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**EVIDENCE**

**Tuesday, October 25, 2011**

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**Chair**

**Mr. Pat Martin**



## Standing Committee on Government Operations and Estimates

Tuesday, October 25, 2011

•(1535)

[English]

**The Chair (Mr. Pat Martin (Winnipeg Centre, NDP)):** I'm calling the meeting to order. Welcome, everyone, to the twelfth meeting of the Standing Committee on Government Operations and Estimates.

We're convened today to deal with the study of the effectiveness of the Office of Small and Medium Enterprises and the Canadian innovation commercialization program.

We'd like to welcome our witnesses today. Present with us is the Canadian Federation of Independent Business, Corinne Pohlmann, vice-president of national affairs, and Louis-Martin Parent, policy analyst.

With us by video conference from Quebec City we have, from the National Angel Capital Organization, Michelle Scarborough, co-chair.

Welcome, Michelle. Can you hear me?

**Ms. Michelle Scarborough (Co-Chair, National Angel Capital Organization):** I can hear you just fine. Thank you.

**The Chair:** Very good. All our technical stuff is connected and working.

We'll begin with a presentation from the CFIB and then we'll go to questions—actually how would committee members like to handle this? Do you want to hear both of the presentations first?

**An hon. member:** Yes.

**The Chair:** That's what we'll do then. In order of presentation, we'll have the CFIB first, then we'll ask Michelle Scarborough to give her presentation, and then we'll open it to questions from the floor.

Corinne, the floor is yours.

**Ms. Corinne Pohlmann (Vice-President, National Affairs, Canadian Federation of Independent Business):** Thank you.

Thank you for the opportunity to be here today. CFIB is a not-for-profit, non-partisan organization representing more than 108,000 small and medium-sized businesses across Canada that collectively employ more than one and a quarter million Canadians and account for \$75 billion in GDP.

Our members represent all sectors of the economy and are found in every region of the country.

With me here today, as you mentioned, is Louis-Martin Parent, who will assist me with the question and answer period of this presentation.

First, almost all businesses in Canada are small or medium-sized. They employ 64% of Canadians and they produce half of Canada's GDP. As a result, in this Year of the Entrepreneur, addressing issues of importance to them can have a widespread impact on job creation and the economy.

Now, you should have a slide deck in front of you that I'm going to be walking you through over the next few minutes, so if you could pull that out, that would be great.

As you may be aware, CFIB surveys its members regularly on a wide variety of issues that help us formulate policy positions on their behalf. In 2009 we did a survey on federal procurement and released a report based on that data earlier this year entitled, *Big Opportunities, Bigger Challenges*—and you all should have received a copy of that report as well.

Over the next few minutes I want to share some highlights from that report. First, who are these small federal government suppliers? As you can see on slide 2, they are a good mix of businesses that sell goods and services, or both, and the vast majority have been selling to the federal government for more than five years.

As you can see on slide 3, three-quarters of them sell to government as sole contractors, while one in five works as a subcontractor, mostly in the construction industry. Only 5% are selling to the federal government as part of a joint bid or partnership with another company.

What was really interesting to us were the reasons that small businesses did not sell to the federal government. Now, the most common reason was that the government simply does not buy the business's product or service, as you can see on slide 4. However, almost all the rest relates directly to the federal government procurement process itself. One in four stated that the government's tendering and bidding process was too complicated and that they had no means of knowing what the government wants. One in five stated there was just too much paperwork or found the inability to contact the actual user or purchaser as a key deterrent.

But it's not only those who do not bid on contracts that find the whole process confusing, but also those who have had experience in bidding and even winning federal contracts, as you can see on slide 5. Almost half of them rated the simplicity of forms, the clarity of the steps necessary to sell to the federal government, and access to contract opportunities as poor, meaning there is lots of room for improvement in these areas.

Overall, many of the frustrations of smaller firms engaging in federal procurement were based on the fact that the overall process is too complicated and too different from how they normally do business—for example, not being able to discuss the bid with the actual user or purchaser of the goods or services, using an electronic bidding process such as MERX, which may seem simple at first but becomes more complex, with lengthy forms that often require unnecessary and duplicative information. A good rule of thumb should be that if it takes longer to apply for a contract than it is to fulfill the contract, it's unlikely you're going to get many small businesses applying for it.

There also seems to be a real lack of awareness of small business realities. For example, a one- or two-week delay in a payment can seriously affect cashflow in a small business operation. They do not have specialists to help them secure, much less manage, a bid, and therefore they have to adapt their entire operations to fit into the government's expectations. We would suggest that the government start to look at their procurement processes and practices through maybe a small business lens, which has been suggested by the red tape reduction commission, as a means of starting to address some of these issues.

Now, to their credit, Public Works did recognize that there was a need to address some of these concerns after extensive lobbying from CFIB and other groups, and they created the Office of Small and Medium Enterprises about five years ago. CFIB supported the idea of an office like OSME, which was to provide assistance to small firms on the bidding on federal contracts and to be an internal advocate for the needs of small businesses within Public Works. But as you can see on slide 7, OSME is not that widely known within the small business community.

Now, this level of awareness compares to about two-thirds of our members who were aware of the procurement ombudsman, though very, very few of them ever used their services

Now, slide 8 is a chart that was not used in our report due to its low sample size. We only share it with you today for information purposes. And it should not be interpreted as being statistically valid; however, we thought it might be interesting.

Of the 32 respondents who said they did know OSME's role, results were mixed on the service provided. They did relatively well on providing timely responses to questions, but could improve on assistance on how to bid and understand procurement procedures. This survey was conducted prior to the launch of the buy and sell website that OSME had created as a one-stop source of practical information and advice on federal procurement.

This kind of tool would be well received as it does provide useful information and direction on what the process is all about, something that was severely lacking prior to the buy and sell website and to

OSME. However, we believe that OSME may be suffering from being within Public Works and therefore not necessarily seen as independent by small businesses looking for information to navigate the system and help them solve procurement problems.

Also, OSME's role as internal advocate is an important part of their mandate, but it's not always clear how influential they are within government to bring change that will benefit Canadian small businesses.

Moving to the Canadian innovation commercialization program, we have less experience with this because we haven't had any members contact us about it. We're still learning ourselves about the usefulness of the program and are pleased that it's in a pilot phase so that the government can learn about what works and what doesn't before it dedicates more funds to it.

CICP has long advocated using federal procurement as a means of promoting innovation. So many small firms have great ideas and alternative approaches that could prove valuable to government, but they can often be stifled if they are unable to fulfill pre-established requirements or address prescriptive needs. If this program helps to break down some of those barriers, that would be progress.

From what we know about the program, we like that it seems to encourage interaction between the supplier and the end-user and that it seems to promote some flexibility within the actual procurement process. However, we worry about any program in which government picks winners and losers. We wonder how success will be measured, given the long lead time sometimes needed to get a product to market.

● (1540)

**Mr. Mathieu Ravignat (Pontiac, NDP):** I'm sorry to interrupt, but the translators are asking for you to slow down. We're having some problems with the translation.

**The Chair:** If you wouldn't mind then, Corinne, please slow it down a little. There isn't any real rush. We'll give you ample time to finish your report.

Thank you.

**Ms. Corinne Pohlmann:** I don't know where the translation was at, so I'll just go back to where I was.

Finally, we would also suggest following the recommendation from the recently released report of the R and D review panel, namely, to consider not just a push approach to the project, where the firms go to the government with an idea and they determine whether it can be used, but also a pull approach, whereby government expresses a need and a desired outcome without getting too descriptive and allows firms to provide their suggested solutions without restrictions.

Our interests in federal procurement go well beyond OSME and CICP, and there's still work that needs to be done to make federal procurement more accessible to smaller firms. We hear repeatedly from small companies that government focuses only on lowest cost, which can be more difficult for smaller firms, given their smaller economies of scale. In the private sector, many have been able to compete effectively with their larger counterparts, not so much because of price but more because of other factors, such as quality of service, reliability, and reputation.

Some emphasis on the value of the product or service would be welcome. Government may pay more up front, but in the long run they may pay less as the value of the product or service increases and becomes more reliable.

We believe that the whole process of procurement must be rethought, and we are hopeful that the business lens approach cited by the red tape reduction commission and mentioned in the last budget will be applied to federal procurement so that the realities of small businesses are better reflected in the overall process. This would include allowing more flexibility within bids, reviewing larger contracts and splitting them into smaller contracts if it makes sense, and addressing issues raised during the red tape review .

