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Rethinking diversity, equity, and inclusion in European smaller businesses

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1. Diversity, equity, and inclusion drivers in smaller European firms

What do the terms ‘diversity,’ ‘equity,’ and ‘inclusion’ mean for small- and medium-sized firms? One of the managers of such a firm whom we interviewed, Kaj Sundén, Chief Executive Officer (CEO) of Finvacon (Finland), responds, ‘Diversity, Equity, and Inclusion is a part of our concept “new normal”. We don’t think about it at all in everyday life... we have been living this organisational life for so long that for us it’s just normal.’ Finvacon is an example of a European medium-sized firm that has integrated these terms into its strategy, culture, and daily work without explicitly using them. However, is that common in smaller European firms?

Diversity management and, subsequently, the terms ‘diversity,’ ‘equity,’ and ‘inclusion’ (DEI), including the DEI-related terminology and DEI programmes as a concept, were formulated in the United States (US), spreading globally (Levi and Fried, 2025; Primecz and Mahadevan, 2025), including in European societies and firms. In broader terms, European societies have been historically cherishing diversity and diversity management principles through their intellectual tradition (Ivic, 2019). However, in the transition of DEI conceptualisation from the US to Europe and elsewhere, DEI has been primarily associated with limited issues concerning gender and race (ethnicity) (Primecz and Mahadevan, 2025).

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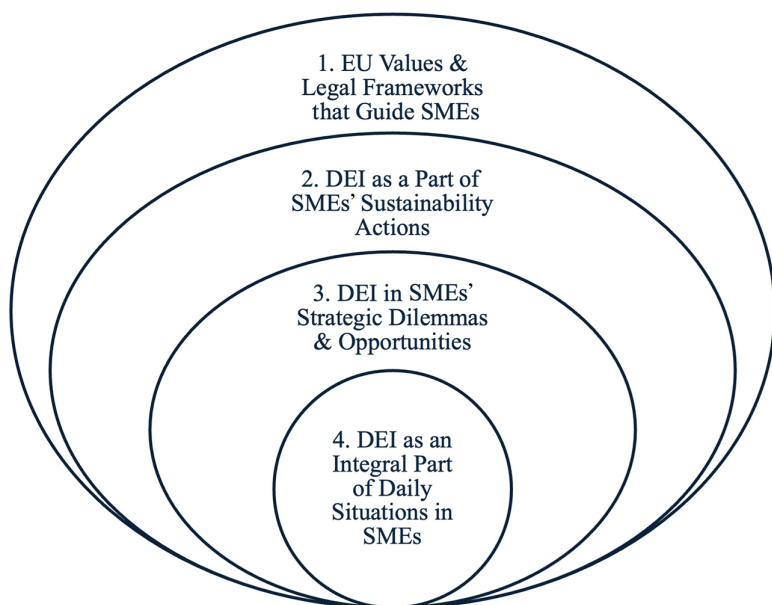
Specific approaches to DEI, particularly those that narrowly focus on certain diversity dimensions and the methods used to address them, have contributed to a severe backlash against DEI for various reasons. The backlash against DEI has been increasingly visible and driven by various misinterpretations (cf., Prasad and Śliwa, 2024), political interests (cf., Ng et al., 2025), and some of the very valid concerns about how DEI policies and practices have been implemented (cf. Levi and Fried, 2025; Liu, 2021; Primecz and Mahadevan, 2025; Swan, 2010; and Chapter 2 in this book). The backlash is additionally supported by arguments about weak economic evidence of how DEI matters, ‘checklist-type’ DEI initiatives that fail, and especially the perceptual nature of DEI work (e.g., Foss and Klein, 2023; 2024).

Indeed, DEI as a concept and its components are *socially bound* and *perceptual*. *Diversity* is the representational variety of people, processes, and thinking within an organisation. However, workforce diversity has been traditionally defined as ‘the division of the workforce into distinct categories that (a) have a perceived commonality within a given cultural or national context and that (b) impact potentially harmful or beneficial employment outcomes such as job opportunities, treatment in the workplace, and promotion prospects—irrespective of job-related skills and qualifications’ (Mor Barak, 2014, p. 136). *Inclusion* is the felt experience of people within an organisation (Shore et al., 2018). Inclusion is achieved when ‘people of all identities and many styles can be fully themselves while also contributing to the larger collective, as valued and full members’ (Ferdman, 2017, p. 235). *Equity* refers to the active process of identifying and dismantling unfair structural and institutional barriers that limit specific groups of people and creating conditions that enable those groups to achieve fair outcomes (Everett and Hill, 2025).

Due to all the reasons above, the DEI-related concepts might be abstract and distancing for managers and employees in small- and medium-sized enterprises (SMEs), which in the European Union (EU) are defined as firms with fewer than 250 employees and either an annual turnover not exceeding €50 million or a balance sheet total below €43 million (European Commission, n.d.b). Moreover, smaller businesses often perceive DEI as an issue primarily relevant to larger corporations, assuming that it requires dedicated budgets, formal policies, and specialised human resources (HR) structures, as it has been traditionally advocated in the DEI literature (e.g., Friday and Friday, 2003; Nishii and Özbilgin, 2007; Riccò and Guerici, 2014; Shen et al., 2009).

This book challenges these assumptions and, through real examples, shows that even if SME managers and employees may not recognise this immediately, a substantial number of their lived experiences are related to the DEI concepts, as illustrated in the opening extract from the interview with Finvacon's CEO. We argue that DEI issues are an integral part of SMEs' strategic management and daily realities, but their realisation and management need to be approached differently than currently advocated or defined in the DEI literature.

