

# Small business, big investment: Improving training for tomorrow's workforce



# **Small Business, Big Investment:**

## *Improving Training for Tomorrow's Workforce*

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## Executive Summary

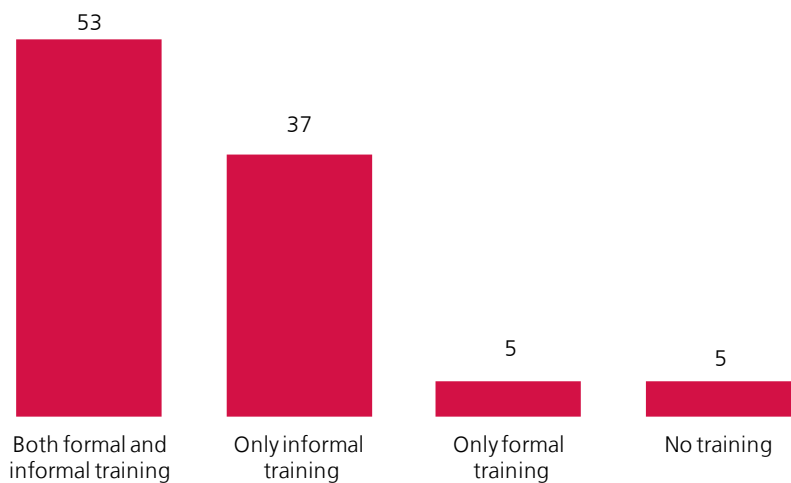
Training is an essential tool for Canada’s small- and medium-sized enterprises (SMEs). The vast majority (91 per cent) of small business owners believe training is an important investment to grow their business (see Figure 5).

In order to get a clear picture of the current training landscape among Canadian small businesses, the Canadian Federation of Independent Business (CFIB) conducted a nationwide survey of independent business owners from all regions of the country and sectors of the economy, which received 6,705 responses (refer to Appendix A for full details).

Employee training occurs in two forms: formal or informal. Formal training is typically delivered through courses provided by educational institutions or professional instructors. Informal employee training is provided through on-the-job mentoring either by managers/co-workers or business owners. Overall, 95 per cent of small businesses offer formal training, informal training, or a combination of both (see Figure 1).

Figure 1:

**What type of training is provided for your employees? (% response)**



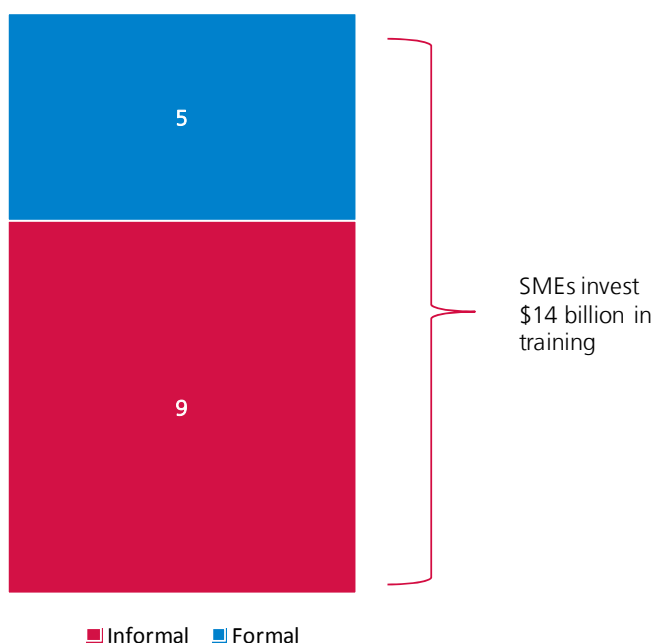
Source: CFIB, *Training in Your Business Survey*, 6,705 responses, September to October 2014.

Combined, entrepreneurs invested \$14 billion in formal and informal training in 2014 (see Figure 2). Entrepreneurs invested \$1,907 in training per employee by providing, on average, 75 hours of training per employee, the equivalent of two full work weeks. This investment is equivalent to 750 million hours of training across the SME sector.

Informal training is the primary training method for SMEs, accounting for 64 per cent of total training costs (\$9 billion). This is not a surprise given that formal training does not exist for many positions, such as entry level roles in the service or hospitality sectors. In addition, many business owners prefer to tailor training to their own business needs.

Figure 2:

### Annual training investment (in \$ billions), by type of training, 2014



Source: CFIB, *Training in Your Business Survey*, 6,705 responses, September to October 2014. For methodology, see Appendix A.

The average cost of training per employee and hours invested in training differs by business size (see Table 1). The smallest businesses (fewer than 20 employees) dedicate more hours and resources on average toward training than any other size of business on a per employee basis. This greater commitment is tied to the fact that the smallest businesses tend to hire a larger proportion of new employees with no previous work experience (see Figure 12) and these employees require larger training investments (see Figure 11).

While SMEs contribute significantly to workforce development in Canada, their main method of training — informal training — is rarely recognized or encouraged by any level of government. In order to reduce the growing skills shortage affecting Canada, governments can do more to encourage all forms of training, including on-the-job training. This means better aligning their training investments with the training needs and processes of small- and medium-sized businesses, who collectively employ 90 per cent of the Canadian private sector workforce.<sup>1</sup>

In order to more closely align these priorities and processes, CFIB recommends the following:

- ▶ Government training investments must recognize the realities of running a small business;
- ▶ Ensure government training investments match the skills training employers need; and,
- ▶ Recognize informal training to better support the training efforts of small- and medium-sized businesses.

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<sup>1</sup> Industry Canada, *Key Small Business Statistics*, August 2013. Accessed Dec. 12, 2014: <http://www.ic.gc.ca/eic/site/061.nsf/eng/02805.html>

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## Introduction

Canadian entrepreneurs invest billions of dollars and millions of hours each year on training to ensure employees have the necessary skills to succeed in the workplace and enhance the business's productivity. Unlike large businesses, small business owners must juggle the responsibility for training with running a myriad of other functions in their business, including human resources, accounting, sales, production, etc. In these situations, 'informal' on-the-job training provided by the business owner, or by managers/co-workers, is the primary method of training employees on the processes and skills required for their position. This is very different than larger businesses where entire departments may be created to coordinate employee training using both internal and external resources.

The secondary form of training provided by small businesses is 'formal training', which includes seminars, workshops and classroom training from professional instructors. While many small businesses require employees to have some formal training, far more rely on informal training conducted by managers and co-workers.

CFIB is concerned the contributions of small business owners to develop a skilled Canadian workforce is largely unrecognized by governments. This may stem from limited available data on SME training and a lack of understanding of the training realities in small businesses.

In order to get a clear picture of the current training landscape within small businesses and how government can best support their efforts, CFIB conducted a nationwide survey of independent business owners from all regions of the country and sectors of the economy, which received 6,705 responses (refer to Appendix A for full details). CFIB first estimated the amount of training investment by SMEs in 2009.<sup>2</sup>

This report explains how small businesses provide training, quantifies the training investment provided by small- and medium-sized businesses, and offers a roadmap for governments to encourage additional training by SMEs.

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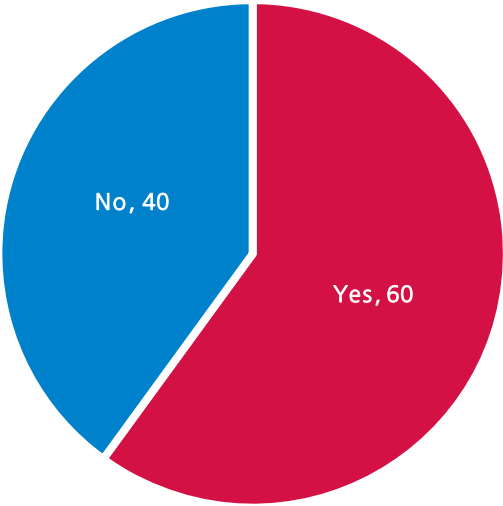
## A Need for Training

Like any organization, small businesses need competent, committed and appropriately skilled workers. Unfortunately, many businesses cannot always find workers with the appropriate skills to fill their vacant positions. In fact, a majority (60 per cent) of small business owners had difficulty finding qualified staff within the past year (see Figure 3). When business owners cannot find qualified workers, they must either cope with fewer staff or provide appropriate training to bring candidates up to par with job requirements.

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<sup>2</sup> Kelly, Dan et al. 2009. *Canada's Training Ground: SMEs' \$18 Billion Investment in the Nation's Workforce*. Canadian Federation of Independent Business.

