# Developing SME personnel competence in strategic business sustainability

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*Abstract: The importance of social and economic responsibility for SMEs' strategic business has increased since the EU CSRD (Corporate Sustainability Reporting Directive) entered into force in 2023. Due to the stakeholders´ demand, SMEs are forced to react and strengthen personnel sustainability competence as a part of their strategic and economic management. This paper aims to grasp how Universities of Applied Sciences can support SMEs' need to increase their personnel sustainability competence to apply stakeholders' demands by distance learning ability. This paper is based on findings in the project Green Responsibility and response to the conclusions of the project Strengthening Responsibility and Business Competence for the Personnel of SMEs and Startups. Consequently, we present the importance of strategic business responsibility for SME personnel, which can be strengthened by distance learning and, e.g., gaining a competitive advantage.*

*Keywords: competence, human resources, SME, strategic management, sustainability*

# 1    Introduction

The SME sector plays a crucial role due to its diversity to strengthen and achieve global sustainable development goals (SDGs) and responsibility. Many of the SME firms belong to the value chains of larger firms that require sustainability actions from their SME partners. The impact of SMEs globally and nationally is significant due to the large number of SMEs and their impact on employment. [1] For this

reason, actions aimed at the sustainability and responsibility of SMEs have a wide-ranging impact both nationally and globally. The sustainable and responsible operations of SMEs depend heavily on the level of competence of their personnel and their commitment to development to achieve the company's strategic goals. When a company anticipates and reacts to stakeholder requirements related to sustainable development and responsibility, it can strengthen its competitiveness and profitability in the long run. The competence of the personnel is a crucial factor in the implementation of strategic responsibility factors, underlining the importance of their role in maintaining profitability and competitiveness. [2] [3]

In addition to stakeholders, the requirements for responsibility and sustainable development are defined in the EU by, among other things, directives guiding more detailed national legislation and, globally, the United Nations' 2030 Agenda Sustainable Development (SDG) goals. Of the EU directives, the CSRD (Corporate Responsibility Reporting Directive) and CSD (Corporate Responsibility Due Diligence Directive), for example, are tightened on corporate responsibility, thereby promoting sustainable development to mitigate climate change in the EU green finance taxonomy. The results of the Green Responsibility project (2021-2023) showed that, from an SME perspective, there is a need for more precise and transparent strengthening of social and economic responsibility, both as part of business operations and among the personnel who carry them out. For example, the MEB 2023 conference highlighted shortcomings in the responsibility competence of SME personnel. In more detail, Laurea and LAB Universities of Applied Sciences identified this in the Green Responsibility Project 2021–2023 to promote the company's strategic factors. [4]. Based on this observation, the new and ongoing VALIOT project by Laurea and LAB University of Applied Sciences focused on increasing and strengthening SMEs' strategic responsibility competence and understanding by developing three sustainability courses for SME personnel in Finland. VALIOT project (2023-2025) was designed as a continuing project of Green Responsibility. [5]

Corporate responsibility scholars have mainly focused on companies' strategic vision of sustainability and, in some respects, on the impact of CSRD on a company's strategy, e.g., Manfred (2010) and Haski-Leventhal (2018). However, less attention has been paid to implementing responsible, operational, strategic, and social responsibility measures for sustainable development, which the companies' personnel implement based on their competence. For example, researchers should find answers to strengthening strategic and social responsibility measures as part of a company's practical strategic business operations.

In addition, Palthe (2013) has argued that aspects of social responsibility have been less ignored in the education programs of business schools. However, social and human sustainability form the critical components of SDGs. In their strategic vision and practical strategic operations, SMEs must consider their personnel's level of sustainability and responsibility competence to meet the requirements of, for example, sustainability reporting and corporate responsibility in listed companies'

value chains. The design of competence development studies in the VALIOT project by Laurea and LAB University of Applied Sciences focused on the perspectives of responsible strategic business and recruitment, marketing, and commercialization. These choices were made, for example, based on observations made in the Green Responsibility project [6]. In addition, it has been commonly claimed that when responsibility is included in the strategy, a responsible corporate image and reputation attract skilled recruiters to companies. Moreover, sustainability issues (e.g., equality and execution of human rights) in the context of recruitment have received less scholarly attention. Therefore, increasing and strengthening skills in these areas is strategically crucial for maintaining the competitiveness of companies.

This study aims to understand how SMEs can respond to stakeholder challenges and maintain competitiveness by increasing and strengthening their personnel's responsibility competence. More specifically, in this article, we will focus on strategically significant aspects of responsible business and recruitment competence development, as they enable and benefit companies in maintaining competitiveness, recruiting skilled personnel, and shaping their corporate image. To ensure a more comprehensive understanding and essential information related to the topic, the principles related to corporate responsibility and corporate responsibility reporting and practical groundwork from the perspective of double materiality analysis were considered in the design and design, as well as the impact of responsible strategic operations on responsible sales and commercialization measures. The main targets of the project behind this study are strategic strengthening responsibility and business competence for the personnel of SMEs and Startups, as well as the importance of strategic business responsibility for SME personnel, e.g., gaining a competitive advantage.

