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Empty Seats: Why Labour Shortages Plague Small and Medium-Sized Businesses and What to Do About It

SMEs are facing labour woes that limit their growth prospects and affect their access to capital. Mitigating their labour shortages would not only improve their competitiveness but also create jobs and economic growth, improving the living standards of all Canadians.

Parisa Mahboubi and Tingting Zhang



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EMPTY SEATS: WHY LABOUR SHORTAGES PLAGUE SMALL AND MEDIUM-SIZED BUSINESSES AND WHAT TO DO ABOUT IT

by **Parisa Mahboubi and Tingting Zhang**

- Small and medium-sized enterprises (SMEs¹) play a vital role in job creation and economic growth. Their contribution to Canada's gross domestic product was, on average, 53 percent a year between 2014 and 2018. Canadian small and medium-sized businesses employed 14.3 million workers in 2022, representing 84 percent of all employees.²
- However, Canadian SMEs often report that they face hiring challenges that limit their growth prospects and affect their access to capital. And SMEs' labour shortages have worsened post-pandemic. Nearly two-thirds of small businesses (63 percent) cited a shortage of qualified candidates as the primary cause of their labour woes (CFIB 2021).
- This *Commentary* analyzes the severity and causes of labour shortages in Canada post-COVID, and highlights the importance of addressing wage mismatches to remain competitive in attracting and retaining employees. The study also provides recommendations to mitigate labor shortages through complementary strategies such as optimized utilization of immigration, better human resource practices, and more investment in automation, highlighting the roles that both employers and governments can play.

INTRODUCTION AND OVERVIEW

Labour shortages occur due to several factors such as wage-level disparities, a dearth of candidates, qualification and skills mismatches, demographic shifts and disruptions in the job market. In response, Canadian businesses tend to primarily consider short-term and less costly solutions (Fang 2009), resisting the need to sufficiently improve wages and benefits and invest in productivity-improving technology and training.

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- 1 Consistent with Statistics Canada's definition, we consider businesses with one-to-99 paid employees as small and 100-499 paid employees as medium-sized.
 - 2 See Statistics Canada Table: 14-10-0068-01.

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Regardless of the cause, labour shortages should theoretically lead to an increase in wages, much like any market experiencing excess demand. Increasing wages helps address shortages in two ways. On the one hand, it encourages participation and increases the labour supply. On the other hand, higher wages increase the cost of inputs and lower the demand for labour, or they encourage businesses to consider less costly strategies to address their labour needs.

However, in Canada the overall trend in real-wage growth has showed little signs of labour imbalances until recently (Leung and Macdonald 2022). Some small businesses have tried to address labour shortages by raising wages. However, nearly half of those who boosted wages found this strategy to be ineffective (CFIB 2021). One explanation for this could be the inadequacy of wage increases.

Meanwhile, a significant contributor to labour shortages is the mismatch between what job seekers expect (also known as reservation wages, i.e., the lowest acceptable wages) and what employers offer.

According to Statistics Canada (2022), reservation wages on average in the first quarter of 2022 exceeded offered wages in specific industries with high job vacancies. This disparity was particularly pronounced in lower-paying sectors such as retail and accommodation and food services.

In such a scenario, a job seeker or an employee would transition from a lower-paying job or industry to one that offers higher wages and better working conditions (e.g., remote working options). According to Statistics Canada, the recent shifts in the distribution of average hourly wages toward higher-paying jobs have indicated a change in the employment composition.³

Compared to large businesses, SMEs find tackling labour shortages more challenging. They have relatively limited financial and human resources and are, therefore, at a competitive

disadvantage in attracting, training and retaining employees. Nevertheless, they must somehow address wage mismatches to remain competitive. For example, small businesses can leverage government wage-subsidy programs to raise wages. They also need to consider other means to mitigate their labour challenges in the short and long term.

EXTENT OF LABOUR SHORTAGES

To assess the extent of shortages and their underlying causes, we start with the demand side of the labour market by presenting employers' experiences and responses. Then, we evaluate key indicators and the supply side of the market to identify where there are gaps.

According to the Bank of Canada's Business Outlook Survey in Q4 2019, nearly one-third (31 percent) of SMEs said that labour shortages have restricted their ability to meet demand.⁴ The COVID-19 pandemic exacerbated labour shortages by negatively affecting the labour supply in several ways. They were: increased absenteeism as people contracted COVID-19, parents withdrawing from the labour market due to childcare and school closures, fewer available immigrants and temporary foreign workers due to border restrictions, and workers transitioning from sectors heavily impacted by public-health measures to other industries.

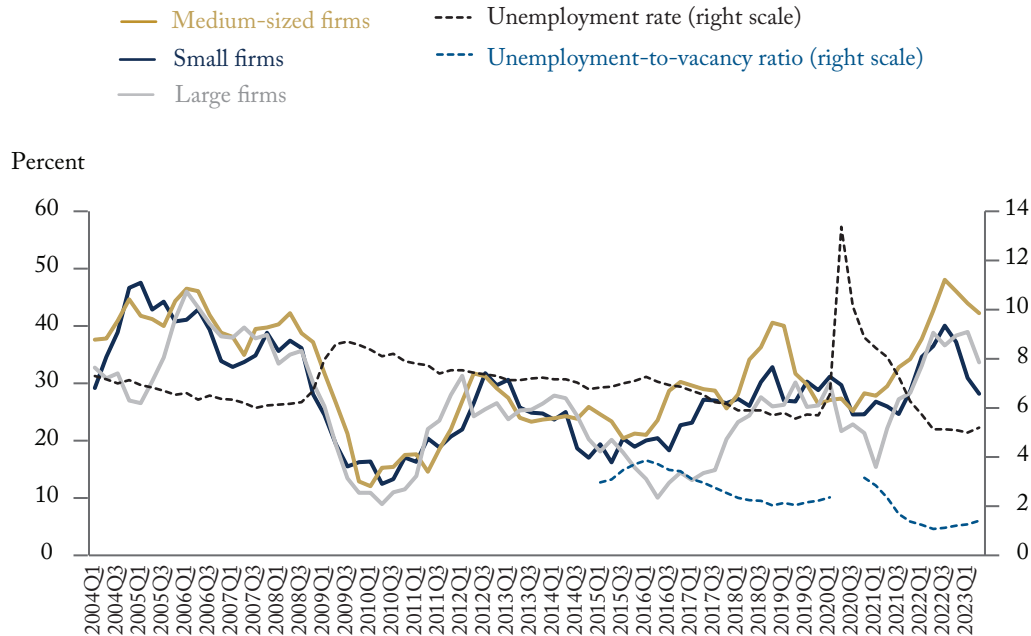
While many SMEs faced revenue declines and increased expenses at the beginning of the pandemic, resulting in layoffs and business shutdowns (Leung 2021), it is noteworthy that the share of SMEs experiencing a labour shortage declined only slightly despite the unprecedented increase in unemployment at the time (Figure 1).

