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Reframing diversity, equity, and inclusion as essential practice for human progress in SMEs: complexity, agency, and emergent inclusion

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1. Complexity, entanglement, and a new mindset for diversity, equity, and inclusion

Modern organizations frequently declare commitment to Diversity, Equity, and Inclusion (DEI) through mission statements, diversity training, and public initiatives. Yet many such efforts face criticism for being tokenistic or performative, implemented more for image than impact (Foss and Klein, 2024, 2023; Foss et al., 2022). Tokenism refers to superficial inclusion, for example, hiring or highlighting one person from an underrepresented group to appear diverse, without true integration of diverse voices (Holgersson and Romani, 2020). Performative DEI involves grand statements or gestures toward inclusion that lack follow-through in practice (Leslie et al., 2024), often derided as woke-washing or diversity theater (King et al., 2024).

These approaches not only fail to drive real change but can also produce backlash and disillusionment. For example, simply appointing a few individuals from historically marginalized groups to high-profile roles without empowering them or addressing deeper biases can breed cynicism. Majority members may see it as reverse discrimination (where members of a majority or historically advantaged group, often based on race, gender, or age, feel they are being unfairly passed over in favor of a minority candidate to meet diversity goals or rectify past wrongs), while minority members may feel they are being showcased rather than valued. Leslie (2019) describes such unintended consequences, noting how

poorly executed diversity measures can backfire. Misconceptions and oversimplification of what these initiatives comprise have perhaps led to such backlash and call for a more comprehensive understanding of DEI (Nitttrouer et al., 2025; Showkat and Yahya, 2025).

For resource-constrained SMEs focused on operational efficiency rather than public relations, the performative DEI adopted by larger firms may seem particularly irrelevant or even threatening. Many European SMEs, employing between 1 and 250 people, operate with limited budgets and lean structures that leave little room for what might appear as symbolic gestures (Breuillot et al., 2022). As a result, authentic DEI concepts have often been misunderstood or dismissed entirely by smaller firms (Woodhams and Lupton, 2009; Deakins et al., 2003), leaving them without the adaptive advantages that genuine inclusion provides (Korosteleva et al., 2025; Carter et al., 2015). Research demonstrates that SMEs show ‘a distinct lack of awareness or regard for good practice in diversity and equality’ (Woodhams and Lupton, 2009, p. 203), yet ethnically diverse business teams achieve significantly higher employment growth and translate strategic initiatives more effectively than homogeneous counterparts (Korosteleva et al., 2025). Paradoxically, SMEs possess structural characteristics that would make them suited to implement DEI in meaningful, non-performative ways (Wapshott and Mallett, 2021). Their flat hierarchies, direct communication channels, and the significant influence of founders or small management teams mean that fundamental changes can be implemented immediately without the bureaucratic resistance typical of larger organizations.

Consider the tangible DEI challenges that SMEs encounter: A family-owned manufacturing firm with 45 employees struggles to attract diverse talent in a rural region where 95 percent of residents share the same ethnic background. A tech start-up of 12 people realizes their remote-first policy inadvertently excludes candidates without home office setups. A retail SME with 80 employees discovers that their informal “culture fit” hiring actually perpetuates homogeneity. A service company with 150 workers finds that flexible scheduling, intended to support working parents, creates resentment among childless employees who feel they shoulder more unpredictable shifts. These are not abstract theoretical problems but daily operational realities that SMEs must navigate, often without dedicated human resources (HR) departments or diversity officers. For these organizations, DEI cannot be delegated to specialists or managed through elaborate programs—it must be woven

into how leaders make decisions, how teams collaborate, and how the business serves its community.

In an entangled world of interconnected social, technological, and economic systems, DEI challenges are often multifaceted and nonlinear. As complexity increases, it becomes harder to pinpoint simple causal links in DEI efforts; multiple perspectives and forces collide, making DEI's impacts contested and difficult to determine exactly (see Shore et al., 2018; Dobbin and Kalev, 2016). Challenges in such complex adaptive systems unfold in ways where countless variables interact in nonlinear ways (Gershenson and Heylighen, 2005). Understood from this perspective, effective DEI work in today's environment requires a fundamental shift in mindset, from linear, reductionist approaches toward a systems-thinking perspective. Rather than relying on positivist assumptions of isolating singular variables that contribute proportionally to outcomes, complexity thinking recognizes that real-world phenomena emerge from dynamic interactions among interconnected elements (Bhaskar, 1975, 1978, 1993). Positivist empiricism, with its emphasis on reductionism, predictability, and clear-cut distinctions, fails to cope with this complexity (Burnes, 2005; Gershenson and Heylighen, 2005; Stacey, 2001). Such approaches assume that we can decompose problems into independent parts, predict outcomes with certainty, and categorize phenomena in binary terms. Efforts toward DEI suffer under such linear thinking (Jones, 2023; Shore et al., 2018). If diversity and inclusion are seen as a simple checklist or a set of isolated metrics to improve, we miss their deeper systemic role. Complexity forces us to change our ways of thinking. Dealing with complexity means embracing indeterminacy and unpredictability and yet finding ways to adapt and profit from a system's capacity for self-organization and distributed intelligence (Brown, 2017; Uhl-Bien et al., 2008; Plowman et al., 2007; Coles, 2025). In other words, instead of trying to control every outcome, create conditions where the system, be it an organization or community, can learn organically and reorganize in inclusive ways.