To begin the discussion on why DEI is important for every European SME, we first address the factors that encourage SMEs to consider DEI. We capture these drivers in Figure 1.1 and subsequent subsections, where we explain that SMEs are driven to rethink and address DEI issues through: (1) EU values and legal frameworks that actively promote DEI as a part of the social sustainability pillars; (2) social sustainability challenges and opportunities that become increasingly relevant for every business; (3) strategic management dilemmas SMEs need to solve and opportunities they can capture; and (4) daily situations that emerge at



Source: Authors' own elaboration.

Figure 1.1

DEI drivers in smaller European firms

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work in SMEs, including risks and opportunities stemming from the limited structures in SME management. While these drivers may seem to primarily relate to the so-called ‘business case’ for DEI that has been criticised for its exclusive focus on connecting DEI to business outcomes (Ely and Thomas, 2023), each of them also carries the elements of the ‘learning-and-effectiveness paradigm’ (ibid.), especially drivers (3) and (4), and ‘social justice’ perspectives (e.g., Crenshaw, 1989; Morrison, 2014; Rosso, 2021), especially drivers (1) and (2).

These drivers, while academically recognised, were also observed to be relevant for SMEs through industry research and company–academia collaboration in the EU-co-funded ERASMUS+ DEI4SME project. These drivers also align with the understanding that DEI can be addressed at different, interconnected levels that influence each other: the macro level that concerns country or region laws and policies and political discourses; the meso level that comprises DEI actions at organisations, in different institutions, and leadership approaches; and the individual level that captures individual experiences of diversity, equity, and inclusion in various contexts (Cunningham, 2024).

In the subsequent sections, we elaborate on each of the drivers.

1.1 European Union values and legal frameworks that guide SMEs

DEI is at the core of the EU values. Article 2 of the Treaty on EU outlines values that form the foundational principles for the EU. These values include respect for human dignity, freedom, democracy, equality, the rule of law, and human rights, including the rights of minorities. All EU institutions and member states are obliged to uphold these principles. This means that in every policy, programme, and action, the EU and its members must protect and promote people’s rights as a fundamental value and commitment (European Parliament, n.d.). Europe, of course, is wider than the EU; however, these values have deep historical roots in European intellectual traditions (e.g., ancient Greece and Rome, Christianity, the Renaissance, the Enlightenment, and liberal humanism) and have been promoted culturally and politically across European societies well before the formation of the EU (Ivic, 2019). Moreover, the European values as a driver for action guide both internal principles of operations and global positioning of the continent and the EU (Marzal, 2025). Companies operating in the EU and Europe, therefore, are also guided by these values and regional positioning, having the possibility to internalise this value-driven location advantage in their firm’s strategy.

The EU has put much effort into translating EU values into various other guiding principles, frameworks, and directives. The European Pillar of Social Rights advocates for social justice and social sustainability and addresses diversity, equity, and inclusion in all its objectives, thereby providing guidance in decision-making within the member states (European Commission, 2021). The latter framework captures three areas: (1) equal opportunities and access to the labour market; (2) fair working conditions; and (3) social protection and inclusion. In each of these areas, there are specific EU-level goals to be achieved (*ibid.*). Thus, the EU has its regional social justice and social sustainability strategy, including DEI, with specific key performance indicators, and all companies in the region, including SMEs, are expected to work on implementing it and benefiting from it (see further the Action Plan in European Commission (2021)).

Larger companies and listed SMEs¹ are directly mandated for this and other sustainability-related framework implementations, as they are asked not only to work on these goals' implementation but also to report on them annually. The Corporate Sustainability Reporting Directive (CSRD) (European Commission, 2025a) and the Corporate Sustainability Due Diligence Directive (CSDDD/CS3D) (European Commission, n.d.a) require these companies to shape their business according to economic, environmental, and social sustainability principles but also oversee these issues concerning sustainability and justice in their supply chains, often where smaller or non-listed suppliers operate and collaborate with them. Smaller, non-listed firms are invited to voluntarily report on their sustainability efforts through the VSME standard (EFRAG, 2024).

While DEI in the EU is driven by these values, pillars, and reporting frameworks that apply to both small and large firms, DEI in SMEs should not be understood solely as a compliance obligation. These are attempts to uplift human-dignity-focused values that should benefit both businesses and society. While uplifting justice, it also helps business. In a globalised economy characterised by digital transparency, cross-border mobility, and international value chains, DEI increasingly functions as a strategic capability and a locational advantage. SMEs that ignore these dynamics risk reputational disadvantages, talent shortages, and exclusion from international partnerships.

1.2 DEI as a part of sustainability actions in business

The EU is not alone in promoting justice and social sustainability in all spheres of life, including businesses. The United Nations' global

Sustainable Development Goals framework addresses the most severe grand challenges that affect humanity and life on Earth, more than half of which are concerned with social and justice issues (UN SDGs, n.d.). SDGs 1 (No poverty), 2 (Zero hunger), 3 (Good health and well-being), 4 (Quality education), 5 (Gender equality), 8 (Decent work and economic growth), 10 (Reduced inequalities), and 16 (Peace, justice, and strong institutions) directly or indirectly relate to DEI concepts (Wickham et al., 2025). Firms also internalise these specific goals to their strategy and work towards doing both ‘good business’ and benefiting society (Van Tulder and Van Mil, 2022).

