Supporting Entrepreneurship and SMEs: A Post-Pandemic Skills and Training Agenda

TANIA SABA, SIMON BLANCHETTE, CATRINA KRONFLI
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The Future Skills Centre is funded by the Government of Canada’s Future Skills Program.

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ABOUT THE PROJECT

Skills for the Post-Pandemic World tackles key questions facing policymakers, employers, training providers and workers. It is urgent that society turns to face the fundamental changes in the labour market precipitated by the COVID-19 pandemic, and many players must rise to meet the new conditions of a post-pandemic world.

Society will slowly reopen and business will resume, but there will be no “return” to normal: the pandemic has dragged the future of work into the present. Digitization, work from home, plus other steepened trajectories and intensified shifts well documented in the future-of-work discourse are here now, and likely to stay.

Building on the collaborative success of the Skills Next series, the Public Policy Forum (PPF) and the Diversity Institute (DI), funded by the Future Skills Centre (FSC), and with new support from Microsoft, join once more to face these rapid societal shifts head-on, with research looking at the future of skills, training and retraining in ways that will chart a path forward as the pandemic continues to unfold.

The goal of this series is to build a robust policy ecosystem that supports the mobility needed for workers and employers to navigate the new reality. To do this, we examine eight key topics:

1. Job polarization in Canada: Skills for the post-pandemic world
2. Digital infrastructure for the post-pandemic world
3. New working arrangements
4. Building inclusive workplaces
5. Immigration and the success of Canada’s post-pandemic economy
6. Innovation in post-secondary education
7. The mother of invention: Skills for innovation in the post-pandemic world
8. Supporting entrepreneurship and SMEs

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TABLE OF CONTENTS

About the project ........................................... iv
Authors .................................................. v
Table of contents ....................................... vi
Foreword: Supporting Entrepreneurship and SMEs ................................................ vii
Executive summary .................................... ix
Introduction .............................................. 1
  SMEs and the Canadian economy. .......................... 1
  COVID-19 impacts on SMEs: Sectoral differences, size, gender and equity-seeking groups. .... 3
SMEs and skills: Essential skills and future skills ......................... 9
Surveying SMEs ......................................... 13
  Preliminary survey results .............................. 14
  Labour market challenges ............................... 16
  Skills in demand ........................................ 18
  Potential solutions to skills shortages .................. 23
Conclusions .............................................. 31
Ways forward: Recommendations and areas for additional research ....... 33
Endnotes .................................................. 36
COVID-19 made a devastating debut on the world scene and launched a new era of how we live and work in our global society. The pandemic ushered in drastic changes and deepened inequalities: health and economic crises, border closures, lockdowns, mass job losses and the curtailment of educational activities. Nevertheless, it also accelerated innovation and particularly the adoption of new technologies, compressed adoption cycles from years to weeks and transformed entire sectors – government, health care, education, retail, financial services and more.

As we see the prospect of a post-pandemic chapter ahead – thanks in part to the incredible pace of vaccine development and production – we are also challenged to imagine a different way of working, learning and living.

At the Future Skills Centre, we focus intently on ensuring that Canadians have the opportunities and resources to thrive in the future of work. It is critical to ensure that everyone, especially under-represented groups who have been disproportionately impacted by the pandemic, can access opportunities to succeed and share in Canada’s prosperity. We are also committed to ensuring employers have access to the talent they need to innovate and grow. As we plan for a future after the pandemic – one in which digital skills and connections have become even more essential – we can’t stress enough the urgency of developing skills
strategies, policies, and programs that enable us to rebuild better and more inclusively.

This report, part of the Skills for the Post-Pandemic World series of research reports, explores the challenges facing small and medium-sized enterprises (SMEs). Entrepreneurs and SMEs have been disproportionately affected by the pandemic and were grappling with significant obstacles to economic growth even before the onset of COVID-19. Skills gaps, labour shortages, and a lack of a unified language to discuss skills are among the most prominent challenges confronting SMEs. Despite these challenges, SMEs continue to drive economic growth and innovation in Canada. Economists predict that many are at risk of ending up on the wrong side of a “K-shaped” recovery, where parts of the economy recover at different rates or magnitudes, worsening the inequalities that already existed along class, racial, geographic, or industry lines. This report first reviews existing research on the upskilling and training needs of SMEs and entrepreneurs and proposes options to better support them, and secondly, presents preliminary results from a survey on skills and competencies. This report includes a strong focus on diversity and inclusion, as SMEs strive to recover and thrive in the post-pandemic era.

We thank our partners at the Diversity Institute and the Public Policy Forum for convening this research and these discussions. This is a crucial conversation as we turn our collective energy towards rebuilding our economies and educational systems to be better and more inclusive so that we can all share in a more prosperous future. We also thank the Government of Canada for its support of a national future skills strategy that builds on evidence generation and practical delivery of skills training and assessment programs.

PEDRO BARATA
Executive Director, Future Skills Centre
EXECUTIVE SUMMARY

The impact of the COVID-19 pandemic has, in general, been considerably more severe on entrepreneurs and small and medium-sized enterprises (SMEs) than on larger organizations. This fact is critical to note since SMEs are the backbone of the Canadian economy, employing almost 90 percent of all Canadians who work in the private sector. It is not an overstatement to say SMEs drive economic development, growth and innovation in Canada.

But despite their importance, it is becoming increasingly clear that many SMEs are on the downward slope of what experts are calling a “K-shaped” recovery to the pandemic-induced economic crisis.

SMEs faced significant challenges even before the pandemic. Skills gaps and labour shortages have long been a feature of the Canadian economy and they remain a top concern for SMEs. Despite recognition of this challenge, we still lack a unified language to discuss skills and competencies, and there continues to be a lack of clarity as to which skills and competencies are really needed by firms and their employees.

The purpose of this report is twofold: First, it reviews existing research on SMEs’ and entrepreneurs’ skills, upskilling and training needs, and proposes options for better supporting them as they strive to recover from the pandemic and prepare for what comes next. In particular, this review highlights barriers and challenges faced by entrepreneurs who are members of equity-seeking groups, especially in the context of the COVID-19 pandemic. Second, this report presents preliminary results from a survey on skills and competencies (a survey that is still in the field as of June 2021) and from a set of focus groups conducted as part of the same project.
By combining these novel findings with insights from existing research, this report provides an updated perspective on:

- The role of SMEs in the Canadian economy;
- Challenges SMEs face in terms of labour shortages, skills gaps and in identifying the skills they will need in the future;
- Impacts of COVID-19 on SMEs in different sectors, as well as on current skills demands in SMEs;
- Current human resources practices in SMEs; and
- Ways forward and areas for additional research.