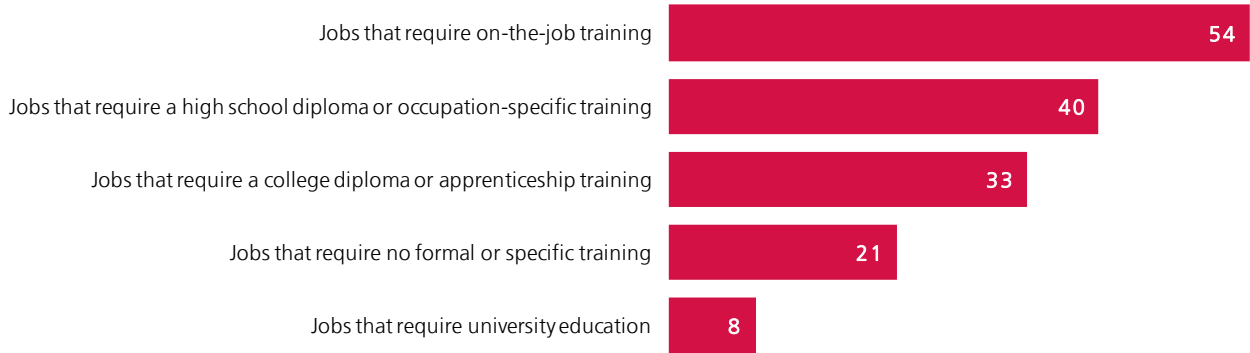
Figure 3:  
**Has your business had difficulty finding qualified staff during the past year?**  
(% response)



Source: CFIB, *Training in Your Business Survey*, 6,705 responses, September to October 2014.

Entrepreneurs need workers with many different skills in order to effectively run their businesses. However, the availability of these skills in the labour market can vary over time and by location. Currently, small business owners are having the most difficulty filling positions that require on-the-job training (54 per cent), and high school or occupational training (40 per cent). Only eight per cent of business owners have difficulty finding staff for a job that requires a university level education (see Figure 4). Given that business owners are most likely to say that they have difficulty filling jobs that require on the job training it is important that more be done to ensure workers are job ready for these specific positions.

Figure 4:  
**What types of positions are you having difficulty filling?**  
(% respondents that had difficulty hiring in the past year)



Source: CFIB, *Training in Your Business Survey*, 6,705 responses, September to October 2014.

While many factors influence training investment, such as individual employee needs, types of business, economic conditions, adoption of new technology, and changing regulatory requirements, labour markets are a key driver of the level of training provided to employees. Small business owners in Western Canada indicate when faced with a shortage of qualified labour, increased training investment and more frequent



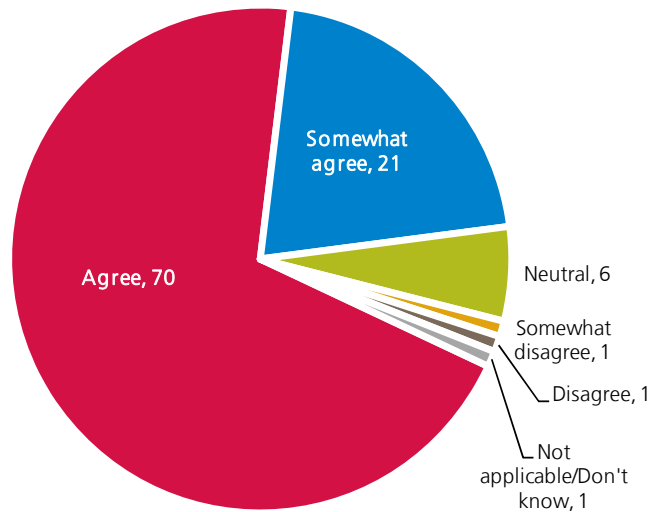
re-training of current employees are required (see CFIB's *Looking for Hire Ground*<sup>3</sup> report). Likewise, when labour shortages subside, it is easier to find qualified staff and less in-house training may be needed.

Current data suggests these labour and skills shortages are growing once again, which will require higher training investments in the near future. CFIB's quarterly private sector job vacancies report, *Help Wanted*<sup>4</sup>, indicates the job vacancy rate reached 2.7 per cent in 2014's third quarter, the highest level since the 2009 recession and nearing the pre-recession peak of three per cent.

Fortunately, entrepreneurs strongly value training and are willing to assist employees in upgrading their skills. Nearly all (91 per cent) small business owners agree training their employees is an important investment for their business (see Figure 5). Additionally, 85 per cent of entrepreneurs agree that it is their responsibility to provide training for new employees (see Figure 6).

Figure 5:

**Training my employees is an important investment for my business. (% response)**



Source: CFIB, *Training in Your Business Survey*, 6,705 responses, September to October 2014.

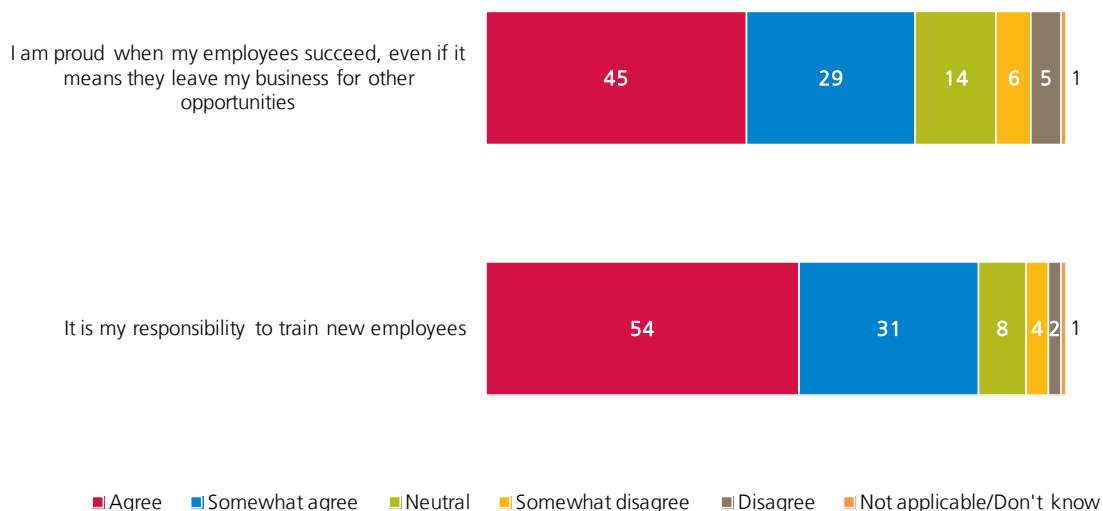
The majority (91 per cent) of entrepreneurs also agree that they play a key role in training unskilled or low-skilled workers in our society (see Figure 6). Many small business owners also provide training due to their personal connection with their employees — 74 per cent of small business owners agree that they are proud when their employees succeed, even if it means they leave for other opportunities (see Figure 6).

<sup>3</sup> Ruddy, Amber et. al, 2013. *Looking for Hire Ground*. Canadian Federation of Independent Business.

<sup>4</sup> Mallet, Ted, 2014. *Help Wanted, Private Sector Job Vacancies in Canada: Q3 2014*. Canadian Federation of Independent Business.

Figure 6:

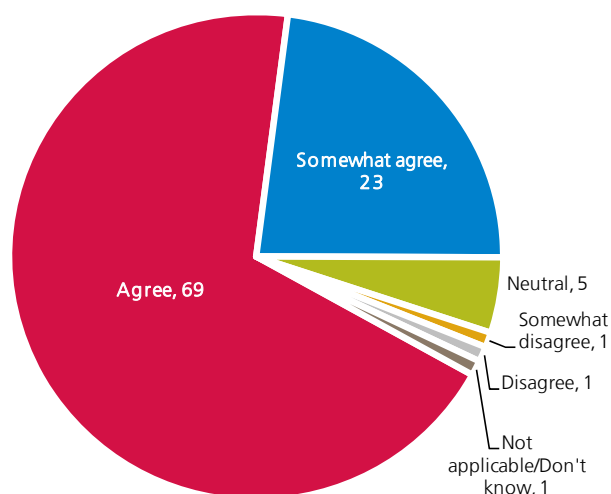
To what extent do you agree or disagree with the following statements?  
(% response)



Source: CFIB, *Training in Your Business Survey*, 6,705 responses, September to October 2014.