With fits and starts, the economy eventually returned to normal as restrictions were lifted and employment returned to pre-pandemic levels. In

3 For further details, see Labour Force Survey (3701), table 14-10-0317-01 and <https://www150.statcan.gc.ca/n1/daily-quotidien/220506/cg-a004-png-eng.htm>.

4 It is worth noting that the Bank of Canada's Business Outlook Survey is based on only about 100 interviews.

Figure 1: Unemployment Rate, Unemployment-to-vacancy Ratio and Business Labour Shortages by Firm Size



Note: Labour shortages show the share of firms in the survey with any labour shortage that restricts their ability to meet demand.

Sources: Statistics Canada, Tables: 14-10-0287-01 and 14-10-0400-01, and Bank of Canada Business Outlook Survey: 2004Q1- 2023 Q2.

line with rising inflation, businesses expanded and increased the demand for labour since prices were growing faster than wages. According to Statistics Canada, job vacancies increased to a historical high in Q2 2022, exceeding one million. With record low unemployment rates (4.9 percent in June and July 2022), the unemployment-to-job vacancy ratio dropped to its lowest-ever level (1.1). Consequently, jobs stayed vacant for longer, with more than one-third (38 percent) of job openings remaining unfilled for 90 days or more in Q3 2022. Meanwhile, the labour-shortage intensity indicator

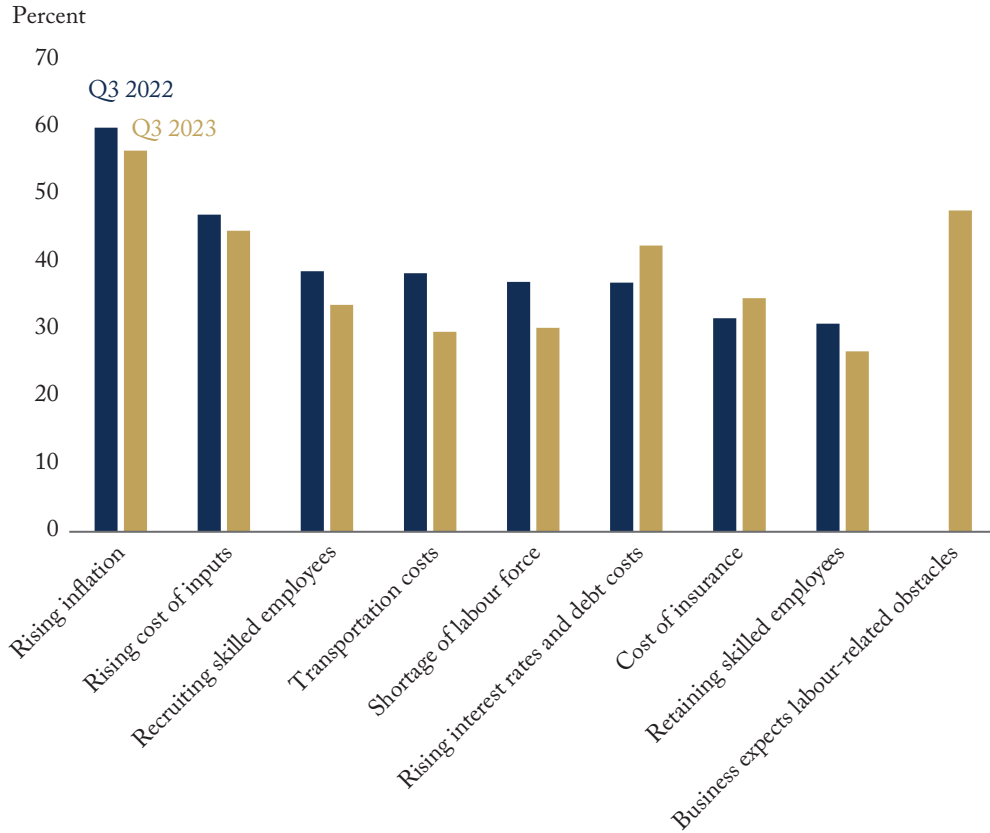
worsened from 25 in Q4 2019 to 66 in Q2 2022 (Bank of Canada 2022).⁵

More than half of SMEs post-pandemic reported struggling with labour shortages (BDC 2022a, CFIB 2022) amid a tight labour market. CFIB (2021) found that nearly two-thirds (63 percent) of their members were not able to find staff with the right skills or experience while more than half (52 percent) said they received no applicants at all.

As shown in Figure 1, the post-pandemic share of businesses of any size with labour shortages

⁵ The labour-shortage intensity indicator is the percentage of firms reporting more-intense labour shortages minus the percentage reporting less-intense shortages.