Government needs to do a better job of paying small businesses on time. Our survey found that 80% of SMEs waited more than 30 days for payment, and most did not receive any interest for those late payments.

Finally, improving communications with SMEs is also critical. The OSME and the buy and sell website are steps in that direction, but more needs to be done, as neither is that well known to small firms.

A key finding of our research was the inability of small firms to contact the end-user. While we understand why there needs to be some distance between them, there has to be a better approach if an SME is not getting a technical question answered properly by the assigned procurement officer.

There continue to be sector-specific issues in procurement that are threatening the livelihood of small firms. Recently, there have been some significant concerns among those in the temporary health services and translation services. There needs to be a better way for those sectors to address these issues directly with Public Works.

We also believe that more data is needed to better understand procurement activities. It seems there is quite a bit of a data already, but it's not always well used or understood.

This year small firms continue to face challenges in trying to do business with the federal government. The same issues that have been raised for years for the most part remain. The launch of the buy

and sell website was a positive development, but small firms continue to find it difficult to manoeuvre through the process. Others have actually given up trying, while still others that have traditionally sold to government have found that the rules are changing and it's having dire consequences on their businesses.

We recognize that these are issues beyond the scope of the current study. But they remain issues in the view of Canada's small firms. We hope your committee will continue to question and study these issues.

Thank you.

**The Chair:** Thank you, Ms. Pohlmann.

Now we'll move to the next presentation, from the National Angel Capital Corporation, Michelle Scarborough.

Welcome, Michelle. You have the floor.

● (1545)

**Ms. Michelle Scarborough:** Thank you very much. *Bonjour.* Thank you for having me today.

I'll keep my comments brief. Unfortunately, because of the timetable, we were not able to provide you with documentation in both French and English, although that is on its way. The standing committee should receive that information shortly.

To give you a little background on the National Angel Capital Organization, we are a member-driven organization whose vision is to knit the angel capital community together across Canada, facilitating knowledge transfer, developing best practices, and co-investment with an end goal to invest in high-potential companies across the country to build that small or medium-sized enterprise and take those companies to the global stage. Our mission is to support angels as they foster the growth of the next generation of innovative Canadian companies at all levels. We do that through four key areas, including: professional development; communication; networking events, such as the National Angel Capital Summit, which is taking place this November in Ottawa; and advocacy-related activities. We have a member base of approximately 2,000 angels, composed of both groups and individuals.

I want to give you a definition of what or who an angel is. An angel is a person who provides risk capital to innovative start-up companies, building a bridge between their idea and their commercial viability. Again, we are looking at how we invest in early stage companies and people with early stage ideas, and we help drive those ideas to a commercial entity, a company formation, and then take them all the way through the market. They are also typically individuals who have been successful entrepreneurs in a variety of sectors, so they're sector agnostic. Some are in technology, some are in other industries, but all are able to provide not just the capital required but also vast knowledge of how to build a business, typically from the start-up phase right through to growth. They are mentors for companies at the early stage and they provide vast experience and expertise as well as a network to help those entrepreneurs get to the next level of their business.

We, as angel investors, are accredited. We follow the SEC regulations, so accredited angel investors, for your background, are those who have \$1 million in assets, if you don't include their residences, and those who have approximately \$200,000 or greater in income. Typically, they are providing not just the capital but mentorship in a variety of other activities.

To give you some stats to put it into the Canadian context, before I dive into some of the details around what we're here to talk about, there are approximately 1,500 angels that represent angel groups in the country, which is a very large mass. That number is growing quite rapidly. We estimate a doubling of that over the next two years as angel capital begins to form itself as an asset class, differentiated but complementary to venture capital.

We did a study in 2010 just to see where angel groups and angel individual investors were at in terms of the deal flow they were seeing, at what stage, and so on. We identified approximately 1,850 companies that were disclosed, seeking out angel groups specifically on an annualized basis. That translates into about 250 active portfolio companies in the angel groups. Angel groups realistically will invest in two to three, maybe four, companies on an annual basis at approximately \$1 million into each of those companies annually. If you drive that number up, we're looking at—over the course of the last five years that we've been able to measure—about \$1 billion in investment going into those very early stage companies and then driving those companies to small and medium-sized businesses that are playing at the global scale.

How do we make investments and why is it relevant to CICP and the work of OSME? We make investments based on a number of criteria. We look at the team. We identify the market size and the opportunity and who the competitors are in that space. We look at the sales pipeline and how we are going to assist in investing in the company from a dollar perspective, and how are we going to build that company? We look at how the company is going to operate now and as it scales.

- (1550)

Finally, and most importantly, who are their customers? How many do they have, if any? What are we going to do as angel investors to help drive that process of identifying customers, getting those first, second, and third customers in the door, and using those

customers as leverage to then take the company out to the market in full force.

We're in a high-risk business. Angel investing is high risk by its very nature. Getting that first customer validation, that first customer attraction, is really important and key, oftentimes, to our first investment in a company. It's not just about the company getting its customer base; it's also about the fact that as angel investors we typically look for that first customer validation to make the case to make the investment.

What has been the impact of OSME and CICP, from our perspective? We have been involved in CICP and OSME across the country from a very small perspective. I did a quick poll of some of our angel groups just to see where they're interfacing with the agency and where they are not, and it varies in terms of who is interacting with whom. Overall, and I can speak more specifically to CICP, CICP is being seen as a win for angel-led companies that are looking to identify customer targets in the government, for a number of reasons, and I'll give them to you.

The first reason most people came up with, and certainly it's been my experience, was to provide that reference customer opportunity for the small business at the beta-customer stage. This is not just important for customer validation and for the validation of the technology. The Canadian government as a customer for a small enterprise carries a lot of weight when that company goes into the international marketplace for sales. It acts as a very good validator for the company as they're moving to identify their customer targets. Often there can be, in the case of convergent technologies, a cross-pollination between government agencies that can be facilitated by CICP. That, I think, will start to become a bit more enlightened as CICP actually begins to grow and gets over its baby steps.

The other thing this kind of program does is provide a gateway for a company at the early stages so that it can identify, learn, and de-risk its own pathway as it educates itself on how to sell into a complicated structure, a complicated organization. I know that OSME has been working hard at trying to fill that gap, and so has CICP. There is more work to be done there. There are a couple of things that are relatively straightforward, I think, that can be implemented that will solve that problem.

There are two other ways in which these programs currently are helping small and medium enterprises once they have an angel investment. One, again, is the early revenue, the early customer validation and market traction that becomes very attractive to both us, the angel investors, and the customers. Also, the validation of technology applications, and it was touched on by the earlier presenter, is very important, because validating the technology not just from a pull but also from a push standpoint is very important. Companies don't need to spend a lot of cycles guessing. If there's a mechanism by which we can draw those two together, the customer and the company, at the entrepreneurial level such that they can identify and work together on opportunities to solve real problems, that will make an enormous difference in how the procurement programs work, and ultimately in what kinds of companies can be generating massive growth for Canada and beyond.

My recommendation from the National Angel Capital Organization for OSME and CICIP really is to continue to engage us, which they are already doing, on the selection committees for the procurement program and at the advisory board level. We're happy to play a role, and will continue to do so as long as we're asked to work with the government to identify opportunities for small and medium enterprises to find solutions to problems. As I said before, build the network such that it's not just the entrepreneur coming to the government with a solution that may or may not be an appropriate fit. What is on the wish list of some of these agencies and government departments, and how can technology companies and others around Canada work together through a network to build capacity and ultimately find solutions that are going to be beneficial for everybody and that win for everybody?

• (1555)

It was touched on again by the previous speaker that there is a need for better promotion and better public relations around what the OSME and CICIP programs actually do. There have been some material steps made with respect to CICIP that I think have been very good, as far as getting out and promoting in small ways. But some sort of partnership opportunity with agencies like NACO and others that can help get the word out in a very tangible format to members, who can then identify ways in which they can interface with these organizations and programs, will be an essential driver in identifying how we can find the right fits and build some capacity.

Finally, it's kind of a dual-pronged answer, but it's really a rolling process for companies to apply for CICIP. If that's successful, you will ultimately have knocking on the door to expand the funding into the CICIP program beyond the \$40 million that has currently been allocated to ensure that program continues.

Those are my remarks.

I'm pleased to take any questions now, and I'll refer back to the chair.

**The Chair:** Thank you very much, Ms. Scarborough. That was very interesting and very clear.

We have members of the committee from both the official opposition and the government side who would like to question both of the presenters, I'm sure.