Figure 7:

I believe small business plays a key role in training unskilled or low-skilled workers in society. (% response)



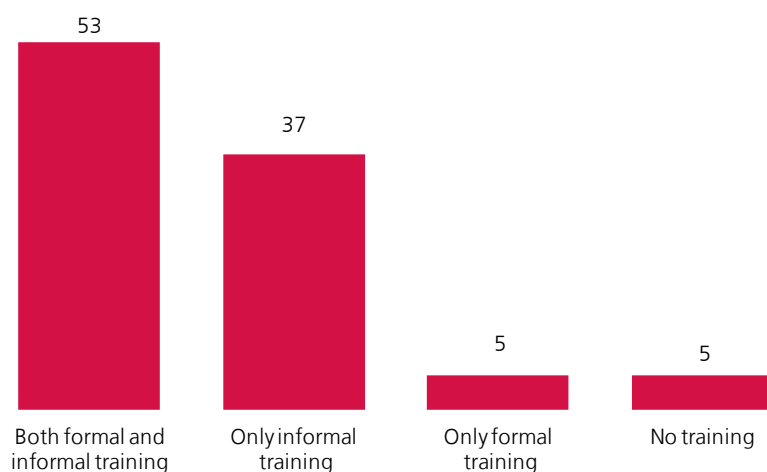
Source: CFIB, *Training in Your Business Survey*, 6,705 responses, September to October 2014.

## How Small Businesses Train

### Most small businesses offer formal and informal training

Nearly all (95 per cent) small businesses offer formal training, informal training, or a combination of both (see Figure 8). A larger proportion of business owners rely on informal training compared to formal training to fulfill their training needs.

Figure 8:

**What type of training is provided for your employees? (% response)**

Source: CFIB, *Training in Your Business Survey*, 6,705 responses, September to October 2014.

Overall, 90 per cent of small business owners provide some form of informal training, either exclusively or in conjunction with formal training. By comparison, 58 per cent of small business owners offer formal training, either exclusively or in conjunction with informal training.

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*"We are a restaurant and do a great deal of informal training in our unique service system, which cannot be outsourced to a generic program. We make good use of food safety training from a private trainer."*  
**CFIB member, New Brunswick**

*"Informal training is an ongoing part of our business since what we do is unique. The courses offered at Community College level are wood related but not focused on the repair and finishing as needed by our business."*  
**CFIB member, Manitoba**

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Businesses cite multiple factors that prevent them from providing formal training including cost (39 per cent), a preference to hire already trained employees (36 per cent), no current need (32 per cent), and a lack of time to invest in formal training (30 per cent) (see Figure 9). It should be noted that one in four (24 per cent) entrepreneurs forgo formal training due to concerns of losing employees to other companies after investing in their training (e.g. poaching). Entrepreneurs also indicated 'other' (14 per cent) reasons for why they do not offer formal training. These reasons reflect their unique business situation, including business location (e.g. remote or rural areas), or a lack of formal training courses for their type of business.

Figure 9:

**What factors prevent your business from providing formal training  
(% of respondents that do not provide formal training)**



Source: CFIB, *Training in Your Business Survey*, 6,705 responses, September to October 2014.

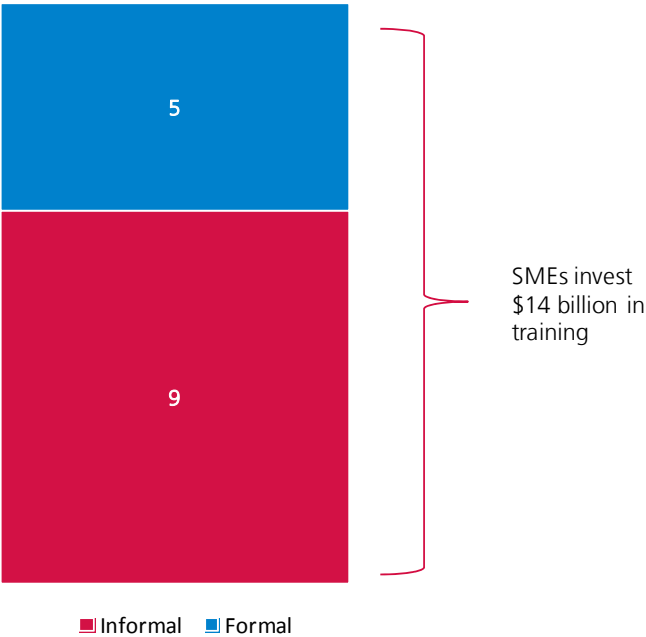
**Investment in Training**

**SMEs invest \$14 billion annually on employee training**

Small business owners invested approximately \$14 billion on training employees in 2014. Of this, \$9 billion was invested in informal training and \$5 billion was spent on formal training (see Figure 10).

Figure 10:

**Annual training investment (\$ billions), by type of training, 2014**



Source: CFIB, *Training in Your Business Survey*, 6,705 responses, September to October 2014.  
For methodology, see Appendix A.

To calculate this investment, CFIB surveyed business owners on the time (in hours) and money (in wages) devoted to training annually. Entrepreneurs invested \$1,907 in training per employee in 2014 by providing, on average, 75 hours of training per employee, the equivalent of two full work weeks.<sup>5</sup> This investment is equivalent to 750 million hours of training across the SME sector.<sup>6</sup>

Informal training is the main training option of small business owners, as nearly two out of every three (\$9 out of \$14 billion) training dollars goes towards informal training (see Figure 10). Moreover, the amount spent on informal training per employee is almost double of that formal training, at \$1,208 per employee, versus \$699 (see Table 1).

## Smallest businesses bear the highest cost on training per employee

The smallest businesses invest the most in training on a per employee basis. On average, businesses with fewer than 20 employees invest more per employee on training compared to businesses with 20 employees or more (see Table 1).

Table 1:

### Average training cost per employee, by size of business, 2014

Business size (# of employees)	Total (\$)	Informal training (\$)	Formal training (\$)
2 to 4	1,920	1,151	770
5 to 19	1,987	1,293	694
20 to 49	1,745	1,096	649
50 to 99	1,595	943	652
100 to 499	1,713	1,119	594
All SMEs	1,907	1,208	699

Source: CFIB, *Training in Your Business Survey*, 6,705 responses, September to October 2014.

Note: Estimates may not add up due to rounding.

Small businesses with two to four employees invested about \$1,920 on annual training costs per employee, while businesses with five to 19 employees spent \$1,987 per employee. Businesses with 20 or more employees invested between \$1,595 and \$1,745 per employee in 2014.

## New workers require larger training investment

Training costs vary depending on an employee's previous work experience. Not surprisingly, the more experienced an employee, the less training she/he needs to be prepared for the job at hand. New employees with no experience may face steeper learning curves, meaning it can take them longer to learn the skills required for their position and feel fully confident in their abilities to perform the tasks at hand.

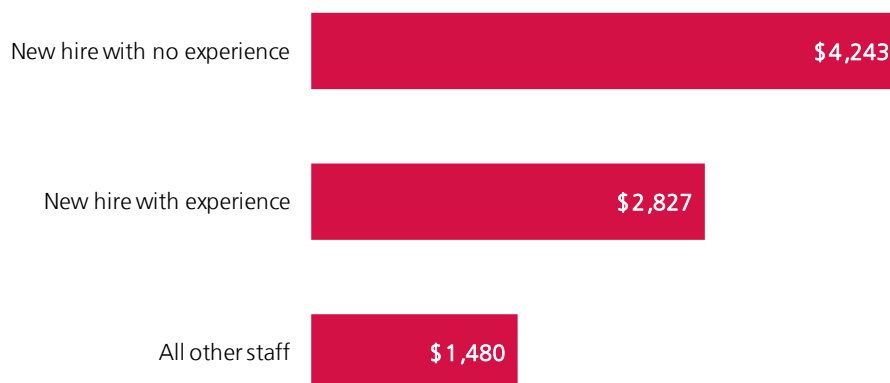
<sup>5</sup> CFIB custom calculation, based on Statistics Canada's 2012 Labour Force Survey data on private sector employment among SMEs and CFIB survey results.

<sup>6</sup> Industry Canada, *Key Small Business Statistics*, August 2013. Accessed Dec. 12, 2014: <http://www.ic.gc.ca/eic/site/061.nsf/eng/02805.html>

As a result, training new hires with no work experience requires the largest investment, at \$4,243 per year (see Figure 11). Alternately, new hires with experience require a less extensive training investment of \$2,827 per year, per employee. In addition, 'all other staff' require training to update and/or learn new skills. Businesses invest approximately \$1,480 per person annually in this type of training.