A key takeaway is that preliminary survey results echo what has already been discussed in the literature, meaning much work remains to be done to better support SMEs in bridging existing skills gaps and addressing labour shortages. While some organizations have found new opportunities due to the pandemic (e-commerce or an expanded talent pool made available by the shift to remote work, for instance), firms still struggle to identify the skills and competencies they need. And even if they can find the right talent, finding the resources to nurture and train that talent remains difficult for many SMEs. Moreover, while many firms indicated an interest in seeking out diverse individuals such as Indigenous or racialized people to find previously untapped sources of skilled talent, very few had concrete plans for how to do so.

Another key takeaway is that SMEs often have limited capacity to dedicate to human resources, recruitment, training, upskilling and other functions essential to meeting their skills needs. This also limits their ability to engage in new forms of recruitment designed to better reach broader and more diverse talent pools. This limited capacity highlights how any pandemic recovery plan needs to take into account the specific realities and resource challenges faced by SMEs for that plan to be successful, let alone equitable. And, given SMEs’ central importance to the Canadian economy, this limited capacity shows why it is crucial to give these firms a seat at the table where planning for the recovery is taking place and why they must be supported in getting there if necessary.

This report concludes by identifying next steps to help SMEs bridge skills gaps and overcome labour shortages while building a more equitable post-pandemic world. The recommendations focus on actions that can be taken to improve human resources practices in SMEs, foster diversity
and the inclusion of members of equity-seeking groups, and concrete ways to better measure impacts. Specific recommendations include:

- Increased support for SMEs that have limited human resources capacity from various stakeholders in the ecosystem, including business organizations and industry associations;
- The provision of more flexible and modular training options for workers;
- The development of shared platforms equipped with training and tools to improve access to diverse labour pools and to support skills development and career paths;
- The collection of more disaggregated data to assess the experiences of different types of SMEs, particularly those owned by women and other under-represented groups; and
- The broadening of the impacts considered by funders and supports for SMEs to include impacts on communities and social goals.
INTRODUCTION

The impact of the COVID-19 pandemic on small and medium-sized enterprises (SMEs) has been significant and severe. In most cases, the consequences for SMEs have been greater than for larger organizations.

This is significant, as SMEs form the backbone of the Canadian economy,\(^1,2\) with 68.8 percent of Canadians who work in the private sector employed by small businesses, 19.7 percent by medium-sized businesses, and only 11.5 percent by large businesses.\(^3\) In essence, SMEs drive economic development, growth and innovation in Canada.

This report reviews existing research on SMEs and entrepreneurs and proposes ways to better support them as they strive to recover from the pandemic and prepare for what comes next — particularly as it relates to their skills, competencies, upskilling and training needs. The report includes analysis of preliminary results from a survey on skills and competencies,\(^1\) as well as results from focus groups conducted with members of the Ontario Chamber of Commerce and the Fédération des chambres de commerce du Québec.\(^2\) Specifically, the report aims to provide an updated perspective on:

- The role of SMEs in the Canadian economy;
- Challenges SMEs face in terms of labour shortages, skills gaps and in identifying the skills they will need in the future;
- Impacts of the COVID-19 pandemic on SMEs, as well as on current skills demands in SMEs;
- Current human resources practices in SMEs; and
- Ways forward and areas for additional research.

SMES AND THE CANADIAN ECONOMY

SMEs are defined as companies with fewer than 500 employees. As shown in Figure 1 below, SMEs employ nearly 90 percent of the Canadian private-sector labour force. In absolute numbers, as of December 2019, they represented 99.8 percent of the 1,226,454 business employers in Canada.\(^4\)

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\(^1\) The survey, which is focused on the skills needs of SMEs, was developed by the Chaire BMO en Diversité et Gouvernance at the University of Montréal, the Ontario Chamber of Commerce (OCC) and the Fédération des chambres de commerce du Québec (FCCQ), with assistance and support from Ryerson University’s Diversity Institute and the Future Skills Centre.

\(^2\) All survey and focus group data included in this report is preliminary and drawn from Saba, T., and Blanchette, S. (Forthcoming).
As is discussed below, skills gaps and shortages have long been identified as a key challenge for Canada’s economy, with 40 percent of SMEs identifying skills shortages as a major competitive challenge. \(^5\), \(^6\) The pandemic has amplified this problem and created new challenges related to recruitment, training, upskilling and capacity.

**Over the last year, many SMEs have disappeared forever — 25,614 businesses closed between February and September 2020 in Ontario alone\(^7\) — while many others are battling to survive the impacts of COVID-19.**

Overall, SMEs are in desperate need of support tailored to their specific needs. Given that these needs vary widely across sectors and firm size, multiple forms of support are needed. \(^8\)

SMEs also need to be more involved in discussions surrounding skills gaps and labour shortages, as well as in establishing the post-pandemic skills agenda. This is imperative, especially considering that SMEs account for a combined 61.2 percent of job growth in Canada, as shown in Figure 2 below. \(^9\)
COVID-19 IMPACTS ON SMES: SECTORAL DIFFERENCES, SIZE, GENDER AND EQUITY-SEEKING GROUPS

While all businesses have endured challenges during the pandemic, SMEs have faced a particularly difficult set of hardships. This is particularly concerning because negative impacts for smaller businesses translate into disproportionately negative impacts for women and other equity-seeking groups (racialized people, persons with disabilities, Indigenous Peoples).¹⁰

Many observers and experts have suggested unequal impacts like this signal the recovery from the pandemic will be “K-shaped,” meaning some firms will be able to recover quickly (the upper arm of the K) while others will not and may not even survive at all (the lower arm of the K). For businesses on the upper arm that were well-positioned, the pandemic has been a catalyst to speed up their digital transformation.¹¹ For those on the lower arm, which includes many firms in the hospitality, retail and entertainment sectors, a rapid pivot to digital was less possible. Significantly, business owners and workers in these sectors disproportionately belong to equity-seeking groups.¹²

Consider the example of the technology sector, which has actually experienced enviable growth over the last year despite the onset of COVID-19. In fact, by May 2020, the sector had already recovered to its pre-pandemic employment level.¹³ But it is also a sector where women and other members of equity-seeking groups are under-represented — only 20 percent of the sector’s workforce are women.¹⁴ This will be discussed in greater depth below, but it helps to explain why women have ended up bearing the brunt of the pandemic’s impacts.¹⁵ More generally, businesses in sectors that were able to quickly pivot to telework and e-commerce, such as banking and finance, and telecommunications and technology, are fairing better, and even thriving in some instances.¹⁶
While there was clearly significant variation based on sector, in general, smaller firms laid off employees at much higher rates than larger ones.