At the heart of this shift is acknowledging that agency is distributed across many actors and elements, rather than residing only in individual heroes or top leaders. Outcomes in a complex social system emerge from the interactions of diverse agents, each with partial knowledge and shifting intentions. No single leader or policy can unilaterally control the direction of change, and this is precisely why DEI cannot be left on the sidelines. Inclusion is a mechanism of resilience in complex systems, where diversity of perspectives and backgrounds provides the repertoire

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of responses needed to adapt to unexpected challenges. Cybernetics teaches us the law of requisite variety; the greater the variety of disturbances a system may face, the greater the variety of responses it needs to cope (Gershenson and Heylighen, 2005). In practice, this means an organization must maximize diversity in its people, ideas, and strategies because it can never predict what will be necessary when. Understood thus, DEI is not just ethically sound but functionally essential, and homogeneity is brittle in the face of surprise, whereas diversity gives a complex system options to self-correct and thrive.

Crucially, embracing complexity in DEI reframes understanding of intention and choice. Instead of rigid top-down plans to implement inclusion in a linear fashion, complexity helps in recognizing that intentions must be adaptive and iterative. Goals provide direction, but as conditions change and new information emerges, inclusive practice should evolve (Brown, 2017). Complex thinking treats knowledge as a flexible, subjective model to aid problem-solving, not a fixed objective truth. Decisions aim for what is good enough and improvable over time, rather than chasing an illusion of optimal, one-and-done solutions. Yet it is worth considering, good enough for whom? As Simon (1955, 1979) observed, satisficing behavior, selecting the first acceptable solution rather than optimizing, reflects bounded rationality shaped by cognitive limits, time constraints, and organizational context. However, who defines the threshold of acceptability often reflects existing power structures; what those with authority deem “good enough” may fragment marginalized groups into overlooked segments rather than expanding the scope of benefit (Pfeffer, 1981).

Expanding the question of “good for whom?” beyond dominant groups effectively broadens the base of inclusion and innovation. This mindset aligns with how DEI progress actually happens, through continuous learning, feedback, and adjustment, rather than a one-time policy rollout. An inclusion initiative might spark unforeseen reactions, positive or negative, which then require a change of approach. Intention in an entangled world is less about imposing will, and more about guiding an evolving process. As complexity theorists note, we should expect surprises and accept that we will never be able to control or predict complex systems completely. Instead of trying to eliminate uncertainty, we work with uncertainty, using it as an opening for innovation and self-organization.

This chapter addresses why SMEs must engage with DEI meaningfully and how they can do so effectively. The chapter begins by examining

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why tokenistic DEI efforts fail, providing both theoretical grounding and practical insight. It then explores inclusive systems design, showing how SMEs can rewire their organizational architectures for genuine inclusion. The chapter subsequently examines distributed agency and emergent change, demonstrating why top-down DEI mandates fall short and how participatory approaches succeed. Finally, it addresses paradox navigation, the essential skill of holding multiple truths simultaneously, showing why SMEs are particularly well-positioned to lead in this domain. Throughout, the chapter argues that for SMEs, DEI is a fundamental capability for resilience and adaptation in complex business environments.

2. Why tokenistic DEI efforts fail

Intention in an entangled world is less about imposing will, and more about guiding an evolving process, and the lack of this realization results in tokenistic DEI efforts. Given the complexity and depth needed, it becomes clear why tokenistic DEI efforts so often fail. Tokenistic refers to surface-level actions that give the appearance of diversity or inclusion without engaging with the systemic, power-laden reality underneath (Ahmed, 2012; Holgersson and Romani, 2020). Examples include hiring one person from an underrepresented group into a team but not valuing their voice, celebrating multicultural food festivals while wage gaps between diverse employees and bias at work go unaddressed, or issuing grand diversity statements with little follow-through. These approaches treat DEI as an auxiliary checkbox, reflecting what Ahmed (2012) calls “diversity as institutional whitewashing.” Recent research by Holgersson and Romani (2020) reveals that even in male-dominated organizations, tokenism experiences can be transformed when organizational culture actively challenges masculine norms, suggesting that it need not remain a PR exercise or a quick fix but could potentially be a transformational process. This could produce meaningful change instead of breeding cynicism.