Figure 11:

### Average training cost per employee, by type of employee, 2014

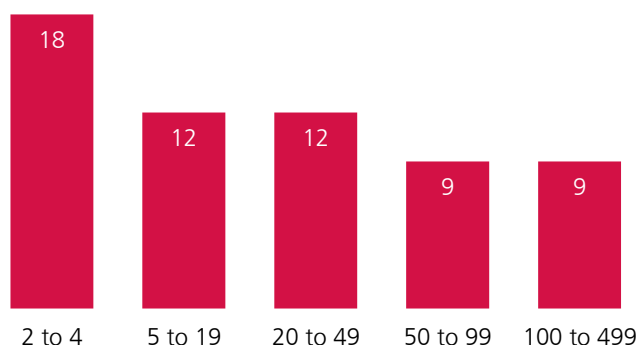


Source: CFIB, *Training in Your Business Survey*, 6,705 responses, September to October 2014.

These higher training costs tend to impact the smallest businesses most as they have the highest proportion of new hires with no previous work experience. In businesses with two to four employees, 18 per cent of employees are new hires with no previous work experience (see Figure 12). By comparison, businesses with at least 50 employees have significantly fewer employees who are new hires with no experience (9 per cent).

Figure 12:

### New hires with no experience as a percentage of total employees, by size of business (% of total employees)



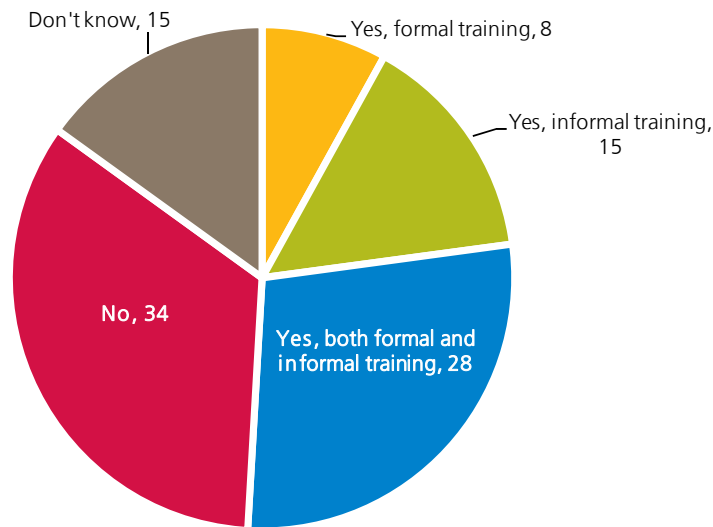
Source: CFIB, *Training in Your Business Survey*, 6,705 responses, September to October 2014.

## The Future of Training

While small businesses already provide extensive training for employees, one in two (51 per cent) small business owners plan to increase the amount of training they offer employees in the next three years (see Figure 13). A greater percentage of entrepreneurs expect to increase informal training as opposed to formal training. These results signal to governments that informal training should be recognized and fostered through government programs.

Figure 13:

### Do you expect your business to increase the amount of formal or informal training in the next three years? (% response)



Source: CFIB, *Training in Your Business Survey*, 6,705 responses, September to October 2014.

When looking at the expectations of business owners to increase training, there is a clear difference between the smallest businesses and mid-sized businesses. Over 40 per cent of the smallest businesses with two to four employees do not expect to increase their training investments in the next three years (see Table 2). This is more than double the rate seen in businesses with at least 100 employees, where about one in five (18 per cent) do not plan on increasing training over the same time period.

Table 2:

### Expectations to increase training over the next three years, by size of business (% response)

Business size (# of employees)	Yes, formal training	Yes, informal training	Yes, both formal and informal training	No	Don't Know
2 to 4	6	13	22	43	16
5 to 19	7	15	30	34	14
20 to 49	9	18	38	24	11
50 to 99	14	8	46	21	11
100 to 499	17	14	46	18	5

Source: CFIB, *Training in Your Business Survey*, 6,705 responses, September to October 2014.

The type of training businesses plan to invest in also changes with the size of business. Among businesses with fewer than 50 employees, the percentage of businesses that plan to increase informal training are double the rate seen for formal training (‘Yes, formal training’ compared to ‘Yes, informal training’). This is in contrast to businesses with at least 100 employees, where plans to increase both types of training are relatively similar (17 per cent ‘Yes, formal training’ and 14 per cent ‘Yes, informal training’). Furthermore, less than one quarter (22 per cent) of businesses with two to four employees say they plan to increase both types of training (‘Yes, both formal and informal training’), half the level seen for businesses with at least 100 employees.

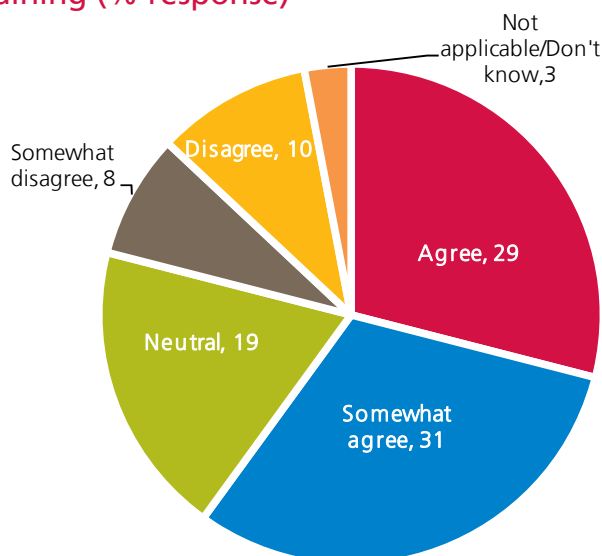
## Poaching inhibits training

While small businesses are committed to training their employees, this investment comes with a financial risk due to poaching. Some employees leave their employer before the business can recoup the costs of their training investment. Overall, three in five (60 per cent) business owners are concerned their employees will leave for other opportunities after investing in their training (see Figure 14).

Poaching by larger businesses or government organizations is a particular concern for small business owners who have limited resources available to recruit and train new employees. In fact, one in four (24 per cent) small business owners who do not provide formal training say poaching is the reason they do not provide such training (see Figure 9).

Figure 14:

**I am worried employees will leave for other opportunities after investing in their training (% response)**



Source: CFIB, *Training in Your Business Survey*, 6,705 responses, September to October 2014.

Poaching is not just a concern when providing formal training but also for informal training. Providing informal training, especially for those businesses where no formal training exists for their job requirements, may make employees more likely to be poached by other businesses looking for these skilled workers.

CFIB has heard from many of its members about the struggles faced by their businesses as a result of poaching. The following comments provide some of these experiences:



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*"It costs me big time in hours and dollars when I spent 2-4 years training an employee to have them poached by another company just as they become an asset to my business. I especially get upset when the company that poaches my employee is a government entity. They do not contribute to the training of these individuals but they poach them after other businesses have invested time and money."*

**CFIB member, British Columbia**

*"The biggest concern for our company is that after investing a thousand or so dollars in specialty training, the employee has no burden to share the cost or continue employment to offset that cost. Then a larger company comes in and poaches said employee, luring that employee with bigger benefits and wages after that investment has been made."*

**CFIB member, Manitoba**

*"We have invested large amounts of time and money to train employees only to find our competitors poach them from us. We lose a valuable asset as well as intellectual information to our competitors who will not train employees..."*

**CFIB member, British Columbia**

*"As an electrical contractor in Alberta I live in constant fear that the apprentices I have trained from day one will receive their Journeyman ticket just to jump ship to the big money that the unions offer up north[...] They just poach small business employees rather than train their own."*

**CFIB member, Alberta**

*"I have spent many years training individuals to sell my product, only for the competition (large companies) to poach the employee because of incentives that are not attainable for a small company to offer."*

**CFIB member, New Brunswick**

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As exemplified by the comments above, poaching may be viewed as a legitimate labour market transaction by some, but it can be extremely burdensome to small businesses and serve as a disincentive for them to offer training.

As stated earlier in this report, SMEs are proud to provide training to their employees, but often do it at a financial loss. Poaching will remain a real threat to preventing higher training investments by SMEs unless this financial impact is mitigated.

Recognizing that small businesses are often the training ground for their larger counterparts, governments could soften the financial blow by offering a training tax credit to offset the basic training they provide to new employees, many of whom are new to the labour market. With lower training costs, SMEs would be better able to withstand the financial impact that occurs due to poaching.

## **Government investments in training need reform**

Governments allocate significant financial resources toward workforce development through both public educational institutions and direct government training initiatives. In fact, the Employment Insurance system funds over \$2 billion<sup>7</sup> in training through the Labour Market Development Agreements (LMDAs) alone. Unfortunately, the current government model does not fully address the training needs of small businesses, nor does it recognize the realities of training in a small business. This may be why a majority (84 per cent) of small businesses have not used government sponsored training programs during the past three years (see Figure 15). Of the few businesses that did access government sponsored programs, many frequently identify apprenticeship tax credits as the program they use.

