

Responsible recruitment practices enhancing social responsibility in SMEs

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1 Introduction

Developing recruitment practices is crucial to tackle the shortage of manpower in certain sectors in Finland. The employment market for skilled workers has become increasingly competitive and for successful recruitment, it is important to be able to attract the right candidates to fulfill the positions and to achieve sustained competitive advantage [1]. Recent research also shows that HRM personnel consider CSR important in every aspect of job recruitment [15], [21] and that CSR involvement is likely to positively affect company performance [8].

In the context of SMEs, it is important to recognize that the individual responsible for recruitment is often the general manager or an administrator, and that HR processes may be either absent or lack formal definition. To successfully acquire suitable talent, the hiring manager must balance maintaining the company's operational efficiency with focusing on recruitment. Therefore, additional emphasis should be placed on ensuring that recruitment processes are both suitable and efficient and meet the SME's own needs. [6]

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 [12]. In addition, the new EU-level legislative initiatives, such as Pay Transparency Directive [11] are also affecting SME recruitment

practises causing a growing pressure for more sustainable recruitment practices also in SMEs.

This study is based on the VALIOT project of Laurea University of Applied Sciences and LAB University of Applied Sciences in Finland. In the project, we developed CSR competencies of Finnish SME personnel by collaboratively developing practical CSR courses tailored for SME needs. In this study, we focus solely on responsible recruitment. We aim to identify the most important and relevant elements of responsible recruitment for SME participants and to understand the recruitment needs and challenges currently faced by companies in Finland.

2 Responsible recruitment

2.1 Connections between corporate social responsibility, responsible recruitment, and human resource management

Corporate Social responsibility (CSR) is defined by the UN Global Compact as *aligning strategies with principles of human rights, labor, environment and anti-corruption to advance societal goals* [30]. Ethical values are an important part of CSR [1] CSR also involves diversity, equity and inclusion in recruitment [3]. Recruitment, a critical HRM activity, involves searching for candidates and encouraging applications [10]. Studies show a significant connection between HRM and CSR, highlighting mutual influences. [31] [1]

2.2 Responsible recruitment as an integral component of the company's overall strategy and HR practices

Recruitment should not be understood solely as a means of meeting a company's resource needs. Instead, recruitment has substantially broader and far-reaching effects and it plays an integral role in a company's overall strategy and company image building [26]. Responsible recruitment should align with the company's values, mission, and long-term strategy. In practice, this means attracting candidates who not only have the required skills, but who also fit the company culture, share and convey the message about its values. The recruitment process, which reflects the company's values, has a positive effect on brand image. Responsible recruitment has been shown to enhance both employer attractiveness and employee retention in sectors with a shortage of skilled personnel.[5] [4] Additionally, recruitment is company communication: promotion of equality, transparency and inclusiveness both in messages and in concrete actions contributes to the brand image of company stakeholders.

As HR activities are highly intertwined with each other and CSR, improving responsibility in recruitment cannot occur in isolation from other HR practices and processes. Clear connections can be identified in areas such as workforce planning, compensation and benefits policies, career development, and induction to mention a few. A responsible employer integrates recruitment with strategic workforce planning, ensuring a thorough understanding of the company's current and future resource and competency needs. They align recruitment efforts accordingly and balance new recruitments and career and competence development of existing personnel. Internal job descriptions and a well-articulated compensation and benefits policy help maintain fairness in salary negotiations and an effective induction process ensures that the new employees are well-prepared, engaged, and aligned with the organization's values. [31] [1] [26]

Research on CSR and HRM [15] shows that CSR has a positive effect on job satisfaction and employee loyalty [2], employee's trust in the organization [28], employee's commitment [16] and staff retention [18]. The extensive systematic review by Omid & Zotto (2022) indicates that socially responsible HRM has several societal, individual, and company level outcomes, such as increased societal wellbeing, company performance and employee commitment.

