



# Go Big, or Go Home? Refocusing Entrepreneurship for Productive & Inclusive Growth

With Examples from Atlantic Canada

MARCH 2021







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## ABOUT THE PROJECT

As Atlantic Canada faces demographic and labour market changes, retention is on everyone's mind. Keeping workers, immigrants, skills and talent in the four provinces over the medium and longer term is a complex issue and a priority for economic growth and regional prosperity. [Atlantic Revitalization](#) is the Public Policy Forum's three-year project (2017-2020) addressing the challenge of retention and economic growth, with a focus on boosting long-term immigrant retention, deepening labour pools and improving employer access to the skills they need. Through research reports, surveys, qualitative stories, provincial roundtables and regional summits, PPF is advancing regional and Canadian understanding as well as cross-sector networks around Atlantic Canada's most pressing immigration and economic policy priorities.

## KEY CONTRIBUTOR

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# INTRODUCTION

Entrepreneurship has been called the backbone of the economy. Despite the popularity of hoodie-wearing CEOs and global tech innovations, broad-based entrepreneurship that fuels local productivity and helps solve real-world problems has declined across developed nations. Canada is no exception. COVID-19 has added to the challenge. As Canada recovers, how do we get entrepreneurship back on track?

This paper explores global trends shaping entrepreneurship, the impact of COVID-19 on entrepreneurship and how these pressures affect private and public strategies towards entrepreneurship across levels of locality (local, provincial, regional, federal). Atlantic Canada is used as an example.

From this research, the paper argues that broad-based entrepreneurship with a focus on people and place is essential for productive and inclusive growth. In Canada, this is especially important to ensure the health of its diverse regions. The COVID-19 crisis highlighted mutually reinforcing trends in entrepreneurship and the global economic structures that have quietly undermined equality among entrepreneurs and communities, productivity and economic growth. The pandemic also made these things worse. Canada's entrepreneurial ecosystem was not ready to withstand the demands of a crisis like COVID-19, nor respond to the challenges it creates for economic and social recovery at a local level. This paper argues that with the right focus and supports from policy and communities, a healthy and growing entrepreneurial ecosystem could play a foundational role in long-term recovery.

## METHODS

Research for this paper was supported by qualitative interviews conducted by Shannon Wells with stakeholders and decision-makers across the Atlantic provinces in Spring 2020. The purpose of these interviews was to gain a broad assessment of the state of entrepreneurship, economic growth, policy in Atlantic Canada and appetite for various policy and cross-sector solutions.

The COVID-19 pandemic hit just after this data was collected and findings were re-interpreted by Shannon Wells in the context of possible impacts of COVID-19 and global trends on the entrepreneurial ecosystem.

The paper reflects research and arguments by Shannon Wells around the state of entrepreneurship and value-creation in the global economy and Atlantic provinces, informed by her interviews, and her take on the impacts of COVID-19. The final product is the result of editing and adaptation of this material by PPF staff.



# GLOBAL TRENDS IN ENTREPRENEURSHIP

Entrepreneurship is a catch-all term. The types of business creation and pioneering activities that uplift families and communities, national and international economies, and work within these places and networks to solve real-world problems are incredibly diverse. And this breadth is an indicator of a healthy entrepreneurial ecosystem.

In recent years, 'entrepreneurship' has taken on a cult-like following in startup culture under a vision of finding the next big innovation or highly scalable global business. An obsession with tech, data and the information economy on the part of entrepreneurs and policymakers alike helps drive these trends. Beneath this mirage of popularity, entrepreneurship in a broader sense is on the decline. Worse, the policies, investment and business culture propping up the narrative that entrepreneurship is in fact booming, pigeon-holes entrepreneurial activity and contributes to its erosion.

These changes do not happen overnight, in just one jurisdiction, or from the actions of one group of actors. That said, policymakers at every level have a key role in coordinating effective strategies for economic and entrepreneurial growth. That the trends strangling entrepreneurship's growth are complex and tangled across jurisdictions should be this paper's early hint that strategic collaboration is needed across levels of government, between public and private sectors – and as this paper will argue – with communities at the centre of decision-making and action.

## BROAD-BASED ENTREPRENEURSHIP IN DECLINE

Broad-based entrepreneurship is a reflection of business creation and dynamism across different industries. At least, under normal circumstances and not after a natural disaster, during a war, the collapse of an industry, etc. While broad-based entrepreneurship has never been more important, it is also in great danger. Despite startup culture gaining visibility from hoodie-wearing CEOs entrepreneurship, broad-based entrepreneurship has been declining across industrialized countries, including Canada, for decades.<sup>1,2,3,4</sup> The Fraser Institute compared 2001-07 with 2008-14 and found that startup creation dropped by 18.6 % in America, 20.3 % in Australia, 8.5 % in Canada and 7.5 % in Britain.<sup>5</sup>

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<sup>1</sup> Ritchie, B. & Swisher, N. (2018). [The big small: Reversing the decline in entrepreneurship](#). IDEA Centre, University of Notre Dame.

