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Research Results



Help Wanted

Results of CFIB Surveys on the Shortage of Qualified Labour

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Throughout the past decade, labour shortages have, to varying degrees, been a persistent concern for small and medium-sized enterprises (SMEs). Given the high level of growth and jobs generated by SMEs, this thriving, innovative sector is bound to experience labour shortages. The end result is a higher number of jobs available than people with proper qualifications to fill them.

Difficulties finding the right people to fill available jobs, however, come at a price not only to the individual firm, but also to the economy as a whole. A labour market that is unable to supply qualified workers can only result in sub-optimal growth in the small business sector and the economy. In the short-term, small employers struggle with the task of ensuring that production can fulfill their customer demand. Alternative strategies, such as overtime hours and greater capital investment, may be a partial solution for some firms. For others, there may be no cost-effective alternative but to lose out on business opportunities. Most important, however, is the negative impact that a persistent shortage of qualified workers has on the firm, the unemployed, and the economy over the long haul.

CFIB has been tracking the incidence of labour shortages faced by its membership for more than 25 years. But few surveys by other organizations have attempted to address the issue in detail, and those that have did not address the specific needs of SMEs in all major industry sectors and regions. As a result, limited information exists on the level of concern and extent of labour shortages among small businesses.

This information gap prompted CFIB to conduct a detailed survey of its membership. Combined with previous survey data, this work has produced a wealth of information on the labour shortage issue not only at the national level, but at the regional level as well. The survey also provides data by type of industry and occupation.

Persistently High Labour Shortages

Too many times, small businesses are left empty handed when it comes to hiring. Close to one in two (46.0 per cent) business respondents indicated they have difficulties finding qualified labour to meet their staffing needs in 2000 (see Figure 1). This level of concern is just shy of the peak level of 46.7 per cent registered in 1989. In Alberta, Manitoba and Nova Scotia, concern about labour shortages has reached an all-time high.

Figure 1
Business Concern over the Shortage of Qualified Labour, 1989-2000



Sources: CFIB, *Our Members' Opinions Surveys #24-47*, 1989-2000; and Statistics Canada

Extent of the Problem

The labour shortage dilemma clearly has cyclical influences, rising during periods of low unemployment and vice versa. Nevertheless, shortages have remained an issue for at least a fifth of small employers during periods of high unemployment and low economic growth. The performance of the overall economy is, therefore, only a partial factor in determining the severity of the shortage. Hence, the inability of labour markets to relieve shortages is troublesome. This raises the issue of the appropriate role of employers, workers, government and educators in addressing labour shortages.

It is tempting to believe that labour shortages exist only in certain sectors, regions, occupations or markets, but CFIB's data show that the issue is extremely broad based. No segment of the SME sector is left untouched by labour shortages: firms reporting labour shortages come in all sizes and are based in all regions and industries. Despite varying provincial unemployment rates, labour shortages are a major concern for firms located in all provinces. Manitoba and Alberta have the highest incidence of labour shortages, at 59.3 per cent and 54.6 per cent respectively, while Newfoundland has the lowest, at 32.7 per cent (see Table 1).

Table 1
Business Concern over the Shortage of Qualified Labour, 2000

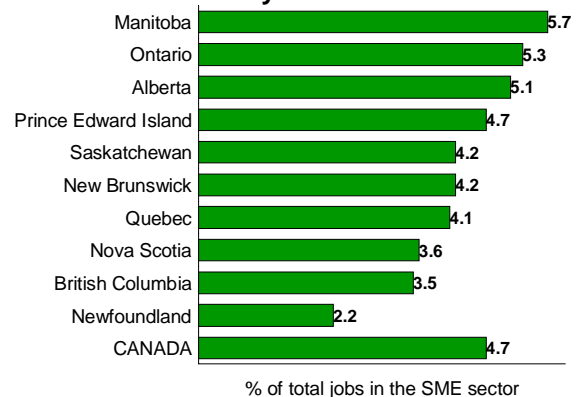
Province		Industry Sector	
	(%)		(%)
BC	35.9	Agriculture	46.4
Alta	54.6	Primary	51.3
Sask	40.4	Manufacturing	54.3
Man	59.3	Construction	59.3
Ont	50.8	Transp./Comm.	51.5
Que	40.9	Wholesale	41.2
NB	37.0	Retail	42.8
NS	41.2	Fin, Ins., Real Est.	30.1
PEI	41.9	Business services	45.5
Nfld	32.7	Community serv.	35.8
		Hospitality serv.	40.0
Total	46.0	Total	46.0

