

Project Insights Report

National Survey on Skill Demands and Employment Practices in Small and Medium-Sized Enterprises



PARTNERS

Memorial University of
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Diversity Institute



LOCATIONS

Across Canada



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Executive Summary

Small and midsize enterprises (SMEs) represent the bulk of private sector employment in Canada, as high as 88.2% in 2021. Despite their critical role in the economy, SMEs face persistent labour and skill shortages, limiting their capacity for business growth. While SME owners and executives widely recognize the importance of investing in workforce training and employee retention, many do not possess the resources to adequately address these gaps.

Labour and skill shortages may adversely impact businesses in several ways, including their cash flow, time allocation and future planning.

In this study, we interviewed 1,700 SME executives and owners by telephone. Thus, our research draws on first-hand experiences to better understand specific labour-related challenges facing SMEs. We focus on the ways in which contemporary pressures—including the adoption of AI and the imposition of US tariffs on Canadian exports—are shaping skill demands, employment practices, and organizational performance and capacity.

KEY INSIGHTS

1

About 28% of SME respondents have experienced difficulties filling job vacancies in the last six months. One-third of these attributed the difficulties to a lack of skills among job seekers.

2

About 30% of respondents reported that their firm was using AI in some capacity.

Among respondents whose firms engage in exporting, 66% indicated that tariffs on Canada would adversely impact their business.

The Issue

Economic stagnation characterized the last few decades in Canada as the nation fell behind other advanced economies in labour productivity gains. Despite the long-standing nature of this issue, policymakers remain divided about the primary causes of the problem and the best way toward a more resilient economy.

SMEs are the lifeblood of the Canadian economy. They account for the majority of private sector employment. About 7.8 million individuals are employed by private sector SMEs in Canada, accounting for 64% of private sector employment. Canada has a notably larger share of SMEs and employment in SMEs relative to other advanced economies; therefore, the success of the Canadian economy is largely contingent on the success of its smaller businesses. Yet smaller businesses are often overlooked in economic development, innovation and sustainability strategies.

Despite their critical role in the economy, SMEs face persistent labour and skill shortages, limiting their capacity for business growth. While SME owners and executives widely recognize the importance of investing in workforce training and employee retention, many do not possess the resources to adequately address these gaps.

Labour and skill shortages may adversely impact SMEs in several ways, including their cash flow, time allocation and future planning. In addition, researchers have collected limited data on SMEs' current practices with respect to hiring or technology adoption.

Previous research has suggested that SMEs are overly reliant on traditional and informal recruitment practices and have a low adoption rate of digital tools and AI, particularly in human resource management. This study was designed to fill significant gaps in our understanding of the following:

- specific hiring challenges SMEs face (e.g., difficulty filling vacancies; primary reasons for difficulties, like lack of applicants or skills);
- the current rates and areas of technology adoption, specifically the prevalence and planned expansion of AI use in SMEs;
- the use of digital tools in HR practices within SMEs, an area identified as having very low uptake (4%);
- regional variations of these challenges and practices.



What We Investigated

We administered this survey between March 11 and August 21, 2025, aiming to collect responses from 1,700 SME respondents from across the country.

In our report, we seek to better understand SME capacity barriers, particularly in the context of contemporary economic pressures. The report is divided into three sections: labour shortages, AI adoption and the US-Canada trade war.

The study asked the 1,700 survey respondents the following questions specific to hiring challenges:

1. In the last six months, has your company had difficulty filling job vacancies?
2. What is the main difficulty your company has experienced in filling job vacancies?
3. In the past three years, has your company hired international immigrants for positions in Canada?
4. Is your company willing to hire international immigrants to Canada in the next three years?

The US-Canada trade war may impact the financial well-being of Canadian businesses, thereby impacting their ability to grow. The survey asks the following questions about American tariffs:

1. What impact, if any, would US President Donald Trump's tariffs, both those implemented and proposed, have on your business?
2. To which countries, if any, do you see the greatest opportunity to increase exports of your products or services, other than the US?

3. To which Canadian provinces or territories, if any, do you see the greatest opportunity to increase exports of your products or services?

The adoption of AI is expected to fundamentally transform business operations, enhancing firm productivity across a wide range of sectors. To better understand these dynamics, the survey asked the following questions:

1. What areas or business functions does your business use AI for?
2. As technologies continue to evolve due to the use of AI, what new skills would you like your employees to possess in the next three years?
3. What types of training would you like your employees to receive in general?

What We're Learning

In total, 28% of respondents indicated that they experienced hiring challenges in the last six months. Among employers who experienced difficulties filling vacancies, 34% primarily attributed these difficulties to a lack of skills. Employment challenges and practices varied notably by location and company size.