Figure 2: Top Expected Business Obstacles



Notes: Expected business obstacles refer to obstacles that businesses at the time of the survey expected to face in the following quarter. Business labour-related obstacles is a new category added to the list of challenges in the survey for the third quarter of 2023.

Source: Statistics Canada, Tables 33-10-0689-01 and 33-10-0534-01.

elevated significantly in the second quarter of 2022 and reached a new high among medium-sized businesses in the third quarter of 2022. Unsurprisingly, this happens when there is only one unemployed person (1.1) for every job vacancy.

According to the Canadian Survey on Business Conditions, in the third quarter of 2022, nearly two-thirds (62 percent) of businesses, regardless of their size, reported that recruiting and retaining staff had become more challenging compared to the previous year. Some 39 percent of all businesses

anticipated that recruiting skilled employees would be an obstacle in the next three months, ranking as the third most significant business challenge following rising inflation and input costs (Figure 2). Confronting labour shortages and retaining skilled employees were also expected to pose obstacles for 37 percent and 31 percent of businesses in the third quarter of 2022. Notably, all these labour-related challenges impact businesses more as their size increases. For instance, labour shortages or challenges in recruiting skilled labour were expected

to impact about one-quarter of small businesses with one to four employees, while some 60 percent of businesses with at least 20 employees anticipated facing these issues.

Comparing labour-related challenges in the third quarter of 2022 with the same quarter in 2023 (Figure 2) illustrates that in 2023, the share of all businesses expecting recruiting skilled employees, labour shortages and retaining skilled employees to be obstacles declined by five, seven and four percentage points, respectively. However, it is worth noting that approximately one-half of all businesses still anticipated labour-related obstacles – a new category added to the list of challenges in the survey.

One way to address labour shortages is to increase wages, which would increase the cost of inputs. Since input costs are already a major obstacle for about half of SMEs, it can lead to a reduction in demand for labour or encourage businesses to consider different strategies to address their labour needs.

According to CFIB (2021), 82 percent of small businesses experiencing labour shortages reported increasing wages in response. However, nearly half (47 percent) found the increase ineffective. Of those, nearly half said they still received no qualified or no applicants at all after wage increases, and others mentioned the wage gap between what they could offer and applicants' expectations was too wide to close.⁶

These findings imply that the magnitude of wage increases and the wage level make a difference in recruiting workers, and the disparity between the job seekers' reservation wages and the wages offered can be a reason for not receiving any applicants.

Businesses also responded to labour shortages by extending the working hours of management and existing staff.⁷ However, should this lead to

overwork, it impedes productivity and efficiency and has adverse effects on employees' mental health. This vicious cycle, in turn, can lead to difficulties in retaining employees and exacerbate labour shortages.

However, the share of businesses with labour shortages has trended downward since the fourth quarter of 2022, and the unemployment-to-vacancy ratio has slowly risen, reaching 1.4 in the second quarter of 2023. This trend is likely due to high immigration and rising interest rates to reduce inflation that affect both the supply of and demand for labour.

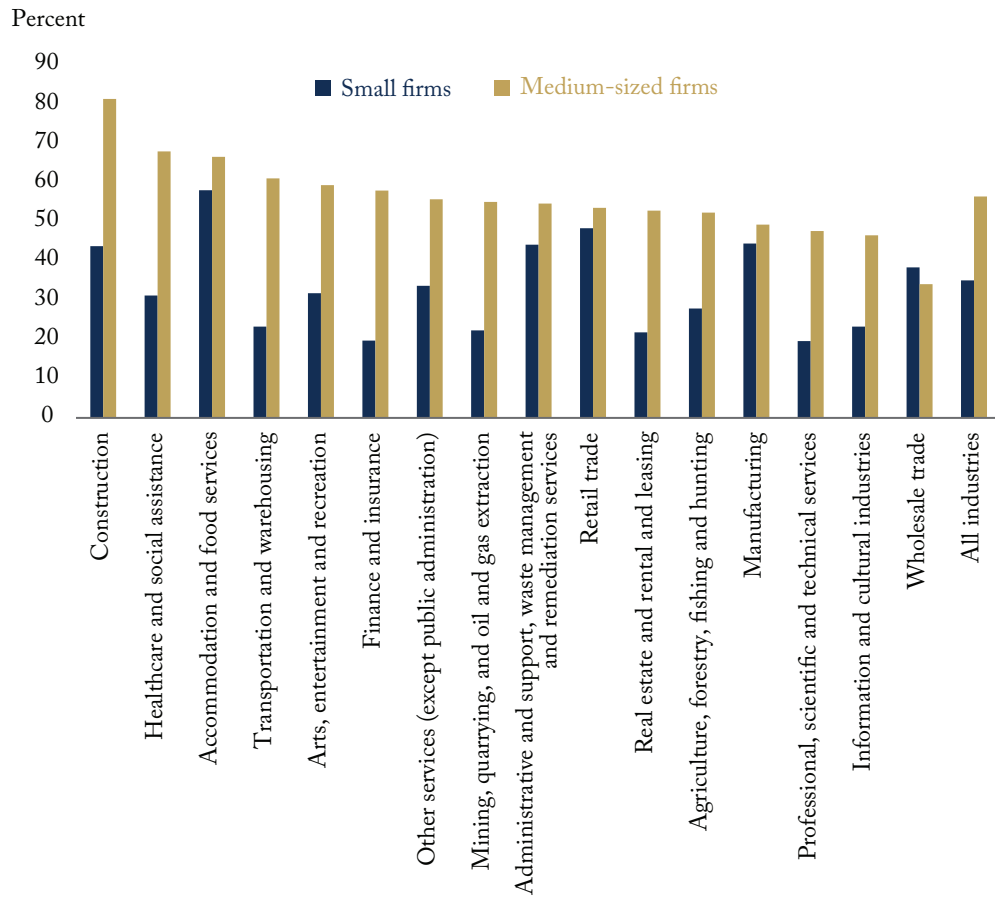
According to Statistics Canada's Canadian Survey on Business Conditions, expected labour shortages varied significantly across industries and business size in the fourth quarter of 2022 (Figure 3). Among medium-sized businesses, labour shortages were widely cited as an obstacle over the next three months in construction (81 percent), healthcare (68 percent) and accommodation (67 percent). For small firms, the top three industries that expected a labour shortage obstacle were accommodation (58 percent), retail trade (48 percent) and manufacturing (44.5 percent).