Furthermore, pressured by regulations and stakeholders, or voluntarily driven by moral values, firms engage in sustainability actions. DEI is a part of social sustainability actions. Ajmal et al. (2018) define social sustainability in business as the integration of practices that promote human well-being, fairness, and societal development across organisational operations. Social sustainability has three interconnected dimensions: ‘(1) Safety and security (i.e., fair labour practices, health and safety at work); (2) Learning and growth (i.e., education and training, job security, employment); and (3) Community development (i.e., diversity, equity, and inclusion, social involvement, human rights, consumer and product responsibility)’ (ibid.; Šilenskytė et al., 2024, pp. 2–3). Rather than limiting sustainability to environmental and economic factors, businesses should work to address core social sustainability issues that influence the internal firm’s functioning in addition to wider societal outcomes. Unhappy, discriminated employees, or those working in unsafe conditions will have little interest to engage with the firm’s business or environmental strategies and goals (Šilenskytė et al., ibid.).

Moreover, firms are exposed to a diverse workforce due to environmental, social, and political factors. The global population has become transient, with workers moving countries and continents to build meaningful lives (Nishii and Özbilgin, 2007). Climate change, wars, and geopolitical upheaval are forcing communities to flee from their home cities and countries to find security for their lives and livelihoods (Özbilgin et al., 2024). Medical advances are allowing people to live longer and healthier lives even as pension plans and retirement savings plans struggle to keep up with growing costs of living. This in turn leaves an older workforce seeking forms of income to sustain a lifestyle they are used to (Vodopivec et al., 2019). Individuals may experience phases of vulnerability or reduced capacity due to caregiving, health issues, life transitions, or crises, and these temporally bounded phases can significantly impact their functioning, role in society, and economic activity.

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The work of transforming organisations to be more receptive to the needs and interests of those who have been historically oppressed or those who are currently in a challenging situation is ongoing. The language used to demarcate this work has evolved with time as critical thinkers have continued to add nuance and depth to describing the workplace (Stewart, 2018). SMEs are more vulnerable to overlooking emerging employee needs and societal changes, as well as being affected by them, because they often lack formalised sustainability and other policies. But also, SMEs are more nimble than larger firms to address them since they do not have stiff management structures (Koporcic et al., 2025). Thus, SMEs can more flexibly implement inclusion strategies anchored in life-course and crisis-timing considerations, this way championing social sustainability initiatives through active response to emerging trends. Consequently, DEI in SMEs should be understood as a dynamic, time-embedded phenomenon rather than a fixed set of actions or identities. Recognising temporality allows SMEs to design more resilient and inclusive systems by aligning HR practices, crisis management, and network relations with employees' life-course stages and disruptions, rather than relying on one-off initiatives (Širca et al., 2024).

1.3 DEI in strategic dilemmas and opportunities SMEs need to solve

Managers face DEI-related dilemmas and opportunities in the strategic management of the firm, too. These challenges come from both increasing and reducing diversity in the firm. For example, when a company is internationalising and starts establishing foreign units, the corporate language should be reconsidered and typically is changed to English or another commonly used language across all country units, thus reducing linguistic diversity for organisational efficiency. Yet research shows that such a simple change from linguistic diversity to one corporate language is likely to affect employees' ability and interest to engage with the firm's strategy (e.g., Boxenbaum, 2006; Lønsmann, 2017). When employees and managers apply a unified understanding about others and assume that if others work within the same corporation, they will think and work in the same way, firms struggle to implement their strategies (e.g., Šilenskytė, 2020). Companies are questioned by various stakeholders about their homogenous board compositions that prevent innovativeness in firms and suggest inclusion of females and other diversity representation in them (e.g., large firms and SMEs are asked to report ratios in their annual statements and have targets to improve female representation) (European Commission, 2025a; EFRAG, 2024).

On the other hand, numerous examples demonstrate how companies struggle to consistently implement their strategy across country units in smaller and larger firms due to the diversity of cultural and cognitive frameworks (e.g., Šilenskytė et al., 2022; Värlander et al., 2016). Unaddressed different mindsets of people working in different organisational functions can prevent firms from developing innovative products and market offerings (e.g., Olsen and Boxenbaum, 2009). Overlooked employee diversity on the factory floor may prevent a firm's success in translating business initiatives to practice (Moore and Rees, 2008).

Most of the available research on diversity-related strategic challenges has been conducted in larger firms. But cases featured in this book, such as Valent Hausverwaltung (see Chapter 12), Velberg Motors (see Chapter 9), HR Hint online / OVC Consulting (Chapter 6), Relocation Services (Chapter 14), or Top Training (see Chapter 8), demonstrate that SMEs equally face DEI-related challenges and have the possibility to utilise DEI to strengthen their business.

Finally, to be competitive and unique, firms develop purpose-driven business models (Blocker et al., 2025) and build competitive advantage through shared value (Porter and Kramer, 2018). As shown through the cases in this book, such as Finvacon (Chapter 5), AddSearch (Chapter 10), Foamit Group (Chapter 7), Consulting4Future (Chapter 11), or Merinova (Chapter 13), firms choose or must choose to integrate DEI in their strategic thinking to serve diverse customers, win the war for talent, create inclusive and welcoming working conditions, achieve compliance, fulfil customer contract expectations, or build a unique competitive advantage in the market. This work is not based on a one-time decision to engage with DEI strategically but rather is a continuous learning and effort to balance both the complexities that come with diversity and the benefits that can be obtained through DEI.