Beginning with the NDP, we have Mr. Alexandre Boulerice.

[*Translation*]

**Mr. Alexandre Boulerice (Rosemont—La Petite-Patrie, NDP):**

First of all, I want to thank the three organization representatives for being here. What you have to say is very interesting.

I'd like to address my first remarks to the people from the Canadian Federation of Independent Business. Thank you for being here. Please know that the official opposition shares your concerns as to the future of SMEs and the contribution they make to the Canadian economy and to job creation.

Last week, we heard from representatives of the Canadian Business Information Technology Network, who were also quite critical of the Office of Small and Medium Enterprises.

Allow me to quickly quote an excerpt from their presentation. I'd like to hear your comments in this regard.

Our members are interested in seeing the mandate of the Office of Small and Medium Enterprises (OSME) expanded to include a more "activist" role designed not only to act as a public relations agent but also to really protect SMEs' interests. CABINET agreed with the Conservative Party when it announced in March 2010 that it would be "creating a level playing field for open source IT in government procurement and open up government IT contracts to SMEs by breaking up large IT projects into smaller components." But that was the Conservative Party of the United Kingdom. We hope that the same is true for the Conservative Party of Canada.

According to you, should we broaden the mandate of the office? Should it be given greater means? In your opinion, should the office act essentially as a public relations office that provides information? Or should it have a more proactive role?

[*English*]

**Ms. Corinne Pohlmann:** First of all, it's not very well known at all. I'm not sure whether it has a PR office, because only 5% or 6% of members are even aware that it exists. These are the people who are actually involved in federal government contracts. I think one of the reasons might be that it is not perceived as being independent of Public Works; therefore, it may not be perceived as a place where small business owners can go to either get information or deal with the problems they may run into when it comes to procurement.

There is the ombudsman; however, the ombudsman has a very limited mandate in what it can look at. So where do you go when you have questions about the activities happening within a particular project or contract you're bidding on? Right now I don't think OSME is seen by them as being independent enough or capable enough to help them through that process.

The second piece touches a little on the comments from the previous groups that were here last week. We also believe it has an important role to play as an advocate internal to Public Works. We're not clear at this point whether that's being done effectively or not, again because I think it is seen as being part of Public Works, so we're sure how influential it can be within Public Works.

At this point we're not sure whether it needs to expand its mandate. We're loath to suggest you put more money into something until we understand the best way to use that money to effectively help small business progress when it comes to procurement issues. We recognize that there is the Office of the Procurement Ombudsman of Canada as well, and we need to make sure we're not duplicating efforts here and we're actually making sure that there is effective change happening within Public Works that is actually reflecting back what's happening with small businesses.

Is OSME doing that? There are elements of what OSME is doing that are helpful. The buy and sell website was a huge step forward in finally having one place to go to get all the information you need. It's too new for us to know if our members are using it or not. I do credit OSME with putting that together, but whether or not our members feel it's actually helping them to progress is debatable at this point.

• (1600)

[Translation]

**Mr. Alexandre Boulrice:** Thank you very much.

I'd like to ask a question on your presentation, which was very well put together, as a matter of fact. Congratulations.

Several things surprised me, among them table 2. There is a nice pie chart there indicating how long the organization has been doing business with the federal government. However we see that almost 85% of the respondents from your federation stated that they had been doing so for more than five years. Only 3.5% of them replied that they had been dealing with the federal government for less than a year.

This leads me to think that those who know the rules of the game are skilful and that it is complicated to get into the system and that the door is almost closed, that is to say that you have to fight a little in order to get in there.

[English]

**The Chair:** Could we have a short answer, please? There are about 30 seconds left in this time segment.

**Ms. Corinne Pohlmann:** Yes.

**The Chair:** That was very succinct.

That's about it for your time, Alexandre.

On the government side, Mr. Jacques Gourde.

[Translation]

**Mr. Jacques Gourde (Lotbinière—Chutes-de-la-Chaudière, CPC):** Thank you very much, Mr. Chairman.

I thank the witnesses for being here with us this afternoon. Your comments are very important to us. They are very interesting, and especially very much appreciated on this side.

Ms. Pohlmann, in your presentation, you briefly referred to the Red Tape Reduction Commission the government set up to help small and medium businesses. Your federation had in fact suggested that. And speaking of suggestions, perhaps you could take this opportunity to tell us what you would recommend to the Red Tape Reduction Commission so that it could better assist small and medium businesses in being quicker and in achieving savings.

[English]

**Ms. Corinne Pohlmann:** Certainly when it comes to federal procurement, I think the issue we've been dealing with for years has been the paperwork associated with it. When I said earlier that if it takes you longer to actually apply for a contract than it takes to fulfill that contract, there's a problem.

I think during the red tape reduction commission hearings there were lots of small business owners who came forward to talk about that. There was even one who brought an actual proposal with him; it was this thick, and he said he had to fill it out every single time he tries to apply for a government contract—and the information is the same every single time. There are ways we can minimize this. A lot of the information is duplicated. Some of it's irrelevant. It's just making sure that everything is in there that has to be in there. There are lots of things that can be done to really simplify the process when it comes to government contracts that we don't think have been properly looked at.

One of the things the red tape reduction commission is looking at right now is this idea of a small business lens, whereby government departments are actually forced to look at new policies and programs and paperwork through the lens of a small business by asking a series of questions. We've seen this work effectively with the Government of British Columbia. It is working within a few government departments already within the federal government, but it's very, very specific.

We think something government-wide, and especially in federal procurement, would be very useful so that people who are developing the policy and developing the programs and developing the proposals understand that when you look at it from the lens of a small business, some of it just doesn't make sense. It needs to be rectified in order to make it simpler and easier for them to also have access to government contracts.

They're not asking for special handouts. They just want fair access to these types of contracts.

[Translation]

**Mr. Jacques Gourde:** You also said that in reviewing bids, people should not necessarily go to the lowest bids, but that the history of the business as well as other criteria should be taken into consideration as well. Can you give us more detail on that? This could lead to some interesting suggestions.

[English]

**Ms. Corinne Pohlmann:** This has been something we've been hearing about quite a bit in the last couple of years in particular, that often we're finding small businesses are being rejected right off the start because they are not able to come in at the lowest cost. But what's not being factored into the decision-making are the other factors, such as reputation, reliability, quality of service, after-sales service, and things like this that could potentially make it in the long run actually cheaper for the government to go with a slightly higher-cost contract.

Small businesses are often not necessarily competitive on cost because of their smaller economies of scale, but they can be competitive on value, and that's simply what we're trying to understand, if there's a way that we can better measure that. I think it does probably change from commodity to commodity and from service to service, and we need to sort of look at it for each one. But I think it's something that is important to recognize when trying to look at contracts. And it seems to us anecdotally that we are hearing more that small businesses are feeling shut out of the process, because it really comes down now to lowest cost, and that's the only factor that is being determined as to who gets the final contracts.

• (1605)

[Translation]

**Mr. Jacques Gourde:** Thank you very much.

[English]

**The Chair:** There is still about one and a half minutes left, Jacques, if you or one of your colleagues would like to use it up.

[Translation]

**Mr. Jacques Gourde:** You said that people had trouble recognizing the office and were not necessarily aware of the services it offers. Does the federation promote the Office of Small and Medium Enterprises?

**Mr. Louis-Martin Parent (Policy Analyst, Canadian Federation of Independent Business):** Our members can call us to ask questions on any topic. We also provide information to our members who have questions on the process to follow in their specific case. Finally, we provide information to them on any topic.

Today, as I looked at our list, I noticed that when a question had something to do with procurement, people were referred to the Office of Small and Medium Enterprises in order to obtain more information on their specific questions.

**Mr. Jacques Gourde:** Do people call you afterwards to tell you whether it worked or whether they were able to obtain a reply?

**Mr. Louis-Martin Parent:** Generally, if things worked, they do not call us back. If a problem has not been settled, sometimes they do call us back, but not often.

**Mr. Jacques Gourde:** Thank you.

[English]

**The Chair:** Thank you, Jacques.

Mathieu Ravnignat.

**Mr. Mathieu Ravnignat:** Thank you, Mr. Chair.

Thank you to the witnesses for being here. They were very interesting presentations.

I'm particularly interested in your comments on fairness. Of course, there are a number of ways in which fairness could be questioned. And to my question, everybody is welcome to respond—including you, Madam Scarborough, if you feel so inclined.

So there are a couple of ways. For example, we could build criteria into a program or within a process that disadvantages automatically a certain size of business. Also, we could talk about how small businesses are defined within OSME, for example.