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<sup>7</sup> Flaherty, Jim. 2014. *The Road to Balance: Creating Jobs and Opportunities*. Government of Canada

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*"Developing, managing and providing training is an advanced skill for small to medium sized businesses. It, unfortunately, tends to fall victim to resource constraints (mostly time, but also money)."*  
**CFIB member, Northwest Territories**

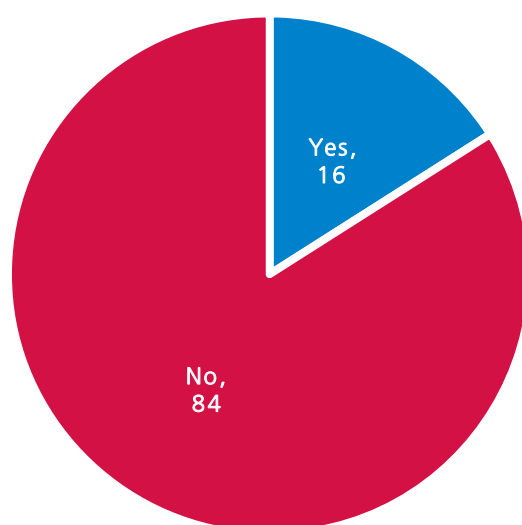
*"Making it easier for small businesses to afford and perform training will immediately make it easier for low-skilled workers to find work and no longer be unemployed. Everyone wins: employer, employee, government."*  
**CFIB member, British Columbia**

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There are several reasons why programs supported by government funding are not helping. The first is that government programs do not recognize informal training. Another part of the problem is a mismatch between the types of training offered/supported by governments and the training needs of smaller businesses. Finally, as previously mentioned, accessibility of formal training can also be a barrier to usage, such as the location of recognized formal training programs, the hours when training is provided, and paperwork requirements.

Figure 15:

**Have you used a government-sponsored training program during the past three years? (% response)**



Source: CFIB, *Training in Your Business Survey*, 6,705 responses, September to October 2014.

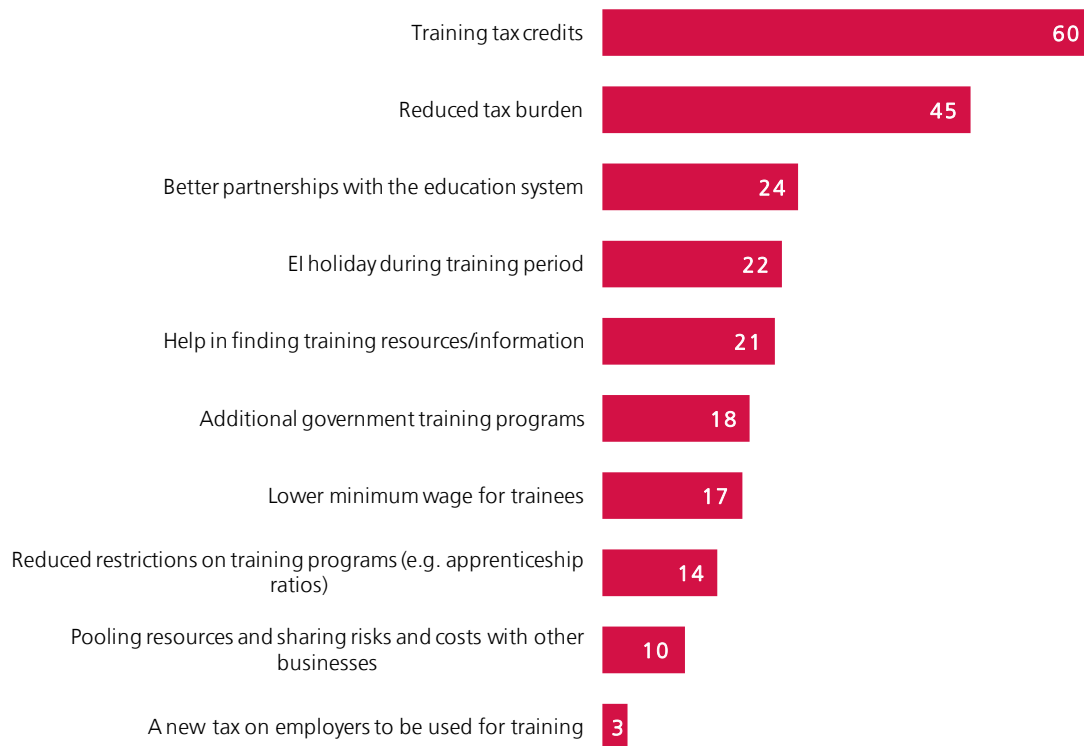
Twenty-one per cent of small business owners believe that obtaining help in finding training resources or information would encourage them to provide more training (see Figure 16). Current government training programs may not be seen as easily accessible or necessarily relevant to most small business needs.

When one considers that SMEs account for 90 per cent of all private sector employment in Canada, this failure to provide training incentives and programs that work for small businesses becomes even more significant.<sup>8</sup>

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<sup>8</sup> Industry Canada, *Key Small Business Statistics*, August 2013. Accessed Dec. 12, 2014: <http://www.ic.gc.ca/eic/site/061.nsf/eng/02805.html>

Figure 16:

**What would encourage your business to provide more training? (% response)**

Source: CFIB, *Training in Your Business Survey*, 6,705 responses, September to October 2014

## Solutions to enhance the small business sector's training efforts

Given that many SMEs are not accessing existing government training programs, policymakers should re-evaluate the focus of government funding for training. In any program evaluation, it is critical to listen to the concerns of entrepreneurs to ensure government training initiatives leverage existing private training investment and provide job-ready workers when the training is completed.

When asked how governments can encourage more training by SMEs, the top preferences were: providing a training tax credit (60 per cent), reducing the total tax burden (45 per cent) and creating better partnerships with the education system (24 per cent) (see Figure 16). Mandatory approaches to enhance training, such as a training tax, are the least preferred option, garnering only three per cent support among entrepreneurs.

## Canada Job Grant: A Step in the Right Direction

Entrepreneurs believe maximizing government training investments means matching skills training with employer needs. The recently unveiled Canada Job Grant (CJG), which focuses government support for employer-driven training initiatives, is an innovative step that better assists Canadians to gain the skills they need to fill available jobs.

The CJG encourages business owners to provide additional training opportunities by contributing up to one-third of the total per employee cost of a short term, formal training program. Small business employers (those with fewer than 50 employees) are able to apply trainee wages towards a portion of their contribution. This is a positive development for business owners as it recognizes that employee wages paid during training are a significant cost driver for SMEs.

While it is encouraging that governments are recognizing wage costs as a part of the cost of formal training, this measure could be significantly improved if it extended to informal, on-the-job training initiatives. In these cases, wage costs for both the trainer and trainee comprise nearly 100 per cent of the total training investment by a business. To ensure the CJG is more accessible for smaller businesses, it must recognize informal training and consider wage costs of both the trainer and the trainee as part of the businesses' contribution in these circumstances.

## Training tax credits would lower the cost of training

While lower taxes allow small- and medium-sized businesses to free up resources to provide additional training investments, a training tax credit provides more targeted support for training. Tax credits allow governments to directly recognize and encourage training investments by SMEs. For example, some provincial/territorial governments and the federal government provide targeted training tax credits for apprenticeship programs. Some provincial governments also provide tax credits for cooperative education programs in universities. These tax credits lower the cost of training employees, but are only accessible through formal training institutions.

While some of these programs may be beneficial, these tax credits provide little support to the many small businesses that rely primarily on informal training. Moreover, these credits do not encourage training for the skills employers have the most trouble finding in the labour market – skills for jobs that require on-the-job, high school, or occupation specific training.

Unless new training tax credits are broad and recognize informal training, it is unlikely they will encourage significant new training investment in the skill sets that are the hardest to find in the current labour market. Programs such as the 2014 Small Business Job Credit or the 2011-2013 federal Hiring Tax Credit provided through the Employment Insurance (EI) system are positive examples of how simplified, easy-to-administer tax credits can work and encourage all forms of training.

The renegotiation of federal-provincial-territorial LMDAs provides another opportunity to offer a training tax credit. Currently, LMDAs transfer the majority of EI training funds to provincial/territorial governments to spend on training programs. A portion of LMDAs could be more effectively used if they funded training tax credits for small businesses that use informal training to build skills among newly hired employees. LMDA funding could alternatively be used as a source of funds for provincial/territorial governments to match federal contributions to any new training tax credit provided through the EI system.