As illustrated in Figure 3 below, 26.3 percent of SMEs with 1 to 4 employees, 39.9 percent of SMEs with 5 to 19 employees, and 35 percent of SMEs with 20 to 99 employees had to lay off 50 percent or more of their staff because of the pandemic. In comparison, only 17.4 percent of large organizations had to lay off 50 percent or more of their staff. Also, while 16.1 percent of SMEs with 1 to 4 employees and 15.2 percent of SMEs with 5 to 19 employees had to lay off 100 percent of their employees because of the pandemic, far fewer firms with 20 or more employees faced this reality.

**Figure 3: Percentage of workforce laid off because of the COVID-19 pandemic, by majority ownership**

<table>
<thead>
<tr>
<th>Employees</th>
<th>0%</th>
<th>10%</th>
<th>20%</th>
<th>30%</th>
<th>40%</th>
<th>50%</th>
</tr>
</thead>
<tbody>
<tr>
<td>500 or more</td>
<td>5%</td>
<td>6%</td>
<td>6%</td>
<td>17%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>250 to 499</td>
<td>6%</td>
<td>9%</td>
<td>8%</td>
<td>24%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>100 to 299</td>
<td>7%</td>
<td>9%</td>
<td>9%</td>
<td>27%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>20 to 99</td>
<td>8%</td>
<td>10%</td>
<td>11%</td>
<td>5%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5 to 19</td>
<td>9%</td>
<td>9%</td>
<td>7%</td>
<td>15%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 to 4</td>
<td>6%</td>
<td>16%</td>
<td>26%</td>
<td></td>
<td></td>
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</tbody>
</table>


From a revenue perspective, the pandemic has also hit SMEs comparatively harder than large firms.

**Overall, small businesses have experienced a 20 percent or greater decline in revenue compared to the same period in previous years, and 70 percent have experienced declines in revenue of 30 percent or more since the start of the pandemic.**

This uneven experience of the pandemic can also be seen in how different types of firms have taken on debt. According to the Canadian Federation of Independent Business, around 70 percent
of small business owners have taken on debt. On average, this debt has climbed to $170,000 per business. Over three quarters of these businesses forecast they will need more than a year to repay the debt, while 11 percent report they will never be able to repay it. Strikingly, nearly 90 percent of businesses in the hospitality sector and in the arts, recreation and information sector had to take on COVID-19-related debt and did so, on average, at a rate of over $200,000 each. In less affected sectors such as transportation and finance, only 60 percent of firms took on debt and did so at a lower rate, averaging $90,000 to $100,000.19

Examining which businesses have taken on debt is also a useful way to illustrate how the pandemic has impacted members of equity-seeking groups in a disproportionate way. One survey conducted by the Black Business and Professional Association showed Black-owned businesses were twice as impacted and half as likely to be able to access support or take on additional debt.20

Another important dimension of the pandemic’s inequitable impact emerges when a gender lens is applied. We know that women entrepreneurs are overrepresented in smaller SMEs: 92.7 percent of Canadian women-owned enterprises have fewer than 20 employees (the figure for men-owned businesses is 86.5 percent).21 This means that when smaller businesses suffer, women business owners suffer disproportionately. As is illustrated in Figure 4 below, 33.5 percent of majority women-owned businesses had to lay off 50 percent or more of their employees (17.8 percent had to lay off 100 percent), compared to 27.2 percent for all ownerships. A similar dynamic is also true for racialized people.

Figure 4: Percentage of workforce laid off because of the COVID-19 pandemic, by business ownership

Moreover, while they face these business challenges, women also face a disproportionate burden in other areas as well. For instance, one study found that 16 percent of women were dissatisfied with the distribution of household tasks during the pandemic, compared to only nine percent of men. As illustrated in Figure 5, very few household tasks are being done primarily by men — with the exception of household finances. Women are bearing most of the burden of unpaid caregiving, including childcare, which has been identified as a top challenge by women entrepreneurs. The burden of trying to balance all these competing demands has significantly worsened women’s mental health.

Figure 5: Distribution of household tasks between women and men

The pandemic has so impacted women that it has been dubbed the “she-pandemic” by some, and its resulting consequences a “she-cession.” Even before the pandemic, however, women entrepreneurs were often invisible to policymakers and they have consistently struggled to be heard and seen. This problem has been exacerbated by the pandemic. For example, because of their smaller size, many women-owned SMEs do not meet requirements for government pandemic support programs such as financial aid, even though almost 50 percent of women business owners are actively seeking financing to survive and adapt.
In addition to being hit harder by the pandemic, it is now emerging that women-owned businesses are also having a harder time recovering.

This gendered recovery differential is even true for businesses in sectors that have rebounded quickly, such as the construction sector.\(^3^9\) This also underlines important differences with the 2008 recession, where job losses were more pronounced in sectors dominated by men.\(^4^0, 4^1\)

Further differences emerge when looking at other groups hit particularly hard by the pandemic. Prior to the pandemic, Black women entrepreneurs already faced tremendous barriers, including gender bias, anti-Black racism, a lack of role models, systemic discrimination, a lack of sponsorship, limited networks and a lack of culturally informed pedagogy and supports. Despite this — and possibly because of it, as Black women may choose entrepreneurship to gain more control over their economic situation\(^4^2\) — Black women account for a disproportionate 42 percent of all net new women-owned enterprises, and they tend to be more at risk. This vulnerability is a product of the fact that their businesses tend to be newer, which can translate to them being less solidly established and in a more precarious financial situation. This pre-existing precariousness has made it even harder for these businesses to weather the uncertainty of the pandemic.\(^4^3\)