Expected labour shortages also varied across provinces and were more severe among medium-sized businesses. However, a low unemployment rate seems not to be the only reason for labour shortages. For example, in Q4 2022 the unemployment rate was lowest in Quebec (4 percent), which nevertheless had the highest share of small businesses (44 percent) reporting labour shortage as an obstacle in the coming months. Nova Scotia, on the other hand, had the largest share of medium-sized businesses facing a labour shortage (76 percent) but had a significantly higher unemployment rate at 6.3 percent (Figure 4). Interestingly, Newfoundland and Labrador had the

6 In another section below, we explain the contributing factors to labour shortages and when increasing wages might address this situation.

7 See Statistics Canada Table 33-10-0668-01.

Figure 3: SMEs with an Expected Labour Shortage by Industry and Business Size, Q4 2022



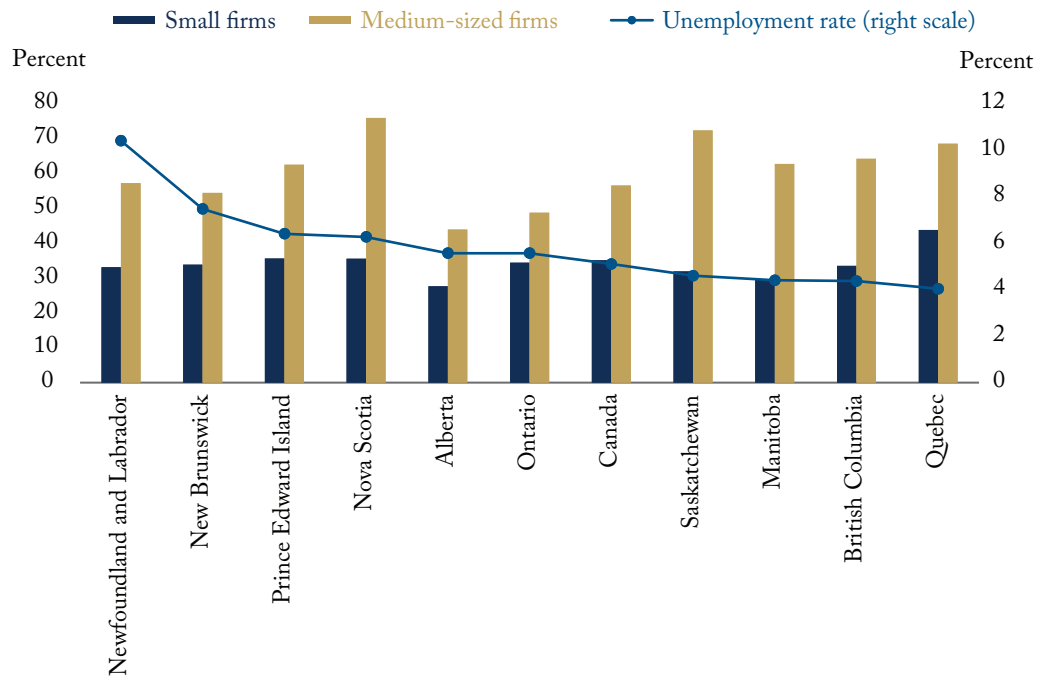
Note: An expected labour shortage refers to a shortage that businesses at the time of the survey expected to face in the following quarter.
 Source: Statistics Canada. 2023. Special tabulations, based on Canadian Survey on Business Conditions, fourth quarter of 2022.

highest unemployment rate (10.4 percent) and sat somewhere in the middle, with 33 percent of small firms and 57 percent of medium-sized firms facing a labour shortage, respectively. These observations suggest that labour shortages are driven by more than a lack of labour and low unemployment rates. Other factors might be at play, requiring different responses and solutions to tackle shortages.

EXPLANATIONS OF LABOUR SHORTAGES

Labour shortages occur when there is an insufficient supply of workers to meet the demand for jobs in a particular industry, region or skill set at the market wage. Not all shortages are driven by the same factors. Demographic shifts, skill mismatches, changes in worker preferences and barriers to labour mobility can all contribute to shortages. Education

Figure 4: SMEs with an Expected Labour Shortage by Province and Business Size, Q4 2022



Note: An expected labour shortage refers to a shortage that businesses at the time of the survey expected to face in the following quarter.

Sources: Statistics Canada. 2023. Special tabulations, based on Canadian Survey on Business Conditions, fourth quarter of 2022, and Statistics Canada. Table: 14-10-0287-01.

and training gaps, geographic disparities, demanding work conditions and labour market inefficiencies also can play a role. Other factors, such as a discrepancy between job seekers' wage expectations and the wages offered, and a lack of flexible work arrangements or different types of benefits, may also contribute to labour shortages and hinder employers' capacity to fill vacant positions. Therefore, a nuanced approach is necessary to address recruitment challenges, and the concept of labour shortage cannot be applied indiscriminately when analyzing the current state of the labour market.

