



CFIB

Research



Labour Pains

Results of CFIB Surveys on Labour Availability

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April 2003

Labour shortages are an unfortunate reality of our growing economy. The problem has been persistent for small and medium-sized enterprises (SMEs) and has been compounded in the last decade by a high level of job growth within the SME sector. Businesses must become innovative when it comes to hiring; otherwise they are left with unfulfilled labour needs and an inability to capitalize on growth opportunities.

In the past, SMEs have been engaged in *active recruitment* and it seems that this will be the case in future years. Obvious consequences of labour shortages are *hiring difficulties*. Most firms try to *deal with hiring difficulties by finding alternatives* within their reach such as passing additional responsibilities onto existing employees, hiring under-qualified people, employing temporary workers, or increasing the use of overtime and longer shifts or hiring from groups traditionally less used on the labour market. Lacking human capital, some businesses, in an alarmingly high number, choose to pass on growth opportunities. This is a high price to pay for the business and for the economy as a whole.

Following on a number of earlier reports on labour shortages, CFIB asked its members for more detailed information on possible solutions. Small business owners identified that *there is no single solution but a mix* in which all key players should be involved: government, educational institutions and business.

For a number of years, CFIB has made a priority of shedding light onto the shortage of labour issue. The Federation has been tracking the concern of its members with respect to the shortage of labour for two decades. In 2000, CFIB has conducted a detailed survey of its membership on the incidence and depth of labour shortages. In 2002, CFIB carried out an

update that showed that 265,000 full-time jobs were vacant across Canada due to a lack of suitable candidates. Moreover, in a recent release, Statistics Canada warns that by 2011, “there will be a potential for shortages in certain occupations”¹.

Increased Concern over the Shortage of Labour

At the close of 2002, one in two businesses - 49.6 per cent- indicated they are concerned with the shortage of qualified labour in 2002 (see Figure 1). This is an all-time record since 1989, and it marks a three per cent jump in an already disturbingly high level seen in 2001. In Alberta and Manitoba, the situation is even worse; close to 60 per cent of SMEs report problems with the shortage of labour (see Table 1). For more provincial data, see Appendix.

Figure 1
Business Concern over the Shortage of Qualified Labour, 1989-2002



Sources: CFIB, *Our Members' Opinions* Surveys #24-51, 1989-2002; and Statistics Canada

¹ Source: Statistics Canada, *The Daily*, February 11, 2003

The evolution of the shortage of labour is inversely related to the unemployment rate, increasing during times of low unemployment and decreasing otherwise. However, labour shortages have persisted for SMEs even during periods of high unemployment. In addition, 2001-2002 has seen a concurrent increase in both levels. The continuation of skills shortages shows the labour market's failure to match the supply and demand of labour.

**Table 1
Business Concern over the Shortage of
Qualified Labour, 2002**

Province	(%)	Industry Sector	(%)
BC	48.6	Agriculture	51.7
Alta	58.3	Primary	52.4
Sask	54.6	Manufacturing	53.5
Man	57.8	Construction	65.6
Ont	47.8	Transp./Comm.	52.5
Que	46.9	Wholesale	44.4
NB	53.7	Retail	48.2
NS	48.0	Fin, Ins., Real Est.	42.1
PEI	47.5	Business serv.	40.9
Nfld.&Labr	38.8	Community serv.	40.3
		Hospitality serv.	46.9
<i>Total</i>	<i>49.6</i>	<i>Total</i>	<i>49.6</i>

Source: CFIB, *Our Members' Opinions Survey #51*. This survey reflects the views of 24,120 business owners interviewed during July-December 2002