Indigenous women entrepreneurs are also a vital part of entrepreneurship in Canada. In fact, Indigenous women are starting businesses at twice the rate of non-Indigenous women, which translates into nearly 23,000 Indigenous women entrepreneurs.\(^4^4, 4^5\) They face the same barriers as non-Indigenous women entrepreneurs, plus added barriers due to intersectionality similar to Black women entrepreneurs. Some Indigenous women also face challenges due to legal restrictions associated with the Indian Act, which can make it harder for them to access funding and relief money.\(^4^6\) For instance, early in the pandemic, the Canada Emergency Business Account (CEBA) program considered only taxable income in its eligibility criteria, which excluded on-reserve businesses since they are not taxed.\(^4^7\) These criteria have since been changed, but this oversight was costly for some Indigenous women entrepreneurs who could not access funds when they needed them.\(^4^8\) Indigenous-owned businesses also tend to be smaller, which, as discussed previously, adds challenges.\(^4^9\) Given these challenges, the recovery of businesses owned by Indigenous women has been slower than average.\(^5^0\)

While there is still only limited data on the impact of COVID-19 on persons with disabilities, especially when it comes to work and entrepreneurship, we already know about some of the
challenges they face.\textsuperscript{51} For instance, we know that during the pandemic persons with disabilities have been more likely to report mental health concerns than the general population.\textsuperscript{52} We also know that internet usage among persons with disabilities is lower than average (20 percent do not use the internet).\textsuperscript{53, 54, 55} Given the growing importance of telework — a trend unlikely to disappear post-pandemic — this lower utilization rate represents an important barrier for persons with disabilities to participating in the economy as entrepreneurs or as workers.\textsuperscript{56}

These findings highlight the need to apply gender and intersectional lenses to the design and execution of programs and initiatives aimed at boosting Canada’s economic recovery.\textsuperscript{57, 58, 59} Research and practice focused on better supporting entrepreneurs and SMEs, especially those from equity-seeking groups, will be critical to these efforts.
SMEs AND SKILLS: ESSENTIAL SKILLS AND FUTURE SKILLS

Skills gaps and shortages have long been part of Canada’s economic landscape, with 40 percent of SMEs identifying skills shortages as a major competitive challenge. Simultaneously, skills and training needs are changing rapidly, although the availability of granular data on specific skills and competencies needed by businesses, which can vary widely across sectors and regions, is limited. Nonetheless, we know the demand for a highly skilled workforce, which is crucial to the knowledge economy and for fostering innovation, is here to stay.

In this context, many firms are shifting their focus towards “skills” and “competencies,” and away from credentials. In other words, businesses are learning to focus more on what someone can actually do, instead of where they went to school. This is important as recruiting and retaining talent is one of the top three factors strengthening an organization’s competitiveness and a vital competitive challenge.

Take digital skills, such as using information and communications technology, as an example. Digital skills are used in many sectors, including financial services, manufacturing, public sector, health care and others, but there is a lot of variation in terms of which skills are critical in different sectors, and even between positions in the same sector. There is a pressing need to better understand which skills are needed at a greater level of granularity so that training and upskilling initiatives can be better and more equitably designed.

Additionally, even though there has been a strong emphasis on digital skills in recent years, there are other skills critical for entrepreneurs and SMEs such as communication and working
with others. This is reflected in the Government of Canada’s Skills for Success framework which highlights nine essential skills (see Figure 6).

**Figure 6: Skills for Success**

![Diagram showing the nine essential skills: Adaptability, Creativity & Innovation, Writing, Collaboration, Digital, Problem solving, Numeracy, Communication, Reading, Essential Skills](image_url)


There is also growing recognition of the importance of what were previously called “soft skills” such as resilience, emotional stability, time management, flexibility and adaptability, especially in the face of COVID-19 and the increased stress and changes in work arrangements (e.g., telework) that its emergence has demanded.\(^73\), \(^74\), \(^75\)

For example, managers have had to develop new management and co-ordination skills, such as managing people they do not see in person, and learn to be more empathetic and flexible to manage the adversity presented by staff members’ physical and mental health challenges.\(^76\) Indeed, the pandemic has highlighted the importance of developing better trauma-informed approaches to skills training, with employers now trying to support employees facing social and financial challenges, as well as other COVID-19-related traumas, like the death of loved ones and social isolation.\(^77\)

Despite the growing focus on skills and competencies, there is a lack of consensus concerning how to define and assess them.\(^78\) The problems that can stem from this lack of a shared understanding are well illustrated by the gap that has emerged between the skills employers perceive recent
Supporting Entrepreneurship and SMEs: A Post-Pandemic Skills and Training Agenda

graduates as possessing and skills that recent graduates see themselves as possessing. This gap was highlighted dramatically in a 2014 study by the Ontario Human Capital Research and Innovation Fund (OHCRIF), with the gap in perceptions for oral communication and writing skills illustrated in Figure 7 below.79, 80

Figure 7: Gaps in skills perception

![Figure 7: Gaps in skills perception](image)

OHCRIF’s survey revealed challenges for recent graduate job seekers and employers that exist due to differences in the definition and assessment of both technical and "soft" skills.


While not the whole solution, better shared frameworks and definitions of skills should help to reduce these gaps in perception and enable better training program design.

Moreover, by enabling workers and employers to better agree on the relative value of the skills that workers possess and employers need, these improved shared understandings can enable skills to play the role of labour market “currency” more effectively.81, 82

They will also enable better research, for example, by allowing the collection of data that will be more widely comparable. Ultimately, it will allow the various stakeholders in the skills ecosystem to speak the same language.
To that end, we need to understand how to better support entrepreneurs and SMEs and involve them in the discussions through which these improved shared understandings are created, especially as they often have limited resources to invest in human resources and are thus likely to benefit disproportionately from these efforts. Too often the agenda on skills and preparation for the future of work is set by large organizations, which does not necessarily lead to frameworks and approaches that are representative of SMEs’ reality and actionable for them given the level of resources they possess.83
SURVEYING SMEs

To gain a better understanding of the conditions SMEs are currently facing, the Chaire BMO en Diversité et Gouvernance at the Université de Montréal, the Ontario Chamber of Commerce (OCC) and the Fédération des chambres de commerce du Québec (FCCQ), with assistance and support from Ryerson University’s Diversity Institute and the Future Skills Centre, developed a survey focused on the skills needs of SMEs.\textsuperscript{iii} While data collection is still ongoing (as of June 2021), this report draws on preliminary data that includes results from 297 complete surveys.\textsuperscript{iv} The majority of respondents (80.37 percent) are from Quebec with 14.64 percent based in Ontario.\textsuperscript{v}

In addition to gathering information on current conditions, this survey was also designed to aid in the development of an updated taxonomy of skills and a set of shared definitions and frameworks. To that end, the survey is based on existing frameworks (e.g., Employment and Social Development Canada, Organisation for Economic Co-operation and Development, and O*NET\textsuperscript{vi}) and updated with the latest research.