Source: CFIB, *Our Members' Opinions Survey #47*. This survey reflects the views of 22,203 business owners interviewed during July-December 2000

Firms in the construction and manufacturing sectors are the most concerned with labour shortages, at 59.3 per cent and 54.3 per cent respectively. Those in the financial and community services sectors expressed the least concern.

According to CFIB's *Hard Facts* survey, conducted in October to November 2000, 8,767 respondents reported that about 1 out of every 20 jobs remains unfilled because of an inability to find suitably skilled labour—a rate of 4.7 per cent (see Figure 2).

Figure 2
Unfilled Jobs Rate in the SME Sector, by Province

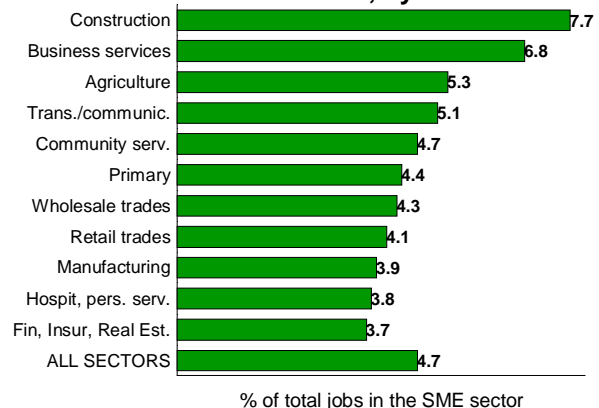


Source: CFIB, results of *Hard Facts* Survey, Oct.-Nov. 2000

At 4.7 per cent, the unfilled jobs rate conservatively represents about 250,000 to 300,000 vacant jobs among Canada's million or so small and medium-sized employers. Unfilled jobs for a small business can mean a poorer standard of service, unfilled orders, losing clients or not developing new products. The younger or the smaller the firm, the higher the rate of unfilled jobs. Businesses that are looking to hire people in occupations they have not typically hired in the past also have a higher rate of vacant positions.

The highest rate of unfilled jobs is found in the construction and business services sectors, at 7.7 per cent and 6.8 per cent respectively (see Figure 3).

Figure 3
Unfilled Jobs Rate, by Sector



Source: CFIB, results of *Hard Facts* Survey, Oct.-Nov. 2000

Some sectors, such as hospitality, are heavily influenced by seasonal factors. Therefore, there might be fewer job openings in these sectors in the fall when the survey was done than during their peak periods.

Most Difficult Occupations to Hire

Hiring difficulties appear at both ends of the job spectrum and are not restricted to any particular occupation. Market demand is just as high for management professionals and sales clerks, as for skilled manufacturing workers or drivers. The level of difficulty finding people in a particular occupation varies by sector. The following table provides the occupations in which employers have the most difficulties hiring, by sector.