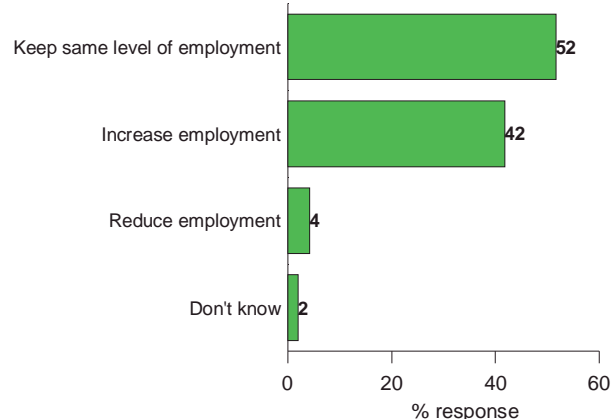
Employment Expectations

To complement previous data, CFIB has carried out a recent survey focused on the availability of labour and training among SMEs. The 2002 study offers a fresh perspective into the undertakings of a business facing labour shortages, and the wide use of training as a partial solution to this problem. The survey, completed by 6,740 business owners, provides abundant information by province, industry, business size and age on two main issues: the shortage of labour and training. The first issue covering hiring difficulties and solutions will be treated in this report; while training matters such as types, time, and costs will be published in an upcoming report.

SMEs have been the main source of job creation in Canada for the past decade. Close to 70 per cent of the net new jobs in the economy in 1999 were created by small businesses with fewer than 50 employees.²

² Source: Statistics Canada, 1983-1999 Employment Dynamics (2002)

**Figure 2
Employment Growth Expectations for Next Three
Years**



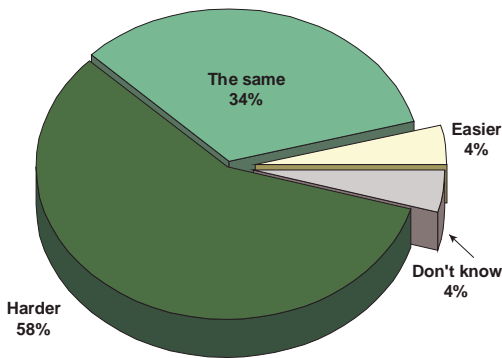
Over the next three years, 42 per cent of firms expect to increase the number of employees at their firms (see Figure 2). Half of respondents – 52 per cent – expect to maintain their current level of employment, while only four per cent expect to reduce it. These numbers indicate that the vast majority of SMEs plan to be active in the labour market, by hiring additional employees or by replacing workers during the next three years.

Firms in Ontario and Quebec are more likely to increase employment in the next three years. Medium-sized firms, with 20 to 49 employees, are the most likely to hire additional workers. The smaller the firm, the more likely it is to maintain its current level of employment. Employment growth plans for the next three years are highest among firms in the manufacturing, business services and construction sectors.

Problem to Get Worse, Not Better

While some analysts suggest that labour shortages are a short-term phenomenon that will subside in times of slower growth, small firms do not support this view. Close to six in ten businesses anticipate that it will become harder to find employees in the next three years. One-third of SMEs expect the situation to stay the same, while only four per cent think it will be easier to hire (see Figure 3).

Figure 3
Level of Hiring Difficulty Expected

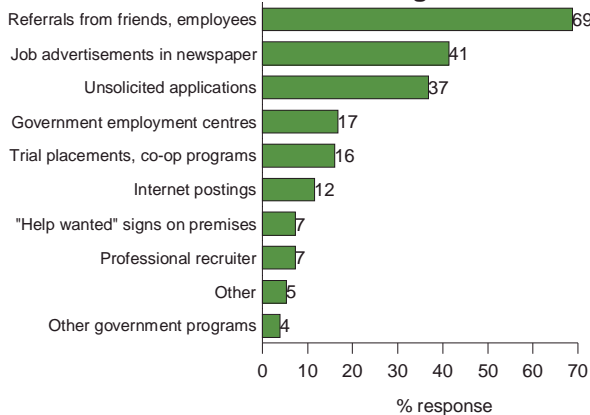


To make matters worse, firms that plan to hire are more likely to think it will be harder to find workers anticipate hiring hardships. SMEs in the Atlantic and Prairie regions expect to encounter the most difficulties hiring. Construction, agriculture, transportation and retail firms are the most pessimistic when it comes to hiring. Older firms are more likely than younger firms to expect harder hiring times.

Hiring Methods

Small business owners use an array of options when it comes to hiring. For seven out of ten SMEs, referrals from friends and current employees are the most effective way of recruiting. For about four businesses in ten, job ads in newspapers are the most effective option, followed closely by unsolicited applications (see Figure 4).