The results of the survey were supplemented by focus groups with managers, entrepreneurs, human resources professionals, training providers and other stakeholders. The aim of these focus groups was to gain additional insights to help provide context and harness the power of both quantitative and qualitative methodologies. Preliminary analysis of this focus group data also informs this report.

\textsuperscript{iii} All survey and focus group data included in the remainder of this report is preliminary and drawn from Saba, T., and Blanchette, S. (Forthcoming).

\textsuperscript{iv} The focus of this survey is on SMEs, but a few large organizations are also part of the sample — 88.15% of respondents are SMEs with 500 or fewer employees and 66.7% are SMEs with 50 or fewer employees. Additionally, not all respondents completed every question, so the “n” value varies from question to question.


\textsuperscript{vi} The O*NET Program is a source of occupational information. See https://www.onetonline.org/.
PRELIMINARY SURVEY RESULTS

In the remainder of this section, we present preliminary results from the survey as well as highlights from data collected in the focus groups. Further analysis, as well as some conclusions and recommendations derived from this data, are presented in the final sections of the report.

Survey respondents come from various backgrounds and represent firms that operate in several different sectors (see Figure 8). Respondents are well distributed across a range of operational and business models, with 49 percent involved in business-to-business operations, 38 percent business-to-consumer, and 13 percent business-to-government. Similarly, 57.8 percent of respondents represented firms that primarily provide services, 23.3 percent are from goods and products firms, while 18.9 percent provide both.

Figure 8: Distribution of respondents based on the industry that best describes their main line of business
The sample also includes a good distribution of firm sizes, representing the full spectrum of SMEs, as well as a few larger organizations. As shown in Figure 9, 88.2 percent of the respondents are SMEs (500 or fewer employees) and 66.7 percent have 50 or fewer employees.

Figure 9: Size of respondents’ business, by number of employees (n=297)

Even though the primary aim of the survey was to focus on skills, it was necessary to include questions about the impact of the COVID-19 pandemic to understand the unique challenges entrepreneurs and SMEs are experiencing. Notably, while respondents were usually focused on the negative aspects of the pandemic — and they are significant — for some SMEs and entrepreneurs, the COVID-19 pandemic has also created opportunities. As illustrated in Figure 10, nearly 50 percent of respondents agreed or strongly agreed that the current crisis has created opportunities that they are seizing.

Figure 10: The crisis is synonymous with opportunity, and we are taking advantage of it (n=284)
Preliminary results show there is considerable optimism among some respondents, something that has not been seen in other research published recently. As shown in Figure 11, 75.6 percent of respondents agreed or strongly agreed that their company will survive the crisis. Furthermore, when asked this question in a different way, i.e., “my company will not survive this crisis”, only 2.5 percent of respondents agreed or strongly agreed.

**Figure 11: The situation is difficult, but the company will survive the crises (n=291)**

![Figure 11: The situation is difficult, but the company will survive the crises (n=291)](chart)

**LABOUR MARKET CHALLENGES**

One key finding to emerge is that skills gaps remain an important challenge for SMEs, as do labour shortages.

Thirty-seven percent of respondents indicated that a shortage of skilled workers has affected their business, while another 37 percent said increased labour costs had done so, and 27 percent indicated that the introduction of new organizational practices, such as remote work arrangements, had an effect.

Figure 12 illustrates how skills and labour shortages remain a top-of-mind preoccupation for many business owners.
Figure 12: Over the past five years, how have changes in the labour market affected your business? (n=297)

Introduction of new organizational practices (e.g. telework, organizational realignment)
Skills and labour shortages
Increased labour costs

The importance of upskilling and training is another key finding that emerges from the data. Figure 13 shows respondents’ ratings of the extent to which their current employees have the skills needed to face the changes they anticipate their firms will need to navigate. Using a scale of 1 to 10 (with 1 signalling employees do not have the skills needed and 10 that they do), almost three quarters of respondents (72.1 percent) assessed their employees’ skill readiness at 7 or below.

Figure 13: Generally speaking, to what extent do the people working in your company have the necessary skills to deal with the anticipated changes? (n=297)
Respondents also indicated it is difficult to recruit employees with the skills their firms need. As shown in Figure 14, 71.4 percent of respondents selected an answer of 5 or below, meaning almost three in four respondents’ responses fell on the negative side of the 10-point scale.

**Figure 14: How easy or difficult is it to recruit employees whose skills are essential to your business' mission and development? (n=297)**

These results suggest workers can be hard to find, especially skilled ones. But the results also shed light on the specific skills, or families of skills, in demand by SMEs and entrepreneurs.

**SKILLS IN DEMAND**

Overall, the preliminary results show SMEs face challenges recruiting for the skills they need. To gain more specific insights into the importance of particular skills and competencies, the subsections that follow focus on the importance of specific skills families, such as digital skills and problem-solving skills.

**Basic skills**

Basic skills are skills such as reading, understanding and writing; both in general and in a digital environment. Figure 15 shows how 41.1 percent of respondents rated basic skills as very important and 89.9 percent rated the importance of basic skills at 7 out of 10 or above.
Figure 15: How important is it for them to have basic skills such as reading, understanding and writing in general and in a digital environment? (n=297)

Digital skills

Digital skills are also deemed very important. While respondents were not given a definition of digital skills, they are usually understood to include: the ability to use digital devices, systems, networks, applications and software; understanding hardware protection as well as data protection (e.g., security of software applications, data and personal information); creating new digital content; and identifying business information needs. Figure 16 shows that three quarters (72.1 percent) of respondents valued these skills at 8 out of 10 or above.

Figure 16: How important is it for them to have digital skills? (n=297)
Creativity skills

Creativity skills include the ability to think about a task or a problem in new or different ways, or the ability of an individual to use their imagination to generate new ideas — all skills that are linked with innovation.85 As illustrated in Figure 17, more than four out of five (81.5 percent) respondents ranked the importance of creativity skills at 7 out of 10 or above.

Figure 17: How important is it for them to have creativity skills such as the ability to think about a task or a problem in a new or different way, or the ability to use the imagination to generate new ideas? (n=297)

Problem-solving skills

Problem-solving skills refer to the ability to make decisions, think critically, plan, remember details and find information. Figure 18 shows how three quarters (74.8 percent) of respondents ranked the importance of problem-solving skills at 8 out of 10 or above.