<sup>2</sup> Naudé, W. (2019). [The decline in entrepreneurship in the West: Is complexity ossifying the economy?](#) IZA Institute of Labor Economics.

<sup>3</sup> Tapp, S. (2015). [The "start-up slow-down": Why is the Canadian economy losing its dynamism?](#) Policy Options, IRPP.

<sup>4</sup> Hathaway, I. & Litan, R. (2014). [What's driving the decline in the firm formation rate? A partial explanation](#). Economic Studies, the Brookings Institution.

<sup>5</sup> Globerman, S. & Clemens, J. (2018). [Stemming the demographic tide on entrepreneurship in Canada](#). The Fraser Institute.

This decline of broad-based entrepreneurship is the first big indicator of significant change in entrepreneurship globally. An entrepreneurial ecosystem with declining internal diversity skews the ability of this collective operating system to solve a diversity of issues, resource different kinds of solutions, and attract a diversity of entrepreneurs. Business startup and innovation in its most democratic sense contributes to economic, social and political health of the people and places it serves.

Of course, context matters. A host of potential reasons for the varying rates of decline in entrepreneurship across countries could be presented and it is beyond the scope of this paper to address this with precision. This section outlines the broad strokes of several global trends that either contribute to this decline or interact with it in ways that change the contributions businesses are making to the social and economic demands of local economies.

## DEMOGRAPHIC SHIFTS: ENTREPRENEURS, WEALTH AND GROWTH

Across advanced economies, the overall pool of entrepreneurs is shrinking along with the overall aging of the population. While millennials have now surpassed Baby Boomers as the largest living adult generation, they are only half as likely as the retiring generation to start a business, according to a Gallup poll.<sup>6</sup>

One of the largest generational transfers of private enterprise in history is now underway. The Canadian Federation of Independent Business (CFIB) reports that 47 % of small business owners in Canada are planning to sell in the next five years, and 72 % in the next 10 years.<sup>7</sup> The CFIB also reports that while nearly half of business owners would like to sell to third parties, less than half have any succession plan (formal or informal) in place. With no presumptive owner, communities will see these businesses close. Without a plan, owners who rely on the sale of their businesses as retirement income are unlikely to secure fair value of their asset.

For regions where the demographic challenges of an aging and retiring workforce, plus a shrinking population from declining natural birth and immigration rates, could severely limit entrepreneurial capacity over the next generations alongside economic growth.

There are assets at risk that are harder to quantify. The loss of older entrepreneurs and business owners also reduces expertise, mentorship and valuable networks in local business environments. Developing the younger generation of entrepreneurs to lead productive, wealth-generating future businesses will be increasingly important and difficult.

What is more, the change in make-up of local populations comes with changes in business. For instance, as immigration is increasingly relied on to support population growth, businesses increasingly:

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<sup>6</sup> Badal, S. & Ott, B. (2015). [A very fast-growing group of entrepreneurs: People over 50](#). Gallup Business Journal.

<sup>7</sup> Cruz, M. (2018). [Getting the transition right: Survey results on small business succession planning](#). Canadian Federation of Independent Business (CFIB).

1. Serve a diversity of needs;
2. Are international or transnational in their networks; and
3. Their financing and business models (e.g. through remittances, supply chains, micro-lending across borders, etc.) respond to local and non-local opportunities, constraints and needs in new ways.

While this does not necessarily contribute to either a decline or growth in entrepreneurship, it does diversify it, influence business goals and reinforce the need for policy supports to be attuned to the changing needs of entrepreneurs and communities.<sup>8,9</sup>

## GLOBALIZATION AND SCALE: THE BUSINESS OF BEING EVERYWHERE AND NOWHERE

Another theory is that globalization has crowded out entrepreneurship. As Shopify's Tobias Lütke argues, "Not so long ago, there were small-business opportunities in every town. Each neighbourhood needed a butcher, a baker, a candlestick-maker. Then along came the big-box store, and everything changed. There's less space for traditional entrepreneurship when big retailers dominate the physical and digital worlds."<sup>10</sup> Businesses of all sizes are pressured to meet global demands, expand outside their locale, or at least leverage the opportunities of networks, money and markets elsewhere to be competitive.

The problem is not globalization per se. The problem is that to fuel a consumer-demand driven global economy, businesses have gone from existing in, and being accountable to, a specific place to having no attachment to place whatsoever. Or at least no obvious need for it. This represents a break in mutual responsibility and support between communities (or places more broadly) and businesses. As businesses became corporations, the pressure to achieve continuous growth through limitless shareholder returns can result in relentless efficiency-seeking and lowest-cost production. Corporate functions are consolidated into global headquarters, and supply chains are increasingly fragmented. So, these trends also represent a slow spatial shift in investment and value-creation structures.