Figure 4
SMEs' Most Effective Hiring Methods



There are numerous other possibilities of recruiting such as government employment centres, trial placements and co-op programs, Internet postings, signs on the premises, professional recruiters, etc.

Smaller firms are more likely to draw on referrals from family, friends and current employees; while larger firms use a mix of options for finding and hiring employees. Younger businesses tend to make more use of unsolicited applications, referrals and "help wanted" signs on their premises compared to the more mature firms.

Only 17 per cent of business owners use government employment centres or other government programs to find employees, and more often than not those using this approach are medium-sized businesses. SMEs in Eastern Canada, with the exception of Nova Scotia, are the most likely to have recently used a government program to assist them in finding/hiring employees, while firms in the Prairies are the least likely. The two sectors that rely more on government help in recruiting employees are hospitality and manufacturing.

Growing Hiring Difficulties

High labour shortages translate into various types of hiring difficulties. Among the firms that hired in the past three years, about four in five had difficulties doing so. Comparing this percentage to similar data from October 2000 shows the situation has worsened significantly since then. At the end of 2000, 68 per cent of businesses had difficulties hiring, while recently 82 per cent have encountered such problems.

In every sector of every province, the lack of candidates with the required education, experience or skills in the local area hit SMEs the hardest. Other top difficulties are the lack of resources to pay higher salary and benefits, the lack of people in the local area looking for work and the nature of work: unattractive, seasonal or temporary (see Figure 5).

Figure 5
Signs of Hiring Difficulties

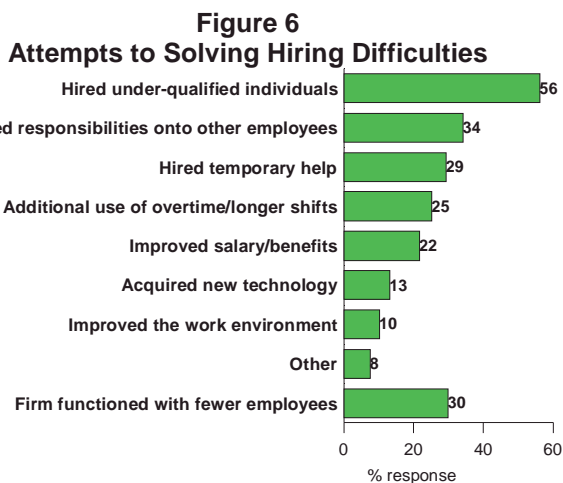


All industry sectors have had difficulties hiring, however the construction sector is the most likely to have had a hard time hiring.

Firms in the Prairie region are the most likely to have had difficulties. Firms in the Prairie and the Atlantic regions were more likely to report there are too few people in the area looking for work. In Quebec, there is a lack of candidates with skills or education matching the needs of SMEs. In Ontario, the culture and language barrier, even though low compared to other obstacles, is higher than in any other province. Atlantic provinces have more difficulties hiring because of the nature of the work: seasonal or temporary. Provinces such as Ontario and British Columbia, which receive significant numbers of immigrants, have a higher reported level of difficulty assessing credentials and experience that was gained out of the country.

Working Out Hiring Difficulties

While most firms attempted one way or another to solve these hiring difficulties, one third believed they had lost business opportunities to expand. The most common solution, chosen by more than half of SMEs, is to hire under-qualified people. Other solutions include passing responsibilities onto other employees, hiring temporary help, or increasing use of overtime and longer shifts (see Figure 6).



Larger and older firms, which have more financial and human resources or have more experience with the market than younger and smaller firms are more likely to be able to take measures to benefit of each and every business opportunity. Larger firms rely more on hiring under-qualified people, dividing internal responsibilities differently, increasing use of

overtime, improving salaries or the work environment, and acquiring new technologies; whereas smaller firms rely more heavily on hiring temporary workers or ignoring business opportunities.