Figure 18: How important is it for them to have problem-solving skills such as the ability to make decisions, think critically, plan, remember details and find information? (n=297)
Communication skills

Communication skills refer to the ability to exchange ideas and information with other people through various means. Figure 19 shows that almost nine in ten (87.6 percent) respondents ranked the importance of communication skills at 7 out of 10 or above, indicating it is important to most businesses.

Figure 19: How important is it for them to have communication skills such as the ability to exchange thoughts and information with other people by speaking, listening and using non-verbal cues? (n=297)

Collaboration skills

The ability to work effectively with other people is of paramount importance in most organizations. This was reflected in the responses to the survey, with collaboration skills being the skill set most often ranked as very important. In fact, as shown in Figure 20, 32 percent of respondents ranked its importance at 10 out of 10, while 78.8 percent of respondents ranked its importance at 8 out of 10 or above.

Figure 20: How important is it for them to have collaboration skills such as the ability to work effectively in a team with other people? (n=297)
Technical skills

Technical skills refer to a large family of skills and include skills such as the ability to accomplish complex actions and tasks and processes related to computational and physical technology. Figure 21 illustrates how most respondents deem these skills to be important, with three quarters (76.1 percent) of respondents ranking their importance at 7 out of 10 or above.

Figure 21: How important is it for them to have technical skills such as the ability to accomplish complex actions, tasks and processes relating to computational and physical technology? (n=297)

Adaptability skills

Adaptability skills refer to the ability to improve one's skills and be agile in responding to changes. Figure 22 shows how nine out of ten (88.6 percent) respondents ranked the importance of adaptability skills at 7 out of 10 or above.

Figure 22: How important is it for them to have adaptability skills such as the ability to continually develop and improve one's skills and knowledge in order to work effectively and adapt to changes? (n=297)
Overall, respondents indicated the most challenging skills to find among candidates were technical skills and cognitive skills (a broader family of skills that include skills like the problem-solving skills identified in Figure 18).

The broader social skills family (which includes skills like the collaboration skills identified in Figure 20) also presents a challenge as respondents indicated it is not easy to find enough candidates with the ability to work well with other people to meet their needs.

POTENTIAL SOLUTIONS TO SKILLS SHORTAGES

One potential solution to not being able to solve skills problems through hiring is skills training for existing employees. Yet while many respondents mentioned they do provide training to employees, Figure 23 shows the frequency with which they assess their employees’ training needs is quite uneven.

**Figure 23: How often do you assess your employees’ training needs? (n=282)**

This unevenness can partially be explained by the many factors that firms identified as limiting their investments in training (see Figure 24). These will be discussed further in the conclusions and recommendations sections, but cost and the time required are identified as significant barriers, as is the fit between available training and SMEs’ needs.
Table 24: To what extent have the following reasons restricted your organization’s investment in training? (n=297)

<table>
<thead>
<tr>
<th>Reason</th>
<th>Average Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>The preferred strategy is to recruit individuals with the required qualifications, skills and competencies</td>
<td>3.97</td>
</tr>
<tr>
<td>The organization is relying more on informal learning, through practice or through exchanges between colleagues</td>
<td>3.66</td>
</tr>
<tr>
<td>The workload is high and employees are short of time to participate in training</td>
<td>3.62</td>
</tr>
<tr>
<td>Existing employee qualifications, skills and competencies are in line with the organization’s current needs</td>
<td>3.6</td>
</tr>
<tr>
<td>The costs of training courses are high</td>
<td>3.39</td>
</tr>
<tr>
<td>Training options on the market do not meet the organization’s needs</td>
<td>3.14</td>
</tr>
<tr>
<td>Training needs are difficult to assess</td>
<td>2.88</td>
</tr>
</tbody>
</table>

Respondents were also invited to consider several specific strategies for addressing their current skills challenges (see Figure 25). The most favoured of these strategies was to target and invest in the female talent pool. Attracting diverse candidates was also a popular response, as was investing in requalification and training of current employees.
Figure 25: To what extent does your organization intend to favour the following strategies in addressing the problem with future workforce planning? (n= 292 to 295)

As shown in Figure 26 respondents also indicated a strong interest in collaborating directly with partners, including vocational training and certification providers, educational institutions, chambers of commerce and other business associations, to help solve their skills challenges.
Figure 26: To what extent does your organization intend to favour the following strategies in addressing the problem with future workforce planning? (n=297)

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Average Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Collaborate directly with vocational training and certification providers</td>
<td>3.67</td>
</tr>
<tr>
<td>Collaborate directly with educational institutions</td>
<td>3.66</td>
</tr>
<tr>
<td>Collaborate with chambers of commerce or industry associations</td>
<td>3.31</td>
</tr>
<tr>
<td>Collaborate with other organizations within the industry on talent issues</td>
<td>3.23</td>
</tr>
<tr>
<td>Collaborate with other organizations across industries on talent issues</td>
<td>3.02</td>
</tr>
<tr>
<td>Collaborate with private employment agencies</td>
<td>2.85</td>
</tr>
</tbody>
</table>

As mentioned above, many respondents were interested in tapping into a more diverse candidate pool as one way of attracting the skilled workers they need. However, Figure 27 shows not all businesses have implemented the processes needed to do so. While 40.4 percent of respondents say they have taken steps to increase the diversity of their workplaces, 29 percent had not put any measures in place, nor did they have a plan to do so. Strikingly, a full 16.2 percent did not even know if they had implemented any such measures.

Figure 27: Has your company already implemented concrete measures to increase the diversity of its workforce? (n=297)
In summary, these preliminary survey results provide insights into the conditions SMEs are currently experiencing. They show that while firms are finding the pandemic challenging to navigate, respondents are generally optimistic and many even see opportunities stemming from the disruption it is causing. These results also suggest skills gaps and labour shortages remain real challenges for SMEs. Moreover, even though respondents identify a skilled workforce as a need, they are struggling to meaningfully engage in training and tend to rely on recruiting already skilled and qualified employees to meet their skills needs, a strategy that produces only middling results.

Many respondents indicated a desire to expand their recruitment efforts by seeking out more women and diverse candidates, but many have not put in place any concrete measures or plans to achieve this goal.