Morissette (2023) shows that the number of unemployed individuals with a postsecondary education consistently outpaced the number of vacant positions requiring this level of education between 2016 and 2022. This indicates that employers' difficulties with recruiting skilled employees and filling job vacancies that require above high-school education levels can be mainly due to skills shortages and mismatches. In other words, the skills needed for the job differ from those possessed by job seekers, particularly those with higher education levels, or there exists a shortage of

Table 1: Average Reservation Wage and Average Offered Hourly Wages in Industries with High Job Vacancies in the First Quarter of 2022

	Average Reservation Hourly Wage (\$)	Average Offered Hourly Wage (\$)	Average Offered Hourly Wage (\$)
	First Quarter of 2022		First Quarter of 2023
Construction	29.55	27.50	28.00
Manufacturing	24.20	23.45	25.45
Retail trade	23.00	17.85	19.00
Healthcare and social assistance	23.50	25.60	26.85
Accommodation and food services	18.85	15.85	16.40

Source: Statistics Canada Labour Force Survey data and Table: 14-10-0326-01.

people with the right skills or the required training and experience in specific areas.⁸ For example, more than half (56 percent) of all Canadian businesses in 2021 reported skills gaps and indicated their current workforce was not proficient enough to perform jobs at the required level (Statistics Canada 2022a). The highest skills gaps were technical or job-specific skills, followed by social and emotional skills such as problem-solving and collaboration. The increasing need for digital literacy and creativity has also been widening skills gaps in the Canadian labour market.

In contrast, since the third quarter of 2021, the number of vacant positions requiring only a high-school diploma or less has surpassed the number of unemployed Canadians with such an education, driven by a significant increase in demand for low-skilled labour. Promoting the labour force participation of traditionally underrepresented groups in the labour market could help address such shortages. For example, only half of Canadian residents with a high-school diploma or less education are engaged in the labour market, compared to more than 70 percent of the population

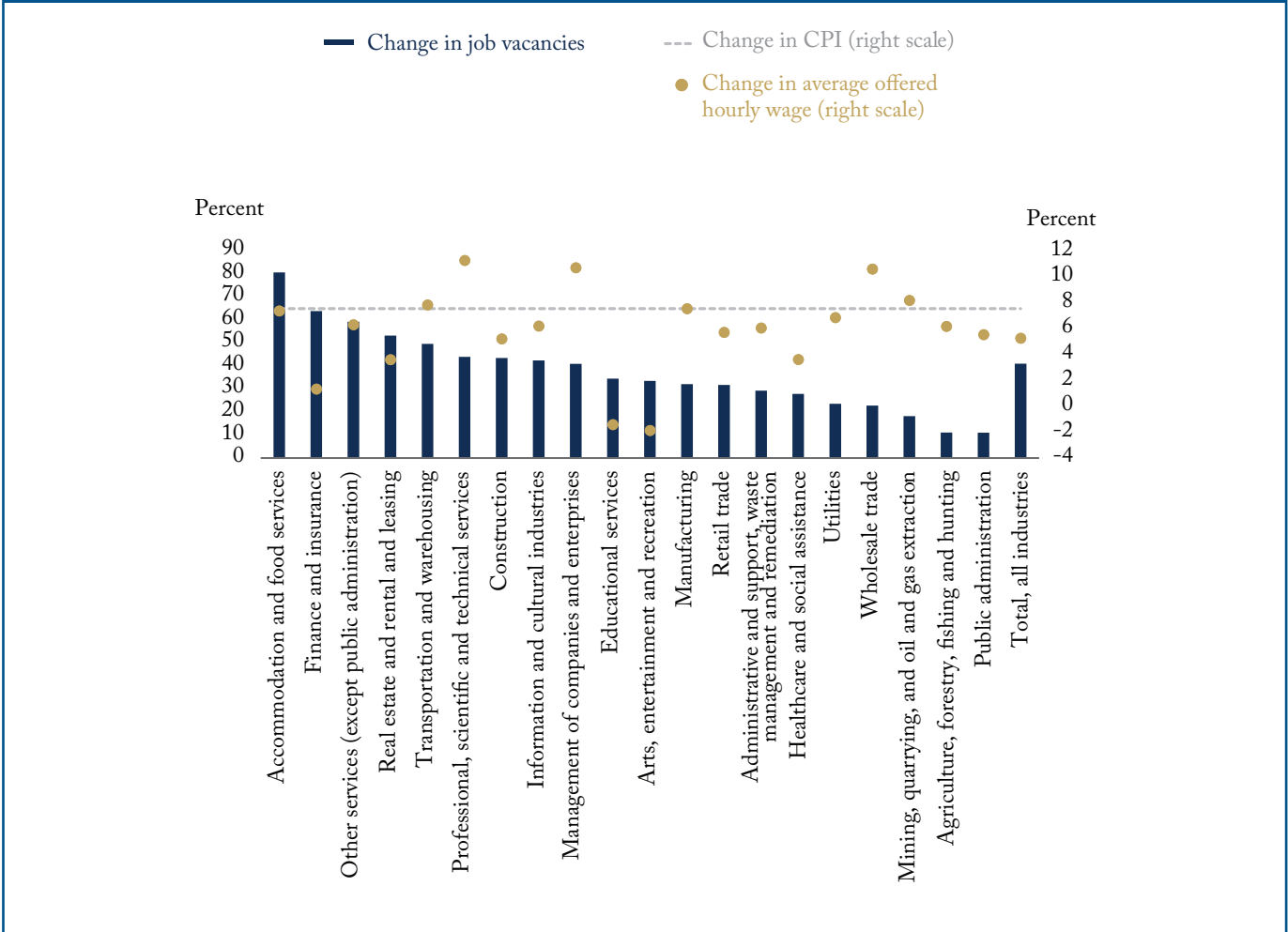
with an education above a high-school diploma.