**Table 2
Hiring Difficulties by Occupations**

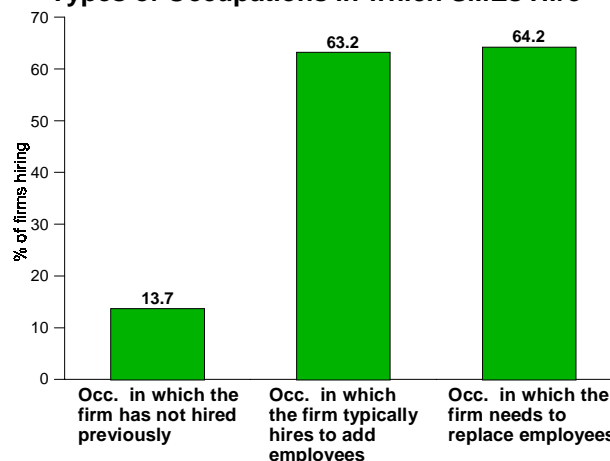
Agriculture: agriculture related occupations, drivers and other transportation occupations
Primary: fishers, forestry workers, and skilled workers in other related occupations
Manufacturing: workers in manufacturing occupations: skilled, semi-skilled and unskilled
Construction: workers in construction area: skilled, semi-skilled and unskilled
Transportation and communication: drivers, occupations in transport trades, warehousing and materials handling
Wholesale: sales and account representatives, sales and customer service clerks, warehousing and materials handling workers
Retail: sales and customer service clerks, sales and account representatives
Finance, Insurance and Real Estate: sales and account representatives, sales and customer service clerks, clerical occupations, occupations in management area and professionals
Business services: computer specialists, occupations in management area and professionals, science graduates, engineers, sales and account representatives
Education, Health and Social Services: occupations in medicine/health, and the management area, professionals, and clerical occupations
Hospitality, Personal and Other Services: occupations in food serving and preparation field, sales and customer service clerks, occupations in hotel, tourism and recreation area

Source: CFIB, results of *Hard Facts* Survey, Oct.-Nov. 2000

Types of Occupations in which SMEs Hire

Close to two-thirds of respondents hire in order to replace employees or to fill job openings in which the firm has typically hired in the past. About 14 per cent of respondents have attempted to hire in occupations they had not hired in the past (see Figure 4). Exporting firms are more likely to require new types of occupations for their firms. Likewise, younger firms tend to hire more in new occupations than more mature firms. Businesses that have performed better than the economy hire more in new occupations or in order to increase their staffing levels, whereas businesses whose performances were worse than the economy are more likely to replace employees.

**Figure 4
Types of Occupations in which SMEs Hire**



Source: CFIB, results of *Hard Facts* Survey, Oct.-Nov. 2000

Replacing employees is predominant for all provinces except for Alberta, New Brunswick and Ontario where approximately 70 per cent of SMEs hire in order to increase their number of employees. Firms in western Canada are more likely to replace workers. More active on the labour market looking for people for new occupations are firms located in Ontario and Quebec.

The specific needs of the industry influence the types of occupations in which a business will hire. For example, manufacturing, business service industries, and wholesale trades industries are considerably more dynamic in hiring in new occupations. One of the first signs that the economy is positive for business is that more than 70 per cent of the SMEs in the construction sector are looking to increase their number of employees. Other sectors, such as business services, manufacturing and primary, are attempting to increase their personnel as well. Some sectors with seasonal influences are more involved in replacing

employees, or, at peak periods, in increasing the number of employees. Replacing employees is common for businesses in community services, and hospitality sectors, as well as for the retail trade industries.

Level of Experience Employers are Looking for

In searching for new employees, SMEs are looking for candidates with all levels of experience. Half of respondents indicate that qualified candidates for positions requiring entry-level and two- to five-years experience are the hardest to find. The remaining half of respondents consider that candidates with at least six years of experience are hardest to find. SMEs need all levels of experience, and the lack of workers with more than six years of experience has an equally negative impact on them as the lack of entry-level workers.

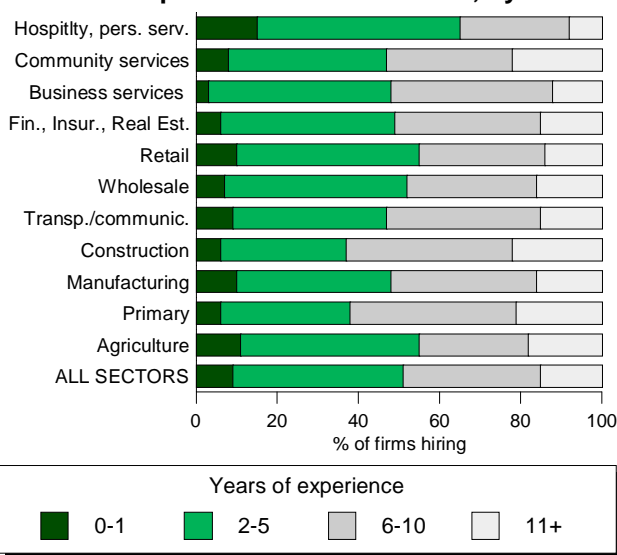
The nature and the complexity of the activity performed dictate the needs of a business in terms of experience level. Therefore, the level of experience required depends a great deal on the industry (see Figure 5).