## 2 Theoretical background

In today's fast-paced business environment, Small and Medium Enterprises (SMEs) play a crucial role in economic development. This article explores the concept of economic responsibility and how it integrates into the strategic business practices of SMEs, focusing on ensuring the continuity of customer services and warranty issues, etc. Economic responsibility should be a significant part of an SME's systematic strategic planning process (SPP) [7]. This integration begins with incorporating economic responsibility into the company's mission and vision, reflecting a long-term commitment to sustainable practices. Defining concrete, measurable objectives (KPIs) related to financial sustainability and responsibility helps guide strategic planning. Building solid relationships with customers based on economic responsibility can lead to greater loyalty and retention. Transparent communication about business practices and economic impacts fosters trust. Offering products or services that deliver genuine value and positively contribute to

the economy reinforces this trust, ensuring that customers feel secure about the continuity of the services they receive [8].

SMEs often face unique challenges when implementing economic responsibility, such as limited financial and personnel resources, lack of expertise, competitive environment, and market turbulence [9]. These constraints can make it difficult to implement economic responsibility strategies. However, there are ways to overcome these challenges by investing in training programs that inform employees about financial responsibility. Cooperation with other companies, industry groups, and administrative bodies also enables sharing of resources and information, facilitating the adoption of responsible practices. According to Sirkiä [10], the company's management and supervisors must ensure investment in personnel training and competence. By adopting responsible economic practices, SMEs can create a stable financial foundation, enabling the company's long-term continuous service and product support and the preservation of jobs, thus working for the benefit of customers. This stability guarantees customers that the services they need will not be interrupted or completely stopped due to economic instability. By building a reputation for reliability and trustworthiness, SMEs can attract and retain a loyal customer base, further strengthening their financial stability and the continuity of their services [11].

## 2.1 Social responsibility for SMEs' strategic business

According to Palthe [12], the full scope of sustainability has yet to become embedded in mainstream business education and human rights, and the social aspect of sustainability has been given less attention than economic and environmental issues. However, in a time of global crises, there is a specific need for education on the social dimension of sustainability. Human rights are the basic standards to secure dignity and equality for all [13].

The social dimension of sustainability includes human rights to fair treatment, adequate health care, safety, equity, advancement, education, and equal representation [12]. Moreover, social sustainability covers issues such as the implementation of human rights and is linked to labour, women's empowerment, and gender equality [13].

Good stakeholder relationships are also a critical aspect of social sustainability. [13]. Good stakeholder relationships and implementation of social sustainability issues also create trust and social capital [14], creating a competitive advantage for firms. Noteworthy, the social dimension of sustainability needs to be more integrated into the education and academic programs of business schools and universities of applied sciences. For example, education is necessary in the context of socially responsible HR and recruitment policies and practices. According to Palthe [12 p. 123], "*Business leaders of the future need to be taught how to integrate human*

*rights into business decision making and recognize that prudent strategic decision making incorporates economic, environmental, and social sustainability elements.*"

## 2.2    Sustainability competence frame

The competence needs for strategic economic and social responsibility are based on the EU's Green Deal Industrial Plan. It aims to improve the competitiveness of net-zero industry and the transition to climate neutrality, strengthening the achievement of the EU's climate objectives. [16] From the business point of view, rules will be simplified, procedures will be speeded up, and know-how will be harnessed in the mass production of innovations as funding improves and the growth of clean technologies accelerates. [16]. The Action Lines of the Green Deal's Industrial Plan consider a proactive and simplified regulatory environment, faster access to finance, open trade to support resilient supply chains, and the need to raise skills levels. This study focuses on practical actions for a proactive and simplified regulatory environment and upskilling SMEs. [16]

For example, when SMEs are part of the value chain of a large company operating in the EU, they must act according to the obligations of the company responsible for the value chain, the EU Corporate Responsibility Reporting Directive, and corporate responsibility due diligence. [17] To comply with the regulations in force in the EU, the awareness, understanding, and competence of companies' personnel in these matters must be increased and tied to the company's practical business operations.

# 3    Empirical case-study

The research team defined the first feasibility research methods at the beginning of the project in autumn 2023 to formulate responsibility studies that serve the needs of SMEs to develop sustainable development and its competence. As a result of the specification, it was decided to utilize qualitative and applied design science research methods. The analysis of this article focuses on the development of economic and social responsibility in small and medium-sized enterprises (SMEs) through the upskilling of their staff. By utilizing Design Science research methods [19], we aim to study the significance and impact of competence in economic and social responsibility factors on SMEs' current strategic operations and profitability. This article aims to understand and describe the sustainability competence needs of SMEs in authentic conditions.