To apply most of these internal solutions, a firm has to provide some training to its employees, either to upgrade their skills in line with the job’s requirements, to teach them new skills to take on more responsibilities, or to use new technologies. Hence, training is part of the answer to the shortage of labour – which will be the subject of an upcoming report in this series.

To help address labour shortages, many small firms turn to a variety of groups of potential workers. Three quarters of small firms have hired young people between ages 15 and 24. Hiring of youth was particularly high in agriculture, hospitality and manufacturing. Many other firms reported hiring seniors, aboriginal workers, new immigrants or people with disabilities. Aboriginal hiring was particularly high in the four Western provinces, which each have a larger share of Canada’s aboriginal population. Hiring among new immigrants into Canada was above the national average in Manitoba, Alberta, British Columbia and Ontario. Hiring of the disabled and seniors was relatively uniform across Canada. Hiring people with disabilities was higher in hospitality, manufacturing and primary; while seniors were more likely to be hired in agriculture, hospitality and transportation.

Solutions to Labour Shortages

As expected, the findings show that there is no single solution to labour shortages, and no unique driver. The responsibility to take action rests with governments, education institutions and businesses. The variety of solutions embraced by SMEs demonstrates that this is a problem with deep roots.

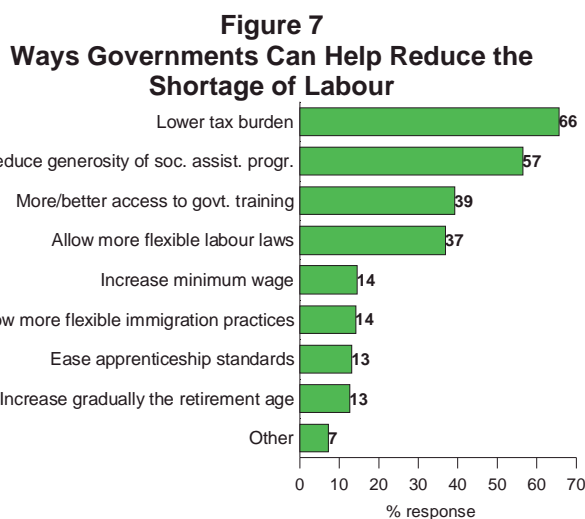
The Role of Government

According to small firms, the main path that government should take to reduce the shortage of labour is to lower the tax burden on business. The immediate benefits of tax reduction would be that firms were left with more resources to devote to training and improving the conditions for hiring (such as wages and benefits). More than half of SMEs would benefit from government modifying and removing the built-in work disincentives of certain social assistance

programs, such as Employment Insurance (see Figure 7). All provinces would benefit in about equal value from these two measures.

As the skills gap has worsened in the past years, it is not surprising that currently 56 per cent of SMEs favour a reduction in social assistance programs, up 15 per cent since 2000.

More or better access to government training programs and more flexible labour laws would help about four businesses in ten. One firm in seven believes the government should take measures such as increasing minimum wage, allowing more flexible immigration practices, easing apprenticeship standards or increasing the retirement age.



Firms in Atlantic Canada are more likely than others to favour increased access to government training. British Columbia is the province most favourable to an increase in the flexibility of labour laws. Manitoba is the most welcoming towards greater flexibility in immigration practices. Ontario firms are more likely to favour an easing of apprenticeship standards. For example, they favour measures such as increasing the apprentice to journeyperson ratio, easing union control of the system, expanding apprenticeship programs to new trades, and allowing youth to enter at a younger age, etc.

In Quebec, the only province that collects a payroll tax associated with training, four out of ten businesses stated a need to reduce the burden of the paperwork related to training.