Globalization's indiscriminate treatment of geography is thrusting 'place' to the forefront of economic policy conversations. The COVID-19 crisis of personal protective equipment (PPE)<sup>11</sup> showed, for instance, that when global supply chains break down, bordered geographies have limited capacity to supply essential goods to their population. With government direction, the repatriation of supply chains to allow

<sup>8</sup> Jones, T., Ram, M. & Villares-Varela, M. (2018). [Diversity, economic development and new migrant entrepreneurs](#). *Urban Studies*, 56(5). 960-976.

<sup>9</sup> Vandor, P. & Franke, N. [Chapter 9: Immigrant entrepreneurship: Drivers, economic effects and policy implications](#). In [Globerman, S. & Clemens, J. Eds. \(2018\). Demographics and entrepreneurship: Mitigating the effects of an aging population](#). Fraser Institute.

<sup>10</sup> The Economist. (2020). [The world in 2021: Tobias Lutke on entrepreneurship](#).

<sup>11</sup> Miller, F. A., et al. (2020). [Vulnerability of the medical product supply chain: The Wake-up call of COVID-19](#). *BMJ Quality & Safety*, *BMJ Journals*.

for more domestic manufacturing that secures regions across the country could indeed be a boon for entrepreneurship and its capacity to serve local needs.

Global consolidation in the technology industry may also be stifling entrepreneurship. The big five tech firms – Alphabet, Amazon, Apple, Facebook and Microsoft – account for only 5 % of S&P 500 employment but 13 % of S&P 500 profits, which The Economist forecasts will rise to 20 % by 2025.<sup>12</sup> The tech giants also account for the lion’s share of technology merger and acquisition deals in dollar terms,<sup>13</sup> with the result that all IP, knowledge, technology and innovations are housed in a few dominant global players.

Canada has been vulnerable to the effects of this crowding out particularly when it comes to keeping valuable IP and intangible assets. The lack of an effective strategy to promote domestic ownership of IP in Canada has further hindered Canadian researchers, for instance, from becoming successful entrepreneurs.<sup>14,15</sup>

This is an urgent issue given the diversity and number of high-growth firms in Canada that fear they will become takeover targets as a result of the COVID-19 pandemic, which Bloomberg describes as a “startup reckoning”.<sup>16</sup> Bloomberg’s startup Index, a barometer for the health of the tech sector shows that for the first half of the last decade, the [performance of tech startups](#), kept pace with the Nasdaq 100 Index, a technology-heavy mix of large non-financial companies. While startups pulled well ahead of publicly traded tech companies in 2018, that momentum stalled this year, with startups now trailing the Nasdaq 100.

Increasing consolidation and boom in certain sectors, coupled with the divorce of place and profit creates a picture of entrepreneurial ecosystems tapped heavily to reinforce the biggest players at the expense of broader entrepreneurship investment, incentive and innovation goals.

## PRODUCTIVITY & PIE-SHARES

Investment strategies that drive innovation and fund capital over workers are widening inequalities between places and between people, and perhaps ironically, pursuing innovation at the expense of productivity.

What economists call the fall in labour’s share of gross domestic product is one of the most significant economic changes of the 21<sup>st</sup> century. In most all advanced economies, workers (through wages, salaries and benefits) have been getting a smaller slice of company revenue, while a larger share is paid to capital

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<sup>12</sup> The Economist. (February 22, 2020) Print, pg. 62.

<sup>13</sup> Rowley, J. (2018). [The largest busy of tech’s Big Five: a look at M&A deals](#). Tech Crunch.

<sup>14</sup> Collette, E. & Santilli, D. (2019). [IP Canada Report 2019](#). Canadian Intellectual Property Office, Innovation, Science and Economic Development Canada (ISED). Government of Canada.

<sup>15</sup> IP Osgoode. (2020). [Canada’s IP Strategy: An encouraging first step](#).

<sup>16</sup> McBride, S. & Cannon, C. (2020). [Covid-19 brings a reckoning of layoffs to Silicon Valley](#). Bloomberg.

owners and distributed as profits. Declines were moderate from the mid-1900s until the end of the century when labour's share of income fell drastically, from 63.3 % in 2000 to 56.7 % in 2016 in the U.S., fully three-fourths of the entire post-1947 decline.<sup>17</sup> Many theories exist for this decline, including new generations of software and machines that substitute directly for workers (automation), the effects of international trade and outsourcing, and the decline of labour union power.<sup>18</sup>

While these may play a part, a recent study by MIT and other economists finds that the primary factor is the rise of the 'superstar firm': big companies that spend more on capital and less on workers are gaining market share, while smaller firms that spend more on workers and less on capital are losing market share.<sup>19</sup> The key finding is that a smaller number of firms are accounting for a larger amount of economic activity, and those are firms where workers historically got a smaller share of the pie. Their research shows that this trend is happening more in the frontier sectors than the laggard sectors: "These firms are in more innovative industries — their productivity growth has developed faster, they make more investment, they patent more."<sup>20</sup>

Similarly, economic development strategies aimed at attracting large employers to depressed regions are unlikely to solve the productivity-inequality puzzle. It would be better to teach individuals and communities how to create and own their own jobs and businesses so that the returns find their way to the people and places doing the work. The skill of identifying what your community needs and delivering it is a fundamentally creative and empathetic exercise – and at the core of more traditional entrepreneurship activities. The very human skills of empathy and creativity will be what drives economies forward more than technological skills which are, in any event, increasingly automated.