## Canadian education system needs improvement

Small business owners are not confident Canada's education system is arming students with the skills needed to be successful in many of the jobs available today. When workers cannot be found with the appropriate skills, it puts more pressure on SMEs to provide additional informal, on-the-job training for

their workers to 'make up' for the shortage of skills acquired while in school or post-secondary institutions.

*"Existing training programs are not adequate. They give unrealistic expectations to students not reflective of the reality of each career path. There is no screening of students as to whether or not they have the aptitude for the career they are training for."*

**CFIB member, Quebec**

*"I do not expect Universities to train people for business. That is not their purpose. It is to educate them. Of course, one expects that they can read and write adequately for the job, but one assumes they learn that in school."*

**CFIB member, British Columbia**

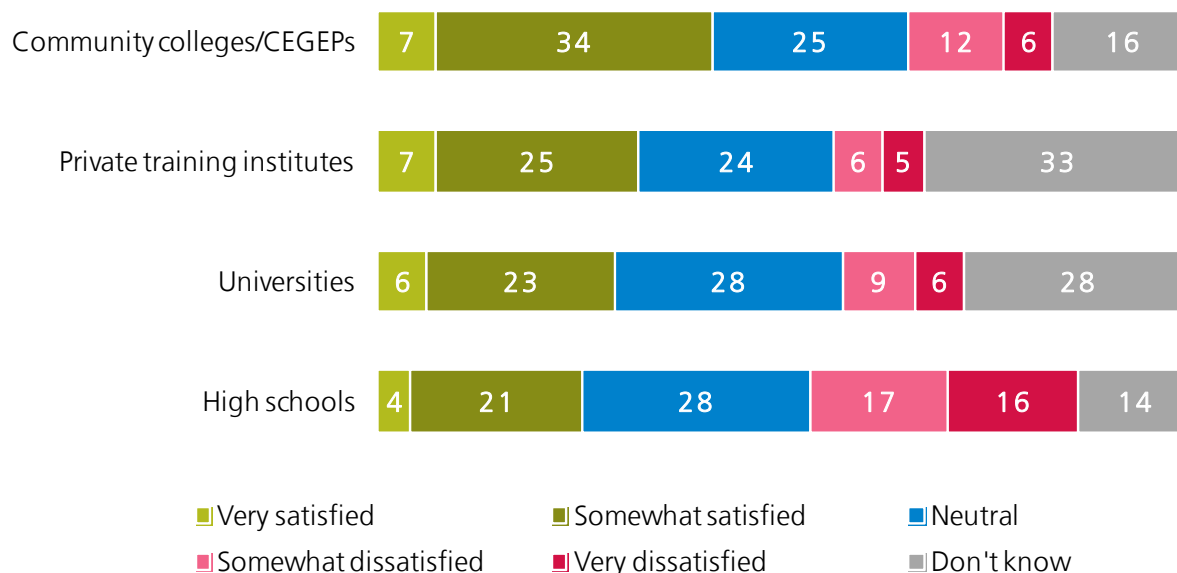
*"No school will train an employee to the exact requirements of an individual employer so employers must be prepared to train employees. If they are replacing an educational program then they should be funded just as educational institutions are funded."*

**CFIB member, Ontario**

Business owners are most satisfied with community colleges/CEGEP, with 41 per cent reporting that they are very satisfied or somewhat satisfied with how they prepare workers for employment in their business (see Figure 17). Entrepreneurs express lower levels of satisfaction (i.e. very satisfied, somewhat satisfied) for the type of training provided by private training institutes (32 per cent), universities (29 per cent), and high schools (25 per cent). Given these results, it isn't surprising that business owners often rely on informal training.

Figure 17:

**How satisfied are you with the job the following educational institutions are doing in preparing workers for employment in your business?**  
(% response)



Source: CFIB, *Training in Your Business Survey*, 6,705 responses, September to October 2014.

The Canadian education system, and most importantly the secondary school system, must change so that it provides education that is better matched to the skill sets businesses need. While being beneficial to businesses, this would also assist new graduates in finding jobs and starting their careers faster. This will

require additional and continued dialogue with business owners and ongoing assessments of broader labour market needs. These efforts must also ensure curriculums adapt to the ever changing needs of the business environment – including the needs of smaller businesses.

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## **Conclusion and Recommendations**

Small- and medium-sized businesses remain Canada's primary training grounds for workers with \$14 billion per year invested in employee learning and skills development. Entrepreneurs primarily rely on informal, on-the-job training to prepare workers for the job at hand, although more than half of independent businesses provide a mixture of informal and formal training opportunities. These training opportunities are essential for businesses to overcome the growing skills shortages facing the Canadian economy and an education system that often cannot deliver job-ready candidates.

The smallest businesses, those with fewer than 20 employees, continue to invest the most in training on a per employee basis. This is not surprising considering these businesses employ more workers new to the labour force, who tend to require more training. Unfortunately, these entrepreneurs are also the least likely to expect to increase their investments in training in the coming years.

It is clear that most existing government training initiatives do not align with the needs of business owners, as few are accessing available programs and many more perceive little value in finding out more about them. All governments must do more to align their training initiatives with the needs of smaller businesses to decrease the skills gap and ensure working Canadians are job ready.

Until the mismatch between what smaller businesses need in training support and what governments offer is resolved, the value of public investment in training will not be maximized. Based on our members' feedback, we offer the following recommendations to better align government training investments with the needs of entrepreneurs.

### **1. Government training investments must recognize the realities of running a small business**

Unlike training in large businesses or other organizations, SMEs have unique circumstances that need to be considered. Based on feedback from our members, there are several important steps governments can take to ensure their programs reflect the realities of training in smaller businesses:

- ▶ Ensure flexibility for training outside normal business hours;
- ▶ Ensure a portion of program specific funds are allocated for small businesses;
- ▶ Ensure that soft and essential skills are recognized in program design;
- ▶ Ensure that application processes and reporting requirements follow common-sense principles and minimize paperwork to reduce red tape.

### **2. Ensure government training investments match the skills training employers need**

With billions invested annually through the public school system, post-secondary institutions and other government programs, there are significant opportunities to improve the ability of government-sponsored training to create job ready workers without significant new funding.

- ▶ Improve basic skills training, including building job readiness skills, in K-12 and post-secondary educational institutions;
- ▶ Focus post-secondary education funding on programs linked to the employment market;
- ▶ Transition passive income support schemes, like Employment Insurance and social assistance, to programs that encourage labour market participation through enhanced training;

- ▶ Reallocate current training funds to programs with a track record of creating job ready workers or to new programs that encourage rather than inhibit training at all skill levels;
- ▶ Better communicate with small business owners on government programs that may be able to assist with training in their business.

### **3. Recognize informal training to better support the training efforts of small- and medium- sized businesses**

Informal training remains the most significant training investment made by all SMEs, yet, for the most part, governments fail to recognize its importance to employee skills development. Until all governments and their programs recognize informal training, a significant segment of the Canadian SME sector will be excluded from participating in government sponsored training and the workers they employ will miss out on opportunities.

- ▶ **Design a federal training tax credit based on the following principles:**
  - I. A tax credit should focus on SMEs, as they serve as the training grounds for the larger economy by hiring a greater proportion of inexperienced workers;
  - II. The credit should recognize the importance of informal training in the workplace;
  - III. To avoid a dramatic increase in paperwork, this tax credit should be based on existing government reporting and filing requirements, such as payroll-based EI.
- ▶ **Enhance the Canada Job Grant accessibility and effectiveness:**
  - I. Recognize informal training to increase effectiveness and accessibility of the program. Currently, only formal training is covered under the Canada Job Grant;
  - II. While employee wages for trainees in small businesses are covered by the Canada Job Grant, wages for an employee trainer or mentor should be included;
  - III. Ensure private sector training institutions are a full partner in the program;
  - IV. Include all sectors and skill sets, including soft and essential skills;
  - V. Ensure timely and relevant communication to small business employers about the program.
- ▶ **Create provincial/territorial training tax credits to boost training investments:**
  - I. Use the design principles above to reform all provincial/territorial labour market training programs;
  - II. Work with provincial and territorial governments to offer a provincial/territorial training tax credit equivalent to the proposed federal tax credit through use of LMDA funding.

## Appendix A: Methodology for Estimating the Cost of Training

The CFIB survey on employee training was conducted by mail and e-mail between September 10 and October 22, 2014. The survey was completed by 6,705 respondents, representing SMEs from all provinces and sectors. Results are accurate to +/- 1.2 percentage points, 19 times out of 20.

Training costs were based on a sub-sample of 3,629 respondents after filtering. This smaller sample includes survey respondents that answered all survey questions concerning training expenses. Only SMEs that have between two and 499 employees are included, thus avoiding the inclusion of any non-employee businesses. In this report, training expenses are based on averages. Training cost estimates refer to costs incurred with both formal and informal training provided between September 2013 and September 2014. Businesses that do not provide training are included.