In this book, we invite SMEs to shift away from a single perspective that engagement with DEI is a challenge or extra burden. We invite them to realise that strategically approached learning-driven DEI in business corresponds with SME needs to access talent markets that are increasingly diverse and transient (Harney et al., 2022), address the needs of a value-oriented consumer who values shopping just as much as they are shopping for values (White et al., 2019), and build resilience by overcoming limitations inherent to SMEs. For SMEs, a DEI lens that goes beyond engagement with one or several diversity dimensions in their strategy represents an opportunity for business resilience and growth (see Chapter 2 for extended discussion).

1.4 DEI issues that occur in daily work situations in SMEs

Daily management and work situations are related to and can be facilitated by more actively engaging with DEI. Understanding the reasons for and solving a tension when some employees do not want to work with each other (see Top Training case, Chapter 8), allocating work tasks as per employees' current and changed ability (see Velberg Motors case, Chapter 9), handling a wrongly submitted whistleblowing report (see Foamit Group case, Chapter 7), ensuring employees do not feel overwhelmed with work (see Valent Hausverwaltung case, Chapter 12), or conducting a work meeting with a team working virtually so that everyone feels included and understands how to complete the task (see AddSearch case, Chapter 10) are easier when we think about these daily situations through a DEI lens. These seem to be very straightforward activities, but as company cases featured in this book and real life show, managing them effectively and with inclusion, justice, or equity in SMEs is not so easy. Considering them through the lens of DEI allows SME managers to capture underlying reasons for the problem and avoid misunderstandings, work undone, the loss of a valuable employee, or supplier contract, but it also ensures equitable contributions and fair treatment.

However, managers in many SMEs may predefine their understanding of what people can and cannot do before diverse people enter the organisation, instead of considering their potential. Managers may have an image of an 'ideal worker' formed by social norms and discourses or political agitation campaigns. This leads to social challenges and difficulties for businesses, as they begin to lack skilled employees but still disregard certain segments of society (see Merinova case in Chapter 13). Such predefined thinking frameworks about people with disabilities, older people, refugees, or migrants, etc., prevent SMEs from creating something unique and valuable in economic and societal terms. Finvacon (see Chapter 5) entitled this uniqueness as a 'new normal' where employee productivity is not defined in standard terms, but where the firm can build a competitive advantage and a strong employer brand in the industry, transforming the business from a workshop for dollhouses to a global industry leader in high-technology offerings.

Therefore, SME managers and employees do not always need to refer to the DEI terms explicitly, but they should foster an understanding that managing and organising work in SMEs effectively requires considerations of how diverse people who are attempting to work or working in

SMEs can effectively and sustainably thrive in the firm long term, enabling business success *and* their own well-being, personal and professional hopes and aspirations, and their ability to be a valued member of the SME as a social and economic organisation.

We recognise that tapping into these opportunities and realising the value of applying a DEI lens to SME management has been prevented by the traditional conceptualisation of what diversity management entails. In the next section, we redefine the principles of diversity management in SMEs by building on these identified drivers discussed above and company cases featured in this book, making DEI relevant, applicable, and accessible in the SME context.

2. Making DEI accessible to SMEs and meaningful in their context

DEI management has been traditionally associated with and developed from the context of larger firms. Consider existing DEI management frameworks, such as the DEI implementation framework by Riccò and Guerci (2014) or Friday and Friday (2003), the global diversity management framework by Nishii and Özbilgin (2007), and the visionary framework by Shen et al. (2009), that have pointed to the need to move away from employment opportunity (EEO) and affirmative action (AA) perspectives and have offered solutions that are likely to be suitable for larger firms but may be too complex, costly, and distancing for smaller firms. These suggestions that called for formalised structures, policies, and processes to manage DEI further permeated documents that promote best practices that SMEs could adopt when implementing DEI (e.g., European Commission, 2015). While all these frameworks are of significant value and do make relevant suggestions, their effectiveness is limited due to behavioural and social limits to arbitrage (Liu, 2021), power relations in specific country contexts (Kornau et al., 2022), and other reasons (see Chapter 2).

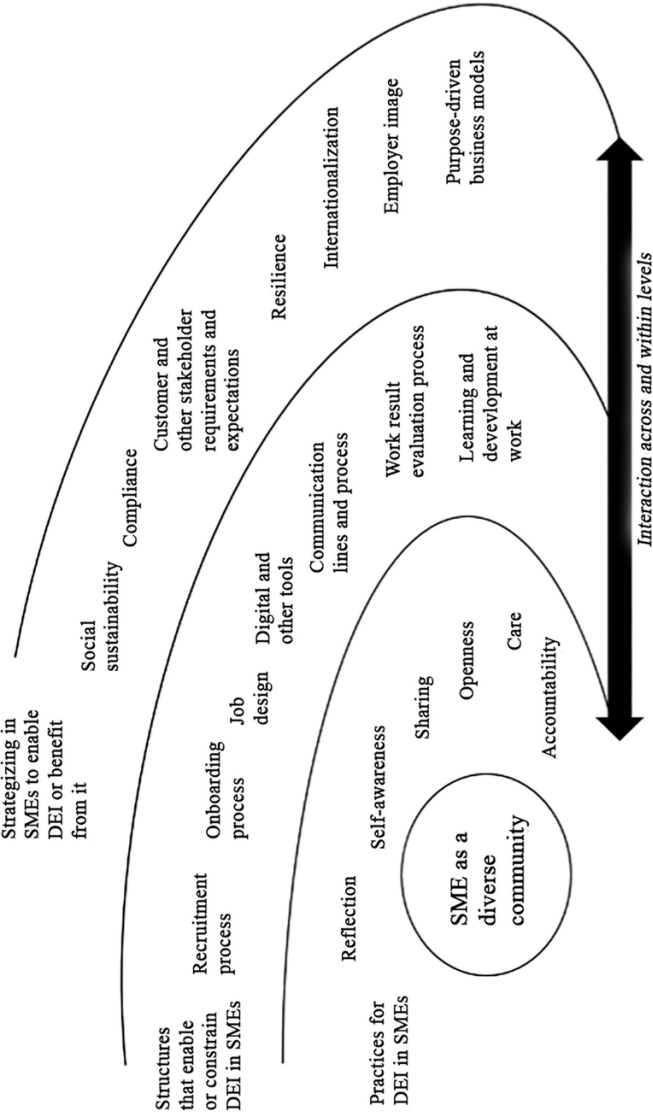
Moreover, these frameworks are rarely meaningful to SMEs, firms that face the liability of smallness and are resource constrained financially and by other resources, including time, managerial, and knowledge resources (Bakhtiari et al., 2020). SMEs lack business-related policies, processes, and structures, as well as managerial capabilities to develop them in a professional manner (e.g., Eggert, 2020; Koporcic et al., 2025). Thus, it is rather distancing to discuss formalised structures and