Today's key policy challenge may be the stark realization that not all entrepreneurial activity improves the health, wellbeing and prosperity of communities and economies. Breadth in entrepreneurial activity and accountability towards people and place must advance as to innovation and shares.

## ENTREPRENEURSHIP CULTURE VERSUS REAL-WORLD PROBLEMS & REAL ENTREPRENEURS

An increasingly narrow definition of what it means to be a successful entrepreneur may also explain the broad-based decline in entrepreneurship. In many traditional theories of entrepreneurship (such as Schumpeter's<sup>21</sup>), entrepreneurs were considered agents of innovation and this did not necessarily mean being an inventor or that technology was part of the equation. Yet, entrepreneurship has become

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<sup>17</sup> Manyika, J. et al. (2019). [A new look at the declining labor share of income in the United States](#). McKinsey Global Institute.

<sup>18</sup> Manyika, J. et al. (2019). [A new look at the declining labor share of income in the United States](#). McKinsey Global Institute.

<sup>19</sup> Dizikes, P. (2020). [Why are workers getting smaller pieces of the pie?](#) MIT News.

<sup>20</sup> Ibid.

<sup>21</sup> Hagemann, H. (2003). [Schumpeter's early contributions on crises theory and business-cycle theory](#). History of Economic Ideas, 11(1). 47-67.

synonymous with technological innovation, and more specifically, digital technology platforms that yield high-growth financial returns. Those who were once beacons of global entrepreneurship are now at risk of causing its demise, having lost credibility as a source of both meaningful technological progress and broader social purpose. As a recent MIT article argues “We’re great at devising shiny, mainly software-driven bling that makes our lives more convenient in many ways. But we’re far less accomplished at reinventing health care, rethinking education, making food production and distribution more efficient, and, in general, turning our technical know-how loose on the largest sectors of the economy.”<sup>22</sup> The decline in broad-based entrepreneurship is symptomatic of a loss of focus on real, complex and local problems – instead focusing on money-maker ideas.

Venture capital has traditionally been a way to pool risk across a wide variety of sources and take big bets on transformative, next generation, products and services. But instead, venture capital has been betting upside: not on transformative change to common good, but on transformative returns generated by the social network effects of global platform business models (with zero marginal costs to growth) which have become the most popular playbook for tech. Investors have been favouring opportunities that provide outsized returns in the short-term over opportunities that requires their patience over the long-term – even if the object of those opportunities are more directly impactful to society (e.g. predicting Alzheimer’s in patients versus curing Alzheimer’s itself).<sup>23</sup> The result is that most tech innovation today provides outsized financial rewards to one or two founders and their investors, while there’s little to no reward for solving the truly hard problems nor to change the world to advance society in any particular place.

Lastly, startup culture has ballooned in visibility, perhaps at the expense of your traditional, locally-based SME business culture and other more niche business cultures. The overarching narrative and face of entrepreneurship becomes increasingly narrow and unrelatable, creating (for instance) motivational barriers and even real problems of access or recognition for nascent entrepreneurs.

Entrepreneurship culture has become synonymous with “move fast and break things”.<sup>24</sup> The masculine narrative, energy and limited vision of this startup culture (coupled with disproportionate numbers of men in startups, investment, entrepreneurship education and overall leadership), is one more deterrent to inclusive entrepreneurship and thus, broad entrepreneurship. Women make up only 13 % of small business owners. While the government of Canada has addressed this gender gap with an ambitious \$5-billion investment to double the number of women-owned businesses by 2025,<sup>25</sup> its broader innovation strategy remains focused on doubling the number of high-growth companies in Canada.

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<sup>22</sup> Rotman, D. (2020). [COVID-19 has blown apart the myth of Silicon Valley innovation](#). MIT Technology Review.

<sup>23</sup> Sullivan, M. (2014). [VC Peter Thiel: You can either invest in 'bits' or 'atoms'](#). VentureBeat.

<sup>24</sup> Williams, G. (2018). [Silicon Valley's culture of breaking things is totally broken](#). WIRED Opinion. Wired.

<sup>25</sup> Innovation, Science and Economic Development Canada (ISED). (2020). [Women Entrepreneurship Strategy](#). Government of Canada.

A diversity of entrepreneurs and the different innovations that come from their perspectives, experiences and opportunity-structures fuels broad-based entrepreneurship. Promoting and supporting an entrepreneurial culture that prioritizes solving real-world problems, with real people (rather than idealized entrepreneur tropes) is essential to meaningful and innovative entrepreneurship.