To embody an authentic theory, a case study is suitable for a crucial situation so that the theory can be challenged and expanded. When studying everyday situations and practices, previously undiscovered phenomena may emerge, and a case study helps analyze possible deviations from the norm. [18.] The applied design science research method is proper when researching practical solutions to real-world

problems by testing theories and considering the research object's culture. It includes an explanatory part that outlines the study's framework, objectives, process, and legitimacy. [19.] Schedules, processes, locations, and participants are appropriately selected according to research constraints when using a qualitative research method. When collecting data, the researcher highlights subjective thinking as part of the research. [18.] The analysis of the collected data is based on everyday experiences, views, and goals. In qualitative research, data collection is holistic, with the researcher interpreting phenomena and filtering them for practical experiences and views, creating information for context. [20.] When information is context-specific, there may be several realities related to this depending on the interpreter, i.e., the same information may appear different to different researchers, and, for example, the topic may change based on the answers to open questions. [18][21][22]. Contextualism poses a challenge of impartiality for researchers in collecting qualitative research data, based on which a foundation for accurate and reliable information must be laid. [22]. In the interviews, open-ended questions are primarily asked, and the theme can be discussed, in which case the interpretation is divided into a timeline for conducting the research. [23]. The contextualization of qualitative research means considering unexpected events and comprehensive descriptions of reality. In this case, various variables, meanings, processes, and relationships are considered, focusing on identifying regularities and generalizable observations. Things are observable but not measurable, emphasizing the design and implementation of theoretical models and proposals. [22] [28.]

This study used group and semi-structured interviews to collect data to understand SMEs' perspectives on practical sustainability measures and the level of sustainability competence and needs. The research team and authors planned and defined the first phase of the research question set in the fall of 2023. The aim was to gain an up-to-date view of how the SME strategy considers and responds to stakeholder responsibility requirements by developing the personnel's responsibility competence. The data from the interviews and surveys were further compared and analyzed to iterate on the practical development needs of companies' responsibility. Based on analyses and comparisons, different approaches were selected considering the target group. First, the topic was approached with a thematic interview targeted at SMEs, after which an unstructured survey was directed to the interviewees. The preliminary study charted how companies have considered the requirements of sustainable development and responsibility in a strategic approach to practical business and how the competence of personnel supports strategic, practical operations. Based on group and semi-structured interviews, the research group developed a study module on strategic responsibility for SMEs, focusing on strategic business responsibility, responsible recruitment from the perspective of corporate image, and responsible commercialization and marketing.

## 3.1 Authentic company cases supported by team learning

In our project teaching, we implement team learning methods based on the principles of a Knowledge-Creating Company [24] and the concept of a Learning Organization [25]. According to Senge [25], teams can learn more than individuals. Learning organizations should implement the processes of expanding knowledge into their structures and enhance the quality of this knowledge by using special tools or mechanisms [26].

In the process of creating learning organizations, five key areas are essential: 1) systematic thinking, 2) personal mastery, 3) thought models, 4) shared vision, and 5) grouped learning. Learning from one´s own mistakes, availing of experience, and constant learning should be composite parts of a learning organization. [26]. According to Halmaghi [27], the critical factors of learning organizations are as follows (pp. 99–102):

- creation of systemsupporting the learning process

- appreciation and perception of values arising from the organization-

environment relation

- encouragement of sharing knowledge

- awakening cooperation and dialogue

- constant creation of conditions that are favourable for employees wanting to learn

- learning based on experience, elimination of current mistakes

- emphasizing and advocating relations based on the individual employee and the organization

- creation of an atmosphere and organizational culture that are favourable for learning

In our project, we implemented several team learning methods and the concepts of Learning Organizations [25]. First, students work in their company teams, and together, they analyze their current sustainability issues based on their analysis, define their company's key development areas of sustainability, and make a long-term plan for developing their sustainability goals. Secondly, we implement peer-learning methods in the three sustainability courses of the project as students also learn from other teams and individuals in the course through online meetings. In those online "team meetings," they can share their practices, concerns, and notifications with students from other firms and increase their knowledge of sustainability issues.

In our project courses, teachers´ roles are seen as "mentors" supporting and encouraging learning. Teachers´ role is also to create a psychologically safe learning

environment for students, encouraging them to express their concerns and make mistakes. Team learning methods require motivation from students as students are seen as active creators of knowledge – not just passive information acquirers.