2.3 Transparency and openness as guiding principles in the responsible recruitment

Transparency and openness in recruitment are crucial for building trust and ensuring a fair hiring process. Providing accurate information about the open position including information about current or expected challenges, help candidates make more informed decisions. This avoids misunderstandings which can lead to dissatisfaction, reduced performance or even rapid resignation. Open communication about the progress of the recruitment process and the evaluation criteria is important. It is important to give honest and constructive feedback also to candidates who were not selected. This builds a positive candidate experience which has a positive influence on further recruitment processes. [26]

The challenges arise in the execution of fair candidate evaluation and selection, which is affected by the same cognitive biases as any other human decision-making processes. Even though humans are assumed to make decisions rationally, in fact research shows that the decisions are often influenced by environment and context and the outcomes deviate from the so called rational decisions. [29] [27] [17]. This happens also in recruitment candidate evaluation. What makes avoiding biases increasingly difficult is the fact that we fail to see biases in our own behavior, even though we can clearly see bias in other people. That is why it is not sufficient to consciously try to avoid being biased. [24] [23]

Cognitive biases and heuristics (e.g. affinity bias, confirmation bias, representativeness heuristic, and halo effect) can significantly influence recruitment processes, often leading to unintentional discrimination and poor decision-making. [22] [4] Recognizing the existence of biases is necessary to address them effectively. Workforce diversity serves as a clear indicator of the outcomes of past recruitment efforts and can highlight potential biases in decision-making. Implementing clear, predefined evaluation criteria, involving multiple independent evaluators, and utilizing external parties for candidate testing and evaluation can further enhance objectivity. To avoid potential bias, recruitment processes should never be rushed or conducted under pressure. [22] [7]

In recent years, anonymous recruitment, also known as blind hiring, has become an increasingly common method to enhance the equal treatment of all applicants. This approach conceals personal details such as name, gender, age, and other identifying information from the recruiter. [14] [19]. The study by Krause, Rinne, and Zimmermann (2012) suggests that the use of anonymous applications ensures that all applicant groups have an equal chance of receiving interview invitations in nearly all recruitment processes and that this approach can reduce discrimination in scenarios where it previously existed. [19]

2.4 Regulations guiding responsible recruitment practises in Finland

Creating equal employment opportunities (EEO) is one of the most important DEI forms in responsible recruitment [3] as it protects against the discrimination of vulnerable communities within the workplace [9]. HRM discrimination research focuses on characteristics such as gender, race and ethnicity, and differences in employment patterns and earnings. These are characteristics that cannot be attributed to other (observable) characteristics. [19]

National and EU level regulations aim to enhance EEO and DEI principles in recruitment. In Finland, diversity law and the equality law between men and women guide the recruitment practices and policies also at SME level. Diversity law was established to decrease discrimination among the marginalized groups in Finland and according to the law, people cannot be discriminated against based on the applicants' age, sex, ethnic background, citizenship, religions background, status of health or sexual orientation. In Finland, companies employing a minimum of 30 employees are required to conduct an equality plan to enhance the equality between men and women. [13]. Importantly, the European Parliament approved the "EU Pay Transparency Directive" in 2023, which aims to implement concrete measures to close the gender pay gap. [11]. EU member states are expected to implement the Directive by June, 2026.

3 Context, Data and Methods

Developing sustainable business competencies for the personnel in SMEs and startups (VALIOT) project is funded by the European Union (ESR+ funding). In the Responsible Recruitment training, the participants acquired the skills necessary to enhance their company's recruitment process by integrating responsible practices. The training enabled them to leverage responsibility as a key factor in improving their employer image, thereby strengthening their competitive position in attracting skilled and motivated employees. The competence development in VALIOT is based on learning-by-developing pedagogy (LbD), work-life orientation, and co-creation.

Our study is based on the observations and discussions with the SMEs, including all together 40 participants and 12 online meetings during the time April 2024-May 2025.. We investigated: 1) what themes of responsible recruitment are the most important and relevant for the SME participants and 2) what kind of recruitment needs and challenges the companies were facing. Additionally, we utilized the secondary survey data, which included following questions: On a scale from 0-5, how important and current are following themes for your company in the recruitment (selection processes and the personnel processes related to the selection)

1. Company image and staff availability
2. DEI principles and implementation of equality and diversity in the personnel processes
3. Anonymous recruitment
4. EU or national level legal issues related to recruitment (e.g. open salary policy, EU directive)
5. Induction

The survey also sought to determine which elements of the course were found particularly beneficial and whether the acquired knowledge would be applied to the company development.