## COVID-19, CRISIS, ENTREPRENEURSHIP & ECONOMIC GROWTH

Against this backdrop of increasingly warped entrepreneurship ecosystems, the COVID-19 crisis hit businesses and communities hard. It highlights the way entrepreneurship, economic growth and real-world problems like health and wellbeing, are intimately related. More specifically, the pandemic highlighted the harsh reality that our entrepreneurial ecosystems were not capable of supporting people or places efficiently, and likewise that communities were ill-prepared to support their own economic health regardless of the strength and size of their business community. Presence could not substitute for interdependence. The COVID-19 crisis emphasized a few key aspects about our existing entrepreneurial ecosystems and policy choices that shaped them.

### INEQUALITY

Alongside the pandemics many grievous casualties of health and life, are economic casualties – perhaps especially entrepreneurs and owners of small to medium-sized businesses, the people they employ, and the communities they serve. This is unfortunately not surprising. In both Canada and the U.S., small businesses represent 98-99 % of all private sector entities and employment. Statistics Canada data have shown that while only 32.0 % of businesses with 500 or more employees reported declines of 20% or more, this figure almost doubles for smaller businesses where nearly 60% of those with 1 to 4 employees and nearly 56 % of those with 5 to 19 employees reporting declines in revenue of 20 % or more.

Similarly for layoffs, small businesses with less than 100 employees that laid off at least one employee, were more likely to have laid off more than 80 % of their workforce.<sup>26</sup> At the end of July 2020, the Canadian Federation of Independent Business (CFIB) reported that 14 % of small businesses (158,000) had closed due to COVID-19 and depending on how the recovery goes, additional losses could be 55,000 (5 %) or as many as 218,000 (19 %).<sup>27</sup>

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<sup>26</sup> Statistics Canada. (2020). [Impact of COVID-19 on small business in Canada](#). StatCan COVID-19: Data to insights for a better Canada

<sup>27</sup> Canadian Federation of Independent Business (CFIB). (2020). [Government and consumer support make-or-break for small business survival](#).

COVID-19 highlighted and exacerbated an even more pernicious trend: widening geographic inequalities, characterized by stark income and employment and racialized disparities across neighborhoods, cities, and regions.

The growing inequality between urban and rural regions is an ongoing concern as cities experience rebounding populations and growing employment while many smaller or rural communities are left out of the revival. In Canada, preventing populist uprising like the ones characterizing the United States' urban-rural divide is an ongoing priority, particularly in communities that are rapidly disappearing due to aging and shrinking populations. As physical communities rally together to show their resilience and self-reliance during an unprecedented period of global isolation, COVID-19 presents an opportunity to advance new place-based approaches to community development and entrepreneurship.

Racialized and other marginalized groups of entrepreneurs took a double-whammy. In the US, according to a June 2020 assessment by the National Bureau of Economic Research, 22 % of small businesses had closed permanently as a result of the pandemic, including 41% of Black-owned and 35 % of Hispanic-owned businesses.<sup>28</sup> In Canada, a nationwide survey of women, visible minorities, Indigenous, LGBTQ+, refugee and immigrant entrepreneurs conducted by Canadian Women's Chamber of Commerce and Dream Legacy Foundation demonstrated that COVID-19 had a more negative economic impact on these underrepresented business owners than on other segments of the population.<sup>29</sup> The study reveals a noticeable gender gap with nearly twice as many women-owned businesses reporting loss of contracts and customers, with over half of women entrepreneurs managing the additional burden of childcare as opposed to only 12 % of male entrepreneurs.

These unequal impacts are also partly symptomatic of another terminal illness that plagues our collective operating system: economic inequality, which itself may be acting as a multiplier on COVID-19's spread and deadliness. As the New York Times reports, "Research on influenza has found that in an epidemic, poverty and inequality can exacerbate rates of transmission and mortality for everyone."<sup>30</sup> The systemic consequences of an economy that does not work for all have never been clearer. A downward cycle is created: inequity results in an economy that doesn't work for everyone, and an economy that doesn't work for everyone results in inequity. And entrepreneurs are like linchpins.

## INNOVATION AND PRODUCTIVITY

The pandemic challenges us to consider a return to the Schumpeterian economic theory of entrepreneurs as agents of change and a foundation of broad-based entrepreneurship centred on productive innovation.

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<sup>28</sup> Fairlie, R. W. (2020). [The impact of COVID-19 on small business owners: Evidence of early-stage losses from the April 2020 current population survey](#). National Bureau of Economic Research (NBER).

<sup>29</sup> Canadian Women's Chamber of Commerce (CanWCC) & Dream Legacy Foundation (DLF). (2020). [Falling through the cracks: COVID-19 Survey of underrepresented founders](#).

<sup>30</sup> Fisher, M. & Bubola, E. (2020). [As coronavirus deepens inequality, inequality worsens its spread](#). The New York Times.



Revitalizing a productive economy that can withstand future crises has to be the cornerstone of recovery. Policies that re-focus entrepreneurship on solving real-world problems for everyone is key.