Businesses operating in sectors where the activities performed cover a broad range of complexity, for instance in the construction sector, will be more likely to hire workers with higher levels of experience. In other cases, the activity performed requires explicitly a higher level of experience such as education or health services. Other sectors, inherently, will tend to hire more people with less experience, such as the retailing and hospitality sectors. All sectors need entry and high-level employees but the balance between the different levels of experience depends on the job's specifics.

In the particular context of a SME, people are expected to grow with the firm. A 1998 CFIB study on youth employment, *Hire Expectations*, found that young entrepreneurs usually hire people in the same age cohorts as themselves. This new study reinforces the previous finding that there is a strong correlation between the age of a business and the level of experience required in potential employees. Younger firms are more likely to look for less experienced people, whereas older firms tend to go for more experienced workers. The cultural factor can translate into better communication between the employer and employees, common goals and similar perspectives for the future. Exporting businesses tend to employ people with more than ten years experience

Figure 5

Level of Experience Hardest to Find, by Sector

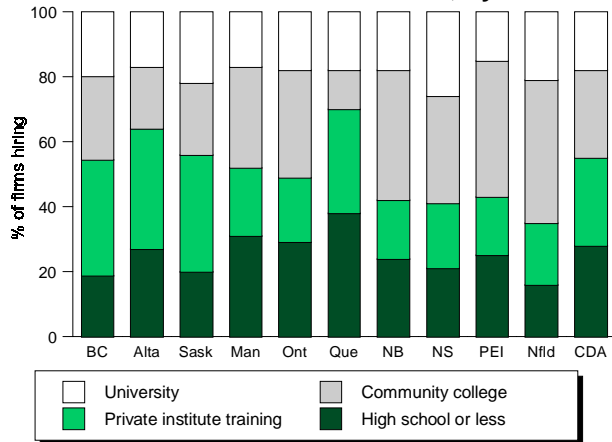


Source: CFIB, results of *Hard Facts Survey*, Oct.-Nov. 2000

Level of Education Employers are Looking for

Similar to experience, SMEs are looking for all levels of education. Less than a third of respondents, 28.3 per cent, believe qualified candidates with high school or less are hardest to find. One in four respondents, 26.5 per cent, considers candidates with private institute training education to be most difficult to find, whereas a similar share, 26.8 per cent, state that community college graduates are the hardest to find. The remaining 18.4 per cent indicate that university graduates are hardest to find. The results are broadly consistent by province, but are influenced both by the structure of their education system and the make up of their industrial bases (see Figure 6).

Figure 6
Level of Education Hardest to Find, by Province



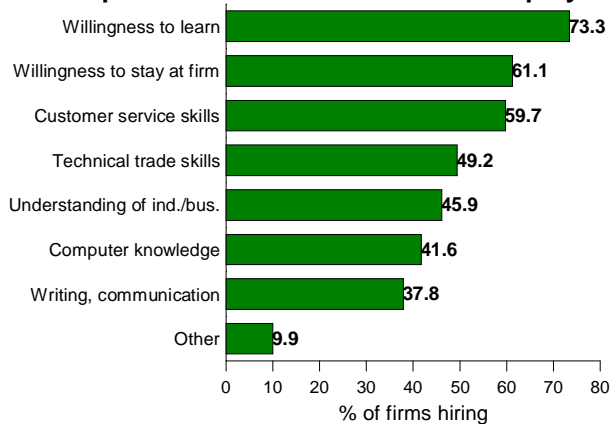
Source: CFIB, results of *Hard Facts* Survey, Oct.-Nov. 2000

The hospitality and transportation/communications sectors are more likely to need people with high school or less. Construction, retail, and financial sectors are more inclined to hire people with private institute training. Business services, agriculture, construction and wholesale look for more people with community college degrees. Business, community and financial services need highly educated people with university degrees.