Focus group highlights

Focus group discussions were conducted as a complement to the survey and as part of the same project. Analysis of these discussions highlights several interesting trends as they relate to skills needs, workforce demands, training and what the post-pandemic reality might look like. Echoing the preliminary survey results, focus group participants forecast a strong need for more workers, reinforcing a concern that has been prominent among SMEs in Canada for some time. They also indicated that beyond a lack of quantity, quality candidates are rare and can be difficult to find. Additionally, participants largely agreed that key trends such as globalization, technological changes and environmental concerns have affected their businesses in significant ways in the past decade.

Starting with technological change, a number of participants highlighted how the choice to adopt more technology often derives from the need to be more productive and competitive. As one participant explained:

[...]

vi All translations by Simon Blanchette. [Original] « C’est que ces changements auxquels vous avez fait référence, nous, on les voit se traduire par des besoins, de nouvelles compétences. On a beaucoup fait référence au virage numérique, que ce soit dans la commercialisation, dans la production, dans la chaîne d’approvisionnement qu’on appelle le commerce électronique, qu’on appelle industrie 4.0. Ces thèmes sont interreliés. Ça, c’est une grosse émergence depuis plusieurs années. Ce sont des formations pour aider à mettre les gens à niveau dans ce domaine-là, tant par des programmes structurés style, programmes crédités que dans des programmes d’appoint ou de perfectionnement comme on l’a fait. »
Digitization is also creating greater demand for some specific skills families and, thus, greater scarcity, as one respondent noted:

**The demand for technical professionals specifically in big data, network security, software development and design space have significantly increased, and therefore the available qualified pool of candidates has thinned.**

One implication of this need for new skills and the ability to work with new technologies is an increased need by SMEs for workers capable of continuous improvement. But for continuous improvement to be possible, workers need access to training and skills development opportunities, whether provided by SMEs, government or some other source.

Another challenge comes when hiring new employees. Especially during the pandemic, managers need to find creative ways to connect with new hires, integrate them into the team and ensure cohesiveness with the organizational culture. This point was emphasized by one focus group participant who has hired 51 new employees during the pandemic. In his opinion, the creation of new policies is an important part of the solution to the integration of new hires.

A related point made by many focus group participants was that forced telework has been detrimental to employees’ feeling of belonging. As one participant put it:

**Technology has been the main driver of change. We now cannot survive without every team member being connected to our IT systems. It has allowed us flexibility to transition to working at home during COVID. However, we still find that work is more enjoyable when we can hang out with our team members.**

One potential consequence of this lessened sense of belonging identified by participants was that it may reduce loyalty and could make employees more likely to move to another organization. Talent is hard to find and retaining it needs to be a priority. As one participant pointed out:

**We have expanded rapidly, so hiring is an increasing focus. This is even more acute for us in the time of COVID-19. Talent is available, but as our profile has increased staff turnover has increased due to over-funded, quasi-governmental organizations, with little accountability, parasitizing our well-trained staff.**
Some participants suggested this reduction in the sense of belonging that is created by personal connections and a positive organizational culture may also increase the importance of salary for employee retention. When asked to consider the possibility that increased teleworking is here to stay, participants indicated that if this occurred, the ability to use technology to create a sense of belonging and a positive organizational culture would become much more important.

This highlights some of the challenges the pandemic has created for leaders. Figuring out how to train new employees and integrate them into teams remotely is important, and the ability to do so depends on the ability of those in leadership and management positions to acquire new skills. For instance, how can managers track work being done remotely by their staff while not micro-managing and invading workers’ privacy?

Similarly, the issue of work-life balance was raised by several participants, with many stating that, for example, it is harder to see when someone is struggling to set boundaries between work and home when working from home. The following excerpt is evocative of this challenge:

> [...] One [an employee] had an operation. We didn’t know, we only knew afterwards, and it was when she was in front of a computer that she said she wasn’t feeling well. So in an office it wouldn’t have happened. She would have taken her leave; we would have more easily seen that she was not well. Of course, we would have put her on rest but, it is this context of not being in a group that is complex. vii

As a result, the pressure is on managers to improve their skills at managing virtual teams while honing their interpersonal skills.

Finding ways to break the isolation felt by employees working from home and supporting them as they deal with new pandemic-related stressors is a key part of this new challenge.

Many participants also suggested human resources practices need to become more oriented toward professional development. This is especially important as, according to numerous participants, many firms overestimate the actual skill level of their workforce. For example, very few participants mentioned engaging in any meaningful analysis of their workforces’ skills gaps.

vii [Original] « Juste un exemple qui est arrivé. Il y en a une qui s’est fait opérer. Puis on ne l’a pas su, on l’a su après et c’est quand elle est devant un ordinateur qu’elle l’a dit qu’elle ne se sentait pas bien. Donc, dans un bureau ça ne serait pas arrivé. Elle aurait pris son congé, elle aurait pu se déplacer et on l’aurait su. C’est sûr qu’on l’aurait mis au repos mais, ce c’est contexte de ne pas être en groupe qui est complexe. »
This lack of understanding when it comes to firms' actual skills needs has important implications for the training of their workers. Consider, for example, how advanced skills training can be wasted if basic skills like literacy and numeracy are deficient. Participants also indicated that businesses tend to focus on their short-term needs rather than actively planning for the longer term.

Finally, participants confirmed SMEs are experiencing severe skills gaps and labour shortages and are struggling to find ways to respond effectively. Training of existing employees is beneficial, but participants noted it can be difficult to find the time for this training. One focus group participant summed up their dilemma by stating:

> But the big problem here is that they are unable to release them [from work duties], despite the fact that the training can be funded by Services Québec or the CPMT or whatever. It’s more [the] time they have a lot of difficulty in freeing people, from the production line or from work, so we have to find alternative methods like self-training, developing distance training that people can do in the company without having to travel.\(^{iii}\)

Another respondent, who is a training provider, replied to this statement by saying they have responded to this need by developing more granular and modular training options. Their aim is to shorten the time required and provide training that can be completed remotely and on flexible schedules. This suggests providers are trying to adapt to SMEs’ needs, but it remains to be seen if these adaptations will be sufficient.
CONCLUSIONS

The focus group transcripts and the preliminary survey data tend to overlap and echo each other in interesting and thought-provoking ways. Together, they provide a wealth of data and insights into the challenges and opportunities facing SMEs in Canada. The preliminary analysis of the data here identified several common themes and enabled the drawing of a number of conclusions, including:

1. The continuing importance of skills gaps and labour shortages to SMEs, even during the COVID-19 pandemic.

2. SMEs' limited capacity for recruitment, assessment and development of talent. This is an ongoing issue, especially for smaller SMEs that do not have the specialized staff found in larger organizations.