To go deeper into this relationship between productivity, innovation and the identity and role of the entrepreneurs: Schumpeter's lesser known but more important contribution to economic theory is the lesson that crises are not inevitable features of entrepreneurial capitalism. Rather, these crises are important signals that entrepreneurship may be prevented from propelling our collective progress.<sup>31</sup> Moreover, Schumpeter warned, without addressing these structural flaws, the policy response to one economic crisis can lead to another, in a perpetual trap of structural inefficiency.

Today there are clear indicators he is right. As the World Economic Forum concluded in its 2019 Global Competitiveness report, ten years on from the global financial crisis, the global economy remains locked in a cycle of low or flat productivity growth despite the injection of more than \$10 trillion of fiscal stimulus.<sup>32</sup> Canada's productivity has also stagnated, leading researchers and policymakers at various levels of government to look for ways to promote structural changes in the economy to solve the productivity puzzle. More recently, given persistent and widening inequality, efforts to promote inclusive growth alongside productivity growth have compounded the puzzle. There is now opportunity to re-evaluate our strategy and adopt transformative new approaches to structural economic reform to achieve both of these objectives. That the global and Canadian economies have not emerged stronger from the great recession of 2008 also calls our attention to how entrepreneurs – Schumpeter's agents of innovation – can be better supported as the foundation for short and long-term recovery.

But as discussed in earlier sections, there is no free lunch to the unprecedented levels of public sector debt and monetary expansion that have kept businesses and households, of all sizes, afloat during past crises and the pandemic. In order to generate sustainable economic activity that can generate returns and not simply artificially inflated financial markets, our economies need to build and create real things that are of true value to society rather than shareholders. This importance of place and purpose of value-creation has to be central to the relationship between innovation and productivity.

A view of entrepreneurship as *for* communities and *by* communities also reveals more qualitative aspects of entrepreneurship. Entrepreneurship helps people contribute socially and economically to local networks through tangible relationships. After the COVID-19 crisis, feeling a sense of belonging will be key to the psychological recovery of such a prolonged period of isolation. Now more than ever individuals and communities need optimism and confidence that they are supported in taking control of their futures. Without this confidence that the future will be better, a downward deflationary spiral looms. Reorienting

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<sup>31</sup> Hagemann, H. (2003). [Schumpeter's early contributions on crises theory and business-cycle theory](#). History of Economic Ideas, 11(1). 47-67.

<sup>32</sup> World Economic Forum. (2019). [The \\$10 trillion question: How to end a lost decade of global productivity](#). World Economic Forum Blog.

the goals for entrepreneurship around cohesion, wellbeing and improving social and economic outlook are also productive despite being less tangible.

Entrepreneurship has never been more important to reviving our economies, our communities, and our resilience. “The beautiful thing about entrepreneurs”, as Shopify founder and CEO Tobias Lütke wrote for *The Economist* “is they don’t necessarily want to take over the world, just to carve out their corner of it. They’re reaching for independence.”<sup>33</sup> Considerable research exists on the economic impact of local business, showing the multiplier effect through which communities benefit entrepreneurs and entrepreneurs benefit communities: local businesses recirculate a greater share of every dollar in the local economy as they buy from local suppliers to create locally owned supply chains and invest more in local workers.<sup>34</sup> A study of British Columbia’s independent retailers and restaurants found that for every \$1,000,000 in sales, independent retail stores generate \$450,000 in local economic activity, compared to just \$170,000 for chains.<sup>35</sup> For communities now trying harder than ever to hold on their own corner of the world, reviving entrepreneurship is equally critical to their self-determination. Entrepreneurs and communities are mutually reinforcing in their creative economic energies.

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<sup>33</sup> The Economist. (2021). [The world in 2021: Tobias Lütke on entrepreneurship.](#)

<sup>34</sup> Mitchell, S. (2016). [Key studies: Why independent matters.](#) Institute for Local Self-Reliance.

<sup>35</sup> Civics Economics. (2013). [Independent BC: Small business and the British Columbia economy.](#) Canadian Union of Public Employees (CUPE) – British Columbia.

# WHERE TO FROM HERE? EXAMPLES FROM ATLANTIC CANADA

Prior to the COVID-19 pandemic, significant external pressures and transformations, including those outlined in this paper, were shaping Atlantic Canada's prospects for prosperity. Among those:

1. The Atlantic region's position within the Canadian federation as a historical challenge was coming to the fore as the four provinces' economic futures waned. Fiscal underpinnings of the Canadian federation, regionalism and Atlantic Canada's claims to federal support are implied in any question around the self-reliance of the region – for instance, as it suffers from increasing interprovincial outmigration, the most severe declines in population (and thus tax base, labour force and job creators), and a larger share of SMEs relative to the rest of Canada (approximately 90 % of all private-sector employment in Atlantic Canada) – all of which are aging faster with fewer succession plans. The region has been defined by its relatively underdeveloped status within the federation and by the social, economic and political disparities – real and perceived – that underlie that status. Social currents driven by the business community to reclaim the region's economic vitality and identity, including disposing of the idea of the four maritime provinces as a 'region' (a mythologized identity in relation to the federal government), are growing.
2. The global economy is undergoing a structural transformation towards 'purposeful capitalism', the primary goal of which is no longer profit but positive impact on people and the planet. The resulting shift in global private capital towards new impact-driven enterprises is manifesting in Atlantic Canada too. Entrepreneurs are realizing that the rules of global competitiveness are changing in the favour of economies that put well-being first. Similarly, Atlantic Canada's demographic challenges make a strong case for more human-centred approaches in addressing economic issues. For instance, to solve Atlantic Canada's severe outmigration and difficulty retaining immigrants in smaller communities in particular, communities and business owners are realizing that immigration cannot be treated solely as an economic issue. Conditions are improving in many Atlantic communities as businesses take a more active role in settlement, promoting diversity, and supporting local cultural openness.
3. At the local level, the sustainability of communities and equitable economic growth across both rural and urban areas remains a priority. An increasing understanding of 'place' and the way smaller and rural areas are responding to economic issues is challenging the notion of a stark urban-rural divide and bears the rationale for a more global approach to community-centred economic development. With the federal government playing a particularly strong role in the Atlantic provinces and their local economies through their heavy reliance on equalization,

communities (including local business and entrepreneurs) might be better supported by increased collaboration across all levels of government to better identify and respond to contextual needs. Reimagining debt markets and who is in the drivers-seat of economic development strategies will be key.

## THE SIGNIFICANCE OF PLACE

Across all these issues, the significance of place is the central thread. The dichotomy between global and local comes from an inherent tension in smaller places where there is often a greater attachment to land and the water, history and culture. What does it mean for Atlantic Canada to exist in the world today: how can Atlantic Canadian communities and businesses survive and thrive? How can we invoke the local and the global at the same time, to see them not as a dichotomy but as a convergence? There is an increasing understanding that for the region to be successful, it must be connected to and understand what is going on in the world. What are the challenges and opportunities the world is grappling with and how can it contribute? How do we think about global markets beyond our borders? How do we encourage the acceleration of that business development and raise the profile of the Atlantic region?

As considered by statisticians, population is a question of distribution: distribution of population and of measurable economic outcomes. As a matter of distribution, place considers how and why distribution occurs the way it does in each geographical delineation. In this way, place is much more than its quantitative dimensions. Place is like the physical container and character of our social, economic, built and natural environment. The ruralness of the each 'place' in Atlantic Canada for instance is better identified by people in each place rather than obvious political or geographic separations. The many unincorporated but distinct communities in New Brunswick are a good example of the insufficiency of this rural-urban notion.

Place is of increasing interest to policy makers around the world with implications for globalization, and as an awakened path of globally interconnected opportunity through small and local economies. Place-based approaches to public policy are not new, though considerable in variation. The key task is how to identify where growth is likely to occur and promote self-reliance. The starting point is a renewed focus on supporting strong and creative communities to find their own ways to be self-sustaining through broad-based entrepreneurship which drives business and sustainable economic success.

## PLACE-BASED ENTREPRENEURSHIP FOR BROAD-BASED ENTREPRENEURSHIP: EXAMPLES

Atlantic Canada has a little known but abundant history of social enterprise. Social enterprises are generally understood to be organizations that seek to solve a social issue through market approaches. Several historical studies have shown that social enterprises tend to emerge in isolated, 'have not' places.

One of the first examples of a social enterprise in Atlantic Canada was the Antigonish Movement in Nova Scotia, which began in the 1920-30s as co-operatives organized by fishermen, farmers and miners to alleviate the economic burden caused by a decline in the fishing, farming, shipbuilding and forestry industries.

Today, Atlantic Canada is home to two world-leading examples of innovative private philanthropy directed towards sustainable community economic development: the Annapolis Investments in Rural Opportunity (AIRO) in Nova Scotia and the Shorefast Foundation in Newfoundland and Labrador. In 2016 with a personal investment of \$1 million, businesswoman Jane Nicholson created AIRO, a private company, in response to the Ivany Report's "We Choose Now" challenge to stimulate economic opportunity in rural Nova Scotia through entrepreneurship. AIRO makes micro loans to entrepreneurs between \$500 and \$10,000, providing business advice throughout the length of the loan repayment, and connecting its clients to other local resources they may not be aware of, such as the Community Business Development Corporations (CBDC), Business Development Bank of Canada (BDC), or Atlantic Canada Opportunities Agency (ACOA). Instead of the usual 'financial ROI' expected through traditional lending sources, Nicholson's expected ROI is measured through the health and well-being of her community. AIRO charges 3 % interest on its loans – and that is non-cumulative. The interest collected serves two purposes – it makes the businesses take repayment more seriously and it also allows AIRO to turn its clients into 'philanthropreneurs' as well, because the money they pay back with interest goes back into the community as a loan to another applicant.