processes as advocated in traditional DEI frameworks within the SME context. Therefore, it is not a surprise that despite numerous drivers, SMEs have often been disengaged with DEI issues, leaving these matters for resource-rich larger firms that have dedicated people and departments to handle it.

However, focusing on the unequal capabilities to engage with existing DEI frameworks does not help us address the DEI-related challenges and opportunities that exist in SMEs. As discussed above and shown in the company cases of this book, DEI-related strategic dilemmas, opportunities, risks, and daily situations exist in SMEs. It has been argued that diversity management relates to people management (Shen et al., 2009), strategic management of the firm (Riccò and Guerri, 2014), and its competitive advantage (e.g., Roberson et al., 2017; Roberson, 2025; Wickham et al., 2025). Equally, these issues are visible in SMEs. However, pathways to managing diversity need to be different given the features of the SME context. Thus, we further elaborate on *how SMEs could start considering DEI in an accessible way*, meaningful in their context, using the existing opportunities to strengthen their business and prevent potential oversights that come from their highly informal ways of operating. Our suggestions are summarised in Figure 1.2.

In practice, these suggestions are derived from the accumulative analysis of company cases featured in this book and from the observations of other firms with whom we worked in the DEI4SME project and beyond. Moreover, these suggestions are further supported by observations that while SMEs have resource constraints and lack structures and processes, they also benefit from their nimbleness, ability to pivot business models, and the use of their close network ties with suppliers, customers, and peers, which leads to their resilience (Koporčić et al., 2025).

Theoretically, this framework is grounded in the assumption and a strong belief that formal and social structures interact (McEvily et al., 2014) and only the analysis of the two can result in meaningful explanations of how some strategic initiatives, such as engagement with DEI, become realised or not (Weiser et al., 2020; Šilenskytė and Smale, 2021). Moreover, the perspective that we offer here adheres to the contemporary research on DEI (Fitzsimmons et al., 2023) that recognises the need to move away from ‘box’ thinking about diversity dimensions and ‘checklist-type’ DEI initiatives that fail (Foss and Klein, 2023; Foss and Klein, 2024) and invites designing DEI work by rethinking systems through the multi-level (Syed and Özbilgin 2009) and intersectional lens (see Chapter 3 for



Source: Authors' own elaboration.

Figure 1.2 Managing diversity, equity, and inclusion in SMEs

extended discussion) as well as the assumption that diversity experiences are context related (Lücke et al., 2018; Primecz and Mahadevan, 2025).

DEI becomes understandable and manageable for SMEs when we view SMEs as diverse communities. While DEI-related actions and the commitment of managers to support DEI and establish relevant structures and measurement mechanisms are important for SMEs, just as they are vital in large firms (European Commission, 2015), we argue that only the community approach to SMEs as organisations can make a real difference. Business processes and structures are important, but people also ‘make the place’ (Schneider, 1987), and this is more visible in SMEs that frequently rely on informal processes and social structures (Harney et al., 2022). Viewing SMEs as a diverse community also allows recognising the most typical reasons, such as behavioural and social limits (Liu, 2021) and power relations (Kornau et al., 2022), because of which even the best-established DEI systems may fall short, and continuously examining experiences of diverse individuals leading and working in SMEs within their context (Primecz and Mahadevan, 2025).

2.1 Practices for DEI in SMEs

The SME as a community may or may not have formal structures and processes for enabling DEI, but there are several social *practices* that can enable the development of ‘soft’ structures to uplift DEI and ensure that existing formal structures are functional, equitable, and inclusive. To achieve the latter, these practices should be regular and exercised by *both* SME managers and employees. Regularity is vital for institutionalising the practice and therefore ensuring that groupthink and blind spots in the community are prevented in the long term.

SMEs can institutionalise certain practices that enable DEI and its outcomes in several ways. For example, when practising *reflecting*, people in SMEs ensure that they observe how social ‘soft’ and formal ‘hard’ structures work, evaluate them, and question, ‘Are they functional, and whom do they serve?’ The practice of *self-awareness*, i.e., acknowledging that both decision-makers and workers can be biased or have blind spots in their thinking shaped by social contexts and individual experiences (Pronin and Hazel, 2023), sets the ground for meaningful reflection. With self-awareness we do not reflect to confirm the system, but we reflect to identify shortcomings of the system and improve it. Self-awareness alone is not sufficient because we operate in the community and because diversity is socially bound and perception based. Without

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sharing our considerations and reflections, we cannot fully open our thinking to new perspectives.