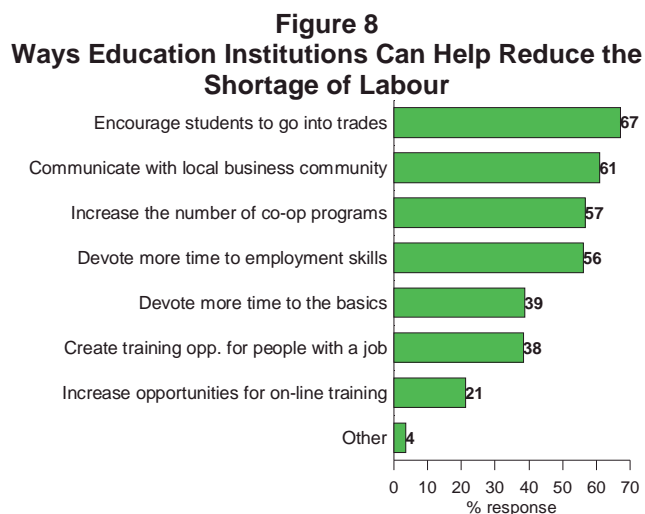
More flexible immigration practices or labour laws would help mostly larger firms. Smaller or younger

firms are the least likely to call for increasing the minimum wage and the most likely to suggest more access to government training programs.

Depending on their employment growth expectations, some businesses are somewhat keener than others to see government adopt certain solutions. Firms that plan on hiring within the next three years are more likely to favour flexible immigration practices or increased access to government training programs as solutions. In contrast, SMEs planning to reduce employment would rather need more flexible labour laws. This would allow them to match the level of employment faster and better with the demand, hiring part time or temporary help.

The Role of Education Institutions

Among the actions that educational institutions should take, most firms see, communicating more with the local business community, increasing the number of co-op programs, and devoting more time to employment skills as real solutions (see Figure 8). The communication between business and school has visibly gained momentum; compared to previous CFIB surveys, this item is currently seen as a possible route by 20 per cent more members.



Trades training is in particularly important, as many firms believe there is a bias in our education system against a career as a tradesperson. While many programs have been developed to attempt to address this bias, a more concerted effort is needed to encourage students to consider the many well-paying, growth-oriented positions in the trades.

About four firms in ten would like schools to devote more time to the basics or to create more training opportunities for people who already have a job. One-

fifth of businesses see on-line training as a viable solution to reducing the shortage of qualified labour.

The results are very consistent across Canada, with few regional variations. Communication between the business community and the education community appears to be of more importance in the Atlantic region. Firms in Ontario and Quebec tend to favour more co-op programs.

By size or age of business, the results are highly consistent. Younger businesses are slightly more prone to recommend increasing the number of co-op programs and providing on-line training.

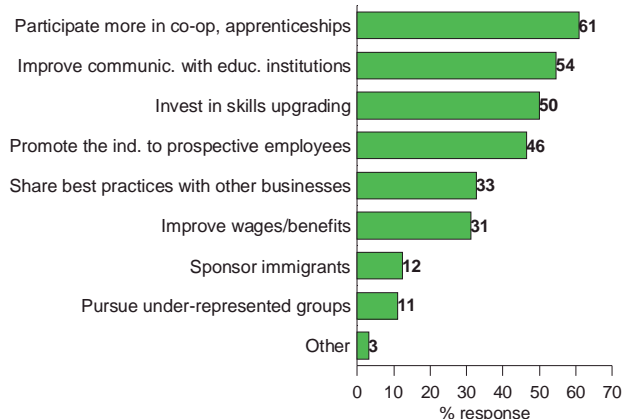
Not surprisingly, the package of solutions varies largely by sector. Businesses in sectors such as manufacturing and construction prefer more students go into trades/apprenticeships, while firms in the primary and business services chose higher number of co-op programs. Owners operating in retail, wholesale, hospitality and agriculture would like to see schools devoting more time to the basics; while owners in primary and manufacturing want more school time for employment skills.

Firms looking for technical skills prefer schools to encourage more students into trades. Businesses looking for people with basic skills would like to see educational institutions increase the time devoted to basic and employment skills.

The Role of Business

The main steps that businesses can take to ease the shortage of skills involve some form of cooperation with the education community. Two-thirds of businesses want to increase their participation in co-op/apprenticeship programs. More than half of businesses see improving their communication with the education community as a solution that would go a long way toward reducing the shortage of labour. Half of businesses see investing in skills upgrading as a real solution (see Figure 9).