They've chosen, rightly or wrongly, to define them as 500 employees or less. But I notice that Export Development Canada, on the other hand—I can understand why there's so much confusion, as there doesn't seem to be the same definition of small business across the board—uses the definition of \$20 million or less of business.

I'm wondering if you have an opinion on what would be a fair definition, or a fairer definition, of a small or medium-sized business.

**Ms. Corinne Pohlmann:** I think one of the eternal struggles is to understand what is the correct definition of a small or medium-sized business. At our organization we use 20 to 50 as small, 50 to 500 as medium, and 500 upwards as large.

Then we have “under 20” as the micro-enterprise size. I think it's important to identify that. Too often, especially once you get into the five-person type of business, they're not included in many calculations. They're often not included in many programs because they're so hard to get to, and yet they represent 80% of all businesses out there in Canada.

Sometimes when I read research reports or whatever from other organizations, it's often only for 20 or more employees. When it comes to fairness, then, sometimes we neglect the fact that there's this large segment of the business population. They're often not included when it comes to government programs or statistics or research that's being done out there, and yet they represent a significant portion of the business community.

When we talk about our membership, the average size of our members is about 14 employees. That's actually a little bit larger than the average business out there in Canada. Going up to 500 I think is fine for small and medium-sized companies, but I'd be more interested in knowing what percentage of the people they're assisting are in that 100 to 500 category versus those who are in the zero to 20 category, and knowing how that reflects to the actual business population.

**The Chair:** Madam Scarborough, do you have any views on that?

**Ms. Michelle Scarborough:** I was interested in hearing...because it's actually something we too struggle with. At the same time, we would consider a start-up company with one to two employees as a small business.

I know you're from the Pontiac. A lot of the companies over on the Pontiac side would be considered a small business enterprise, by our definition. Therefore, we would be looking to those companies in terms of fitting our criteria for investment potential, really.

In our opinion, a 500-person company would be considered a large company, not a small one. A company of one person up to 50 people, particularly as it relates to the technology space in manufacturing, would still be considered a small company, by our measures. We would consider, more on the mathematical side, the dollar value into a company to be relevant.

•(1610)

**Mr. Mathieu Ravignat:** What dollar amount would that be? Could you give me a ballpark figure?

**Ms. Michelle Scarborough:** If you think about the majority of companies that are, again, small enterprises, you're looking at companies that have zero to \$5 million in sales, if you're thinking about it in those terms. You can go upwards of ten, but at the \$10 million mark in sales, you should be exceeding 20 to 25 employees. If you're going to redefine, I would consider looking at the revenue line item as well as the number of employees as part of your criteria.

**Mr. Mathieu Ravignat:** Interesting.

Do I still have time?

**The Chair:** Thirty seconds or so if you have a short question.

**Mr. Mathieu Ravignat:** I was rather shocked to see that 94.1% of your people weren't aware of OSME's role, and I know there's a great website in place. What do you think the government could be doing more to ensure that businesses know about OSME?

**Ms. Corinne Pohlmann:** I think one of the key things is connecting more with business associations and other organizations that do have that touch with businesses that are going to be interested in procurement-type practices. I know they do some of that outreach already, but I think that's probably the most effective way of getting into the smaller business type of environment. Traditional methods of flyers and seminars don't really work well with very small businesses. They just don't have the time to go to the seminars. They don't really read government flyers. It is a challenge with many organizations. We know that.

We certainly would be happy to try... We ourselves, as Louis pointed out, do talk about it with our members. We do have it up on our website. This is an access point of information. But truly, in the end, it's going to come down to word of mouth and being effective in terms of helping some small business owners, and then talk about them to other small business owners. That's ultimately how it's going to gain traction.

**The Chair:** Thank you, Mathieu. We're well over your time.

Next, for the Conservative side, Peter Braid.

**Mr. Peter Braid (Kitchener—Waterloo, CPC):** Thank you, Mr. Chair.

And thank you to all of our witnesses for being here this afternoon.

Ms. Scarborough, if I could perhaps start with a couple of questions for you, please, I'm curious about the differentiation here. Could you begin by explaining the difference between angel capital and venture capital? You touched on that a little bit.

**Ms. Michelle Scarborough:** The lines are getting a little bit blurred. Angel capital really happens.... If you think about the pathway of a company to market, the company at the very early stage, pre-prototype, would seek typically a friends and family round. That would cover their costs of start-up and getting going, and hopefully get them to an early prototype stage. That's typically where an angel investor...where the angel risk capital would play. Angels would put in more than a friends and family round. Typically, angel investments range anywhere from \$150,000 to upwards of \$2

million into any given investment they make, sometimes with or without a follow-on round.

Venture capital is now going earlier. It never used to. Venture capital typically comes into the next round at a series A level, and the amount of money going in at an early stage venture round is typically in the neighbourhood of \$500 to \$1 million. It then ramps up from there all the way to \$30 million, \$40 million, \$50 million, depending on the size of the investment and the capital requirements. That's the difference. If you wanted to follow a company through its financing rounds, that's how it would flow.

**Mr. Peter Braid:** Great. Thank you.

You also mentioned that either the number or the amount in terms of dollar figures of angel investors will be doubling in the next two years, which is great news. It's very encouraging to hear. Could you elaborate a little bit on why that is, why that phenomenon is occurring, and what's changing in terms of our policy or economic framework to allow for that doubling?

**Ms. Michelle Scarborough:** There are a couple of things.

The doubling is really occurring, and has been occurring, for a little while now, based on a couple of factors, one being the diminishing of the venture capital industry. As you're probably aware, the venture industry in Canada is going through a bit of a rebirth. It is revitalizing itself in new forms, and that is only starting to occur.

What's happened is that you have a lot of early stage technology companies in particular that are looking for working capital and risk capital at the equity stage, to take their companies to the next level, and that venture capital piece of working capital that they would otherwise get is no longer there. So angels have been stepping in and filling that gap.

More angels have been playing a bigger and bigger role in not only providing their equity into the company from an investment perspective, but also their time and attention to mentoring the entrepreneur and helping that entrepreneur identify the mechanisms and the networks by which to grow their company.

That is probably the primary reason why you're seeing an increase in angel capital in the country. What's also happening, though, in tandem, is that angels are starting to form clusters. They're starting to group together in small groups, form investment clubs, and take advantage of the fact that there are a number of early stage opportunities that they can play a significant role in growing in order to identify potential opportunities for return, but also at the end of the day grow a successful business, which is really our bottom line. That's another reason why we're seeing a resurgence.

At the same time, there has been a change in the Canadian ecosystem around the development of companies at the commercialization stage. So if you haven't already seen information with respect to this—and you, being from Waterloo, would know about Communitech and the accelerator centre there—you're seeing a duplicate of accelerator centres starting to pop up all over the country, of various sizes, some private, some public, some a combination.

In Ontario, we have the regional innovation centres, the Ontario Network of Excellence. That whole ecosystem is helping to foster collaborative networks between very early stage companies at the prototype stage, entrepreneurs, and angel investors, who can all collectively come together for the purpose of making investments into those companies—so overlay capital requirements with a commercialization platform that's starting to take place across the country and that's what you're seeing.

Some of the things that are also contributing to the success of angel investors are the tax credits. In B.C. we have the tax credit program. Ontario is looking at a tax credit program, and so are some other provinces. Those will also help to drive more risk capital into the marketplace at the early stage and de-risk those companies for further investment.

• (1615)

**Mr. Peter Braid:** Thank you very much.

**Ms. Michelle Scarborough:** I hope that answers your question.

**Mr. Peter Braid:** Yes, it's excellent.

**The Chair:** That also concludes Peter's time.

You've really done your homework. I didn't even realize Peter's riding was Waterloo, and I'm the chair of the committee.

Next, for the Liberal Party, John McCallum.

**Hon. John McCallum (Markham—Unionville, Lib.):** Thank you, Mr. Chair, and welcome from me as well to the witnesses.

I'd like to return to a subject we discussed a bit last week in light of the recent report of the expert panel on government support for innovation. One of the key proposals was to have somewhat less money for tax credits, SR and ED, and transfer that money into direct acquisitions, investments in commercializations through BDC.

I have a double-barrelled question, first to Ms. Scarborough. First, do you agree with that direction? And second, do you think BDC, as it now stands, is competent to do it? I mean, you could agree it's the right direction to go in, but there are execution problems with the agents involved.