Wages can affect labour supply and shortages of any type, and employers typically offer a higher wage when shortages are rising. Looking at the changes in job vacancies and average offered hourly wages between the second quarter of 2021 and 2022, when vacancies reached their historical high, Figure 5 shows that employers' responses to increased job vacancies through offered wages vary across industries. For example, the largest wage increases occurred in industries with relatively moderate changes in job vacancies, such as management and wholesale trade, or in the highest-paying industry (professional and scientific and technical services). In contrast, employers in accommodation and food services offered a wage increase only in line with the change in the CPI, while job vacancies in this industry increased by more than 80 percent, becoming the industry with the largest number of vacancies.

Meanwhile, Statistics Canada (2022) shows that, on average, reservation wages exceeded the offered wages in specific industries with high job vacancies,

8 The federal government's Canadian Occupational Projections System anticipates that the prevalence of occupations facing shortages will remain elevated from 2022 to 2031, predominantly in health, natural and applied sciences, and the skilled trades.

Figure 5: Changes in Job Vacancies and Average Offered Hourly Wage by Industry between the Second Quarters of 2021 and 2022



Source: Statistics Canada. Table 14-10-0326-01.

including accommodation and services, in the first quarter of 2022 (Table 1). Even a year later, all those industries, except manufacturing and healthcare, offered on average an hourly wage below even the previous year’s reservation wage – a wage deficiency of more than 17 percent in retail trade and 13 percent in accommodation and food service.

Therefore, to the extent that shortages are related to the level of wages, employers need not

only to increase their wages to meet the reservation wage, but also to ensure that the level of wages is competitive with wages in other industries looking for candidates with similar qualifications. However, when they are not able to meet reservation wages, they need to explore automation as a long-term solution. For labour shortages that are not driven by a wage discrepancy, employers need to seek other strategies.

STRATEGIES TO TACKLE SHORTAGES

SMEs often serve as engines of job creation, fostering employment opportunities and contributing to GDP. Additionally, they promote entrepreneurship and local economic development, leading to a more resilient and vibrant economy.

Labour shortages can adversely affect SMEs, leading to unfulfilled orders, reduced competitiveness and declining product quality (BDC 2018, 2021). Approximately half of the SMEs grappling with labour shortages had to experience a decrease in sales or revenue (CFIB 2023). These shortages also hinder growth, with a majority of SMEs reporting constraints on business investment and expansion due to labour shortages. The ongoing labour-related challenges resulted in increased workloads for business owners and employees and negatively impacted their productivity and mental health, ultimately diminishing the business's efficiency.

Post-pandemic job vacancies have been influenced by various factors, with low wages in specific industries being a notable contributor. Sectors like retail, accommodation and food services have faced significant labour-related challenges due to their comparatively lower pay rates. In contrast, some industries continue to face labour shortages despite significantly increasing wages or offering wages that surpass reservation wages, highlighting other underlying factors such as skills mismatches and lack of labour with the right skills. To the extent that wage levels explain labour shortages, employers need to address wage gaps or reduce reliance on labour.

SMEs often face unique hurdles and constraints when dealing with labour shortages. With that in mind, we summarize strategies that employers and governments can consider to tackle shortages,

specifically through immigration, better human resource practices and automation.

IMMIGRATION

Many employers see immigration as a major solution to their skilled labour needs. To mitigate labour shortages, SMEs either hire temporary residents, for example, through the Temporary Foreign Worker Program (TFWP),⁹ or recent permanent immigrants (Janzen et al. 2022).

While immigration can play a role in addressing labour shortages, it's important to note that immigration is just one of several strategies that businesses can consider to enhance their resilience in the face of labour market fluctuations. Moreover, temporary immigration programs should be regarded as a last resort, and only if increasing wages and other non-immigration solutions prove inadequate in addressing labour shortages.

Furthermore, permanent immigration policy should primarily address shortages stemming from skills mismatches rather than focusing on low-skilled occupations, for two reasons. Firstly, labour markets are subject to rapid changes, impacting the demand for labour. In economic downturns or cooling markets, low-skilled individuals are more susceptible to reduced demand, which can result in unemployment and its resulting burden on society. Low-skilled immigrants are particularly more vulnerable to such fluctuations in labour market conditions. Secondly, there is an untapped domestic labour supply to address low-skilled shortages since the labour force participation rate among less-educated populations is considerably lower than that of their highly educated counterparts. Encouraging their participation and addressing employment barriers can be instrumental in increasing the supply of low-skilled labour.

9 Temporary foreign workers include all temporary foreign residents with work rights in Canada, including those under the Temporary Foreign Worker Program, the International Mobility Program, work permit-exempt workers and international students.

With those caveats in place, immigration is part of the solution to employers' demand and labour shortages and, as a result, Canada has significantly increased its permanent skilled immigration levels as well as the number of temporary immigrants.

According to Statistics Canada in the second quarter of 2023, all industries to some extent have hired workers through the TFWP, ranging from 1.4 percent of businesses in transportation and warehousing to 14.8 percent in agriculture.¹⁰

Permanent immigrants can also play a crucial role in supporting local businesses and bridging the labour and skills gaps. However, immigrants still face challenges in recognition of their skills, foreign qualifications and experience, limiting their ability to address skills shortages. Additionally, those whose first language is not English or French often experience language barriers. Therefore, they generally tend to be underemployed and their skills are often underutilized (Cornelissen and Turcotte 2020). In 2021, more than 25 percent of all working-age immigrants with a foreign bachelor's degree or higher worked in jobs that only required a high-school diploma or less (Statistics Canada 2022b). The unemployment rate of newcomers (landed five years or fewer) was also high in September 2023 at 8.7 percent.

