal's metropolitan reality in drafting its strategy. The Ministry should allow all entrepreneurs in the metropolitan region to have access to resources and programs within the region, regardless of their place of residence or location of their company's head office.

Issue #3: The importance of universities and professional schools

If studying best practices can often prove to be a useful way to learn from others' success, then Silicon Valley's dazzling ascent in terms of entrepreneurship and innovation in the technology field during the 1990s can certainly serve as a practical reference. Indeed, the region, which until then had only been home to the headquarters of a few large IT companies (including Apple and XEROX), witnessed the development of the first Web browser, which suddenly gave everyone access to the Internet, thereby completely changing the game.

The result: between 1991 and 2001, hundreds of new companies opened their doors in the region each year, each contributing in its own way to the "virtuous" circle, meaning that it was always more advantageous to open up shop near suppliers, collaborators, and potential clients. At the heart of this boom of ideas and entrepreneurial success are two large universities located in the region: UC Berkeley and Stanford.

Going well beyond the objective of providing qualified manpower for existing companies, Stanford University, in particular, played the role of incubator for first-rate new companies. The two best examples of this are no doubt SUN Microsystems, which is in fact a spin-off of an internal initiative (SUN means "Stanford University Network"), and Netscape, which marketed the first Web browser when a Stanford professor (Jim Clark) took a sabbatical to go into business with the student (Marc Andreessen) who had developed the software in question.

Still today, the importance of universities as breeding grounds for successful new businesses can't be denied, the most recent example being that of Facebook, the culmination of the efforts of a Harvard student (Mark Zuckerberg).

This situation reflects the reality of many students who would make good candidates for entrepreneurship because their research often generates good ideas, they usually have more time to devote to their projects, and they are naturally more inclined to take risks due to their personal situation (e.g. no dependents). But this situation also reflects the notion that universities are ideal incubators, on the one hand, because professors will often be the first to notice entrepreneurs among their students and to identify business opportunities in their work, and, on the other, because universities provide cutting-edge equipment to these students free of charge over the course of their studies.

Closer to home, this is also the reality in our universities and schools of higher learning. McGill University, the École Polytechnique, HEC Montréal, and the École des technologies supérieures (ÉTS) in particular have stood out over the last few years in their ability to incubate new businesses that are the fruits of their students' labour. However, such opportunities present themselves in all of the city's institutions of higher learning. The support of university research centres must therefore be an integral part of the government's next strategy to stimulate Quebec entrepreneurship.

This practice of supporting universities would be all the more relevant given that Quebec entrepreneurs are generally less highly educated than those in the rest of Canada. Since Montréal has a large pool of university students from home and abroad, there is an underexploited potential for businesses founded by students or stemming from research centres. The potential these graduates represent is invaluable for a society lacking in business creation.

Currently, government organizations and programs do not seem to have a good grasp of student or graduate entrepreneurs. These organizations are generally located far from university campuses and collaborate too infrequently with universities. It is also quite distressing to see that the *Soutien aux travailleurs autonomes* program—despite being dedicated to business creation—completely excludes certain targeted classes of professionals because they are in demand on the job market. Professional and industrial sectors where labour demand is high are also fertile ground for new businesses.

<p>The Board of Trade recommends that: the Ministry orient its strategy to give priority to funding and the allocation of resources to our universities and their research centres. This strategy should also better integrate the perspective of student or graduate entrepreneurs, and encourage networking between organizations devoted to entrepreneurship and universities.</p>

Issue #4: Build on excellence in the deployment of resources and programs

While the fragmentation of organizations working to assist business start-ups has been targeted as a source of ineffectiveness, it must be noted that the number of government programs and the inflexibility of their criteria are also a major source of frustration for entrepreneurs. Several entrepreneurs even abandon the process of requesting assistance when faced with such complexity.

Certain interesting business projects do not get the help they need because they do not meet specific criteria on a long list. The date the business was founded, processes already begun, the geographic location of the head office, and even the sex, ethnicity, and work status of the founders may all serve as reasons to block the financing of innovative and promising business projects. Yet, these criteria have nothing to do with the project's merit, but rather correspond to job creation objectives or to social integration quotas.