Skills and Qualities

Besides education and experience, an employer is looking for a certain mix of other skills and qualities. The most valued qualities in employees are willingness to learn and willingness to stay at the firm, as cited by 73.3 per cent and 61.1 per cent of respondents respectively (see Figure 7).

Figure 7
Most Important Skills and Qualities in Employees



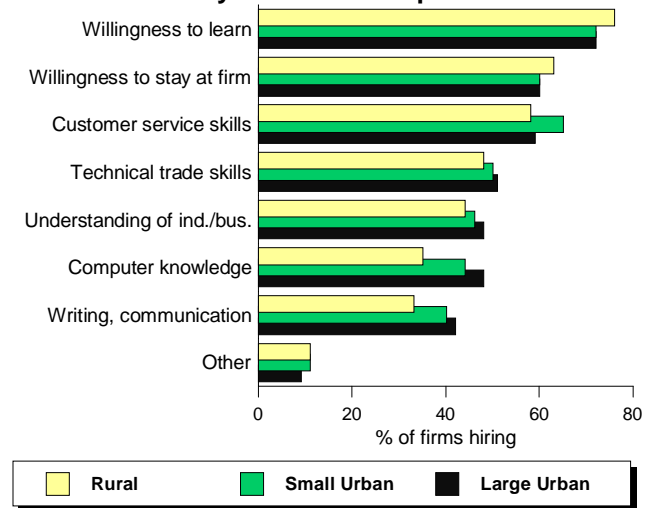
Source: CFIB, results of *Hard Facts* Survey, Oct.-Nov. 2000

Business owners are ready to train their employees, to help them acquire practical knowledge as long as they are willing to learn and to stay at the firm. The ability to be customer focussed is also important, as cited by 59.7 per cent of respondents.

For very young firms, with less than one year in business, the importance of willingness to learn rises to 81.2 per cent, and the value of customer service skills also increases to 75.9 per cent. The emphasis put on customer service skills by these firms derives from the fact that they are trying to create their niche by attracting new clients or satisfying new needs. Being customer focused is the quickest way to do it. As previously mentioned, younger firms are more likely to hire people with less experience. The lack of experience, however, has to be offset by qualities such as ability and willingness to learn. Young firms are willing to loosen their requirements in terms of past experience in exchange for having a solid understanding of the business or industry and a high aptitude for quick learning.

Firms located in urban areas place more emphasis on computer knowledge as well as on writing and communication skills compared to the rural firms. In addition, technical trade skills and understanding of business or industry are more important for urban firms. Businesses established in rural communities stress the importance of willingness to learn and to stay with the firm (see Figure 8).

Figure 8
Most Important Skills and Qualities in Employees, by Rural/Urban Split



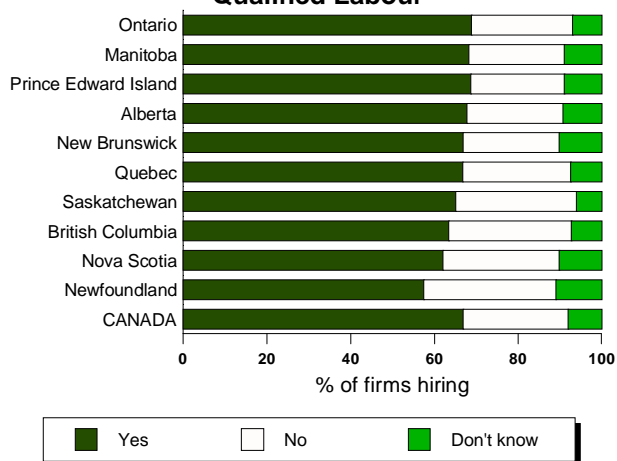
Source: CFIB, results of *Hard Facts* Survey, Oct.-Nov. 2000

The teachable skills vary from one industry to another and their importance depends on the sector. Generally, industries, such as agriculture, primary, manufacturing, construction, wholesale and transportation, value willingness to learn and to stay, as well as technical trade skills, the most. The sectors where the business comes into direct contact with the final customer put more emphasis on customer service skills and computer knowledge as well as the willingness to learn.