3. SMEs' lack of the resources and capacity needed to enable critical staff to take time away from work for training. This challenge persists despite many SMEs' recognition of the importance of training.

4. Many SMEs expressed belief in the value of diversity and inclusion initiatives, especially to bridge skills gaps and address labour shortages. However, they lack the capacity to develop diversity and inclusion processes to engage in new forms of recruitment designed to better reach broader and more diverse talent pools to meet staffing needs.

5. A lack of confidence on the part of SMEs when it comes to inclusion of members of equity-seeking groups. This lack of confidence, which is largely due to underdeveloped human resources expertise or processes, means that some SMEs
do not feel confident they can successfully integrate equity-seeking groups into their organization. Consequently, individuals from equity-seeking groups may be passed over at the recruitment stage.

6. Recognition that the ongoing failure to recognize international credentials is contributing to skills gaps and labour shortages.

7. Recognition that many of the things SMEs currently lack, such as the specific skills needed to manage diversity and the human resources capacity needed to recruit and train staff, are critical and will likely become even more vital post-pandemic.
WAYS FORWARD: RECOMMENDATIONS AND AREAS FOR ADDITIONAL RESEARCH

Canada has identified an ambitious training agenda moving forward that, for perhaps the first time, includes supports for skills development among entrepreneurs and SMEs as well as support for critical processes such as the adoption of new technologies. This will be crucial as organizations emerge from the pandemic.

The preliminary survey results and results of the focus group discussions, paired with existing research, confirm that a multidimensional strategy that brings stakeholders together is needed to improve SMEs’ access to the skills and workers they need to thrive post-COVID-19. This strategy should focus on building shared understandings, sharing resources and best practices, and developing new approaches to helping entrepreneurs and SMEs meet their skills and training needs.

But more still needs to be done. For example, the ways in which SMEs define and assess skills to support recruitment, training and upskilling need improvement. This is even more pressing now that the COVID-19 pandemic has accelerated the adoption of new technologies and business models, which has exacerbated SMEs’ needs for digital skills. Similarly, as more firms shift to remote work — a trend that is strongly predicted to continue post-pandemic — leaders and managers will need support to develop their skills for managing virtual teams and creating a supportive organizational culture in the context of ubiquitous remote work.
Below, we offer a series of recommendations designed to help reduce the skills gaps and labour shortages faced by SMEs while also building a more equitable post-pandemic world. These include recommendations to improve human resources practices in SMEs and foster diversity and the inclusion of members of equity-seeking groups, as well as concrete ways to better measure impacts.

**Improved human resources strategies and practices**

- Most SMEs cannot afford dedicated human resources staff and, where they have them, they often lack the capacity and expertise needed to balance competing demands of supporting recruitment, advancing upskilling and improving diversity and inclusion. There is an opportunity to leverage shared resources to curate training opportunities, build capacity for advanced human resources and share best practices through networks. This sort of collaboration could be supported and co-ordinated by business organizations and industry associations.

- SMEs underinvest in training. Both the focus groups and other research note the lack of time available to support employees in SMEs to engage in skills training, as small companies say they need “all hands on deck.” Creative ways to support and incentivize investments in training (both in time and money) need to be explored.

- Emphasizing longer-term perspectives to encourage SMEs to better recognize the importance of training and continuous learning is key.

- Better curation of resources to support training and development, including accessible assessment approaches and more flexible and modular training and supports, is also needed.

**Diversifying the talent pool**

- Currently, SMEs’ approaches to recruitment and selection often rely on existing social networks and informal practices, which present barriers to diverse talent. Research has shown that this contributes to the underrepresentation of women, newcomers, racialized people, persons with disabilities and Indigenous Peoples. SMEs that understand the value of diversity and inclusion and employ appropriate practices can significantly widen and deepen their talent pool. Since SMEs’ often do not have the human resources expertise needed to proactively access and recruit diverse candidates successfully, business support organizations and industry associations, as well as community organizations, could support them in building the systems, policies, practices and tools needed to improve their EDI practices.
This presents another opportunity to develop shared platforms with training and tools to improve access to diverse labour pools and to support skills development and career paths. Ensuring these resources are tailored to the specific experiences and needs of SMEs is essential.

**Target setting, benchmarking and assessing impact:**

- The adage “what gets measured, gets done” applies. Policymakers need more disaggregated data to assess the experiences of different types of SMEs and the impact of investments in general, and particularly on businesses owned by women and other under-represented groups. Recognizing the needs of early-stage startups and “solopreneurs” is also important as they fuel SME growth.

- In addition to traditional measures of growth and job creation, supports for SMEs should consider broader impacts on communities and social goals. While high-growth high-tech firms are undeniably important, so too are mainstream businesses in service sectors. They support individuals, families and communities and are often overlooked.

- Encouraging firms to have concrete plans and targets in place that address training and development as well as diversity and inclusion is critically important. For example, some large organizations are using social procurement to encourage SMEs in their supply chain to adopt more progressive practices. Supporting research to provide additional understanding of SME needs and capacity is important, as is building capacity.

- Additional research is needed to assess related transformations in business processes, particularly within SMEs.

The recommendations for actions and areas of future research outlined in this section offer several opportunities that, if pursued, could foster transformational change. Governments need to prioritize understanding and addressing the needs of SMEs as part of the skills agenda. They need to encourage prioritization of skills and talent strategies in SMEs and explore innovative ways to build capacity. SMEs and the organizations supporting them should consider new ways to build critical mass and shared platforms and the supports needed to up their game. Given their central importance to the Canadian economy and society, employers, workers, researchers and policymakers need to work together to address the specific skills and training needs of the full diversity of entrepreneurs and SMEs, and do so in ways that ensure the world that emerges post-pandemic is a more equitable and inclusive one.
ENDNOTES


4 Ibid.


23 Ibid.


39 Ibid.


Supporting Entrepreneurship and SMEs: A Post-Pandemic Skills and Training Agenda


52 Ibid.


55 These reasons include: lack of interest (67.3 percent), lack of confidence or skill (31.3 percent), cost (18.3 percent), and the absence of internet-ready device in the dwelling (15.7 percent). See Statistics Canada. (2021). Reasons for not using the internet for persons with disabilities, aged 15 years and over, by sex. [https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1310081301]


71 Ibid


