

Enabling and Protecting the Next Generation of Entrepreneurs

Issue

While there is no minimum age for owning shares in a business, individuals under the age of majority (19-years of age in Canada) cannot incorporate, meaning they can't sign contracts or legal documents on behalf of the company, and they cannot be an officer or director of their own company. These youth must rely on multiple guardians, parents and/or trusted advisors willing to do so on their behalf. By limiting the ability for budding young entrepreneurs to guarantee certain protections for their ideas and businesses, these restrictions are at odds with the provincial and federal emphasis on promoting entrepreneurship and small business as an economic driver.

Background

Today's youth are an increasingly likely group for entrepreneurship as they look towards self-employment as a viable career option. With a significant chunk of future businesses starting out of apartments, basements, or garages at a very young age, particularly as technology facilitates the accessibility and ease with which individuals can start their own company, there is a need to ensure that Canada stays at the forefront of the industry and opens doors where possible for innovation to thrive.

Taking their cue from the Mark Zuckerbergs of their generation, more and more entrepreneurial-minded youth are taking risks to start their own companies. In B.C., at the age of 16 based out of Burnaby, Milun Tesovic established himself as one of Canada's youngest entrepreneurs by starting the online music website Metrolyrics, which soon became the #1 online lyrics website in the world with 126 million page views per month and eventually sold to American media conglomerate CBS. But first, he had to bring onside a trusted family friend as a business partner because he couldn't legally do it on his own. At the age of 15, Albert Cherng started the Tech Easy Foundation, a non-profit society that provides technology education for seniors. Albert recently received the BC Youth Social Innovation Award and Tech Easy has helped over 1000 senior citizens across 40 communities and recruited over 200 high-school volunteers. Yet in order for all this to take place, Albert had to convince his parents to start and govern a society on his behalf. How many other brilliant youth are we excluding by not making a more accessible and protected mechanism for youth to create great organizations such as these?

In a survey conducted by EY, 65% of young people aged 18-25 indicated their desire to start their own business.¹ The 2017 Expert Panel for the Federal Government's Youth Employment Strategy (ages 15-29) found an increasing trend towards recognizing entrepreneurship as a viable career path. In order to help our youth succeed as entrepreneurs, there is a growing movement of initiatives and organizations supporting youth entrepreneurship projects in high school and elementary. These programs create real-world projects for youth to help them learn entrepreneurial skills and competencies at an age when they readily develop curiosity, courage, an ability to overcome fear of rejection, critical and creative thinking, resiliency, and more. Examples in Canada include Young Entrepreneur Leadership Launchpad (YELL Canada), Junior Achievement, Tinypreneur, PowerPlay, and StartupSkool. Combined with recent shifts towards project-based learning for students, we will see more youth designing business ideas at a young age and hungry to get them going in real life. This is a problem that organizations like YELL Canada come across frequently, with innovative and visionary 15-19 year olds hungry to start a business, but feeling frustrated because they can't do so.

Despite the growing momentum, youth under the age of majority can't incorporate, and are limited from participating in the strategic direction, governance, and management of a company. The only option they have is through limited participation as a shareholder (where they pick their own boss and directors), or by registering as a sole proprietorship (usually after the age of 15) and taking on full liability and risk. Workarounds leave youth exposed to various risks and/or decrease their ability to set the direction of a company. Parents can become a director but they may lack the requisite understanding of how the business works, in which case a professional who does

¹ <http://www.ey.com/gl/en/services/strategic-growth-markets/center-for-entrepreneurship-and-innovation---job-creation-youth-entrepreneurship-survey-2015>

understand the business would need to be brought on board. But either option leaves youth and their ideas vulnerable due to a lack of IP/patent protection and the risk that the company is stolen, sabotaged, or participation is hindered. The option of not incorporating or operating as a sole proprietorship under the age of majority is similarly challenging, since, without the ability to enter into contracts, other business owners and customers are dangerously exposed financially and legally.

Evidently, it is time to come up with a viable solution that allows business owners under the age of majority to participate meaningfully in their own company while also ensuring that the proper protections are in place for these youth and the general public. There are a number of options that could be considered:

- Establishment of a national foundation or shared-platform entity that assumes sign-off responsibilities for all activities while temporarily absorbing a youth-led organization or initiative until full transfer is given to the youth upon reaching the age of majority (e.g. the shared platform process pioneered by Tides Canada Foundation that temporarily absorbs new projects that cannot yet support a full stand-alone charitable structure);
- Separate incorporation structure under the Corporations Act for a full or partial youth-led corporation (e.g. Community Capital Corporation in B.C.);
- Provision for up to a certain percentage of board of directors seats to be controlled by youth under the age of majority;
- Lowering the age of majority for incorporation with certain levels of oversight and protection put in place; OR
- Trustee takes on a proxy role as director or signing officer until such time as the youth reaches the age of majority.

Despite a growing emphasis on spurring entrepreneurship and creating opportunities for Canadian youth, self-employment among individuals aged 15-24 stood at 11,400 in 2015, representing a decline of 9.5% from 2010 levels.² If more billion dollar companies are to be started by young entrepreneurs here in Canada, and if we want to retain young entrepreneurial talent, we need to ensure our youngest and most ambitious youth are given the tools and protections to succeed.

Recommendations

That the federal government, working with the provincial and territorial governments:

1. Create a vehicle to allow entrepreneurs under the age of majority to more fully participate in the management and governance of a company;
2. Investigate options to ensure the appropriate level of protections are put in place for youth and the public, with an emphasis on working with insurance providers on D&O insurance options;
3. Based on level of participation and protection (if not full participation), a mechanism to transition at age of majority.

² http://www2.gov.bc.ca/assets/gov/employment-business-and-economic-development/business-management/small-business/sb_profile.pdf (see: page 37)