Impact of Labour Shortages

The shortage of qualified labour has a significant negative impact on SMEs over the long haul. Two-thirds of the firms that hired during the last year (67 per cent) stated that their firm's *long-term growth* is harmed by a lack of labour with the right skills (see Figure 9). This finding is consistent throughout all provinces, industries and all types of firms.

Figure 9
Long-term Growth Harmed by the Shortage of Qualified Labour



Source: CFIB, results of *Hard Facts Survey*, Oct.-Nov. 2000

Alternative strategies, such as hiring less experienced workers, overtime hours or greater capital investment may be a partial solution for some firms experiencing labour shortages. For others, there may be no cost-effective alternative but to lose out on business opportunities. This forces firms to operate in a compromised manner, resulting in sub-optimal growth in the SME sector and the economy. Considering that half of respondents (49 per cent) experience the greatest difficulty in filling positions that require at least six years of experience, some firms are likely hiring candidates that fall short on experience. In addition, the long delay of getting an appropriately skilled person for the job might lead, eventually, to hiring a less skilled person who is not

as trainable. Hence, *under filling* jobs helps explain the widespread concern about shortages of qualified labour.

Reasons for Hiring Difficulties

The reasons explaining hiring difficulties are as much macro-economic as micro-economic. Three quarters of respondents believe that lack of people with the right skills in their area is the number one reason for hiring difficulties. This factor is stressed even more when one considers that among all the firms that experienced a shortage of qualified labour, 83.7 per cent can't find skilled workers because of the lack of people with appropriate skills in their area. Possible reasons for the lack of people with right skills in the local area may include the wrong type of training provided by schools; choosing to be on social assistance instead of working; losing people to the competition; or the type of job vacancy.

Almost half of all businesses, 47.8 per cent, cite high wage expectations as a reason for hiring difficulties. In some cases, however, businesses are dissatisfied with costly salaries without necessarily having labour shortages. Additionally, 17.2 per cent of all firms that have labour shortages indicate they don't know where or how to find skilled people.

The relative importance of all these reasons varies depending on many factors such as province, industrial sector, age or size of business. Difficulties competing with social assistance programs are more important in Atlantic Canada than in other parts of the country. The wrong type of training provided by schools is cited more often in Quebec, at 31.5 per cent, than in Alberta where it falls to its minimum of 15.1 per cent.

By industrial sector, there are some major differences. However, concern with the lack of people with right skills in the local area is consistently the top reason, followed by high wage expectations. In the agriculture and hospitality sectors, people preferring to be on social assistance to working and favoring another type of employer are cited more often than the national average. In the primary and transportation sectors, competition hiring away the existing staff raises more concerns than in other sectors. The construction and manufacturing sectors are a lot more dissatisfied with the quality of training provided by the schools. Many in these sectors believe schools do not encourage young people to consider the trades as a valuable

career option. Wholesale and retail are threatened by high wage expectations and by the lack of knowledge regarding where or how to find skilled people. Education, health and social services as well as the hospitality businesses are also concerned with costly salaries. By age or size of the business, the results are fairly similar with one exception. Competition hiring away their staff is a stronger concern for older and larger businesses.

This multitude of possibilities combined in very diverse proportions for every firm leads to the conclusion that there is no unique reason for hiring difficulties. Therefore, no one solution can solve the shortage of qualified labour, only a balanced approach among training institutions, governments, and businesses can hope to resolve these problems.