Thus, *sharing* is a vital practice. SME managers could communicate their dilemmas inside SMEs to colleagues working together and outside SMEs to external partners such as universities, researchers, and students, who can create structured and safe spaces for critical discussion, new perspectives, and shared learning. Workers could more openly explain their situations, questions, and challenges to managers and colleagues. Sharing develops empathy and *openness* on multiple ends. Saying just that ‘we are open’ is not sufficient for achieving openness in practice; significant courage is needed to practise open acknowledgements of challenges, to hear uncomfortable truths or alternative opinions, and to uplift mistakes searching for better solutions. Moreover, openness makes us vulnerable and vice versa (Baiausu, 2020). It can be an initial response to blame a person who acknowledges mistakes or blame a team member who openly seeks fairness at work, raising uncomfortable questions, or who did not agree with the opinion of the majority.

Therefore, *care* and *accountability* practices should complement openness and the other practices mentioned above. Care for oneself and others and accountability towards the SME community are essential. SME managers have legal and moral accountability to care for their workers (European Commission, 2021; Oldham, 2024) and this care and accountability, together with other practices adopted by managers, form the foundation for inviting employee voices. But once this happens, this care should not be one-sided by managers alone. DEI or related literature has emphasised the role of managers in making positive changes and developing inclusive workplaces (e.g., Adams et al., 2020; Cao et al., 2022; Oldham, 2024; Tatli and Özbilgin, 2009). There is a need for such managerial commitments and supportive actions since they fight marginalisation and ensure inclusion and equitable treatment. However, managers who foster inclusion at work and welcome openly diverse ideas, as well as the other SME community members who follow the initiative to be open and reflective, may become vulnerable. To prevent unwanted consequences of vulnerability and loss of motivation of open community members, including managers, workers in the SME community have equal accountability to challenge but with respect and care, having awareness that we all are biased and have limitations, and have also the right not only to demand but also to care, support, and be accountable to deliver our own share, this way contributing to a caring environment both ways. This two-sided approach is less often considered in

DEI but is otherwise visible in organisational behaviour literature (e.g., Cropanzano and Mitchell, 2005; Cropanzano et al., 2017). Moreover, the two-sided approach becomes very important when we see DEI not only as restorative action concerning historically marginalised groups but as a way to manage diversity of people in a contextualised, intersectional way, as argued by Primecz and Mahadevan (2025).

While DEI literature suggests that firms that engage with the DEI do get more innovativeness, better work atmosphere, lower turnover, higher employee engagement, reduced legal costs, etc. (e.g., Kossek et al., 2006; O'Donovan, 2017) these benefits are difficult to measure, observe, and realise in the short term. However, having easy-to-prove-through-actions-at-work daily evidence is likely to motivate SME community members to engage with DEI further. That is why psychological safety, a shared belief that one can speak up, improve, or correct actions without fear of punishment or humiliation when working in the organisations (Edmondson, 1999), as a concept has been penetrating DEI and leadership literature. This concept speaks about the observable actions by both managers and employees that show the existence of inclusion and equitable treatment at work that also result in better performance.

The practices we suggest can be adopted in an SME of any size, including by a single entrepreneur. These fundamental practices do not require any investment or additional resources but are the foundations through which diverse ideas can enter the thinking of individuals and SMEs in which they work, paving the way for the constant re-evaluation of the entire environment and structures in which we live and work.

A short H. G. Wells fictional story, *The Country of the Blind*, is retold in DEI literature, as it describes a person who entered the world of blind people thinking of having an advantage as a person with vision but soon realised that everything in that world is designed according to the assumption that people cannot see, and therefore having vision may even disadvantage a person (see Noon, 2004). This story illustrates how blind spots occur when the social and other systems are designed according to the needs of a majority group who defines the concept of 'normal'. The SME community, when institutionalising the above-defined practices, does the same exercise; they enter the world in which we live and work with more open minds and a better chance to understand the underlying assumptions that either support or limit people of a certain kind. The limitations that prevent diverse people who lead and work in the SME

community from doing their best at work limit their possibility to contribute to business success and society at large.

2.2 Structures that enable or constrain DEI in SMEs

Practices for DEI in SMEs are a fundamental step that defines how functional, inclusive, and equitable an environment SMEs will develop and how much they can utilise DEI to enable their business success and simultaneously contribute to society. However, this is only a first step. SMEs, especially larger ones, should have structures to ensure the workplace is inclusive and equitable. Yet, these structures need to be empathetic to the SME context. There is no need to expect that SMEs will have extensive DEI policies or a dedicated person overseeing their implementation since SMEs often do not have HR functions and rely on outsourced, contracted HR consultants.

However, SMEs can have clear principles and preferably brief descriptions of how they recruit and onboard workers, arrange work and communication, or create access to learning and development to ensure that the absence of DEI-related policies and structures does not lead to a variety of biases, prejudgements, and injustice. The cases in this book demonstrate what issues occur when SMEs do not do that or do that without reflecting on the DEI lens. With deliberation we avoid using terms like ‘providing training and development,’ ‘performance management,’ ‘communication systems,’ or ‘appraisal processes.’ This is not the language of SMEs, even if this was a language of how DEI literature so far has discussed specific structural and/or formal actions needed to ensure DEI at work (e.g., Kossek et al., 2006; Sippola, 2007). Many SMEs do not have the financial or other capacity for specialised training and development offers or for conducting formal performance and appraisal processes. However, this does not mean SMEs cannot ensure accountability towards DEI by different means.

SMEs can focus on how they do business every day and how these established semi-formal or formal processes support or hinder diverse people in companies from doing their best at work and realising their skills and talents for bettering the community. For example, if SME managers hope to expand internationally but post job advertisements only in local languages and hire only local employees, how can a firm develop internationalisation capacity? Whereas hiring a migrant from the target country of internationalisation can immediately bring needed knowledge about and skills to engage with the target country while also uplifting the inclusion of marginalised groups. If the evaluation of work benefits only those who

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speak the loudest in team meetings and there is no system to recognise that those more silent ones have done most of the work, SMEs may not be able to secure these silent talents, who will respond to injustice at work by leaving the firm. If there are no or limited learning opportunities created between more experienced/older and newer/younger employees, those who speak local languages and those who speak international languages, those who have mastered technology and those who are only catching up, those who have standard work ability and those who are differently abled, how can SMEs remain competitive? Such internal cross-learning is possible if meaningful internal diversity exists and 'soft' or 'hard' structures allow utilising it to support business success. Therefore, instead of thinking about DEI policies with little functionality, SMEs can question their *systems* at work starting from these simple areas summarised in Figure 1.2, evaluating their functionality while using *practices* for DEI in SMEs.

2.3 Strategising in SMEs to enable DEI or benefit from it

Finally, SMEs can follow the best examples featured in this book and start strategising for and with DEI. As presented in previous sections, SMEs have an immediate connection with global and European strategic initiatives when incorporating social sustainability language in their strategy. They can position themselves not as a small undertaking in a local community, but as an ambitious and visionary company that is ready to grow globally by engaging in global conversations from the start. As shown by cases such as Foamit Group, HR Hint online/ OVC Consulting, AddSearch, Finvacon and others, it is easier to win customers, receive wide recognition, achieve compliance, and build a strong employer image when a DEI lens is applied to strategising in the SME.

Ultimately, SMEs can strive to develop purpose-driven business models (Blocker et al., 2025) or build competitive advantage through shared value (Porter and Kramer, 2018). However, equally, SMEs may not have an official DEI strategy or official business strategy supported by DEI. What is most important is that SME managers can strategise by benchmarking strategic aspirations with how DEI can support or constrain them. This will enable firms to design products and services that can be used by more and very diverse people, to access innovative ideas and talents that were previously disregarded, and to contribute to a welfare economic model promoted by the EU where more is invested in business development, upskilling, reskilling, and innovations rather than social support of those in need. Moreover, such strategising incorporates the

recognition that organisations, such as SMEs, and socioeconomic inequality are intertwined and significantly impact each other (cf. Bapuji et al., 2020).

The framework to manage DEI in SMEs that we presented above might still be unclear or abstract. The other chapters in this book further explain these ideas and elaborate on the reasons behind our proposals. Moreover, ten SME cases presented in the book illustrate the SME realities and how they connect with the DEI conceptualisation proposed. In the next section, we briefly present these cases and further chapters as well as discuss how to use the book in the most meaningful way.

3. What is in this book and how to benefit from it

This book is primarily intended for three diverse audiences: (1) management, entrepreneurship, sustainability, and DEI scholars; (2) business educators and learners in higher education institutions; and (3) SME managers and employees. Those interested in sustainability and inclusive business practices or willing to learn about real managerial situations that SMEs face are also likely to be interested in this book.

The book has several parts. In the first part we feature conceptual and empirical chapters on DEI in SMEs, each of which delivers different value for our target audience. We begin by recognising all the critiques that DEI has faced and acknowledging their validity. Conversation about the validity and effectiveness of DEI cannot start if we try to shut down these voices of critique. Chapter 2 presents a solid account of the ‘old paradigm’ of DEI and why it failed, despite its good intentions. Moreover, to ensure that we do not offer only critique, Chapter 2 also establishes the intellectual foundations for how we can and should approach DEI if we genuinely want it to address real problems and empower businesses through it. These arguments rely on complexity theory and distributed agency perspectives (Burnes, 2005) and demonstrates that DEI is a tool for building resilience and long-term business success, especially in SMEs.

Chapter 3 further extends these arguments through empirical evidence. The authors empirically demonstrate why operating by the old logic of ‘putting people in boxes’ does not work if we hope to effectively implement DEI, especially in the SME context. This chapter, drawing on the intersectionality research and survey data from four European countries, demonstrates that neither a single nor several intertwined

diversity dimensions are enough to project potential biases at work. In other words, the chapter demonstrates that having legal frameworks that recognise the vulnerability of some diversity groups or company policies that state the commitment to uplift the inclusion of certain diversity groups (women, people with disabilities, people of colour, etc.) will not fully solve DEI challenges or secure DEI benefits for business. So, what will? Aligned with emerging insights in intersectionality research, Chapter 3 suggests that both structural developments should be complemented by specific managerial actions that open the understanding of who is discriminated against, when, and how, and when the same person is uplifted in one context and devalued in the other context. Chapter 3 also features several empirically grounded managerial implications on how to make DEI work effectively and meaningfully in the business context, within the SME context.

Chapters 2 and 3 have built conceptual and empirical foundations further supported by company cases featured in this book to develop the framework for managing DEI in SMEs that we presented in this chapter. For scholars, these two chapters will serve as a tool for rethinking DEI in the SME context and more broadly. For SME managers, they will provide further support to ideas shared in this chapter and elaborate on best practices that managers can apply in their daily work.

Chapter 4 recognises additional oversight. In higher education and vocational settings, we have been teaching how to conduct business, but we have rarely taught students how to meaningfully integrate diversity and inclusion to support business operations. Therefore, Chapter 4 introduces a methodology, tested through empirical research, to introduce DEI in entrepreneurial education. While the chapter primarily speaks to the educators working in the higher education sector, the methodology is suitable for trainers, business consultants, and managers who want to rethink the work arrangement practices and how they are enabled or deprived through thoughtful DEI considerations. DEI work is often criticised for tokenistic practices; this chapter demonstrates how skills and merits of individuals are often disregarded if DEI are not explicitly considered in educational and work arrangements. These three chapters open academic conversation with implications for managers, educators, and scholars to rethink the role of DEI in European businesses.

The other two parts of the book feature real manager dilemmas and reflections of SME business managers and professionals working in the firm, showing their daily challenges and opportunities that they face at

work. The stories and cases were gathered through the EU co-funded ERASMUS+ project DEI4SME and its two international hackathons that featured firms from four countries – Austria, Finland, Germany, and Lithuania. An international team and hundreds of participants worked to solve the cases that participating companies have offered for the hackathon. These cases are crafted as teaching and learning cases published in this book. Each case featured in the book is followed by a teaching note available as an online appendix. Educators, scholars, and managers can request this teaching note and receive additional access to the case analysis and solutions with answers to the reflection questions featured at the end of the case. Each case presents a dilemma or a topic to reflect on and showcases some of the best practices for DEI applied in European SMEs.

The four cases in Part II are longer and more detailed reflections of real business challenges that were developed in collaboration with SME managers facing them. The Finvacon case (Chapter 5) introduces us to a successful purpose-driven business model that unites good business with the employment of special groups (people with disabilities, refugees, etc.) and poses the question of how to grow such a business internationally. The HR Hint online/OVC Consulting case (Chapter 6) explores a managerial dilemma: whether SMEs should approach DEI as a formal requirement or as an internally embedded strategic capability. Through the interaction between the SME and an external consultant, the case invites critical reflection on the sustainability of outsourced DEI expertise. Foamit Group's case (Chapter 7) illustrates the complexity of implementing the EU regulatory framework in SMEs in practice and shows that even firms that are championing sustainability and managing it through smart digital management solutions have issues to reconsider. The Top Training case (Chapter 8) considers the role of an SME manager, who is often pressured by daily emergencies and relies on management processes and ideology established at the time of founding the firm, inviting us to rethink how conflicts at work could be solved through considering DEI issues more strategically. These four cases give us some insights into different business management processes: strategy making and implementation, human resource management, compliance management, and sustainability management, demonstrating that DEI is not an abstract concept but rather an integral part of each of them.

The six shorter cases in Part III present an SME and their managers who are confronted by situations emerging at work due to some specific diversity dimension. While these cases each highlight managerial challenges connected to some specific aspect of diversity, they also underline the

idea that no fixed approaches to promote one or the other group of differently abled people are likely to be functional, especially in the SME context.

The Velberg Motors case (Chapter 9) concerns a small car repair shop where a star mechanic experienced a stroke and now has a reduced work capacity due to acquired disability. While work adjustments might seem easy, they do not always yield expected outcomes. The AddSearch case (Chapter 10) is a digital, virtually operating, award-winning SME that, despite its commitment to DEI, still solves inclusion challenges on a daily basis, trying to ensure that it does not affect good business. The Consulting4Future case (Chapter 11) uplifts the opportunities and threats of artificial intelligence brought to managing diverse educational backgrounds and neurodiverse employee needs in SMEs. The Valent Hausverwaltung case (Chapter 12) tells a story of how the unaddressed suffering of a single parent can result in the loss of a professional managing key accounts in an SME. The Merinova case (Chapter 13) draws attention to the problem where firms, and SMEs in particular, in Europe are facing the shortage of a skilled workforce while simultaneously disregarding older professionals who are willing to work and can contribute to business and society with their experience and networks. The Relocation Services case (Chapter 14) illustrates how legal cross-country differences regarding the LGBTIQ+ community's rights, even within the European Union, can limit SME chances to fight the war for talent. All these cases are real stories that we gathered from companies that might not have initially realised that the situations they are handling are related to concepts related to DEI. But they knew that they needed to solve these challenges and capture the emerging opportunities to ensure that their business operated successfully.

It is our hope that scholars, educators, learners, and SME managers will use these company examples and suggestions for best practices to reconsider how DEI is approached in European SMEs. We also hope that these cases will support them in recognising and understanding that DEI is an integral part of SME strategic management as well as everyday operations. While the proposed framework for SME management builds on European values and laws, there is an opportunity to expand discussions and research into other geographical continents. Management and employees in SMEs often experience DEI implementation very differently. By generating robust user cases, practical management approaches, and empirically grounded best practices, we can create

insights that benefit not only researchers and organisational leaders but also society as a whole.

Note

1. A listed SME refers to a small- or medium-sized enterprise that is admitted to trading on an EU public market, typically an SME Growth Market to improve SMEs' access to capital. The EU Listing Act (2024) further simplifies prospectus and disclosure rules for such firms, reducing compliance burdens to make public markets more accessible for SMEs. While both listed SMEs and traditional listed companies are subject to EU capital-markets regulation, SMEs benefit from proportionate requirements—lighter reporting, simplified prospectus formats, and reduced ongoing obligations compared to large stock-listed firms (European Commission, n.d.c).

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