As Canada plans to attract half a million immigrants per year through 2025, it is important to leverage skilled immigrants and integrate them into the Canadian workforce. Better integration of this talent helps address skills shortages and improves productivity and economic growth. For example, closing gaps in immigrant unemployment and participation rates in Ontario alone could result in real GDP increases in the \$12-\$20 billion

range (Desormeaux 2021). Better educating SMEs¹¹ about international credentials and making sure that employers are aware of and trust government-designated organizations for the assessment of foreign credentials are also important steps in addressing credential recognition issues. Raising awareness of, enhancing access to and encouraging participation in employment services, language learning resources and bridging programs also help provide better and faster labour-market integration of newcomers.

HUMAN RESOURCE PRACTICES

To address labour shortages, human resource (HR) practices play a crucial role in attracting, retaining and optimizing the available workforce.

However, SMEs often lack the financial and human resources to recruit and retain their employees and face competition with larger companies (Deschênes 2022). Therefore, they need to adopt stronger HR practices and tailor their approach. Examples for small businesses include offering flexible work options (e.g., remote work, flexible hours or part-time roles), providing upskilling and reskilling opportunities, speeding up the recruitment process¹² and focusing on retention. Offering competitive and fair compensation packages that include salaries, bonuses, and benefits is also essential.

According to BDC (2022c), some SMEs have already taken action, such as revising hiring practices (33 percent) and offering better working conditions (18 percent). Forty percent of SMEs surveyed indicated the positive impact of telework on employee retention, and 38 percent said telework

10 Statistics Canada Table: 33-10-0678-01.

11 The federal Job Bank program provides businesses with tools for hiring newcomers and tips for integrating and retaining newcomers.

12 SMEs can take advantage of lengthier hiring procedures among larger businesses by simplifying and speeding up their recruitment process. Furthermore, they should consider leveraging technology to streamline HR tasks such as applicant tracking systems, online job postings and digital onboarding processes.

increased their ability to attract new talent (BDC 2022a). Using flexible schedules and remote working arrangements not only improves retention and encourages later retirement, but also attracts candidates seeking work-life balance or those with other commitments such as mothers wishing to join or return to the labour market. For sectors such as accommodation, manufacturing and construction where remote working arrangements are difficult, if not impossible, they can adopt other flexible conditions such as shift durations, break lengths and blended field/in-office roles.

Furthermore, fostering a supportive and inclusive workplace can help address labour shortages since many people are underutilized, such as youth, new immigrants, Indigenous people, workers with lower educational attainment, people with disabilities and older workers. Even at the labour shortage peak in 2022, newcomers and Indigenous people still experienced relatively high unemployment rates of 8.2 percent and 8 percent, respectively. As of September 2023, the unemployment rates of youth, newcomers and visible minorities remained high (Appendix A). Indeed, the unemployment rate of newcomers with a high-school diploma is 10.4 percent. Improving the unemployment rates of these under-represented groups would help increase the talent pool. For example, Henkens et al. (2008) find that one of the strategies Dutch employers used to address labour shortages was hiring people from pools they had previously not recruited, including women, ethnic workers and older adults.

Meanwhile, Canada has experienced a significant rise in retirements within its aging

workforce, leading to increased shortages in 2022.¹³ Implementing strategies that promote later retirement and encourage participation of older workers can effectively mitigate some shortages and facilitate a smoother transition when onboarding new hires. Factors encouraging later retirement include the option to work reduced hours without pension impact, the ability to transition to a less stressful role and the prospect of a salary raise.¹⁴

Government grants and wage subsidies are one way to encourage SMEs to hire from underrepresented groups. Nova Scotia and Quebec have already offered wage subsidies for businesses to hire young workers, skilled graduates, immigrants and visible minorities.¹⁵ Other provinces need to consider similar programs. Currently, the federal government provides financial support only for small businesses in hiring apprentices, summer students and interns. Governments also need to create programs targeting hiring seniors, such as the Part-time Re-employment Grant in Singapore.¹⁶

Providing employee training and learning opportunities are essential HR practices that help employees improve their skills and play a crucial role in addressing skills and labour shortages.¹⁷ There are variations in training-participation rates across business size, industry and demographic groups, with lower rates observed among immigrants and part-timers (Statistics Canada 2023). In November 2022, 36 percent of employees in organizations with more than 500 employees participated in job-related training, while only 22 percent of employees in firms with fewer than 20 employees engaged in such training. Interestingly,

13 For further details, see <https://www150.statcan.gc.ca/n1/daily-quotidien/220427/dq220427a-eng.htm>.

14 For further details, see <https://stlawyers.ca/blog-news/canadians-open-to-delaying-retirement-survey>.

15 Examples of such initiatives are wage subsidies for hiring young workers in Nova Scotia, connecting SMEs with skilled graduates in [Nova Scotia](#) and subsidies to hire immigrants and visible minorities in [Quebec](#).

16 For further details, see <https://www.wsg.gov.sg/home/employers-industry-partners/workforce-development-job-redesign/new-part-time-re-employment-grant>.

17 According to the Statistics Canada Survey of Employers on Workers' Skills, the majority of Canadian employers reported skills gaps in their workforce in 2021.

the training participation rate was the lowest in accommodation and food services despite having the highest share of businesses that reported facing skills gaps in 2021 (79 percent).

The Canadian government is currently allocating funding through the Sectoral Workforce Solutions Program (SWSP) to aid key sectors in implementing strategies to address their immediate and future workforce needs. The primary objective of the SWSP, launched in 2022 and ending in 2024, is to assist employers, especially SMEs, in attracting and retaining a skilled and innovative workforce. Nevertheless, many SMEs were probably unaware of the program due to their limited resources and challenges in tracking short-term, temporary support initiatives.

To upskill the labour force, governments need to provide ongoing on-the-job training support for SMEs. One good example to look at is the Enhanced Training Support in Singapore.¹⁸ Governments also need to support programs that focus on employability skills. They can collaborate with small business organizations to create a platform with best HR practices, training, and inclusion and diversity content to help SMEs improve their organizational HR capacity.