While these goals are laudable, it should be noted that they can sometimes be detrimental to Quebec entrepreneurship. In the current situation in which Quebec lags behind its competitors in terms of business creation, we cannot allow ourselves to refuse good projects on the basis of such socio-economic criteria. Government resources should instead aim to support the best projects, that is, those with the best chances of success.

Public policies on entrepreneurship must not replace employability support measures. To illustrate this situation, let us take the example of the *Soutien aux travailleurs autonomes* program, which requires that individuals making requests be employment insurance or welfare beneficiaries. From the outset, this requirement excludes two categories of entrepreneurs among the most likely to have identified a good business opportunity: students and workers within firms. In order to fully accomplish its mission, an entrepreneurship support program must simply support the best entrepreneurs and the best business projects, regardless of other criteria.

The Board of Trade recommends that: programs supporting business start-ups and providing guidance to entrepreneurs be more flexible and efficient, and that they target excellence in business projects. Above all, the programs must aim to stimulate business creation rather than attempt to serve as employment measures.

Issue #5: Access to information and the example of BizPaL

In keeping with the idea of making life simpler for Quebec entrepreneurs, it should be noted that entrepreneurs often have trouble finding their way through the jungle of rules that apply to them and the permits they need to acquire in order to legally operate a business. An entrepreneur starting a business on his own or with a small group presumably will often not have time or money to devote to such administrative annoyances. The government must therefore simplify the task for entrepreneurs in this respect.

Fortunately, the solution for the Government of Quebec is very simple, since an efficient program already exists in the rest of Canada: the BizPaL program. This program in effect uses three simple steps to allow any entrepreneur to obtain all of the permits and complete all of the forms required—by the three levels of government—to start a business. This Web tool is the result of the collaboration between the federal government, 11 provincial and territorial governments (besides Quebec, Nunavut is also excluded), and a large number of municipalities.

For reasons we fail to comprehend, to date, Quebec has chosen not to participate in this initiative. It would be a mistake to imitate or duplicate this tool, since the resource already exists and works well. The Board of Trade believes it is now time for Quebec to participate in this program and to allow its entrepreneurs to enjoy its benefits.

The Board of Trade recommends that: the Government of Quebec take part in the BizPaL program as soon as possible.

Issue #6: Venture capital

It is difficult to conclude any discussion of entrepreneurship without tackling the question of venture capital, since money ultimately remains the key to it all. Indeed, for some years now, debate has been raging in Quebec as to whether our businesses have access to a sufficient amount of venture capital, and if they do, whether it is available at each step of business development. In the meantime, it should be noted that the government did not wait for a consensus to emerge on this question, as it has proceeded with major initiatives, notably in terms of building up a fund managed by Teralys, as well as three distinct

funds that more specifically address the life sciences, information technology, and clean technologies sectors.

Now, while access to abundant venture capital is an essential condition to entrepreneurial success, it should also be noted that it is not the only factor, as a multitude of other factors come into play in the success and longevity of a business. This is why there is a tendency towards more and more of the largest venture capital funds in the United States to act as unique one-stop shops that offer their clients a number of support and guidance services to encourage success. In certain cases, they even go so far as to house them under their roof during the first few months in order to stay in frequent contact.

This new form of involvement on the part of certain venture capital firms, such as Kleiner Perkins or Andreessen Horowitz, is even more direct as they often hire successful former entrepreneurs rather than finance specialists. These former entrepreneurs are not simply involved by sitting on the board of directors, they also spend time alongside a client's administrators in order to share their past experience.

If Quebec is to take inspiration from this way of doing things, we must also acknowledge that we presently cannot count on an abundant pool of successful former entrepreneurs. It is nevertheless reassuring to see that a fund established by Charles Sirois obtained financing from Teralys, and that the Ministry provided funds to a company like Real Ventures, which is made up entirely of partners with vast entrepreneurial experience.

Not only will these entrepreneurs that have gone on to become venture capital managers be able to share their experience to better support our new businesses, they will also serve as experts to determine the portion of their funds that should be attributed to each stage of their clients' development. Ultimately, such decisions concerning the allocation of funds are more effective when they are based on real businesses rather than on more theoretical development models.

<p>The Board of Trade recommends that: the government continue its efforts to allocate new venture capital funds, and that the firms benefiting from these efforts take inspiration from the best foreign practices and get more directly involved in supporting their clients.</p>

Please be assured of our full cooperation in this process.

Sincerely,

Michel Leblanc
President and CEO