# 4   Results

This research indicates that SMEs must take responsibility guidelines into account strategically, and the personnel's responsibility competence must be more comprehensive. The daily work of businesses and personnel around responsibility and sustainable development must meet the responsibility requirements of different stakeholders. This maintains the company's competitiveness in the long run. To develop the responsibility competence of SME personnel, our study proposes three study modules focusing on responsibility, the by-product of which is an analysis of the current state of responsibility and a development plan for the company. With these, the company can develop responsibility and sustainability functions, considering the perspectives of double materiality analysis.

The GAP analysis was conducted at the beginning of 2024 based on semi-structured (n19) and group interviews (n 4-13), which revealed recurring themes in SMEs' views on promoting and considering sustainable development and responsibility. SMEs' views on responsible business operations focused on compliance with regulations, such as directives, responsibility, legislation, and transparency. In this context, SME representatives highlighted transparency, doing the right thing, fairness, integrity, and ethical and moral principles. The importance of preventing harmful activities was highlighted in the immediate business environment and as part of the value chain. The respondents focused on the profitability and strategic starting points of business operations and their positive relationship to sustainable development and responsibility in the long term. During the semi-structured and group interviews, some respondents woke up to the comprehensiveness and significance of the dimensions of responsibility as part of competitiveness and when meeting stakeholder requirements. The areas of social responsibility, such as increasing the personnel's responsibility competence to ensure competitiveness, were considered significant. In this context, the importance of the personnel's responsibility competence as part of corporate image, marketing, and commercialization was highlighted, for example, to avoid greenwashing. The long-term view of SMEs is to consider that having different recycling options and using renewable, responsibly produced natural resources is essential. All in all, responsibility was felt to support the business's strategic goals.

The responses to the semi-structured interview show that some companies have taken some sustainability and responsibility into account as part of their practical business. Responsibility and the company's views on sustainable development are communicated, for example, on the website. In addition, it is stated that responsible matters must be implemented as required by regulations and legislation. From the

perspective of social responsibility and corporate identity, in addition to communication, interaction is based on openness and trust, as well as in a customer-oriented manner. A few companies have invested in responsible product innovations, recycled materials, and the use of responsibly produced products. A couple of the respondent companies have gone further and calculated their carbon footprint, carried out sustainability-related certificates and a life cycle analysis, or joined the One Global Contact initiative, for example, and taken equality and non-discrimination into account.

## 4.1 Responsibility Competence in SMEs´

The research team analyzed and planned how the Universities of Applied Sciences could support SMEs in increasing their personnel sustainability competence to meet stakeholders' demands.

Most company representatives said they had not attended any training to increase their competence in responsibility. The research group had already made a similar observation during the Green Responsibility project, and the previous observation was confirmed in the survey. To formulate sustainability studies targeted at SME personnel members in a needs-based manner, the research group's representatives were asked what issues they thought were related to responsible business operations, human resources management, and recruitment.

Responsible business was requested to include content and closer examinations with practical examples of responsible communication, forming a responsible corporate image, and regional impacts. The challenge was implementing the responsibility strategy in the company's everyday operations. In decision-making in procurement and value chains. The comprehensiveness of responsibility and sustainable development and its strategic and long-term significance for ensuring the company's profitability and existence were discussed.

Social responsibility should be considered in practical decisions, for example, from the perspective of multiculturalism. The survey section on responsible human resource management and recruitment revealed that the respondents wanted clarification on what responsible recruitment is, what is included in the equality plan, and what its significance is for the corporate image. Regarding responsible recruitment, the responses considered what the applicant can ask about the company's values and how to reliably verify the level of competence in recruitment. A few people left this point unanswered or said the question was irrelevant. In this context, the research group considered the respondents' needs. It raised awareness through planned studies to provide all participants with a clear picture of the impacts and significance of responsible human resource management and recruitment.

## Conclusions

Consequently, we present the importance of strategic business responsibility for SME personnel, which can be strengthened, e.g., by distance learning and gaining a competitive advantage.

Based on the research team's GAP analysis, thematic and group interviews, and a survey, it was decided to focus on strategically responsible business, recruitment, commercialization, and sales competence in the responsibility studies offered to SME personnel members. This resulted from research data showing the importance of responsibility and sustainable development in the future operations of SMEs and stakeholder demands. For SMEs to meet the responsibility requirements of all stakeholders, their personnel must master and know the most relevant issues affecting responsibility and sustainable development for the company's business. Responsibility competence and its level become concrete in everyday practical business. Responsible and sustainable implementations affect companies' capabilities and profitability in the long term.

By participating in the responsibility studies designed and formulated by the research team based on the data, companies can draw up a current state and development plan for responsibility related to their own business, which will increase SMEs' strategic competence and thinking about responsibility. The study participants learn to understand the team learning method's peer learning and problem-solving skills by utilizing current responsibility requirements in practice. In this way, they can further develop the competence areas of responsibility and sustainable development, which are central to the company's future.

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