**Ms. Michelle Scarborough:** I think that's a very good direction to move toward. I think BDC is doing a great job of repositioning itself in the marketplace to be the bank for entrepreneurs, so I would suggest that BDC would be the likely candidate to move forward with that agenda and make it happen.

**Hon. John McCallum:** Thank you.

**Ms. Michelle Scarborough:** They are doing the right things; I've been keeping track.

**Hon. John McCallum:** Ms. Pohlmann, do you have a view on that?

**Ms. Corinne Pohlmann:** We were actually given the R and D reviews output last week. We will be going back to our membership to find out a little more about their perceptions of what they're recommending.

We are concerned, because when you start directing money toward specific companies again, you're picking the winners and losers, and we're always a little hesitant about whether that's going to be helpful or not. Then a lot of companies that may be using SR and ED effectively may no longer be able to access those funds.

We're not saying yes or no at this point. We want to go back to those who are currently using SR and ED and try to define better what it is, how they're using it, and whether the changes being suggested would be beneficial to them or not.

• (1620)

**Hon. John McCallum:** Ms. Scarborough, do you have any views on that, because the only negative I've heard is this business about government picking winners and losers? Is that an issue for you?

**Ms. Michelle Scarborough:** I think the government needs be fiscally responsible with how those dollars are spent. If you have the right steward and you've identified the risks and you've been able to mitigate those, then from the perspective of an entrepreneur, and certainly from an investment perspective, we would be onside. I'd want to make sure the risks were mitigated, but otherwise I think it's fine.

**Hon. John McCallum:** Ms. Pohlmann, you seemed distinctly lukewarm about OSME. I find that an astounding statistic, that only 5% or 6% of your members know about it. Is this the universe of your members, or the ones who are into procurement?

**Ms. Corinne Pohlmann:** Those would have been the ones who are actually doing procurement.

**Hon. John McCallum:** That's amazing, I think. Do you think small business would suffer if OSME disappeared from the face of the planet?

**Ms. Corinne Pohlmann:** Probably not. Having said that, we were advocates of an office like OSME, and I don't want to say they shouldn't exist, that they're not doing good work. I think they are trying. The problem is they are not well known. Perhaps they're not structured the right way, or perhaps being internal to Public Works isn't the best approach. However, there is a dire need for some sort of group within the government to help small businesses through this process, because it is so incredibly complex. Right now, OSME is that only option.

**Hon. John McCallum:** Ms. Scarborough, do you think anything bad would happen if OSME disappeared?

**Ms. Michelle Scarborough:** I have to be honest with you. I don't know enough about what OSME is doing at the regional level to be able to make that comment. I have heard from the members of the organization that they are not interfacing with OSME at the regional level very much at all. So my recommendation to you would be to consider if OSME is going to exist, how it can interface directly with people in the communities in which they're residing, such that they can be better advocates for those companies that are in the industry and wanting to do procurement.

**Hon. John McCallum:** I have one last quick question.

**The Chair:** You have about 45 seconds, John.

**Hon. John McCallum:** If not lodged in Public Works, and if it's not to disappear, where should OSME be?

**Ms. Corinne Pohlmann:** One possibility, if you want to be independent, is to look at the procurement ombudsman's office.

**Hon. John McCallum:** I heard the suggestion from somebody last week, I think, that Industry could be a possibility.

**Ms. Corinne Pohlmann:** Honestly, I don't know if it would have that much more exposure through Industry than it would through Public Works.

**Hon. John McCallum:** Thank you very much.

**The Chair:** Thank you, John. That's just about right for time.

Now Bernard Trottier for the Conservatives.

**Mr. Bernard Trottier (Etobicoke—Lakeshore, CPC):** Thank you, Mr. Chair, and thank you, witnesses and guests, for coming today and giving us this profile of what's going on, in terms of angel capital on the one hand and then maybe a different profile in terms of the CFIB, if I understand.

Maybe, Ms. Pohlmann, you could describe the range of companies that are members of the CFIB and are I think beyond the angel capital stage. They tend to be more established companies with a mix of equity and debt in terms of their capital structure and so on. Could you give us a quick profile? Then I want to ask some follow-up questions with respect to financing and investments.

**Ms. Corinne Pohlmann:** Our membership is pretty much a reflection of the business population in Canada. It's every sector of the economy, every region of the country. They primarily get financing through debt financing, absolutely, and it would be everything from the one-person, self-employed consultant, to the 300- or 400-person manufacturing plant in southern Ontario. So it's everything in between. We do have high tech, we do have brand-new businesses as well that are joining us, so it really is the gamut of industry right across the country.

**Mr. Bernard Trottier:** What would be the typical maturity profile if you look at the median age of companies within your organization?

**Ms. Corinne Pohlmann:** It would be the little, more established companies, because generally, when you're starting out, you're not so focused on being part of a public policy organization, and once you become more established you are. Having said that, I'd say probably in any given year about 5% of our membership is probably less than one year old.

**Mr. Bernard Trottier:** So maybe to describe an evolution, one way to simplify it and look at it is that companies could start out as

early stage companies and then, once they're successful, they could become members of CFIB.

**Ms. Corinne Pohlmann:** Absolutely, or the other way around. They start with us when they're young, as RIM did. RIM was a member of ours up until 1998, when they went public, and they no longer could be a member because we don't represent publicly traded companies; we only represent privately owned Canadian corporations.

**Mr. Bernard Trottier:** I just want to change direction a little, Ms. Scarborough. You mentioned 1,500 angel groups within your organization. Is that the right number in your statement?

• (1625)

**Ms. Michelle Scarborough:** It was 1,500 angels within groups represented; 2,000 members in total.

**Mr. Bernard Trottier:** I see.

**Ms. Michelle Scarborough:** It's nearly 500 individual angels.

**Mr. Bernard Trottier:** Okay.

I know it's hard to generate really precise statistics on this, but of all the investments—you mentioned three or four typical investments per year—is there a typical definition of success? What constitutes a successful investment versus unsuccessful? This could be in terms of return on investment but also the duration of that return on investment. So it might have one year of positive ROI but then not be around three or four years later. Do you have any definitions like that within your group?

**Ms. Michelle Scarborough:** That's very interesting. It varies across the country and between groups and individually, so it's a little bit tricky in terms of measurement. We're actually working on some ways in which we can survey members at various points in time over the course of years and then start a map of that so we can trend it. Anecdotally, I can give you sort of notionally what happens.

If we were to look at a good return on investment or a good success from an angel perspective, that success would be a seven-year investment in a company that went through several cycles, grew to be a global player, and ultimately had an exit of sale and/or public markets.

That's typically what happens.

**Mr. Bernard Trottier:** The reason I want to explore that with you, just to explore a bit further...what would you describe as the success rate typically within your organization? Out of four or 40 investments, how many are successful versus unsuccessful?

**Ms. Michelle Scarborough:** The average would be that about 10% are going to be out of the ballpark winners, and then you're going to have a number of companies, let's say another 30%, that are going to return two to five times.

**Mr. Bernard Trottier:** Right. That's just the nature of the business. As you mentioned, it's high risk, and you're bringing a lot of expertise to the table when you do that.

There's always the dangerous thing—and maybe this goes back to Ms. Pohlmann. Sometimes when government gets involved in angel investment or venture capital, it might not have the skills and the networks that you bring to the table. So the likelihood of enjoying a 10% success rate is probably lower. Would you agree with that statement?

**Ms. Michelle Scarborough:** I think it depends. If we're talking in the case of CIGP, as an example, and the government is acting as a facilitator of introductions for a very specific reason, i.e., the procurement scenario that makes the pathway for one of my investments to get to that customer faster and actually secure a contract, that's a different scenario than the government getting into playing the role of investor. That is something that needs to be monitored. Certainly we've had that experience.

Talking about DFAIT, as an example, when we go out globally with a company, we will leverage DFAIT's trade commission offices in order to identify targets that we can then go and talk to directly so that we're not having our entrepreneurs spin their wheels trying to find the right resources.

In terms of developing a network that's very defined in that way, I think that is a role that can be very beneficial, particularly if we're looking at the programs that we're talking about here today.

**The Chair:** Thank you, Madam Scarborough. That concludes your time.

Bernard, thank you.

That also concludes the first round of questioning.

I'm wondering if I can ask for clarification on one issue from both of the witnesses. We heard previous testimony that some small entrepreneurs/small businesses find it difficult to get government procurement or access to government contracts because of the way some IT contracts, especially, are bundled and the tender is put forward. It sort of precludes the participation of some of the smaller companies. Could I ask either of you, is this something that the businesses you represent have brought to your attention as a frustration or a barrier in achieving contracts with the government?

