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Project Insights Report

Workforce Training in Canadian SMEs: Barriers and Promising Models

PARTNERS

Ontario Chamber of Commerce

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Executive Summary

Small and medium-sized enterprises (SMEs) face growing pressure to adapt to labour shortages, technological change, and evolving skill demands, yet investment in workforce training remains uneven and often limited. As SMEs account for most employer businesses and a large share of private-sector employment in Canada, their ability to attract, retain, and develop talent has important implications for productivity, innovation, and long-term economic resilience. This project explored why SMEs continue to underinvest in training and what conditions support more effective workforce development.

Drawing on Canadian and international academic, policy, and program evidence, the research examined both the forces increasing demand for upskilling, and the barriers limiting employer participation in training. Findings show that underinvestment is driven by interacting structural, organizational, and access-related constraints. SMEs often face limited HR capacity, competing operational pressures, uncertainty about returns, and fragmented training systems. Evidence also suggests that making training accessible for low or no cost is frequently insufficient to drive uptake when programs are not aligned with immediate business needs.

The findings highlight important implications for policy and practice. More effective approaches are likely to combine financial and non-financial supports, reduce administrative burden, and embed training within workplace priorities. Future efforts should focus on testing and evaluating what combinations of incentives, supports, and delivery models most effectively change employer behaviour and increase sustained investment in workforce development.

KEY INSIGHTS

1. Making training low-cost or free is often insufficient to drive uptake, as SMEs face overlapping barriers including: time constraints, uncertainty about returns, and limited organizational capacity.

2. Targeted training interventions appear to show stronger results when they reduce employer risk and address concrete business constraints.

3. Evidence points strongly toward models that reduce employer risk and connect training to business priorities through targeted subsidies, pay-for-performance, coaching, mentoring, work-integrated learning, and intermediary support.

The Issue

SMEs are central to Canada's economy, accounting for nearly all employer businesses and employing most private-sector workers. At the same time, rapid technological change, population aging, labour shortages, and evolving skill demands are increasing pressure on firms to develop workforce capabilities. SMEs face particular challenges in adapting to these shifts. Compared to larger firms, they often operate with fewer financial resources, limited human resource capacity, and less access to structured workforce planning. Yet their ability to attract, retain, and develop talent has important implications for productivity, innovation, and long-term economic resilience.

Despite widespread recognition of growing skills gaps, SME investment in workforce training remains uneven and often limited. Employers frequently report difficulties recruiting workers with the right skills, but many continue to rely on hiring, wage increases, overtime, or automation rather than sustained investment in workforce development. Existing training approaches have had mixed success. Generic or supply-driven programs often experience uneven uptake, while fragmented training systems can be difficult for SMEs to navigate. Barriers such as time constraints, uncertain returns on investment, limited organizational capacity, and unequal access to training continue to reduce participation. This project responds to the need for a clearer understanding of the factors shaping SME upskilling and the conditions under which training investments are more effective.

What We Investigated

This project explored why SMEs continue to underinvest in workforce training despite growing labour shortages, technological change, and increasing demand for new skills. The research examined both the drivers increasing pressure for workforce development and the barriers limiting employer investment in upskilling and reskilling. Particular attention was paid to how organizational capacity, workplace norms, labour market dynamics, digital access, credentialing practices, and broader structural conditions shape SME participation in training.

The project was guided by three core research questions: (1) What factors drive or constrain SME investment in workforce training? (2) What barriers prevent SMEs and workers from participating in upskilling and reskilling opportunities? And (3) What approaches, interventions, or program models show evidence of increasing employer engagement in training and improving outcomes?

To address these questions, the project used a targeted literature review and evidence synthesis drawing on Canadian and international academic, policy, and program evaluation research published primarily between 2017 and 2026. Particular emphasis was placed on evidence relevant to Canadian SMEs and workforce development systems, while international examples were included to identify promising approaches and implementation lessons. This approach was selected to provide an evidence-informed understanding of both persistent barriers and emerging models for strengthening SME workforce development.

What We're Learning

This project found that SME underinvestment in workforce training is not driven by a single barrier, but by a combination of structural, organizational, and access-related constraints that reinforce one another. While labour shortages, technological change, and productivity pressures are increasing the need for workforce development, many SMEs continue to struggle to translate this demand into sustained training investment. Evidence suggests that firms frequently recognize skills gaps but lack the internal systems, time, resources, and certainty needed to respond through formal upskilling initiatives.

One key learning is that organizational capacity matters significantly. SMEs often operate without dedicated human resource functions, formal training plans, or mechanisms to assess workforce skill needs. Under conditions of uncertainty and operational pressure, employers tend to prioritize immediate business demands over longer-term investments in workforce development. Many firms instead rely on hiring, wage increases, overtime, or automation as short-term responses to labour shortages. At the same time, credential-based hiring practices frequently substitute for internal training, even where employers continue to report persistent skills gaps.

The research also found that training participation is unevenly distributed. Workers in smaller firms, lower-wage roles, rural areas, and equity-deserving groups face greater barriers to accessing training, including financial precarity, caregiving responsibilities, language barriers, digital access gaps, and lower employer support. As training delivery increasingly shifts online, differences in digital readiness risk reinforcing unequal access to learning opportunities.

Evidence reviewed through this project suggests that passive or generic training approaches are often insufficient to overcome these barriers. Programs that reduce employer risk, align training with business needs, and combine financial supports with advisory or workplace-integrated approaches tend to show stronger outcomes. Promising models include targeted subsidies, pay-for-performance mechanisms, mentoring, peer learning, consulting-based interventions, and intermediary supports delivered through sector organizations or training networks. However, even well-designed programs typically reach only a small share of SMEs, and evidence on long-term impacts remains limited.

Overall, this project highlights that strengthening SME workforce development requires more than increasing access to training. More effective approaches must address the organizational realities facing SMEs, reduce uncertainty around returns on investment, and support employers in embedding learning within broader business practices.

Why It Matters

The findings from this project suggest that addressing skills shortages in SMEs requires more than simply increasing the availability of training. Current approaches often assume that employers will participate if training is affordable or accessible, yet evidence indicates that SMEs face a broader set of organizational and structural barriers. Limited human resource capacity, competing operational demands, uncertainty about returns, and fragmented training systems reduce uptake even where need is recognized. This suggests that policies focused exclusively on expanding training supply are unlikely to produce meaningful behavioural change without also addressing how SMEs engage with and implement workforce development.

For organizations serving SMEs, including chambers of commerce, sector councils, workforce intermediaries, and training providers, the findings reinforce the importance of delivery models that are simple, applied, and aligned with business realities. Training is more likely to succeed when it is integrated into workplace challenges, linked to immediate operational needs, and supported through advisory services, mentoring, or peer learning. Programs that require significant administrative effort or assume dedicated internal HR capacity may unintentionally exclude smaller firms that are most in need of support. This is particularly important in sectors facing acute labour shortages, digital transformation, or productivity pressures.

The project also highlights important implications for policy and funding models. Traditional training supports often emphasize participation counts rather than employer behaviour change or organizational capability development. Evidence suggests that targeted approaches, including co-funded training, vouchers, pay-for-performance mechanisms, and intermediary supports, may be more effective when they reduce financial risk and help firms translate training into business outcomes. However, scaling these models may require rethinking how workforce development programs are funded, evaluated, and coordinated across governments, industry bodies, and service providers.

State of Skills:
Resilient by Design: The Skills Canadians Need Now and for the Future

To build a resilient workforce that is able to respond to and adapt to changing labour markets, whether due to unpredictable disruptions or longer-term transitions, we need a range of training and upskilling pathways that equip people with the skills they need to enter, advance, transition and return to dynamic labour markets.

Read Thematic Report

More broadly, the findings point to a system-level challenge with implications beyond SMEs alone. Unequal access to training risks reinforcing labour market inequality, particularly for workers in smaller firms, lower-wage occupations, rural regions, and equity-deserving groups. At the same time, relying on recruitment, immigration, or automation as substitutes for workforce development may address short-term labour shortages without strengthening long-term adaptive capacity. Improving Canada's productivity, resilience, and competitiveness will likely require more coordinated approaches that treat workforce development as a strategic investment rather than an optional business expense.

What's Next

Future efforts could explore and evaluate different strategies for increasing SME participation in training and workforce development. These may include approaches that align training with immediate business priorities (e.g., labour shortages, technology adoption, productivity, or retention), financial incentives that reduce employer risk, wraparound supports such as coaching and advisory services, intermediary-led models delivered through chambers or sector organizations, peer learning and mentoring approaches, simplified navigation supports, and workplace-integrated training tied to real operational challenges. Testing combinations of these approaches may be particularly important, as barriers often operate simultaneously.

There is also a strong opportunity to embed evaluation directly into future programming to better understand what works, for whom, and under what conditions. Tracking participation alone is unlikely to be sufficient. Future initiatives should examine whether interventions change employer behaviour, increase sustained investment in workforce development, and improve longer-term outcomes such as productivity, workforce resilience, and business performance.

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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The Future Skills Centre acknowledges that the Anishinaabe, Mississaugas and Haudenosaunee share a special relationship to the 'Dish With One Spoon Territory,' where our office is located, bound to share and protect the land. As a pan-Canadian initiative, FSC operates on the traditional territory of many Indigenous nations across Turtle Island, the name given to the North American continent by some Indigenous peoples. We are grateful for the opportunity to work in this territory and commit ourselves to learning about our shared history and doing our part towards reconciliation.