4 Results

Our discussions with the SME participants and additional survey data showed that creating and maintaining a good company image and the availability of good personnel are currently the most important recruitment needs in Finland. Obtaining the “best and skilled workers” in the recruitment was a challenge for some companies and also the most important recruitment need. Even though Finland is facing an increasing unemployment rate, some sectors are suffering from the lack of skilled personnel. Therefore, improving and maintaining a good and attractive company image in the recruitment process was considered highly important. For

example, it was stated that it is important to inform also those applicants who did not get selected, in order to create and maintain a good company image. In addition, communication about the company values and sustainability related goals in the recruitment advertisements were emphasized.

In larger companies, responsible recruitment practices were well integrated into the overall company strategy. Some participants emphasized their intention to make these practices even more visible to personnel following the project. Openness and transparency were deemed crucial in both the recruitment and selection processes. While diversity, equality, and inclusiveness were considered important, some participants noted that the requirement for native-speaking personnel stems from customer needs, particularly in sectors such as social and health care. Consequently, despite a company's willingness to hire immigrants who may not speak fluent Finnish, certain sectors necessitate fluency or perfect proficiency in Finnish to meet customer expectations.

Promoting gender equality, enhancing work-life balance, and ensuring equal promotion opportunities for both men and women were highlighted as crucial factors in attracting and retaining new employees. Many participants emphasized their intention to develop equality plans based on insights gained from the project. It is mandatory for Finnish SMEs with at least 30 employees to create an equality plan [13] aimed at promoting gender equality. Non-discrimination policies were also considered important in both recruitment and company personnel policies. Some participants even considered implementing 'positive discrimination' in their recruitment strategies. However, our observations and the additional survey indicated that anonymous recruitment policies were not currently viewed as a top priority.

Some companies expressed interest in redeveloping their recruitment processes based on insights gained from the project. Many participants recognized also the importance of addressing cognitive biases in future recruitment efforts. Most of the participants were already well familiar with the GDPR principles in the recruitment policies. Companies stressed the importance of obtaining permission to retain applicants' data post-recruitment. However, some participants observed that not all companies comply with GDPR principles, such as asking for consent to save data for future use and specifying the retention period.

Larger SME's were also familiar with the EU-level directives guiding the recruitment including open salary policy and the possibility of anonymous recruitment. Despite this familiarity, these directives were not yet fully implemented in practice. Also, the need to incorporate AI into recruitment processes was highlighted by professional HR participants and in the additional survey

Discussion and conclusions

SME participants exhibited considerable heterogeneity, ranging from solo entrepreneurs to larger SME companies, and spanning sectors from social and health care to manufacturing and forest industries. The needs and challenges associated with responsible recruitment varied across different business fields. Additionally, while some SMEs were already proficient in recruitment, others had no prior experience. Nonetheless, participants found the recruitment issues addressed in the project to be relevant for all personnel, not solely for recruitment staff. Some participants also highlighted that they had not previously considered recruitment as an integral part of implementing social responsibility initiatives.

Our study revealed that maintaining a strong employer brand and implementing DEI principles in recruitment were the most significant priorities for companies. Fairness and transparency are crucial in the Finnish SME context. However, participants did not consider anonymous recruitment practices highly relevant at this time. Emphasizing the understanding of cognitive biases in recruitment was seen as vital for enhancing DEI principles. Recognizing and addressing one's own cognitive biases is an essential aspect of responsible recruitment, as it encourages questioning our thought processes and decision-making.

There are several avenues for future research. Firstly, Artificial intelligence (AI) is rapidly transforming business processes, including recruitment. Although it may significantly enhance recruitment efficiency and present opportunities for more objective decision making, it also introduces potential algorithmic biases that can perpetuate existing prejudices and affect the fairness of hiring decisions. [25] [20] AI could be used as a means to make the processes more efficient in the recruitment, especially among smaller firms. However, ethical issues should be well evaluated when AI is used as a support tool in the recruitment, especially when using the free AI tools.

There are some limitations of this study. Firstly, not all course participants participated in the meetings or replied to the survey. Additionally, some SMEs were more active in the discussions than others. This study was conducted in Finland, and the needs, challenges and practices of responsible recruitment are likely to vary across different countries and cultures, which should be acknowledged in the future research. It is important to assess how DEI policies in recruitment are applied in various cultural contexts. In January 2025, DEI programs were banned in US government and public offices, and it remains to be seen whether this shift in US policy will influence the implementation of DEI policies in recruitment within European countries and Finland.

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