Larger firms were more likely to experience hiring challenges than smaller firms, and firms primarily operating in Atlantic and Western Canada were disproportionately impacted.

The most in-demand roles were technicians/tradespeople and production workers. The survey suggests that Canadian SMEs may be increasingly dependent on immigrant workers in the future to address labour shortages. Over the last three years, 50% of employers indicated that they had hired immigrant workers; 60% expressed a willingness to do so over the next three years.

AI adoption is nascent in Canada, but it is expected to fundamentally transform business operations in the future. About one in three respondents (30%) reported that their firm was using AI in some capacity, with 20% of respondents indicating that their business had intentions of expanding AI adoption in the future. Among firms that reported using AI in some capacity, only 4% indicated that they were using digital tools in human resource management.

According to respondents, the most in-demand skills over the next three years will be digital skills (21%), communication skills (6%) and adaptability skills (6%). Immigrants may offer unique certifications and qualifications that will help address evolving skill gaps.

The US-Canada trade war may pose challenges for some domestic businesses, limiting their capacity for future growth due to financial constraints. Among respondents whose firms engage in exporting, 66% indicated that United States President Donald Trump's tariffs on Canada would adversely impact their business. In light of souring relations between the US and Canada, the majority of exporting firms see an opportunity to expand trade to both domestic and international markets, excluding the US.

Why It Matters

Only a subset of SMEs experienced difficulties filling job vacancies in the last six months. Firms primarily operating in Atlantic and Western Canada reported a higher incidence of hiring challenges, consistent with relatively higher job vacancy rates observed in these regions. The regional differences in hiring difficulties highlight the need for tailored,

region-specific interventions to support equitable business growth across the country.

Our findings largely corroborate previous employer surveys regarding hiring challenges, recruitment strategies and human resource practices. A key contribution of our study is addressing a literature gap concerning the use of AI in hiring practices within SMEs.

Overall, only 4% of surveyed employers reported using digital tools, including online job posting, résumé parsing software and candidate sourcing platforms, in their human resource practices. These tools offer several advantages, including cost savings, increased efficiency, broader reach, better candidate filtering and a reduced risk of unconscious bias. By relying on traditional hiring practices, businesses may inadvertently limit their access to a broader, more diverse pool of potential candidates. In fact, among firms that reported experiencing hiring challenges, respondents frequently attributed their hiring challenges to difficulties attracting skilled applicants. In order to attract suitable applicants, there is a need to reduce barriers to the adoption of modern human resource practices.

Another key contribution of this report is that it identifies the prevalence of AI adoption among SMEs across different practice areas. According to the survey, only about one in three employers reported using AI in some capacity, with the most common application being productivity and marketing tools. Only about one in five employers indicated intentions to expand AI usage in other areas.

Notably, only a relatively small proportion of respondents reported using AI in their business, especially when compared to counterparts in other high-income countries. Canada's slow-paced adoption of AI poses a significant challenge, particularly as the rapid expansion of the digital economy presents a profound opportunity for productivity gains. In order to encourage AI adoption, there is a need to bring awareness of AI tools and their benefits to business professionals.



State of Skills: Effective Employer Engagement in Skills Development: From Rhetoric to Solutions

The persistence of skill shortages and mismatches has raised questions as to why Canadian employers invest less in training per employee compared to their OECD counterparts. Research and evidence from FSC's portfolio point to a number of critical factors underpinning Canada's comparably low training investments.

[Read Thematic Report](#)

As political tensions between the United States and Canada escalate, SMEs involved in exporting are actively seeking new trading partners. Most exporters see potential to expand trade both domestically and internationally. In response to the changing trade landscape, the Canadian government can play a key role by offering targeted funding programs, delivering timely updates on international developments, and collaborating with partner organizations to help SMEs access relevant support.

► What's Next

Canada's economic challenges are expected to evolve, necessitating a flexible and responsive research agenda.

Firstly, significant uncertainty remains regarding the nature and longevity of Trump's tariffs at the time of writing this report. The precarity of the situation is exacerbated by widespread misinformation, inconsistent messaging from the White House and confusion surrounding Trump's policy intentions toward Canada. Given the ever-changing nature of the US-Canada trade war, research will be needed throughout the span of this conflict to better understand the contemporary challenges faced by Canadian businesses.

Secondly, AI is largely nascent in Canada, but adoption is growing among domestic businesses. In the next few years, it will be essential to measure the prevalence of AI adoption, understand barriers to implementation, and derive best policy practices to address these barriers. Moreover, future research is required to ensure SMEs are using digital technologies efficiently to maximize efficiency gains.

Have questions about our work? Do you need access to a report in English or French? Please contact communications@fsc-ccf.ca.

How to Cite This Report

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