To estimate SME annual training expenses, CFIB collected data on factors that affect training expenses:

- ▶ Type of employee training provided by employer (formal, informal, both, none)
- ▶ Number of employees between September 2013 and September 2014 (new hires without experience, new hires with experience, all other employees)
- ▶ Annual hours spent per employee on training (formal and informal training by type of employee)
- ▶ Average hourly compensation (by type of employee)
- ▶ Annual direct and overhead training costs (e.g. facility costs, tuition, professional instructors' fees)

### Definition of formal and informal training

Employee training provided by employers can be classified as formal or informal.

#### *Formal Training*

Formal training refers to training that is provided off-site, typically in a classroom setting, or that makes use of the services of a professional instructor. Formal training expenses include the time employees spend receiving training as well as the cost of rental facilities, tuition paid on behalf of employees, material required for coursework, and any payment of fees for professional instructors. Formal training often involves working towards a certificate or diploma, such as apprenticeship training.

Annual formal training expenses include the number of hours spent on formal training, evaluated at the trainee's hourly wage, in addition to other expenses such as facility costs, tuition and instructors' fees. For each SME, the per employee formal training expenses are estimated by the following equation:

$$FT_j = \left[ \frac{\sum_{i=1}^{n_j} (ft_{ij} * w_{ij})}{n_j} + \frac{\sum_{e=1}^{m_j} (ft_{ej} * w_{ej})}{m_j} + \frac{\sum_{o=1}^{p_j} (ft_{oj} * w_{oj})}{p_j} + \frac{R_j}{(n_j + m_j + p_j)} \right]$$

where:

$j$  = the  $j^{\text{th}}$  business

$ft_{ij}$  = annual number of hours of formal training received by "new employee with no experience"  $i$  working in business  $j$

$w_{ij}$  = hourly wage of "new employee with no experience"  $i$  working in business  $j$

$ft_{ej}$  = annual number of hours of formal training received by "new employee with experience"  $e$  working in business  $j$



$w_{ej}$  = hourly wage of “new employee with experience”  $e$  working in business  $j$

$ft_{oj}$  = annual number of hours of formal training received by “all other staff employee”  $o$  working in business  $j$

$w_{oj}$  = hourly wage of “all other staff employee”  $o$  working in business  $j$

$R_j$  = annual total expenses on facilities, tuition, and professional instructors' fees for business  $j$

$n_j$  = number of “new employees with no experience” working for business  $j$

$m_j$  = number of “new employees with experience” working for business  $j$

$p_j$  = number of “all other staff employees” working for business  $j$

### Informal Training

Informal or on-the-job training usually happens on-site and is provided by another staff member, which could be a supervisor or a more experienced co-worker. Informal training may be undertaken to help existing staff update their skills, to transfer knowledge within the business, or transition new employees into their new workplace. In the case of informal training, both the time of the trainee and the mentor need to be considered when evaluating expenses. It is assumed that for each trainee being provided informal training, there is one mentor.<sup>9</sup>

The calculation of per employee informal training expenses is similar to the calculation of formal training expenses, with two main differences. First, informal training expenses encompass only the costs related to hours spent on training and do not include any additional costs for facilities or tuition. Second, informal training hours include the mentor's and trainee's hours spent on training and evaluated at their respective wages.<sup>10</sup>

For each SME, per employee informal training expenses are estimated by the following equation:

$$IT_j = \left[ \frac{\sum_{i=1}^{n_j} (it_{ij} * w_{ij}) + \sum_{o=1}^{n_j} (it_{oj} * w_{oj})}{n_j} + \frac{\sum_{e=1}^{m_j} (it_{ej} * w_{oj}) + \sum_{o=1}^{m_j} (it_{ej} * w_{oj})}{m_j} + \frac{2 \sum_{o=1}^{p_j} (it_{oj} * w_{oj})}{p_j} \right]$$

where:

$j$  = the  $j^{\text{th}}$  business

$it_{ij}$  = annual number of hours of informal training received by “new employee with no experience”  $i$  working in business  $j$

<sup>9</sup> This assumption is based on results from 2008 CFIB phone interviews with a group of SME owners. In total, 11 respondents provided information on informal training. Most business owners interviewed indicated that mentors typically provided one-on-one assistance to trainees and that, to provide training, they would have to devote as much time on preparing and giving training as the trainee would spend receiving training.

<sup>10</sup> There is no general agreement on whether mentors' time should be included as part of informal training expenses. One might argue that the mentors' time should not be considered in full when measuring training costs—as with the estimates in this report—given that while providing training mentors would still be able to perform some of their core duties. In this case, only a portion of the time spent by mentors to providing training would be considered and the estimates presented in this paper would have to be adjusted downwards. However, it can also be argued that, while maintaining an experienced mentor away from his main job, the business incurs costs related to lost productivity that go above and beyond the value of the mentor's time.

$w_{ij}$  = hourly wage of “new employee with no experience”  $i$  working in business  $j$

$it_{ej}$  = annual number of hours of informal training received by “new employee with experience”  $e$  working in business  $j$

$w_{ej}$  = average hourly wage of “new employees with experience”  $e$  working in business  $j$

$it_{oj}$  = annual number of hours of informal training received by “all other staff employee”  $o$  working in business  $j$

$w_{oj}$  = average hourly wage of “all other staff employee”  $o$  working in business  $j$

$n_j$  = number of “new employees with no experience” working for business  $j$

$m_j$  = number of “new employees with experience” working for business  $j$

$p_j$  = number of “all other staff employees” working for business  $j$

Total annual training expenses per employee are the summation of annual formal and annual informal training expenses.

Total per employee training expenses for each SME will therefore be given by the following equation:

$$T_j = FT_j + IT_j$$

## Total cost of employee training for SMEs

Annual per employee training costs by the size of business are multiplied by the corresponding private sector employment levels to calculate the total cost of training for SMEs. Employment data is obtained from Statistics Canada's Survey of Employment, Payrolls, and Hours (SEPH) using 2013 annual figures. Employment from public administration is excluded. Only employment for enterprises up to 499 employees are included. For the 0-4 employee size category, only 60 per cent of the employment was applied to exclude non-employer businesses.<sup>11</sup>

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<sup>11</sup> Statistics Canada. Table 281-0042 - Employment by enterprise size of employment (SEPH) for all employees, for selected industries classified using the North American Industry Classification System (NAICS), annual (persons), CANSIM (database). (accessed: 2014-11-12)  
<http://www5.statcan.gc.ca/cansim/a26?lang=eng&retrLang=eng&id=2810042&paSer=&pattern=&stByVal=1&p1=1&p2=37&tabMode=dataTable&csid=>

## Appendix B: Additional Data Tables

Table B1:

### Difficulty in finding qualified staff during past year, by province (% response)

	BC	AB	SK	MB	ON	QC	NB	NS	PEI	NL	Canada
Difficulties	63	73	62	67	55	60	58	55	49	72	60
No difficulties	37	27	38	33	45	40	42	45	51	28	40

Source: CFIB, *Training in Your Business Survey*, 6,705 responses, September to October 2014.

Table B2:

### SMEs' top labour shortages, by skill level and province (% response)

	BC	AB	SK	MB	ON	QC	NB	NS	PEI	NL	Canada
Jobs that require university training	7	6	11	6	8	9	8	6	0	6	8
Jobs that require a college diploma or apprenticeship training	35	38	26	33	37	22	31	29	33	37	33
Jobs that require a high school diploma or occupation specific training	41	36	37	43	35	53	40	43	54	33	40
Jobs that require on-the-job training	60	59	63	68	59	30	55	52	38	52	54
Jobs that require no formal or specific training	14	24	23	23	19	25	17	21	17	22	21

Source: CFIB, *Training in Your Business Survey*, 6,705 responses, September to October 2014.

Table B3:

### Type of training provided by SMEs, by province (% response)

	BC	AB	SK	MB	ON	QC	NB	NS	PEI	NL	Canada
Formal	3	2	4	6	5	8	4	4	10	7	5
Informal	41	31	39	36	36	40	35	40	38	41	37
Both	53	62	51	56	54	42	52	50	48	51	53
None	3	5	6	2	5	10	9	6	4	1	5

Source: CFIB, *Training in Your Business Survey*, 6,705 responses, September to October 2014.

Table B4:

**Use of a government-sponsored training program (e.g. training tax credits) during the past three years, by province (% response)**

	BC	AB	SK	MB	ON	QC	NB	NS	PEI	NL	Canada
Yes	16	8	5	10	18	22	14	9	17	17	16
No	84	92	95	90	82	78	86	91	83	83	84

Source: CFIB, *Training in Your Business Survey*, 6,705 responses, September to October 2014.