**Figure 9
Ways SMEs Can Help Reduce the Shortage of Labour**



Promoting their industry to prospective employees – students, or graduates – is seen by about half of respondents as another way to reduce labour shortages in specific sectors. Businesses see not only communicating to other key players as a highly important tool, but also communicating among themselves. One-third of SMEs agree that sharing best practices among themselves could go a long way towards lessening the skills gap pressures. Other possible solutions could be improving wages and benefits, sponsoring immigrants, and pursuing under-represented groups in the labour market.

The results are consistent across provinces with only minor regional variations. Nova Scotia, Newfoundland & Labrador and PEI are more likely to see improving wages and benefits as a possible solution. Manitoba is the most likely to sponsor immigrants to solve its labour shortages. Pursuing under-represented groups in the labour market is more likely to be seen as a potential solution in Nova Scotia, Manitoba and Newfoundland.

Minor differences appear by size of firm. The larger the firm and therefore the richer in internal resources, the more likely it is to encourage actions such as sponsoring immigrants, promoting the industry, and investing in skills upgrading. One can note that start-up businesses that have commenced in an already tough labour market context are more open to non-traditional ways of addressing skills shortages such as pursuing under-represented groups in the labour market, improving communication with schools, sponsoring immigrants, etc.

Every sector tends to favour a mix of solutions depending on its needs. For instance, due to the lack

of people in the local area looking for work, agri-businesses are more inclined towards sponsoring immigrants and/or improving wages and benefits. Manufacturing and construction enterprises favour greater participation in co-op or apprenticeship programs. Firms in the hospitality, personal and other services are more likely to prefer pursuing under-represented groups in the labour market. Firms in education & health, business services and finance see more value in upgrading the skills of current employees. Firms in the services sectors are more likely to consider sharing best practices among themselves as a way out of the current difficult labour market context.

Conclusion

SMEs have had to cope with the skills gap for many years now. As the shortage of skilled labour grows, SMEs will need to become even more innovative in finding hiring alternatives. Short of workers, one-third of firms chose to ignore new business opportunities, depriving themselves and the economy of growth. However, the long-term solutions lay not only in their hands but also in the cooperation with government, education institutions, and society. There is no single solution to the shortage of labour, and no single key player. Table two illustrates the top recommendations for each player that, according to SMEs, would benefit most.

Table 2
Top recommendations for government, education and business

Government top actions

- Lower tax burden*
- Remove the built-in work disincentive of certain social assistance programs, such as EI*
- More or better access to government training programs*
- Allow more flexible labour laws*

Education institution top actions

- Encourage students to go into trades*
- Communicate more with the local business community*
- Increase number of co-op programs*
- Devote more time to employment skills*

Business top actions

- Participate more in co-op programs*
- Improve communication with education institutions*
- Invest in skills upgrading*
- Promote industry to prospective employees*

Some solutions must be directed towards the pool of people currently in the labour market to ensure that their skills match the skills required by business. Measures such as re-designing the social assistance programs, improving access to government training, or promote skills upgrading by businesses would achieve this goal.

A second set of solutions should be guided towards the people entering the market: students, recent graduates, recent immigrants, and people returning to work. This category could include measures such as governments allowing more flexible immigration practices, sponsoring immigrants, or encouraging students to go into trades.

A third group of solutions should be focussed on the individuals exiting the labour market, to ensure a gradual transition of knowledge and skills, while a more specific group of solutions should target under-utilized pools on the labour market such as seniors, aboriginals, recent immigrants, youth, people with disabilities, etc..

External solutions are interlinked and require simultaneous action from all the key players. For instance, lowering the tax burden on business would go a long way if the education community would increase the number of co-op programs especially in sectors suggested by businesses. Also, as reduced taxation could mean more money for business to spend on skills upgrading; schools should therefore create more training opportunities for people who already have a job. If government were to encourage business to provide more apprenticeships, schools could match this initiative by encouraging more students to go into trades and apprenticeships.

Besides the solutions coming from a general perspective, small businesses have a great interest in skills training. Training involves business, government and education institutions and will be the subject of a follow-up report in this series. A detailed analysis of training trends, types, costs and skills will follow shortly. The next study will provide a general national outlook as well as provincial specific information on training from an SME perspective.