In 2006 after a successful career in the global technology industry, Zita Cobb returned to her home of Fogo Island to invest her private wealth in creating the Shorefast Foundation and supporting social enterprises including the \$40 million Fogo Island Inn. All profits from the social enterprises support Shorefast's numerous charitable programs. Shorefast's ROI is measured on an Economic Nutrition Certification Mark for every product sold by its enterprises. With the goal of showing consumers how their purchase impacts the local and global economy, The Nutrition mark details how the money they spend is distributed, including the total costs that make up the purchase price as well as the economic benefit distribution.

While different in their scale, both AIRO and Shorefast Foundation are equally unique in that their journeys started not just with a desire to offer financing, but with a process to understand the needs, assets and aspirations of the communities they sought to serve with their philanthropy. Both apply what can be considered a place-based approach of development to determine the assets and aspirations of their community and which of these can be realized through commercial enterprises. In AIRO's case, the process involved private interviews with community members between the ages of 14 and 80 who were asked "what they loved about their community, what they hated, what they thought was missing, and what they believed was possible." The responses were captured in the 2017 report, "Local Logic: How to get there from here" – outlining the community's recommendations on the economic future of Annapolis

Royal and surrounding areas. It was the roadmap, showing what the community wanted and needed in order to thrive and grow that continues to inform AIRO's investment decisions. Many of AIRO's businesses are still successful and, in addition to serving their communities have become anchors of the region's booming tourism economy.

In the case of Shorefast, given its ambitions for the Island, a multi-year community engagement process was undertaken, requiring the participation of the provincial government to amalgamate the Town of Fogo Island and form a joint Economic Development Partnership between The Shorefast Foundation, Fogo Island Co-operative Society Ltd. and the Town of Fogo Island. This serves as the governance of the foundation and its activities on Fogo Island. Shorefast's vision is to promote economic and cultural resilience by working with the unique and specific nature of its place as the basis for economic growth and revitalization. In addition to the formal governance structures established through the development partnership, Shorefast also fostered community learning during the project's physical development. International architects, designers and other experts were invited by Shorefast to engage with locals in creating contemporary buildings, objects and experiences reflective of Fogo Island's distinct heritage. These collaborative artifacts would form the products sold through Shorefast's social enterprises: as travel experiences at the Fogo Island Inn, goods from Fogo Island Shop and seafood through Fogo Island Fish, to customers at high price points around the world.

As private philanthropic endeavors, both AIRO and Shorefast have had a significant impact in catalysing sustainable economic growth in their communities, proving successful and efficient models of economic development through small businesses that serve both local and global markets.

# CONCLUSION:

## ENTREPRENEURSHIP FOR PEOPLE AND PLACE

At its core, economic confidence comes from community context. To solve real problems for everyone, entrepreneurship must refocus on people and place. This is not as ephemeral as it sounds, though the policy strategy may be complex and is certainly a long-haul endeavour. Influencing global trends in investment and structure of markets, pushing against huge private corporations that pull global political weight, and changing the narrative of entrepreneurship are a few of not-so-small targets outlined in this paper. In view of this complexity and magnitude of task, this paper concludes with four policy directions within which specific and more concrete policy options can be determined:

1. [Revitalize broad-based entrepreneurship](#)
2. [Revalorize the role of people and place in entrepreneurship policy and narratives](#)
3. [Reconfigure how government finances entrepreneurs](#)
4. [Reduce friction inside and outside government](#)

COVID-19 has shown that community matters more than ever; our sense of belonging to people and places is the greatest determinant of our collective well-being. Approaches to economic development and prosperity in Atlantic Canada have over-emphasized the role of government and the federal government. In a context where the fiscal structures of the federation are being put to the test, there is an opportunity to test new models of collaborative capital that pool public private resources in the region to address global and local challenges. Atlantic Canada needs not an 'all-government' growth strategy but an 'all sector' growth strategy that prioritizes collaboration across public and private sectors to define and execute an ambitious vision for the province's future by pooling public and private finances for collective benefit in real, local economies. Canada can and should continue its path of becoming a global technology leader and destination of choice for a global workforce that, as a result of COVID-19, is no longer bound to Silicon Valley. But technology innovation alone should not be relied upon to deliver human prosperity and progress. Nor should it be assumed that without direction, technological progress and entrepreneurship can deliver the innovation needed to solve social and environmental challenges nor address the unique needs of communities across Canada and the world.

As federal and provincial governments consider the difficult task of restarting the national economy, there is an opportunity to develop creative policy approaches to support real, local economies in a transformed global context. With levels of public debt at unprecedented levels, the private sector will eventually have to contribute, either through increased taxation or, with policy innovation and creativity through their

collaborative and strategic engagement, in putting private capital to work in support of entrepreneurial solutions to the social and environmental challenges that predated the current pandemic and represent more existential human threats.