Table B5:

**Satisfaction with educational institutions in preparing students for the workforce, by province (% response)**

*High Schools*

	BC	AB	SK	MB	ON	QC	NB	NS	PEI	NL	Canada
Very Satisfied	3	3	2	4	3	5	4	5	2	9	4
Somewhat satisfied	19	23	17	18	21	26	23	21	23	16	21
Neutral	29	25	28	27	28	31	27	23	27	25	28
Somewhat dissatisfied	18	19	19	21	18	12	18	21	23	12	17
Very dissatisfied	18	18	20	17	19	5	14	18	14	16	16
Don't know	13	12	14	13	11	21	14	12	11	22	14

*Community colleges*

	BC	AB	SK	MB	ON	QC	NB	NS	PEI	NL	Canada
Very Satisfied	5	7	5	11	8	6	9	8	9	7	7
Somewhat satisfied	33	32	29	33	36	31	35	39	43	33	34
Neutral	29	26	24	24	23	27	22	20	21	23	25
Somewhat dissatisfied	11	13	12	13	13	8	13	13	11	11	12
Very dissatisfied	5	5	9	5	8	2	7	12	7	8	6
Don't know	17	17	21	14	12	26	14	8	9	18	16

*Universities*

	BC	AB	SK	MB	ON	QC	NB	NS	PEI	NL	Canada
Very Satisfied	6	5	2	4	5	7	9	5	7	8	6
Somewhat satisfied	22	20	24	23	22	25	24	29	28	19	23
Neutral	35	28	28	32	28	24	28	29	30	33	28
Somewhat dissatisfied	8	10	7	10	10	4	7	10	11	11	9
Very dissatisfied	4	6	8	6	8	2	6	8	5	4	6
Don't know	25	31	31	25	27	38	26	19	19	25	28

*Private training institutions*

	BC	AB	SK	MB	ON	QC	NB	NS	PEI	NL	Canada
Very Satisfied	8	6	8	3	6	7	8	6	8	9	7
Somewhat satisfied	29	23	28	31	22	30	23	26	28	21	25
Neutral	27	26	22	20	24	23	25	26	28	21	24
Somewhat dissatisfied	6	8	5	10	6	4	8	5	3	13	6
Very dissatisfied	4	4	5	3	6	2	8	5	2	10	5
Don't know	26	33	32	33	36	34	28	32	31	26	33

Source: CFIB, Training in Your Business Survey, 6,705 responses, September to October 2014.

Table B6:

**Preferred training incentives, by province (% response)**

	BC	AB	SK	MB	ON	QC	NB	NS	PEI	NL	Canada
Training tax credits	60	57	54	52	61	61	56	60	59	57	60
Reduced tax burden	37	42	42	50	47	47	44	41	31	48	45
Better partnerships with the education system	27	25	23	26	23	20	28	23	39	16	24
EI holiday during training period	20	22	24	27	23	23	20	17	31	16	22
Help in finding training resources/information	20	25	22	18	24	12	17	28	31	20	21
Additional government training programs	17	13	9	10	17	23	21	25	33	31	18
Lower minimum wage for trainees	14	10	14	29	20	13	18	14	15	16	17
Reduced restrictions on training programs (e.g. apprenticeship ratios)	10	12	11	17	15	15	7	11	15	10	14
Pooling resources and sharing risks and costs with other businesses	9	10	10	11	10	7	12	17	13	13	10
A new tax on employers to be used for training	3	2	2	5	3	1	1	1	8	8	3

Source: CFIB, *Training in Your Business Survey*, 6,705 responses, September to October 2014.

Table B7:

**SME training hours and costs per employee, by province, 2014**

	Training hours per employee	Total training cost per business (\$)	Total training cost per employee (\$)
British Columbia	80	34,578	1,954
Alberta	116	66,908	3,164
Saskatchewan	91	31,512	2,231
Manitoba	81	34,106	2,156
Ontario	67	24,512	1,773
Quebec	48	17,671	1,069
New Brunswick	81	24,302	1,820
Nova Scotia	65	20,528	1,481
Prince Edward Island	51	15,613	951
Newfoundland and Labrador	85	31,477	1,739
<b>Canada</b>	<b>75</b>	<b>31,238</b>	<b>1,907</b>

Source: CFIB, *Training in Your Business Survey*, 6,705 responses, September to October 2014.

Table B8:

**SME annual training costs per employee, by industry, 2014**

	Formal training cost per employee (\$)	Informal training cost per employee (\$)	Total training cost per employee (\$)
Agriculture	384	356	741
Natural Resources	1,332	3,011	4,343
Construction	822	1,473	2,295
Manufacturing	526	1,263	1,790
Wholesale	595	1,352	1,947
Retail	521	898	1,419
Transportation	442	785	1,226
Arts, Recreation, and Information	372	630	1,002
Finance, Insurance, Realty	1,192	1,364	2,556
Professional services	996	1,425	2,421
Enterprises and admin. manag.	967	1,142	2,109
Social Services	680	594	1,273
Hospitality	229	512	740
Personal services	875	1,833	2,709

Source: CFIB, *Training in Your Business Survey*, 6,705 responses, September to October 2014.

Note: Estimates may not add up due to rounding.

Table B9:

**Total SME sector training costs, by type of training and size of business, 2014**

	Size of business (Number of employees)	Number of private sector employees	Training cost per employee (\$)	Total training cost (\$ millions)
<b>Formal training</b>				<b>5,043</b>
	2 to 4	618,733	770	476
	5 to 19	2,018,035	694	1,401
	20 to 49	1,638,659	649	1,063
	50 to 99	1,232,052	652	803
	100 to 499	2,187,771	594	1,300
<b>Informal training</b>				<b>8,729</b>
	2 to 4	618,733	1,151	712
	5 to 19	2,018,035	1,293	2,609
	20 to 49	1,638,659	1,096	1,796
	50 to 99	1,232,052	943	1,162
	100 to 499	2,187,771	1,119	2,449
<b>Total</b>				<b>13,772</b>
	2 to 4	618,733	1,920	1,188
	5 to 19	2,018,035	1,987	4,010
	20 to 49	1,638,659	1,745	2,860
	50 to 99	1,232,052	1,595	1,965
	100 to 499	2,187,771	1,713	3,749

Source: CFIB, *Training in Your Business Survey*, 6,705 responses, September to October 2014.

Note: Estimates may not add up due to rounding.





10. Please provide additional detail about which program you used and whether it met your training needs.

11. What factors prevent your business from providing formal training? (Select as many as apply)

- ☐ Not applicable (My business provides formal training)
- ☐ No current need for my business to provide formal training
- ☐ Better to hire individuals with the required skills and competencies
- ☐ Formal training is too expensive
- ☐ No time to invest in formal training
- ☐ Fear of losing employee after formal training (poaching)
- ☐ No interest from employees to acquire formal training
- ☐ Other (Please specify) \_\_\_\_\_

12. How satisfied are you with the job the following educational institutions are doing in preparing workers for employment in your business? (Select one for each line)

	Very satisfied	Somewhat satisfied	Neutral	Somewhat dissatisfied	Very dissatisfied	Don't know
High schools	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Community colleges/CEGEPs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Universities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Private training institutes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

13. Do you expect your business to increase the amount of formal or informal training in the next three years? (Select one answer only)

- ☐ Yes, formal training
- ☐ Yes, informal training
- ☐ Yes, both formal and informal training
- ☐ No
- ☐ Don't know

14. Which of the following would encourage your business to provide more training? (Select a maximum of three responses)

- ☐ Reduced tax burden
- ☐ Better partnership with the education system
- ☐ Training tax credits
- ☐ Help in finding training resources/ information
- ☐ Pooling resources, and sharing risks and costs with other businesses
- ☐ A new tax on employers to be used for training
- ☐ Lower minimum wage for trainees
- ☐ Employment Insurance holiday during a training period
- ☐ Reduced restrictions on training programs (e.g. apprenticeship ratios)
- ☐ Additional government training programs
- ☐ Other (Please specify) \_\_\_\_\_

15. To what extent do you agree or disagree with the following statements? (Select one for each line)

	Agree	Somewhat agree	Neutral	Somewhat disagree	Disagree	Not applicable/Don't know
I believe small business plays a key role in training unskilled or low-skilled workers in our society	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
It is my responsibility to train new employees	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
I am proud when my employees succeed, even if it means they leave my business for other opportunities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
I am worried employees will leave for other opportunities after investing in their training	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Training my employees is an important investment for my business	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Comments:

