# DIVERSITY FOR TALENT AND COMPETITIVENESS:

## The SME Business Case for Diversity

*The information contained in this publication does not necessarily reflect the position or opinion of the European Commission.*

# CONTENTS

**EXECUTIVE SUMMARY**

Small to medium-sized enterprises make up the vast majority of all businesses in Europe and employ three-quarters of the workforce. As extensions of families and features of communities, SMEs do not often trade beyond their own locale, let alone national borders. But diversity is as relevant to them as it is for the largest corporation. Faced with a "war for talent" and reduced customer spending, the need to open recruitment procedures to all and expand into new local markets will become a significant element of how SMEs overcome hard economic times and continue to grow in the future.

The current research follows on from an earlier study entitled *The Business Case for Diversity: Good Practices in the Workplace*, undertaken for the European Commission in 2005. The study involved more than 1,200 SMEs from across 27 European States, 100 SMEs, and 70 SME intermediaries. Results of the research suggest that although the majority of SMEs recognise the business benefits and relevance of diversity, only a minority follow through and establish formal human resource strategies that have the power to harness diversity. As such, many SMEs are stumbling at the first hurdle of diversity management – creating a diverse workforce.

However, many SMEs are simply too small to employ a range of individuals with diverse backgrounds. Others employ just family members. In companies such as these, though, diversity management can be just as relevant, for example through helping to identify how existing products and services could be adapted to better suit the needs of diverse clients.

Providing more advice regarding transparent recruitment approaches can help SMEs to employ the best person for the job, irrespective of their personal

background. SME intermediaries have an active interest in diversity and recognise the business benefits. Through intermediaries, the SME business case for diversity can be translated into local languages and shaped to suit local needs – essential if SMEs are to benefit from the lessons learned and best providers available, and mainstream diversity into their business activities.

**1. INTRODUCTION: PROJECT BACKGROUND AND METHODOLOGY**

In 2005, a study entitled *The Business Case for Diversity – Good Practices in the Workplace* was undertaken on behalf of the European Commission. The aim of the study was to promote the development of diversity policies in companies by examining what they perceived the business benefits to be, the challenges they faced, and how those obstacles could be overcome by providing examples of good practices being implemented by a range of different companies across Europe.[1]

One of the findings of the study was that size of the company appeared to be a significant factor in whether or not diversity policies were adopted and embedded within organisational practices. Whilst there are many small to medium-sized enterprises (SMEs) that have well embedded diversity policies and practices, it is the larger companies that are more likely to lead in this respect.

This is in part because SMEs are subject to a number of distinctive and intrinsic characteristics that make them different from their larger counterparts. These affect the contents, nature, and extent of SME business activities generally, and diversity practices in particular. Some of these characteristics include a very small workforce (the average is 6.8 staff members), significant levels of employment of family members (around half of SMEs provide employment for family members only), low levels of personnel, time, and financial resources, high levels of economic insecurity, and no formal human resource management (HRM) processes.[2]

Moreover, the business case for equality and diversity has been developed for and by large companies, not by SMEs. Almost universally, the assumption is that it focuses on issues of human resource management of large and already diverse workforces while other areas of business activity, including customer, product, and

---

[1] Available at:
www.focus-consultancy.co.uk
[2] *Observatory of European SMEs 2003, No. 7*. Available at:
http://ec.europa.eu/enterprise/enterprise_policy/analysis/doc/smes_observatory_2003_report7_en.pdf

market development remain secondary concerns.[3] Also reflecting the economic interests of large companies, the business case for diversity is often founded on the premise that a globalising marketplace requires a business model, styles of leadership, and employee knowledge and a skills base that are suitable for the demands of extensive cross-cultural operations. While this is undoubtedly true for companies that operate at European and global levels, the vast majority of SMEs operate at regional and often simply local levels. Of course, the globalising and diversifying nature of regional and local communities within Europe means that "global" issues are becoming increasingly relevant for even the smallest SMEs. Nevertheless, the overwhelmingly local nature of the SME marketplace and workforce means that the SME business case should respond to concerns found at local level and be communicated through a language that SMEs understand.

Recognising the mismatch between existing arguments for the business case for diversity and the concerns of SMEs, the European Commission commissioned a second research and consultation project on the business case for diversity. This project focused on a number of issues, including the development of an SME-specific business case for diversity and associated set of SME-friendly diversity tools.[4] The project was led by Focus Consultancy in partnership with the European Academy of Business in Society, EIM Business Policy & Research, and the European Institute for Managing Diversity. This report presents the result of research and consultation with more than 1,200 SMEs from across 27 European States and 70 SME intermediary organisations.

---

[3] A number of studies show that when asked to describe the benefits of equality and diversity policies the majority of companies suggest those relating to HRM more often than other areas of business practice. Given that equality and diversity policies in business began within HR departments this is not surprising.

[4] Project reference VC/2007/035 *Activities Promoting and Developing the Business Case for Diversity.* The project comprises 5 separate research and consultation "tasks." These include (1) the SME business case for diversity; (2) survey on diversity with the European Business Test Panel; (3) the experience and extension of "Diversity Charters"; (4) the link between diversity and innovation; and (5) diversity on the curriculum of business schools and creating a diversity network of business schools and companies.

## 1.1 Diversity survey amongst European SMEs

Focus Consultancy and EIM Business Policy & Research worked together to develop a diversity survey suitable for SMEs. Questions that focused too specifically on diversity issues would not be understandable to many SMEs for the simple reason that the language of professional diversity practitioners and experts would be unfamiliar to them. Furthermore, a highly specific set of questions could be seen as irrelevant to participants who did not fully understand what diversity meant (even though if in practice they adhered to many diversity principles). Finally, the survey was to be short and simple enough to be completed by SME owner-managers with little spare time. As such, a set of questions that on the surface appeared to be generic but in fact probed subtly for business management processes significantly related to diversity was designed.[5]

The SME diversity survey covered the following areas:

- Human resources management

- General business management

- SME-preferred sources and types of Information

Given the highly divergent nature of SME markets across Europe, no attempt at creating a representative sample was made. Instead, the SME diversity survey was distributed via a range of channels including through SME intermediaries and by making direct contact with SMEs on existing databases. The European Association of Craft, Small and Medium-sized Enterprises translated and distributed the survey to SMEs in 11[6] EU Member States via its national level intermediaries, while a web version of the survey was promoted by Focus Consultancy via a range of national

---

[5] However, no "deception" was involved: the cover letter of the questionnaire stated clearly the aims of the questionnaire and a few questions did probe directly for E&D
[6] BE, BL, CY, DE, FR, IT, ML, LT, PL, SK, RO

and EU level intermediaries[7] across the remaining 16 Member States. In total, 1,362[8] surveys were received from SMEs across 27 European States of which 1,200 were completed.

Reflecting the methodology, the final sample of SMEs is not representative by country, sector, or size. While response rates were very good from some countries, they were rather poor from others. This could reflect a lower level of awareness about what diversity means in those counties (which may have deterred some SMEs despite the overall generic nature of the questions) or that the chosen method of contact (principally email and internet) was unsuitable for the context. Moreover, the survey was conducted at a time of significant global economic uncertainty: some SMEs may simply have been uninterested in a topic that, as they see it, offers no short-term or even long-term economic benefit. Indeed, communicating the message that the business benefits of diversity can help both short-term and long-term strategies aimed at overcoming market recession will be an integral aspect of the SME business case for diversity.

On the other hand, through the promotion of the research dozens of SME intermediaries and many thousands of SMEs across Europe were informed about the project, brining the issue of diversity to their attention. Another positive result is the good response from some of the 12 new Member States that are relatively new to the politics of equality and diversity. For example, the very high number of responses from Lithuania, Poland, and the Slovak Republic suggests that diversity issues are becoming more known in these countries.[9]

---

[7] Organisations supporting the promotion of the questionnaire website include Managing Diversity, Fundación Andaluza Fondo de Formación y Empleo (FAFFE), International Federation of the Roofing Trade, Enterprise Europe Network, European Council for Small Businesses, European Space Agency (SME Unit), Excellis Business Consulting, Irish Business Consulting, Great Western Enterprises, South East England Development Agency, European Small Business Alliance

[8] However, total $N$ varies according to differential response rates to individual questions

[9] The high level of enthusiasm from SMEs and intermediaries in these Member States reflects similar enthusiasm for the 2007 European Year or Equal Opportunities that was particularly successful in the new Member States.

*1.2 Interviews with SMEs and intermediary organisations*

Following the diversity survey, 100 SMEs and 70 SME intermediaries from across Europe were selected for follow-up interviews. Coordinated by EIM Business Policy & Research, the aim of the SME interviews was to uncover the rationale behind their organisational and diversity activities indicated in the survey. The aim of the intermediary interviews was to uncover the extent to which diversity was on their agenda and how intermediaries can help to promote the business case to SMEs. Again, the sample SMEs and organisations interviewed was not representative. SMEs interviewed were selected from those that took part in the diversity survey, while organisations were selected by project support partner ENSR either because SMEs had indicated in the survey that they used them for information or because they were known to be important organisations by reputation.

In total 100 SMEs were interviewed from across 13 Member States. To achieve a good spread in terms of geopolitical context, 12 SMEs from each of the five larger and older European countries and 6 SMEs from each of the 8 smaller and newer European countries were selected. SMEs were also selected according to their sector of business activity (trade, manufacturing, or services).

| Country | Trade | Manufacturing | Services |
|---------|-------|---------------|----------|
| ES, DE, FR, IT, UK | 4 | 4 | 4 |
| AU, BE, DE, FI, NL, PL, SI, SK | 2 | 2 | 2 |

**Table 1: Number of SME interviews per country, per sector**

Seventy intermediary organisations were selected by ENSR national-level partners. Again, organisations were chosen from five larger and older Member States and eight smaller and newer Member States. The different kinds of organisations interviewed included:

- Governmental organisations (e.g. public employment service, national development agencies for SMEs, municipalities)

- Chambers of Commerce

- Private organisations (with public funding; e.g. training centres for equal opportunities, not-for-profit foundations to promote the employment of disadvantaged groups)

- Trade unions

- Employer/business support organisations (subscription funded)

## 2. THE SME BUSINESS CASE FOR DIVERSITY

### *2.1 Challenges and contexts of SMEs in Europe*

SMEs are defined as enterprises in the private non-primary sector that employ less than 250 staff.[10] Within this definition, the following sub-categories are distinguished:

- Micro enterprises: enterprises with 0-9 occupied persons, and whose annual turnover and/or annual balance sheet total does not exceed 2 million euro

- Small enterprises: enterprises with 10-49 occupied persons, and whose annual turnover and/or annual balance sheet total does not exceed 10 million euro

- Medium-sized enterprises with less than 250 occupied persons, and whose turnover is less than 50 million euro or balance sheet total less than 43 million euro

According to the *Observatory of European SMEs 2003*, there are 19.3 million enterprises in the European Economic Area (EEA) and Switzerland,[11] providing employment for 140 million people. Some 92 percent of these enterprises are micro (0-9 employees), 7 percent are small (10-49), less than 1 percent is medium-sized (50-249) and only 0.2 percent are large enterprises (250+). Just over two thirds of all jobs are in SMEs, with just one third provided by large enterprises.

A recent Eurobarometer/Gallop[12] survey of SMEs in Europe provides an understanding of the specific challenges faced by SMEs in Europe. According to that survey, the two most important business challenges faced by SMEs include limited customer demand for products and services (46 percent) and a lack of skilled labour

---

[10] COM(2003) 1422 final. Available at:
http://ec.europa.eu/enterprise/enterprise_policy/sme_definition/decision_sme_en.pdf
[11] Europe-19 is used in the Observatory reports to indicate the 15 'old' EU Member States and the EEA and EFTA countries.
[12] Flash EB Series #196 – The Gallup Organization: *Survey of the Observatory of European SMEs, Summary*, fieldwork conducted November 2006-January 2007. Available at:
http://ec.europa.eu/enterprise/enterprise_policy/analysis/doc/2007/02_summary_en.pdf

(35 percent). The greatest number of challenges was faced by SMEs in the 12 new MS plus several EU15 MS including Greece, Portugal, France, Belgium, Italy, and Malta. SMEs in the Nordic countries apparently faced the fewest challenges.

Framing these challenges are the contexts within which SMEs operate. For example, the Eurobarometer/Gallup[13] survey suggested that the majority of SMEs believe that competition has increased in recent years, with 60 percent of managers claiming that competition has recently intensified. SMEs in the 12 new MS were more likely to report that competition has increased.

The primary response of SMEs to the challenge of competitiveness has been to invest in products and marketing.[14] Some 12 percent of turnover within European SMEs now comes from new or significantly improved products or services. However, SMEs in EU15 MS report higher levels of innovation than SMEs in the 12 new MS. Across Europe, the greatest barriers to innovation include problems accessing finance, scarcity of skilled labour, a lack of market demand, and expensive human resources. Just 26 percent of SMEs seek to overcome competition through seeking new markets in other EU countries or beyond. Reflecting the low level of interest in expanding international operations, less than one in ten SMEs create turnover from exports to other European countries and beyond.

### 2.2 Benefits of diversity for SMEs

Some of these issues – recruitment of high quality staff and challenges encouraging innovation especially – also face larger companies. But while larger companies have the resources to attract and retain the best staff and foster innovation, SMEs do not.[15] An E&D agenda, however, can offer SMEs a cost-effective approach to overcoming these challenges by attracting the best talent and increasing market

---

[13] Ibid
[14] Ibid
[15] As seen below, a lack of time and resources was one of the most common problems mentioned by SMEs and SME organisations facing SMEs when developing or implementing a diversity agenda

competitiveness through skills and greater innovation.[16] An E&D agenda can also broaden the potential customer base, expanding the ability of SMEs to sell more products to more customers – a significant contribution when the workforce is too small to allow a diversity of employees.[17]

A large majority of SMEs (79 percent) that took part in the diversity survey suggested that they recognised business benefits when employing and promoting a diverse workforce. However, micro-enterprises were less likely to recognise the business benefits than larger SMEs. Although this is overall a very positive finding, it should be interpreted with the context of the research in mind. Crucially, the sample of SMEs was not representative and those that took part were probably in the majority with an existing level of awareness in or activities around diversity anyway. It is very likely that "in reality" fewer SMEs recognise the business benefits of diversity.

Nevertheless, of those that do recognise the business benefits of diversity, the majority (60 percent) suggested it was because diversity policies enable the recruitment and retention of high quality employees. When interviewed, SMEs explained that this aspect was especially important given shortages on the labour market and competition for employees between SMEs and larger enterprises.[18] A further 40 percent also recognised a link between diversity, creativity, and innovation. In relation to this, SMEs explained that employees with different backgrounds have different approaches to problems and that this breeds creativity. Furthermore, SMEs suggested that the different perspectives of employees can complement each other and this may lead to innovation.

---

[16] For detailed information on the link between diversity, creativity, and innovation please see the report *Diversity & Innovation: A Business Opportunity for All*. Available from Focus Consultancy upon request

[17] For further examples on the business benefits of diversity for SMEs please refer to *UEAPME Compendium of good practices of diversity and non-discrimination in European Crafts, Small and Medium-sized Enterprises and their organisations*, 2007. Available at:
http://www.ueapme.com/docs/compendium/compendium_print.pdf

[18] It may be that competition over staff will become increasingly important for SMEs as social changes and its effects upon the structure of the family lessen the degree to which children and other family members desire to work for the family firm.

Taken together, the means by which diversity can provide SMEs with a solution to their particular market challenges is already recognised by SMEs that have some awareness of diversity. The challenge lies in communicating this more effectively to those SMEs that do not recognise the business benefits of diversity.
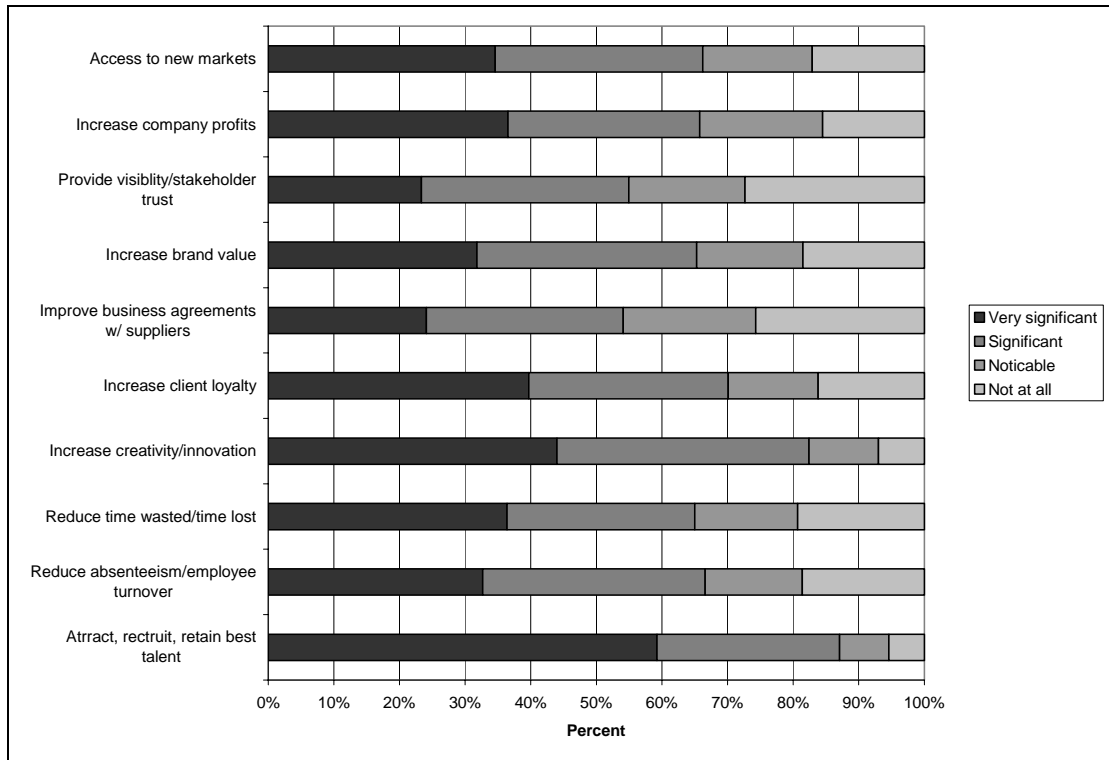


**Figure 1: SME business benefits associated with diversity**

**(Source: 2008 SME diversity survey)**

Other benefits of diversity identified by SMEs included reduced absenteeism and employee turnover, reduced time wasted and time lost, increased client loyalty, increased brand value, and being able to access new markets. Some SMEs suggested that a diversity policy could help staff to feel that they belong within the company and thus increase the sense of loyalty and dedication to their job.[19] Others pointed out that when employees with many years of experience work alongside new

---

[19] This may be increasingly important in the context of lower levels of family-based employment within SMEs as owner-managers have to learn new ways of motivating staff members beyond appeals to kinship obligation and duty.

employees they can share their knowledge and skills and help young staff to develop more quickly. In relation to client loyalty, SMEs pointed out that diversity can help the company reflect the community of which it is a part and thus increase customer interest and loyalty. SMEs that are internationally active can also better relate to and understand the greater diversity of clients. This can also help when accessing new markets. Overall, diversity was recognised as helping to create a respectable and socially responsible brand.

SMEs were also asked to explain why they felt some of the benefits described in the diversity survey were not relevant from their perspective. Some SMEs suggested that due to motherhood and childcare demands the recruitment of women presented problems for them as a small company in the sense that new staff would have to be found and trained during maternity leave. Others indicated that client loyalty could in fact suffer from having a diverse workforce, for example amongst "front of house" staff. Some SMEs feared that clients might think that a diverse workforce had been created for issues related to image or "political correctness" and at the expense of quality. Problems associated with accommodating the needs of diverse staff were also mentioned. These included providing different kinds of meals, recognising different religious holidays and providing time off, and managing potential conflict between employees.

### 2.3 Incorporating diversity: how SMEs establish and implement a diversity agenda

The starting point for most large companies on their diversity journey takes the form of some written statement or policy setting out the principles to which they seek to adhere. In some countries, this is required by law, for example in the UK or Finland when companies have more than 30 employees. In others, national voluntary initiatives have been established that provide companies with a set of principles in the form of a "Diversity Charter" (for example in France, Germany, and Belgium).

The value of a written set of principles and a written equal opportunities policy is that they provide an agreed and established reference point for employers, employees, customers, and other stakeholders on the importance of anti-discrimination in the workplace and society. However, although 79 percent of SMEs taking part in the diversity survey recognised the business benefits of diversity, just 17 percent had written down an equal opportunities policy. A further 55 percent suggested they had an unwritten policy that was communicated verbally.

When interviewed, SMEs that did not have a written policy suggested it was because they had simply not considered it relevant or that they were planning to create one in the near future. For example, one SME suggested that they did not require a policy as recruitment of staff with diverse profiles happened "by chance," i.e. when applicants with diverse profiles proved to be the "best person for the job." Others similarly stressed that they only considered the qualifications of applicants, not the applicant's social background or other characteristics. Another reason mentioned was that the SME was too small to make a written policy worthwhile or relevant: indeed, the results of the diversity survey suggest that SMEs with 50-249 employees were more likely to have a written policy than SMEs with 1-4 employees.[20] Related issues included lack of time to formalise an unwritten policy and lack of support from external organisations in how to write down and implement a policy.

SMEs with written and unwritten equal opportunities policies were asked to describe their history and form. In SMEs with a written policy, the person responsible for human resource management was frequently also the individual who had established the policy. This could be a designated human resource person or the owner-manager. In some cases, the management team was responsible for the policy, while in others an external organisation had provided guidance to the SME.

---

[20] It would be expected that this issue would be even more relevant for SMEs that recruited from within the family only. In that case, appeals to a sense kinship duty and obligation would often be more important than formal contract.

For example, a hotel in Brussels was invited by an NGO to a session on diversity management after which it assisted the hotel in developing an equal opportunities policy plan.

Amongst interviewed SMEs, written equal opportunities policies tended to cover issues such as legislation, statements on behaviour, guidance for the integration of new employees, and guidance for managers in cases of dispute. Some SMEs indicated that these policies were regularly updated to include recent developments in diversity issues, and/or when equal opportunities legislation changed. Most policies are made available to employees through hardcopy and/or placed on the company's internal website. Some SMEs suggested that the policy is also communicated during staff meetings and during interviews. SMEs felt that through these activities the policy became embedded throughout the company.

SMEs that developed written policies also mentioned they encountered several problems when doing so. For example, some SMEs suggested that the involvement of middle-level management was crucial, as they were involved in the day-to-day activities of the company including HRM. Others suggested that employees could sometimes be resistant to the policy. In the situation of disputes, some SMEs complained that it was sometimes difficult to judge whether a complaint was a "real" diversity issue or a case of two different personalities clashing. As such, they were unsure of when it was appropriate to refer to a dispute as a case of discrimination. Despite these problems, very few SMEs evaluated their policies, presumably due to lack of time and resources.

SMEs with unwritten policies explained the situation in a variety of ways. Some claimed that for them equal opportunities was a mind-set, not a policy. Again, others pointed out that they did not have the time or resources to develop a written policy. Some SMEs also feared that a policy would create extra restrictions around their business, including on whom they could hire or fire. According to the

Eurobarometer/Gallop survey,[21] one of the main business constraints faced by SMEs is excessive administrative regulations: for some companies equal opportunities policies no doubt resemble restrictive regulations and not the creative and productive chances they can be. Finally, several SMEs suggested that a written policy was not necessary as the workforce was small and it could easily be verbally communicated, or that legislation on the issue was clear enough not to have a policy.

### 2.4 Creating a diverse workforce: how SMEs manage human resources

One of the most common reasons given by SMEs for why they do not have E&D policies is because they employ so few staff. SMEs that recruit from within the family are also more likely to establish working relationships on principles derived from family obligation and duty rather than formal contract. However, SMEs also claim that one of their greatest challenges lies in recruiting the right people. The assumption that E&D equates only with having a diverse – and so by definition large – workforce is incorrect. A truly equal human resource strategy also rests on simply establishing recruitment and staff development procedures that identify the best person for the job – regardless of their background.

As small organisations, the SME owner-manager tends to be responsible for HRM. The diversity survey suggested that in two-thirds of SMEs the owner-manager personally deals with HRM issues, while just 22 percent rely on a designated HR manager. As would be expected, larger SMEs more often appoint a designated HR manager than smaller SMEs. There is, of course, nothing wrong with this; given the size of many SMEs, it could not be any other way. Yet there is a higher risk in SMEs that the person responsible for HRM may not have had the necessary training to ensure that the best possible systems of recruitment and promotion have been developed, including diversity training. Indeed, when SMEs participating in the

---

[21] Flash EB Series #196 – The Gallup Organization: *Survey of the Observatory of European SMEs, Summary*, fieldwork conducted November 2006-January 2007. Available at: http://ec.europa.eu/enterprise/enterprise_policy/analysis/doc/2007/02_summary_en.pdf

diversity survey were asked what kinds of information they required for improving their HR strategies, two-thirds suggested advice on how to recruit and select the right employee, how to promote individuals within the workplace, and for further information on training opportunities: all areas where knowledge of diversity issues can make significant contributions.

Reflecting this, according to the diversity survey very few SMEs make full use of all possible recruitment avenues. Half of SMEs that took part in the survey rely on word-of-mouth, while just less than half rely on direct applications with CVs or place advertisements in the local press. Relying on word-of-mouth is likely to restrict the employment choices of SMEs, given that employees are recruited directly from the owner-manager's social network or the friends and family of other employees, suppliers, or customers. In most cases, it can be assumed that this network is relatively small and socially homogenous. Given that the majority of SMEs that took part in the survey recognise the business benefits of diversity, this finding is indicative of how many nevertheless conducted HRM without full regard to diversity practices. Of course, the economic reality is that word-of-mouth represents the quickest and cheapest way of filling empty posts within a company.

Direct applications and applications via newspaper advertisements help to broaden the potential pool of applicants. However, there remains a risk that employers with poor HRM training and diversity awareness will favour the CVs of individuals that more closely resemble their own in terms of social and cultural background, while the wording of newspaper advertisements might inadvertently deter people with diverse profiles from applying. When interviewed, some SMEs suggested that the nature of the work offered meant that it was more suitable to be undertaken by certain kinds of people. An SME in Spain indicated that they preferred to employ women for posts that involved customer service and men for posts that involved physical tasks. This view was echoed by another SME that suggested it recruited women for customer service roles because they are "better carers." These

kinds of assumptions may also deter people from submitting CVs or applying for advertised posts. Some women may not feel they can apply for jobs in traditionally male sectors such as heavy industry, construction, or haulage, while men might choose not to apply for jobs in the social and childcare sectors.
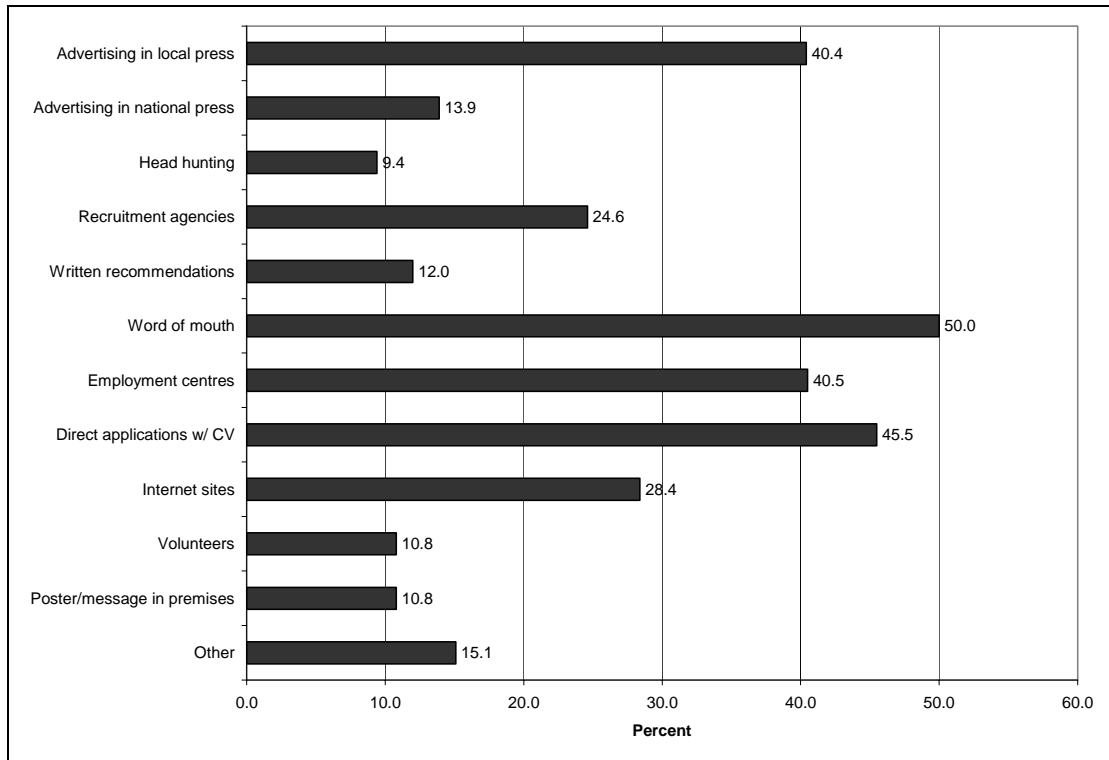


**Figure 2: SME recruitment strategies**

**(Source: 2008 SME diversity survey)**

One of the biggest barriers to having a truly open recruitment process lies in the kinds of characteristics employers tend to seek in potential employees. When asked what kinds of characteristics they look for when employing somebody, the majority of SMEs that took part in the diversity survey claimed that "job competence" was very important. As one interviewee argued, a "diversity policy can be kept in mind when recruiting new personnel. However, in the end it is about recruiting the best/most competent and qualified employee, not the most diverse."

In the context of informal recruitment procedures, the risk is that potentially excellent staff will be excluded because of the way an employer determines "competence." In some cases, ideas of competence may go beyond "real" competencies such as training, skills, and potential, and incorporate irrelevant social, cultural, or personality traits. Somewhat reflecting this, a large minority of SMEs taking part in the diversity survey suggested they preferred to recruit individuals that reflect the company image and values. Again, this kind of characteristic is subjective and can contain a set of biased assumptions about what constitutes the "right kind" of image and set of values. SMEs concerned about client opinions, for example, might only employ individuals that reflect their customers.
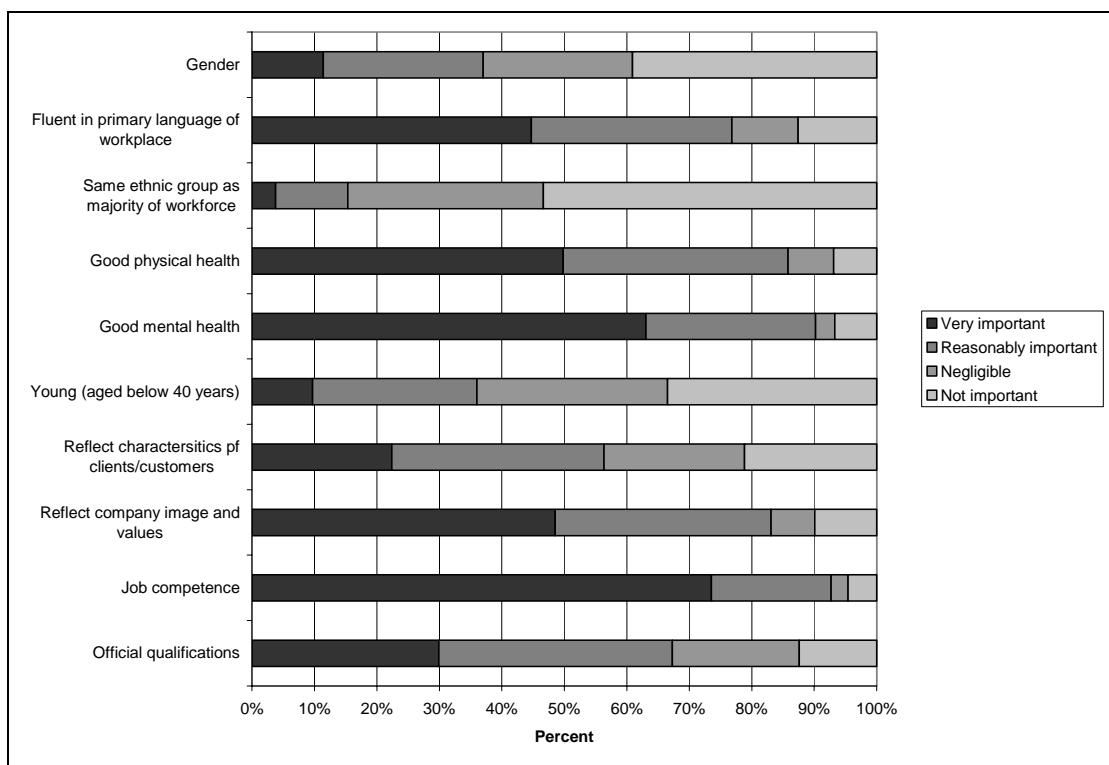


**Figure 3: Characteristics that SMEs look for in employees**

**(Source: 2008 SME diversity survey)**

### 2.5 Context-driven barriers to creating a diverse workforce

The context within which employers recruit and SMEs operate also has a detrimental effect on creating diverse HRM procedures. The most significant included attitudes of employees, confusing legislation, and that the nature of the job inhibited the employment of some types of people. Confusing legislation was more often mentioned by micro-enterprises, as was negative client opinions. While several of these barriers can be overcome through the dissemination of information and provision of training, barriers created by client opinions are harder to challenge. This was also the view of SMEs, who when asked about the external barriers they faced listed more information and better training as key requirements within strategies to overcome them.

In the diversity survey, many SMEs blamed employees for erecting barriers to diversity. While this may be true in some cases, it should be remembered that in others the owner-manager might have been shifting the "blame" from themselves. In any case, some SMEs when interviewed suggested that language, cultural, or religious differences created distrust and a lack of cohesion within the workforce. For example, one SME indicated that when a Muslim employee took prayer breaks other employees felt uncomfortable, apparently because they were unused to public displays of religious expression. Amongst SMEs that rely on word-of-mouth when seeking employers, a resistant workforce to diversity is also not likely to nominate individuals with diverse profiles.

A related issue was that of cultural difference, both in terms of the culture of the workplace and the culture of employees. Some SMEs voiced the opinion that the cultural backgrounds of employees manifest as different attitudes to work, in both positive and negative ways. While some SMEs suggested that people from different countries or parts of the world have different expectations in terms of output quality, with some employees producing work that others would not accept, other SMEs argued that some cultures have stronger work ethics that focus on taking pride in work and producing the best results. Some SMEs suggested that because of these

kinds of problems and differences training for employees (for example in the national language, cultural differences, communication differences, and conflict resolution) was necessary.
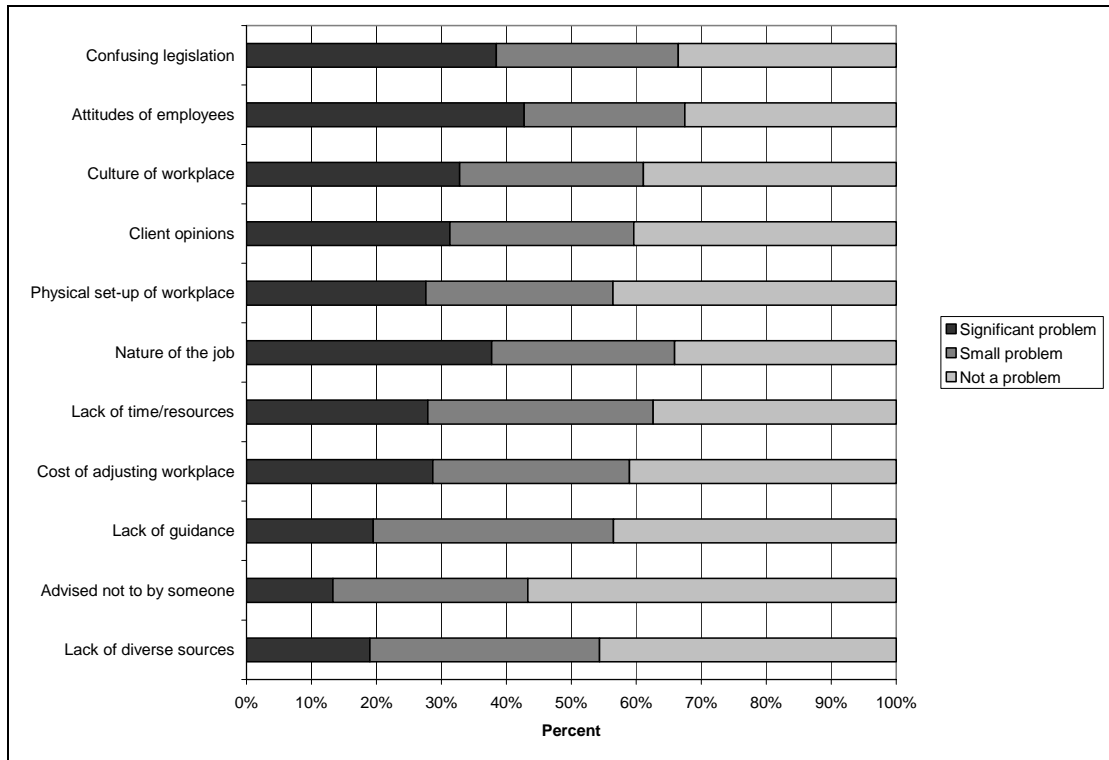


**Figure 4: Barriers SMEs face when employing staff with diverse profiles**

**(Source: 2008 SME diversity survey)**

In relation to confusing legislation, some SMEs suggested they had problems when it came to their obligations when employing persons with a disability, or when arranging a work permit for someone from abroad. An SME in Spain complained that due to immigration laws certain people from Eastern Europe cannot obtain a work permit until a certain date in the future. Others pointed out that when they do employ foreigners they have to complete a lot of paperwork and that this wastes time. Finally, SMEs suggested that it was difficult to know where they could advertise jobs if they specifically wanted to recruit people with diverse profiles.

## 2.6 SME suggestions for overcoming barriers

During interview SMEs were asked to suggest ways by which they (or could envisage) overcoming these barriers. SME suggestions for overcoming barriers are presented in the table below. In the main, proposed suggestions focused on the further dissemination of knowledge and training within and between SMEs, and by SME intermediary support organisations.

| Barrier | Proposed solution |
|---|---|
| Obtaining information on legislation | Exchanging knowledge and experience with other SMEs |
| Confusing legislation | SME intermediaries to provide guides for SMEs |
| Attitude of employees | When developing/implementing diversity policy should ensure the support of staff and communicate the policy to staff |
| Culture and attitude | If conflicts arise should talk about the problems and create mutual understanding |
| Culture and attitude | An enterprise may provide newly hired employees with training. For example, an enterprise in Austria offers a six-month initial training period to new employees. |
| Culture | An enterprise may invest in the culture of the enterprise and their way of doing business. In this way, it is clear for future employees what to expect and what kind of attitude is fitting in the enterprise. |

**Table 2: Overview of proposed solutions**

**(Source: SME interviews, July 2008)**

## 2.7 SME diversity "Do's and Don'ts"

During interviews, SMEs were also asked to suggest useful "do's" and "don'ts" when developing and implementing diversity and equal opportunities policies. The suggestions provided by SMEs are presented in the table below.

| Do's | Don'ts |
|---|---|
| *Do* use support offered by government, business networks, business organisations – they possess knowledge and can give advice when dealing with diversity issues | *Don't* make the identity of the company a top priority – create space within the identity to make people feel at home and increase interaction between employees |
| *Do* keep up to date with national legislation – this can save lots of time when questions and issues emerge | *Don't* make diversity seem like a cost but part of running the business in an effective and customer-friendly way – identify how diversity leads to business benefits |
| *Do* make in-job training possible –people with disabilities can improve their motor skills and different linguistic groups can improve their language skills | *Don't* stick to old policies if they are not working – talk to employees and external organisations to create new strategies |
| *Do* offer work-life programmes – these can encourage working mothers or people with disabilities that can only work part time to join the company | *Don't* discard cultural differences: it is important there is good understanding between employees – this will help to develop and maintain mutual respect |
| *Do* set behaviour standards by using role models – exemplary behaviour of managers and older employees will be adopted by others | *Don't* have a closed mind: try new things – and be prepared for surprises! |
| *Do* always employ someone because they are the most qualified person for the job | *Don't* recruit someone just because they have a different background |

**Table 3: SME "do's" and "don'ts" when developing and implementing diversity and equal opportunities policies**

**(Source: SME interviews, July 2008)**

*2.8 Summary*

- The business case for diversity for SMEs should focus on solving the specific problems and needs of SMEs, not generic business concerns

- The search for talent and competitiveness through innovation in a business environment of increased challenges and economic uncertainty frames the daily concerns of most SMEs

- SMEs in the 12 new Member States[22] face these problems to a greater extent

- A focus on equality and diversity can help SMEs to recruit and retain the best talent and foster the conditions that can create product and market innovation

- SMEs that seek to formalise their HRM strategies and employee diversity training will be better able attract workers and get the best from them, helping to improve their market position and competitive advantage

- SMEs seek further forms of advice and guidance in order to succeed in their search for talent and competitiveness

---

[22] BG, CY, CZ, EE, HU, LT, LV, MT, PL, RO, SI and SK

## 3. THE ROLE OF INTERMEDIARY ORGANISATIONS

The diversity survey suggested that the majority of SMEs do not seek information on diversity at all. Those that do usually refer to the five sources listed below, or recruitment agencies:

1. Professional associations/networks

2. Central government sources

3. Government-sponsored business support agencies

4. Training centres

5. Clients

SMEs use these organisations to obtain support when finding out about or developing equal opportunities and diversity policies.

### 3.1 Intermediaries' relationship to diversity

Most of the 70 organisations interviewed have placed diversity on their agenda. However, it should be kept in mind that the sample of organisations is not representative. Of organisations that do not have diversity on their agenda, some suggested that this was because they feel diversity is not a concrete work field or explicit issue. However, it is incorporated within sub-projects including those relating to HRM. Others suggested that diversity is not a problem in their country or region, and so see no need to add it to the agenda.

When organisations do have a diversity agenda, they suggested several reasons for doing so. In general, government and government-funded public organisations, trade unions, private consultancies, and subscription-funded business support organisations gave different kinds of reasons for why they had a diversity agenda. Also, while some organisations adopted an agenda slowly (for example beginning with a focus on gender issues and expanding to include other forms of diversity), other organisations adopted a comprehensive agenda from new.

Some organisations, in the main public organisations, were established for the sole purpose of promoting diversity within companies. In most cases, however, diversity formed one of several main areas of activity. In these cases, diversity had either been adopted in response to general developments in the economy and society or as the result of specific identified needs. For example, one private consultancy put diversity on their agenda because it reflected the interests and needs of clients. The consultancy had recognised this after working with hearing-impaired clients in response to which it had trained its staff to use sign language.

Other organisations adopted a diversity agenda in response to specific employment, business, and legal issues. For example, some public organisations and trade unions adopted a diversity agenda in order to help tackle workplace discrimination experienced by women, members of ethnic minorities, and older employees. Meanwhile, business support organisations adopted diversity in order to assist managers and employers in their search for qualified staff or avoid legal disputes. Some of these organisations took on the agenda in response to the problem of labour shortages, ageing populations, and the changing composition of the labour force.

Although the majority of organisations interviewed suggested that SMEs were interested in diversity, very few suggested they adopted a diversity agenda in response to specific request from SMEs. Explaining this, some organisations argued that many SMEs are not interested in the diversity concept as such but only in relation to aspects relating to recruitment and retention or other specific business areas or concerns. These included legal requirements (in Slovakia and France, for example, SMEs are bound to either employ a certain number of disabled people or pay a fee to the government) or ethical reasons. In some cases, this was related to a process of internationalisation taking place within the SME and/or its markets. Several organisations suggested that SMEs were effectively incorporating a diversity agenda even though they did not know they were doing so, or they did not define it

as such. Overall, then, intermediary organisations placed diversity on their agenda because they recognised its importance for SMEs as solutions to their problems and/or as a way of avoiding legal sanctions.

### 3.2 Intermediaries' assessment of diversity benefits

Intermediary organisations were optimistic about the benefits of diversity for SMEs and their abilities to interest SMEs in developing policies. As one interviewee put it, "once SMEs are aware of diversity and the benefits it might create, they like to know more about it." Intermediaries recognised a range of business benefits for SMEs, ranging from those relating to improved HRM process and employee loyalty and efficiency through encouraging the conditions for creativity and innovation to creating an improved company reputation.

For example, one organisation suggested that SMEs were able to fill vacancies faster and with staff that are more suitable when they adopted recruitment procedures that facilitated the recruitment of staff with diverse profiles. Another suggested that diversity among employees can imply a diversity of knowledge and ways of thinking that can create innovative solutions, products, and markets. Recognising the costly consequences of discrimination, one organisation pointed out that it was good for SMEs to be informed of the legislation around diversity. Finally, other organisations recognised that a diverse workforce could make SMEs more attractive to clients. Some organisations recognised that the diversity of their own staff could help to attract SMEs from across social groups.

### 3.3 Intermediaries' assessment of how some SMEs struggle with diversity

Organisations were asked to suggest how and why some SMEs might struggle with the concept of diversity or developing or implementing diversity policies. As had been predicted at the outset of the research, some organisations suggested that not all SMEs understand the term "diversity," or how it relates to their business practices

(this is especially the case when diversity is simply associated with the management of already diverse or large workforces). Organisations suggested that to be successful diversity has to be linked specifically to SME business operations and contexts. Even when SMEs do come to understand the benefits of diversity, organisations suggested SMEs might face problems implementing policies due to lack of time and resources.

A particular problem identified by organisations related to how SMEs can practically implement diversity policies. Organisations' pointed out that little exists by way of support for SMEs when preparing individuals from some disadvantaged groups for employment. While many SMEs are happy to do all they can to train individuals, some outside help is often required. Related to this, organisations suggested that some SMEs would require their existing staff members to undergo additional training in order to accommodate and respond to the needs of diverse colleagues. This again is only something that external organisations can offer, and at a cost in money and time.

Other organisations suggested that SMEs were unprepared to risk problems and conflicts in the workplace that could be created by a diversity of staff. Reflecting earlier findings organisations suggested that some SMEs would be hesitant in recruiting women for traditionally "male" jobs, or because they assume that women ask for time off for maternity or childcare responsibilities. Echoing popular assumptions, organisations suggested that people with diverse ethnic or religious backgrounds (for example Muslims) could clash with women or homosexuals. For these reasons, some SMEs might fear other employees would object to a diversity policy.

### 3.4 How intermediaries support SMEs

During interview, organisations were asked to describe how they support SMEs with their HRM needs in general. According to them, the most often requested form of

support by SMEs is information and support on how to recruit the right person for the job. In response, organisations provide a range of solutions. Some organisations offer SMEs guidebooks, readers, brochures, and other information materials. Many organisation websites also function as an information tool. Most offer SMEs the chance to download documents and tutorials. In some cases, the website hosts a service desk to which SMEs can send their specific questions. Some organisations do not provide support on HRM issues or offer only a little. In such cases, however, organisations offered a platform for SMEs to exchange questions and answers that could encompass HRM issues. Finally, some organisations that did not provide support on HRM issues might provide support on diversity specifically. For example, a trade union in the Netherlands does not provide support on HRM but does offer support on diversity through the initiation of employee conversations on ethnic minorities on the work floor.

The majority of organisations that provided support on HRM also provided support on diversity issues. Organisations were asked to describe the diversity strands covered and the type of support offered. The majority of organisations interviewed suggested that they focused on only one or a few diversity grounds. The selection of target groups depended upon the social, economic, and demographic characteristics of the country and region in which organisations are based. The most often targeted groups included ethnic minorities, women, people with disabilities, and the elderly. A few organisations also mentioned groups not often considered in diversity policies: for example, in Poland an organisation provides support in relation to farmers and artisans. Others focus on particular issues, for example the arrival of immigrant workers into a national or regional economy and its impact upon recent graduates and youth.

The most common types of support provided by organisations include information and advice, networking opportunities, financial support for implementing diversity strategies, and diversity awards. Most organisations offer a website where

information about diversity is presented and where experts can be contacted for further information. When supporting the development and implementation of a diversity plan some organisations provide SMEs with a guidebook or other support materials such as brochures. Some organisations also suggested they try actively to contact SMEs through site visits or consultancy activities. Other forms of support include training sessions, meetings, conferences, and seminars.

Networking opportunities provided by organisations exist at international, national, and local levels. Through these, SMEs can exchange information, knowledge, and experiences relating to diversity. Some organisations also provide financial support for companies when their diversity action relates to a specific or locally disadvantaged group. Finally, several organisations have established best practice awards. These awards can help to promote the relevance and importance of diversity for SMEs.