**Ms. Corinne Pohlmann:** Yes, we have had that comment come to us, and not just when it comes to technology but in other areas of procurement as well. We call it bundling. It has been occurring for the last few years, and we have seen it in things like temporary health services and translation services, which is partly why those two areas are feeling a little bit more in dire straits than they have in the past, and certainly in the technology as well.

It does exclude smaller companies from being able to bid. Often these bids are put together as well with very specific technology requirements, and this is beyond even just in the technology sector. It could be in other sectors as well that are very specific to perhaps one

or two companies, so it becomes very clear that it seems to be targeted at a larger company, and everybody in the industry kind of knows about it.

Those are the types of things that a lot of small firms—I wouldn't say a lot, but some small firms will come to us raising concerns about this bundling idea, and certainly have tried to push back a little bit to recognize. That's why one of our recommendations has been that one role that OSME could play is to look at some of these larger contracts and determine whether they should be cut up into smaller contracts. This is something the U.S. Small Business Administration does in the United States, and we believe it's something that could be applied here, just to make sure. Some contracts have to be big—we understand that—but some don't, and perhaps we need a second piece of oversight to see whether or not they really need to be as big as they are.

• (1630)

**The Chair:** Do you have any input on that, Ms. Scarborough, before we move on?

**Ms. Michelle Scarborough:** I agree.

We've had enough anecdotal conversations with some of our companies within the network to assume that the procurement process is long and complicated and that the bundling does inhibit smaller companies, particularly at the beta stage, or first customer, or "two or three customers in" stage.

The biggest thing, I think, is to streamline the process, make it easier, and make the process a bit more competitive for small or medium-sized enterprises across the board to participate in.

**The Chair:** Thank you.

Our next round of questioning goes to Annick Papillon from Quebec.

[*Translation*]

**Ms. Annick Papillon (Québec, NDP):** Thank you, Mr. Chairman. I also want to thank the witnesses for having travelled today in order to help us find some solutions together.

Let's talk about the Canadian Innovation Commercialization Program. Can you tell us what criteria might be used to highlight the value of SMEs and what they are offering rather than only considering the lowest bidder?

Could you answer that question, Ms. Pohlmann?

[*English*]

**Ms. Corinne Pohlmann:** Yes.

Some of the criteria we were thinking about include, for example, reputation within the industry for that product, permitting them to go to other clients with the same product to find out whether they have a good reputation, what type of after-sale service might be available, and what the supplier can do.

We have a really good example in the case of a member of ours in northern Alberta who is in a little town just outside of Wood Buffalo National Park. Wood Buffalo National Park is a federal park. At the time, the national park system had a contract with Dell out of Texas. The system in the main office in Wood Buffalo National Park went down. This small company in the town of Fort Chipewyan could have gone in to fix it. They were computer consultants and would have been happy to do it; however, the office had to wait three weeks for someone from Texas to fly up to Wood Buffalo to fix it, because it was on contract. It may have cost a little less, but ultimately they waited three weeks to get it fixed, whereas our member could have done it in 48 hours. It would have cost a little more, but it would have been done.

These are the kinds of things we're talking about. It's about looking, sometimes, at whether there are other things you need to factor into the equation, such as proximity to where the products are serviced and so on. Those are some of the things that are often neglected in the case of these larger contracts.

[Translation]

**Ms. Annick Papillon:** Very well, thank you.

Proximity, and the fact of being able to offer the service or not allows them to examine that.

I would like to know something else. Which OSME requirements cause problems for the SMEs? Perhaps you have some examples to give us of that. We heard from one organization that talked about unreasonable requests for references. Do you have any examples of that type you could share with us?

[English]

**Ms. Corinne Pohlmann:** Do you mean reference requests from OSME?

[Translation]

**Ms. Annick Papillon:** Yes.

[English]

**Ms. Corinne Pohlmann:** Was there a reference request from OSME?

**Mr. Louis-Martin Parent:** I'm not entirely certain.

**Ms. Corinne Pohlmann:** I'm not sure. To my understanding, OSME is there to help facilitate getting people through the contracting process. Our members are not really using OSME in that capacity. We're hopeful that when they do use them they are able to get some of that information from them, but OSME, from what I understand, isn't the agency requiring references. They're just there on behalf of the government trying to facilitate for the small business owner.

[Translation]

**Ms. Annick Papillon:** I want to know whether there are other examples of requirements on the part of the OSME that cause problems for the SMEs when they are bidding. Are there other

unreasonable requirements putting obstacles in the way of the SMEs? Do you have any examples you could share with us?

• (1635)

**Mr. Louis-Martin Parent:** I can mention the case of a requirement having to do with a translation contract. They wanted the company selected to offer a better IT service than the one that is currently offered to public servants at this time. They wanted this service to have more components to it and more functionalities than the one that is offered by the government. Several of our members were interested in bidding on that contract but found that requirement somewhat ridiculous. This was a translation service. They could offer the service, but the other requirements went too far.

**Ms. Annick Papillon:** Do you think that this disqualifies...

**Mr. Louis-Martin Parent:** At the very least, that discouraged some competitors. I don't know if they bid on the contract, that's another question.

**Ms. Annick Papillon:** In a certain way, perhaps.

I also read in the recommendations, that you raised the possibility of reviewing mega-contracts. We saw that some other people had quite plainly proposed the elimination of mega-contracts since they do not advantage SMEs. The idea was to break down the contracts so as to give SMEs a better opportunity. Do you agree with that? Would it be a good idea to break up the mega-contracts?

[English]

**Ms. Corinne Pohlmann:** Yes, we would. We believe, as one of our recommendations and as we have actually been saying for years, that there should be a role—and this could be OSME's—for another group to look at those large contracts and decide whether they really need to be as large as they are.

As I mentioned earlier, in the United States the Small Business Administration does that exact same thing: they look at federal government contracts in the United States to determine whether or not they really need to be as large as they are, and if they don't, it forces them to be broken into smaller components so that there are opportunities for small and medium-sized firms to bid on those contracts. We don't have that kind of oversight here, and we believe it perhaps needs to be established within the Canadian policy as well.

**The Chair:** Thank you, Ms. Pohlmann.

And thank you, Annick. Your time is up.

Scott Armstrong.

**Mr. Scott Armstrong (Cumberland—Colchester—Musquodoboit Valley, CPC):** Thank you for your presentation.

First, addressing the Canadian Federation of Independent Business, we have heard from several witnesses complaints about late payments by the Government of Canada. I understand how that would affect a small business and a medium business more than it would a large conglomerate. But how prevalent is it? Is it an ongoing problem, or is it just something people bring up as one of the reasons not to deal with the federal government?

**Ms. Corinne Pohlmann:** In our survey from 2009, 80% told us that they got payments past 30 days. It was only when we got into the 60- to 90-day category that it dropped to 15% who waited more than 60 days to get payment from government.

It has gotten a little bit better. This is one of the services OSME does: they try to speed up the process of late payments. However, it's still an issue, and it seems unbelievable to us that in this day and age the federal government is still delaying payments to small and medium-sized companies that are dependent on that kind of money coming in, especially after they have delivered the service.

We continue to believe that this is an area that could be cleaned up fairly easily, but for whatever reason it continues to be a factor. It is an issue; it has come down on the list. Back in 1996 I think it was the second or third issue from our membership. Now it's down to about eighth or ninth. But it is still something that many of them are facing.

**Mr. Louis-Martin Parent:** Can I add something to that?

To Corinne's point, it has gone down quite a bit, and to OSME's credit they have worked on it.

We attended a round table last week hosted by OSME on promoting discussions between the supplier community and the government. Let me just give an anecdote. There was a lot of discussion on strategic-level stuff as to different issues and what not, but there was one business owner who stopped the conversation cold, saying, "Late payment is a serious issue for me as a business owner, and for people in my industry as well."

So it may have gone down, according to our numbers, but it still is a serious issue when it happens to our members.

**Mr. Scott Armstrong:** Right.

So if OSME were to disappear, as the member across the table suggested, a result could be that the late-payment issue might actually grow and go back in the wrong direction?

**Ms. Corinne Pohlmann:** Yes, that could be, because it is one of the services they provide and it is one of the areas that we send our members to them to help resolve.

**Mr. Scott Armstrong:** Thank you.

I'm going to switch gears.

Ms. Scarborough, I'm struggling with understanding exactly how your operation works. Could you give me a specific example of the process of one company—you don't need the name of the company—to get funding from the angel network, a success story, if you would?