Conclusion and Recommendations

The vast majority of small and medium-sized businesses are active participants in the labour market. The significant level of job creation activity undertaken by small, entrepreneurial firms is testament to their role in creating and capitalizing on business opportunities in all markets. Unfortunately, far too many firms are experiencing difficulties hiring appropriately qualified skilled labour, resulting in many jobs going unfilled. Even in provinces where unemployment rates are stubbornly high, labour shortages remain significant. The sheer magnitude of lost opportunities for entrepreneurs and unemployed is extensive, particularly in the longer term. Lack of action to address *today's* labour shortages will limit the success of *tomorrow's* entrepreneurs.

The survey results demonstrate that economic growth affects the severity of the labour shortage. However, shortages remain at unacceptably high levels even during times of low growth. This finding points to the need to review Canadian labour markets to better understand the reasons for the chronically high level of labour shortages. In discussing solutions, it is important to acknowledge that each labour shortage issue is unique, each with its own unique set of potential solutions.

The 21st century economy will no doubt become more skill intensive, with shortages of qualified workers becoming worse if they are not readily addressed. Listed below are a number of strategies that merit careful review and analysis:

- **The immigration system should be used more effectively as a key source of skilled labour.** One way this can be achieved is by streamlining the immigration process for foreign skilled workers. According to the Auditor General, Canadian immigration offices abroad have been unable to process applications quickly and effectively. In 1999, for example, the application process took on average 25 months for a skilled worker, as opposed to 13 months just three years earlier.
- **Barriers to labour market entry and mobility should be reduced.** People's choices relating to their participation in the labour market are severely distorted by various government policies. For example, the current practice of delivering social benefits through the personal income tax system results in extremely high effective marginal tax rates for lower income earners. This practice, combined with the recent changes to Employment Insurance and social assistance plans, results in a strong financial disincentive to work. In addition, the *Internal Trade Agreement* should be strengthened to allow greater transferability of professional accreditations in order to increase labour mobility within Canada.
- **The tax burden on business should be reduced.** In particular, payroll taxes, such as Employment Insurance and Canada/Quebec Pension Plan premiums, significantly increase the cost of hiring. SMEs are generally more labour-intensive than larger firms. As a result, the cost impact of payroll taxes is proportionately higher for SMEs. Targeted payroll tax reduction measures such as the federal *Youth Hires* program are welcome, as are broad-based payroll tax reductions.
- **Small employers need to communicate more effectively with education officials and students.** It is vital that business owners have an opportunity to apprise educators and students of their needs for employees and to become active participants in developing education policy.
- **Post-secondary education institutions should increase the transferability of credits.** Students are currently limited in their ability to adjust their career goals by switching institutions or programs. The rising costs of university/college tuition will only increase the disincentive to adjust education goals to better match the needs of a dynamic labour market.

- **Co-op education programs and apprenticeships should be used to a greater extent to ease the transition from school to work.** Allowing students to gain experience in the workplace environment of their chosen field results in a learning experience that can only be obtained outside the classroom. Employers are provided with an energetic worker that is able to inject innovative ideas into the workplace.
- **Basic skills should be fully integrated into the education system.** Skills such as reading, writing, math, and computer knowledge are all marketable traits for any job candidate. All schools should ensure that basic skills are taught intensively to all students.
- **Workers should assume a more active role in job searching and ongoing skills development.** The ever-changing labour market has increased the demand for more flexible and innovative workers. To remain marketable in the labour market, workers need to ensure that their skill set is updated on a regular basis.
- **Private technical and vocational schools should be incorporated into the education system in a more meaningful manner.** Small business owners consistently rank private training as more relevant than publicly funded institutions. Measures should therefore be taken to ensure that such institutions are not overlooked by persons seeking an alternative to public education or to upgrading their skills. Moreover, private trade/vocational schools should be allowed to participate in government education initiatives, such as the federal *Millennium Scholarship Fund*.

In general, initiatives to address labour shortages work best when they are led by both, employers and employees, and implemented at the community level. The role of government should be to act as a catalyst and facilitator. There is no quick fix or single solution to solving the dilemma of labour shortages.