### 3.5 Intermediary diversity "Do's and Don'ts"

During interview, intermediaries were asked to suggest useful "do's" and "don'ts" for SMEs when developing and implementing diversity and equal opportunities policies. The suggestions provided by intermediaries for "do's" are presented in the table below. However, one organisation summed up the general feeling by stating, "The term 'diversity' does not say much to SMEs. One must explain what is meant by 'diversity' and show there is an economic advantage. One must make it practical. If it remains general, SMEs are not likely to take it up."

| Do's |
|---|
| *Do* create awareness amongst SMEs on the relevance and value of diversity |
| *Do* focus on the specific needs of SMEs including branch and regional issues |
| *Do* communicate the message in a positive and inspiring way – focus on the economic advantage |
| *Do* collect and disseminate best practice examples – best practice awards can be a great help |
| *Do* demonstrate how SMEs have overcome barriers to create a functioning and beneficial diversity policy and diverse workforce |
| *Do* create support tools that are personal and direct – include training, coaching, and discussion |
| *Do* make sure to include middle management – they are even more important than employees to target |
| *Do* provide general information about diversity on a website |
| *Do* offer practical advice and examples – this can save SMEs a lot of time |

**Table 4: Intermediary "do's" for assisting SMEs develop and implement diversity**

**and equal opportunities policies**

**(Source: Intermediary interviews, July 2008)**

Intermediary "don'ts" were intertwined with their own knowledge levels. Organisations suggested that they need more information on how to tailor diversity to the needs of SMEs. They also suggested that it takes some time to change the mindset or culture of an SME to recognise the advantage of diversity and adopt diversity policies.

### 3.6 Summary

- Organisations interviewed recognised the role that diversity can play in attracting talent and creating competitive advantage for SMEs

- Most organisations that provide HRM support also provide diversity support – this takes the form of information and training through published and downloadable materials, on-site or away-day training sessions or meetings, or the championing of best practice through awards

- The most important advice intermediary organisations can give to those seeking to promote the business case for diversity to SMEs is to *keep it relevant, keep it simple, keep it local*

## 4. RECOMMENDATIONS: DIVERSITY TOOLS FOR SMES

The preceding research data and analysis strongly suggests that new guidelines/support materials for SMEs wishing to adopt or develop diversity policies needs to take the form of a "package" that can be "dipped into." Within individual sections, and particularly where directed at intermediaries, there should be areas that can be supplemented with local materials (statistics, case studies, contacts, etc.). Therefore, the package needs to be explained as a skeleton framework that can and should be adapted to local needs and resources. The package would best be put on a website (as well as produced in hard copy), thus enabling downloading of different sections for editing by those who need and want access to it.

### Section 1: Introduction

- The origin of the package, who it is for, how to use it, and what it is attempting to achieve. Also demystify the notion of diversity

### Section 2: The research it has been built upon

- Results from the survey and key findings
- Business perspectives – narratives on diversity – what it means, common misconceptions, etc
- Intermediary perspectives – narratives on diversity – what it means, misconceptions, difficulties balancing the needs/expectations of members/clients and desire to "push" a diversity agenda

### Section 3: Intermediaries

- Who are the possible audience of intermediaries?

- o Define the different roles and potentially different ranges of intermediaries to give a clear understanding of the potential audience – could range from regional development agencies, regional governance structures, local/municipal government, structural fund co-financing organisations, associations, federations, chambers of commerce and professional institutions, training and educational institutions

- Why intermediaries are important
  - o Explain why their role is important not just in the context of how they influence their members, clients, or associates, but how they have an impact on their local economy and labour markets through their actions
  - o Highlight the challenges in a globally competitive set of markets and where the diversity agenda fits into this in terms of talent and competitiveness

- Practical advice for intermediaries and what they can do
  - o Advice for intermediaries about why diversity is important to them and their local economy (potential economic drag of discrimination, freeing up talent, development of economic strategies, sustainable issues, etc)
  - o Types of information they should be using to develop their own diversity material, issues they can become involved in depending upon their perspective, government training, business support, etc
  - o Examples of good practice and ideas on issues such as local campaigns - breaking stereotypes - big image stuff + encouraging local supply chains linked to firms that are active in diversity, awards in their local areas, setting up networks, job brokerage, etc

**Section 4: SMEs – Owner Managers and Employees**

- Why SME owner managers are important

    o Empathise with the role and understanding of someone who runs and manages their own business

    o Divided into those that are likely to have some kind of administrative support mechanism and those with limited and those without; also related to sector and markets, particularly the different between those who do and do not have a large front office operation and those who are embedded within their local economies and those who are more virtual in their business dealings

    o The distinctions and issues raised need to be clearly outlined so that it is very obvious that we are aware of the differences between SMEs (to the extent that we can be) and that the information in this package is useful for all – but it is clearly sending out the message that we realise not all SMEs are the same.

- The challenges owner managers face

    o Highlight the common challenges faced and put diversity into a context of economic survival when times are hard (recession – critical at the moment) and how to address talent and competitiveness issues

    o Provides a clear set of business and management challenges that they will be familiar with

- This section will also be important for people who are acting as intermediaries, because if they are involved in advising SMEs or just working with them this can provide them with a useful platform for discussion

**Section 5: What SME owner managers can do**

- Basic approach

    o Needs to be adapted from the current 8 steps approach[23] – with maybe a little more focus on the micro business needs or possibly a separate section as discussion in the original brochure

    o This will contain some quick reference material to case studies and examples – very small scale boxed and highlighted examples.

- More detailed information

    o For firms who want to become more involved and think about how to approach diversity, continue the journey they have already started, or are at the point where they might be thinking of developing a diversity plan

    o The parts of this section will highlight more detailed aspects of the job recruitment and marketing process:

        1. Advertising

        2. Recruitment and Selection

        3. Internal management/HR

        4. Marketing

    o Could also provide a template or basic ideas for companies that want to provide a diversity plan

    o Outline of how SMEs might monitor and evaluate (check list, self evaluation questions) their activities, if they want to become better at adopting diversity

    o Case studies, good practice are an essential part of this section, along with some very clear figures on the size of different markets that exist out there for them to tap into

---

[23] See: *Diversity at Work - 8 steps for small and medium-sized businesses*. Available at: http://ec.europa.eu/employment_social/fundamental_rights/public/pubst_en.htm

**Section 6: Training and teaching materials**

- Contain a brief set of exercises and presentations/material that people can use when they want to raise the issue of diversity within a group

- Could be for managers within intermediaries addressing their own staff before they go out to engage with SMEs, it could be for SME owner managers trying to engage with their own staff or it could be for trainers (vocational) who want introduce the subject to potential future owner managers or existing ones

- The material can be used independently and will be flexible for either a brief intro or a rather more detailed set of guidelines and exercises

**Section 7**

- One page review issues on the benefits of diversity for different perspectives:

    1. The benefits of adopting a diversity approach for owner managers

    2. The benefits of adopting a diversity approach for intermediaries

    3. The benefits of adopting a diversity approach for employees

    4. The benefits of adopting a diversity approach for government

**Section 8**

- FAQ

**Section 9**

- Links and web sites etc for know support and information sources.