• (1640)

**Ms. Michelle Scarborough:** Okay.

The way a company approaches angels is at the local level. Our organization, as the National Angel Capital Organization, brings the network together. But when a company is outsourcing angel capital, they are doing it in their home town first. Then they would come to the National Angel Capital Organization if they needed either of two things: one, the angel who has made an investment in them wants to co-invest with others or they are looking for an increased amount of capital; or two, they want to spread the word about their business and

want angel co-investment from across the country or from specific angel groups that have expertise in their area.

Just to differentiate, those are the two reasons why a company would come seeking angel investment. That company would seek angel investment at the start-up or early stage of their business, when they're typically looking for \$150,000, \$250,000, \$500,000, \$1 million. That's how the angel investment process works.

A success story for an angel investor would then be... I'll give you an example, my own example. I made an investment of \$150,000 into a company. That company was in a very competitive space. I and the angel investors I was working with identified some key customer targets for that company; we drove the entrepreneur to achieve on the sales results. That company achieved about \$25 million of sales and subsequently was sold. The founder of that company has become an angel investor, and a serial entrepreneur is now doing it the second time.

So if you want it to come full circle, that would be the success.

**Mr. Scott Armstrong:** Great. Thank you.

You talked about how a lot of these companies, even if they have a very successful product, or will have a successful product, have trouble getting that first client, that first high-profile client. Can you tell us how pivotal it is for these companies to get the Government of Canada procurement contract as their first? Does that really give them a leg up on the whole industry?

**Ms. Michelle Scarborough:** Let's talk about it in the context of a company that is going to be making a product or has services specific for the government, such as a software enterprise solution. Let's use that as an example.

If a company has the Canadian government or an agency of the Canadian government as its first or second customer, that pays huge dividends to that company's then being able to go out and use that reference client to secure further clients, particularly in the international marketplace as opposed to a very small firm looking in their backyard.

Think about it in terms of the ability to scale. If I'm a company and I have a large contract with a large customer, and I can prove that my technology works, is secure, and is meeting the needs of that customer, then I can secure larger customers on a global scale. I can grow faster and actually scale my business faster as a result.

**The Chair:** Thank you, Ms. Scarborough.

**Ms. Michelle Scarborough:** [Inaudible—Editor]

**The Chair:** We're well over time. That's very interesting. Maybe you can add to that in answers to subsequent questions.

The next questioner for the NDP is Mathieu Ravignat.

[*Translation*]

**Mr. Mathieu Ravignat:** Mr. Chairman, if possible, Alexandre Boulerice and myself are going to share our time. Alexandre would like to begin.

[*English*]

**The Chair:** Certainly, you can use your five minutes however you like.

[*Translation*]

**Mr. Alexandre Boulerice:** My question is for Ms. Scarborough.

I'd like to understand your business's activities better, to better understand your investment fund. When an entrepreneur tries to go into business by creating an SME, he is using his own funds, his savings, he calls on his family and his friends. He may also go to a chartered bank. I am talking here about the big banks that everyone knows. He may also go to the Business Development Bank of Canada, a parapublic organization whose mandate is to support SMEs and grant them loans. I think that there is a graduated approach to risk. The BDC takes more risks, of course, than a chartered bank.

Would you say that you take more risks than the BDC when it comes to SMEs and small investors? If that is the case, do you ask for a better return on the capital you invest?

[*English*]

**Ms. Michelle Scarborough:** I think we're talking about apples and oranges here. Let me reiterate what the organization does.

If we're talking about the National Angel Capital Organization, it's an organization that represents angels across the country. That doesn't mean the organization makes investments. The angel investors make investments. We have nothing to do with that. That is not the role of the organization. We will help those angels identify ways to develop best practices around how to make those investments, but we do not get in the way of their making investments. That's an individual and/or angel group decision that is totally independent of the National Angel Capital Organization specifically. I hope I'm clear with respect to that.

As it relates to BDC, BDC's role is to be the bank for entrepreneurs and to facilitate that through its lines of business. Angels work complementarily with BDC. We have a very good working relationship with the BDC at the National Angel Capital Organization level. And BDC is forging great relationships with angels across the country through a variety of mechanisms they are employing. So I would suggest we are becoming very good partners—BDC, the National Angel Capital Organization, and the angel members of the organization.

•(1645)

[*Translation*]

**Mr. Alexandre Boulerice:** Thank you.

[*English*]

**Ms. Michelle Scarborough:** I hope that answers your question.

[*Translation*]

**Mr. Mathieu Ravignat:** The vast majority of businesses have been dealing with the government for over five years. One question was raised at the last meeting. On the topic of challenges, the fact was mentioned that the name of some SMEs was not recognized, nor did they get the opportunity of offering services to the government.

According to the CABiNET:

Government officials, when researching solutions, will often go to the recognized brand names rather than seek support from smaller Canadian suppliers—even from those that specialize in the very areas where the expertise may be sought. Bureaucrats are not forced to seek out innovative solutions that could be provided by SMEs. They find it easier to revert back to the old and known entities such as the large companies.

Do you share that perception?

[*English*]

**Ms. Corinne Pohlmann:** Yes, we would, absolutely. It's my understanding that even the procurement ombudsman has reported that there are 12% fewer federal suppliers than there were four years ago. Most of those are probably smaller companies, I would suggest to you.

As contracts got bigger, that pushed out smaller firms. It's a problem when RFPs that you have to fulfill get thicker, when you feel like you're duplicating information, when you can't ask the end-user a technical question, and when the person who is intervening can't answer your question.

When you come with an alternative approach that is a little bit different than what the government is asking for, you're told that you're no longer eligible because you're not in this criteria. Those are all things that have been happening in the real world that make small businesses say it's not worth it.

**The Chair:** You have 30 seconds, if you have a brief question.

[*Translation*]

**Mr. Mathieu Ravignat:** It's difficult to know whether the same names, the same big businesses come back all the time. Do you think the government should prepare a report on that? Do your members have access to that type of information? As for the companies that are overused—do you think there should be more transparency?

[*English*]

**Ms. Corinne Pohlmann:** Yes, one of the areas of data that we'd like to see more of is exactly that. How many are repeat users, what percentage are repeat users, and what percentage are new companies that have never been used before? As you know, companies sometimes change names, or they are divisions of other companies, so when you look at the current list, it's often difficult to determine whether it's actually a new company or it's just a division of a company that has already done business with government.

I think that's the sort of data we're talking about. We'd like to see it a little bit more fleshed out to understand what we are dealing with. It seems to be a real drop, and why is that happening?

Yes, definitely, we'd like to see more transparency and understanding of who the government is dealing with. So we would agree with that.

**The Chair:** Thank you, Ms. Pohlmann.

That concludes your time.

We now go to Ms. Kelly Block.

**Mrs. Kelly Block (Saskatoon—Rosetown—Biggar, CPC):** Thank you very much, Mr. Chair.

I too thank you for being here today.

Last week was small business week, so we had an opportunity to recognize the hard work and dedication of small businesses and entrepreneurs, and how much they invest in and contribute to our economy. I want to make sure that my question is received in the spirit in which it's intended in terms of supporting small business.

I want to get to the recommendation you made in your presentation regarding reviewing mega-contracts to determine if they're necessary. I know this addresses the whole issue of bundling. It is my understanding, though, that sometimes large contracts are awarded and that small to medium-sized businesses may still yet be subcontracted by those larger contracts.

Why does it matter if a small to medium-sized business is the successful bidder at the front end or they're subcontracted by one of the large companies that win the contract?

You mentioned that there is an office in the United States that takes a look at whether or not these mega-contracts can be separated. What are the criteria they would use to do that?

Those are my two questions.

• (1650)

**Ms. Corinne Pohlmann:** On the first question, certainly there is evidence that subcontracting happens. It is primarily in the construction industry, however. The amount of goods and services the federal government purchases in a year are \$15 billion. I think some of that should be accessible in a fair and equal way to small and medium-sized companies as well. They shouldn't only be subsumed to big subcontractors and larger companies.

Part of that is, as we are talking about today, to encourage growth of entrepreneurship. We believe, of course, that the federal government, through its procurement program, cannot only push innovation, but it can also push entrepreneurship. The only way you can do that is if you make sure those contracts are accessible to companies that want to bid.

I don't want to say it's happening all the time, but there are instances where these bundling contracts are coming out, and we're not really sure why they've decided to sort of bundle them together as they have. We have seen anecdotally over and over again that it doesn't necessarily mean the government is going to save money in the end. I think that's the answer to your first question.