AUTOMATION

When employers cannot fill vacant jobs due to a lack of candidates, they need to consider automation. Automation can play a significant role in addressing shortages by augmenting the workforce, increasing productivity and optimizing various processes (Dixon et al. 2021). Businesses that invested in automation reported an 81 percent success rate in solving their staffing issues (CFIB 2021).

In the context of aging, Acemoglu and Restrepo (2022) find a positive relationship between labour scarcity and technological adoption: countries that

experience faster aging and higher labour costs develop and adopt more automation technologies. Abeliatsky and Prettner (2020) also find that lower population growth can incentivize investment in automation.

Since automation and digital technologies enable remote work, businesses can broaden their search for workers beyond their local area and have a competitive advantage in recruiting and retaining skilled workers. This strategy can be especially beneficial in regions with limited labour supply. Businesses can also invest more in training to upskill existing employees and improve their productivity. However, automation adoption can present various challenges, often due to SMEs' limited resources, unique organizational structures and specific industry requirements. These challenges include the initial investment cost, uncertainty about return on investment and a lack of expertise in evaluating, selecting, implementing and managing automation technologies and solutions.

Addressing these challenges requires careful planning and a strategic approach. SMEs can benefit from seeking advice from automation experts, conducting thorough cost-benefit analyses and starting with smaller-scale initiatives before gradually expanding their automation efforts. Additionally, focusing on employee engagement, training and addressing concerns about job displacement can improve the likelihood of successful automation integration.

Governments play an important role in supporting SMEs in automation adoption. For example, the federal government in 2023 launched the Canada Digital Adoption Program to give SMEs a grant of up to \$15,000 and access to expert digital adoption advice. It is important to ensure that funding and support through government programs are sufficient and SMEs are aware of them. According to the CFIB (2022), only one-quarter (26

18 For further details, see <https://www.gobusiness.gov.sg/enterprisejobskills/programmes-and-initiatives/upgrade-skills/course-fee-absentee-payroll-funding>.

percent) of small businesses in Quebec were aware of the government programs and initiatives designed to assist them in addressing shortages.

Specifically, governments can encourage SMEs to invest in automation by:

- playing a more proactive role in informing businesses about existing programs that support implementation of automation and training by increasing awareness campaigns;
- continuing to incentivize SMEs to undertake technological investment through funding programs or tax credits and ensuring sufficiency of funding;
- facilitating access to low-interest loans for investment in automation, for example, through the Canada Small Business Financing Program; and,
- implementing digital training programs for SME owners and employees and ensuring upskilling, reskilling and skills-matching opportunities are accessible to everyone (Mahboubi and Mokaya 2021).

CONCLUSION

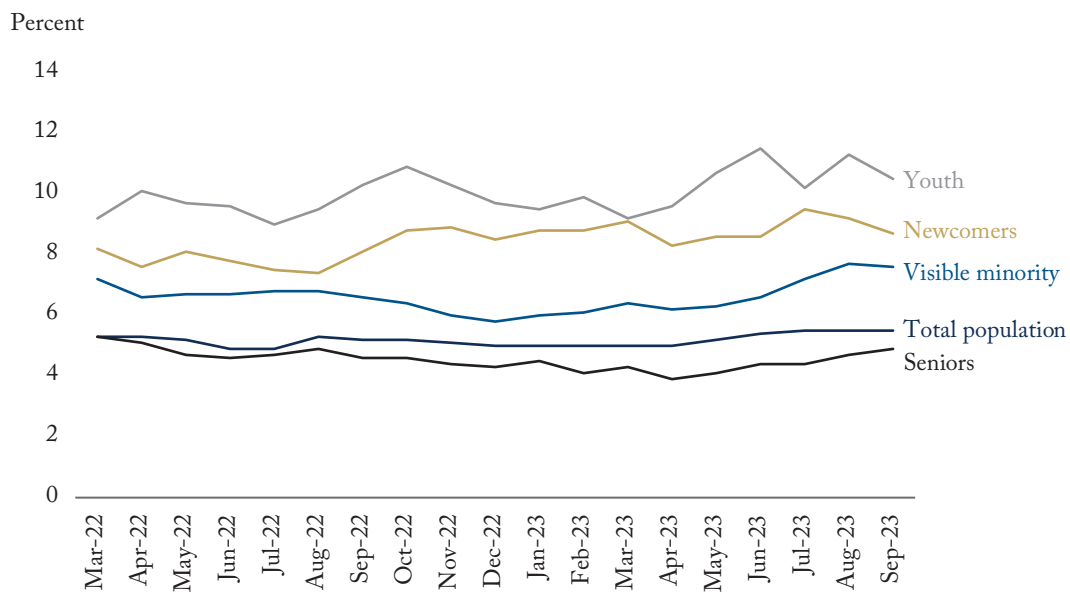
Solving labour shortages requires a multi-faceted approach, including workforce development, education and training initiatives, integration of immigrants, improved HR practices and wages and technological adoption. Understanding the specific causes of a labour shortage in a given context is essential for implementing effective solutions.

Mitigating labour shortages in SMEs not only improves their competitiveness but also creates jobs and fosters economic growth as these companies scale, improving the living standards of all Canadians.

In addition to our recommendations on immigration, HR practices and automation, stronger government-business partnerships with SMEs are also essential. Employers and governments need to collaborate to identify the gaps in skills and labour shortages and address them through a focus on barriers to employment and skills development. Solving labour and skills shortages will ensure a more fruitful future with faster growing businesses and increased job creation.

APPENDIX

Figure A: Unemployment Rate by Group, March 2022–September 2023



Sources: Statistics Canada Table 14-10-0373-01, 14-10-0086-01 and 14-10-0287-02.

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