I'm not 100% sure what criteria the U.S. use, but we can look into it and get back to you. My understanding is that they basically take a look at the type of product, commodity, or service available, and whether it can be delivered by smaller companies as well. So they

look at what's out there in the market and whether it is something that can only really be delivered by maybe two or three large companies. Defence contracts are the ultimate example. Generally those have to be big. There are only so many companies that can actually bid on them.

A few years ago there was bundling of office furniture contracts. There was bundling of office products. These are things that don't necessarily have to be bundled. There are lots of companies across Canada that are capable of delivering those types of services. I think that's what we're talking about. It's about looking at what the market can deliver. If there are smaller companies out there that can deliver it, then it makes more sense to perhaps try to break it up a little bit.

**Mrs. Kelly Block:** Ms. Scarborough, do you have an answer for either of those questions?

**Ms. Michelle Scarborough:** I think the bottom line is that you've got to understand the whole process by which procurement happens. As far as bundling goes, I agree that in certain cases where there is a large contract you could set up a system. I don't know how you would do it, but you could set up a system whereby a large company works with several small- or medium-sized enterprises to collectively bid on the contract. You could set up a system that effectively does that, and that may be part of the solution.

In addition, if there are efficiencies in the government process by which companies can bid and be successful, at least in the bidding process, then that may affect the desired outcome of those companies having the ability to have the government as a customer.

**Mrs. Kelly Block:** Okay.

**The Chair:** You have 30 seconds, Kelly.

**Mrs. Kelly Block:** No, that's it.

**The Chair:** Okay, thank you very much.

For the Liberals, John McCallum, it's your turn again.

**Hon. John McCallum:** Thank you. I have one remaining question.

Are you aware of how this agency, the U.S. Small Business Administration, functions, or anything about it?

**Ms. Corinne Pohlmann:** They're basically the oversight body of the federal government in the United States to make sure that policies concerning small business are being applied across the federal government. There are things like a regulatory accountability act that takes effect among various government departments in the United States to look at the impacts on small business.

They administer those types of things. Plus, they do a lot of research on small business in the United States.

• (1655)

**Hon. John McCallum:** Given, as I described, your lukewarm view on OSME, I'm wondering whether there are any lessons for how OSME could be improved, either from what they do in the U.S. or other countries...

**Ms. Corinne Pohlmann:** Absolutely. We have been advocating for this idea of perhaps having OSME be the body to look at the bundling project, for example, making sure the contracts aren't too big and advising departments that they need to cut them back.

We are trying to use that as an example of how we can perhaps improve on making procurement more accessible for small firms in Canada.

**Hon. John McCallum:** Do you mean how you can use your knowledge of what they do in other countries?

**Ms. Corinne Pohlmann:** Well, specifically in the United States. I have less knowledge of other countries.

**Hon. John McCallum:** Okay. So if we're interested in how OSME should be improved, we should look partly to the U.S. experiences.

**Ms. Corinne Pohlmann:** In that particular area, yes.

**Hon. John McCallum:** Okay.

**Ms. Corinne Pohlmann:** There are other parts of the United States I would suggest perhaps not looking into.

**Hon. John McCallum:** Okay, thank you very much.

That's it.

**The Chair:** Thank you, John.

We have one speaker left in this round: Ron Cannan.

**Mr. Ron Cannan (Kelowna—Lake Country, CPC):** I'm the cleanup hitter for the end here.

Thank you to our witnesses, and thank you, Mr. Chair.

We've heard lots of interesting comments on this study on the effectiveness of the Office of Small and Medium Enterprises and the Canadian innovation commercialization program.

CFIB, we appreciate the work you do. I'm a former small business owner, and I say every week is a small business week. Every day, the moms and dads and the entrepreneurs hiring more employees keep our country moving and growing.

There are a couple of specific issues we're looking at from the comments you've put forward here. One of them is procurement, the aspect of procurement for economic development opportunities in creating jobs and growing our economy.

I was interested in reading the survey, and one of the comments from one of your members referred to MERX. It said, "There should be better description or preview and preference should be given to Canadian owned businesses, after all, it is Canadian tax dollars paying for these contracts."

Is that the position of CFIB?

**Ms. Corinne Pohlmann:** Our position on that has been that we need to have a debate about it. We know we have free trade requirements around the world, and we are big advocates of encouraging free trade. However, there have been a number of instances where Canadian firms feel like they are being shut out because of the low-cost component of a lot of the contracts that are coming forward by international bidders.

There's one great story of a member of ours who does promotional products and used to provide what tended to be very small contracts to a variety of government departments. He had a contract—I think it was at Agriculture Canada—where they actually had to have a bag that had Canada logos all over it. He'd been doing this contract for a

number of years; he lost it recently to a Canadian company, but it was being manufactured in China. He was manufacturing in Canada. Basically, as part of that, in the final product that he eventually saw, they were told they could take out the "Made in China" logo in the bag. It was supposed to be a Canadian product, but ultimately it was manufactured in China.

So he felt a little bit.... The fact is it was actually made in China, but Agriculture Canada was allowed to take that labelling off and have the product look like it was made in Canada, even though it was actually made by a Canadian company that had it manufactured in China.

Those are the types of struggles that our members are facing. They feel they're creating jobs, and keeping jobs, in Canada and paying taxes in Canada, and they feel sometimes they are competing with these companies that are perhaps in other countries, and the company leaves the country.

Our position, as I said, is that I think we need to have a debate about that. We're not necessarily advocating either way, but it is something that comes up from our membership every once in a while. But we also understand the need to make sure that we provide opportunities for our businesses in other countries as well, so we don't want to necessarily shut that opportunity off either.

**Mr. Ron Cannan:** I appreciate your support for our trade initiative as well. As a member of the trade committee for the last five and a half years, as you know, we have nine more trade agreements, and we continue to grow the business opportunities outside of the United States. They will still be our biggest ally, but it is a balanced approach, and I appreciate that candid response.

Specifically to the CICIP process, one of the comments you make is that the negative aspect is that government picks winners and losers. Do you have a recommended process or an alternative selection process?

**Ms. Corinne Pohlmann:** Well, it's always tough, and on this one I have to say that we haven't made our final decision on CICIP either because we'd like to see what the outcomes are. And we are pleased that it's not a direct subsidy because that would have been more difficult for us. Rather it's just paying for the testing, which we think is a better approach.

But we are concerned, of course, always. It's always risky when governments get into this game of picking the winners and losers. From my understanding—and I'm not super knowledgeable on the program—it does seem that they tried to take it independently to NRC and have them go through the whole process for them. However, ultimately, somewhere down the road we get calls from a member who is just off the list, or their competitor got in and they didn't. This is the part where it can be a bit more troublesome as to who gets it and who doesn't. And governments...should they be in that game, is always a question.

● (1700)

**Mr. Ron Cannan:** I have one quick question to Ms. Scarborough.

I appreciate the great work of you and your angelic partners across the country. I represent an area in central Okanagan, in B.C. We have a very entrepreneurial, high-tech, tourism, venture capitalist, very flourishing portion of our industry. Accelerate Okanagan is a new incubator that's just recently come together and is bringing those ideas collectively.

I just wonder, from your members, do you look at taking an equity position on some of your deals, or is it mostly just lending of capital?

**Ms. Michelle Scarborough:** Angel investment is all about equity, typically. There are angels that like convertible debentures. But any of the deals I've done as an angel investor, if I use myself specifically, have all been equity, typically not on the convertible debenture side.

There are ways in which angel investors will go into certain investments depending on the risk, depending on the team, depending on the technology and the stage of innovation that it's at. Are they commercial or are they not? So they as individuals and as part of a group, if they're operating as part of a group, will make decisions as to how they want to run the term sheet and how they

want to make their investment predicated on a number of those factors.

**Mr. Ron Cannan:** Just remember buyandsell.gc.ca. We've got to get that out there as much as we can.

Thank you very much.

**The Chair:** All right. Thank you, Ron.

Thank you to both of our witnesses. That concludes our second round, and I believe there is no other interest in questioning, so if either of you have any closing remarks, we would welcome that.

Failing that, we'll just thank you both for giving up your time today to be with us. We found your presentation very useful and very valuable. Thank you very much for being with us today.

**Ms. Corinne Pohlmann:** Thank you.

**The Chair:** With that, I'm going to suspend the meeting for one minute. Then we have one item of committee business, so I'll ask the members to stick around.

*[Proceedings continue in camera]*

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