One reason for failure is that tokenistic initiatives often decouple DEI from questions of power, justice, and structure. In a critique of how diversity rhetoric entered the field of international business (IB), Vangeli (2025) observes that much of the adopted DEI was a diluted version stripped of its social justice core, with references to power hierarchies, privilege, and systemic oppression rendered invisible. What remained was a shallow celebration of diversity that fit comfortably within the

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status quo (Kalev et al., 2006; Edelman, 2016) amounting to little more than a facade (Ahmed, 2012; Levi and Fried, 2025). In such cases, organizations may claim progress on inclusion while avoiding any challenge to their entrenched practices or power dynamics. But a facade change is not a paradigm shift. Without addressing the root causes of exclusion, be they discriminatory norms, structural inequalities, or hegemonic assumptions in the culture, the effort cannot lead to genuine equity (Zanoni et al., 2010). It is telling that evidence from the nonprofit sector similarly shows many organizations “using stale and superficial approaches to diversity, leaving them ambling along without meaningful alterations toward improvement” (Anand, 2019, para 2). Efforts that focus only on optics, like diversity headcounts or isolated training sessions, often tackle the symptoms, manifested in the lack of representation, while ignoring the causes, such as institutional discrimination, cultural biases, or historical trauma (Anand, 2019).

Another reason tokenistic DEI fails is that it contradicts the principles of complexity. A check-the-box approach assumes a linear input–output. “Mere implementation of unconscious bias training is not enough as consciousness of bias is not the only factor in determining human behavior, rather it is a complex social system of stimuli, motivation, history and anticipated outcome.” One-off interventions dissipate quickly if not embedded in a broader context of reinforcement, feedback, and genuine culture shift. Performative measures lack the self-organizing buy-in of the whole system. People can sense when inclusion is not truly valued or when it is being done for compliance reasons. As a result, they do not internalize the intended messages. Over time, the organization may wake up in a few years wondering what went wrong, despite all the diversity programs (Anand, 2019). The answer often is that those programs did not penetrate the actual structures and norms of the system; they were simply layered on top like paint on a rotten beam. Good intentions can lead to checkbox diversity efforts that ignore hegemony and marginalization, failing to create sustainable shifts in power. True DEI work, by contrast, is willing to examine uncomfortable questions: Who has power and voice here? Who is marginalized, and why? How do our processes (hiring, promotion, product design, etc.) consistently favor some and disadvantage others? And what systemic changes would alter those patterns?

Finally, tokenistic DEI lacks the long-term commitment and adaptive learning that complexity demands. It treats inclusion as a project with an end date, rather than a continuous practice. This mindset often creates a self-fulfilling prophecy of failure: an organization implements a

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surface-level initiative (X) and expects a profound systemic shift (Y). When the superficial quick fix fails to produce immediate, transformative results, leadership concludes that the practice itself is ineffective, rather than recognizing that their implementation lacked the necessary depth. When an organization treats DEI as a one-time campaign, it misses the feedback loops necessary for systemic change.

In a complex environment, the goal is not just to “do X,” but to engage in a continuous cycle of interrogation. It requires iterative assessment where instead of declaring victory after a single mentorship program, a complexity-informed approach asks: *Did this truly move the needle on career progression? Where did the logic break down?* It should address unintended consequences by engaging with messy data and identify both positive and negative ripples that a simplistic checked box would ignore. Systemic interrogation would help acknowledge that “X” only works when paired with a deep dive into the underlying structures that resisted change in the first place. Ultimately, tokenism fails because it remains trapped in the realm of simplistic intention (“We did X, so we are done”). Real inclusion requires moving past the frustration of unmet expectations and engaging in the ongoing, often difficult journey of constant adjustment and systemic honesty.

3. Inclusive systems by design: rewiring social architecture through SMEs

If superficial approaches fall short, what does it look like to truly embed DEI into the design of systems? It begins with recognizing that inclusion must be built in from the ground up, not bolted on (Costanza-Chock, 2020). This implies a shift from seeing DEI as a separate program to seeing it as a lens for all decisions and designs, which includes how we structure organizations, how we develop products, and how we shape policies (D’Ignazio and Klein, 2020; Irani et al., 2010). Inclusive systems design means that at every stage, we ask: Who is this including or excluding? This aligns with Costanza-Chock’s (2020) design justice principles, which emphasize that those most impacted by design decisions should lead the design process. Such questions need to become part of the design process.

Concrete frameworks are emerging to guide this process. For instance, Sánchez Rodríguez et al. (2021) emphasize scaling social innovations in a way that explicitly includes marginalized groups, noting that scaling

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efforts occur in the context of complex adaptive systems and must incorporate inclusion throughout. They found that many existing frameworks for growing social impact rarely consider the complexity of the environment or plan for inclusion, leading to incomplete success. To fill this gap, they propose multidimensional approaches that map out where inclusive actions should be taken across all phases and directions of scaling an innovation (see Sánchez Rodríguez et al., 2021). In essence, rather than assuming a good idea will automatically benefit everyone as it grows, one must intentionally design the growth process to be inclusive, for example, by involving community members in decision-making, adapting solutions to local contexts, and addressing barriers that might prevent certain groups from accessing the innovation. Indeed, one could argue that if designed with inclusive principles as a core foundation, the scaling potential becomes virtually unlimited; inclusive systems can continually adapt and expand to serve broader populations, whereas scaling within homogeneous groups inevitably encounters market saturation and growth limits as the addressable population narrows (Wickham et al., 2025).

Another illustrative example comes from the domain of energy and entrepreneurship. Researchers Osunmuyiwa and Ahlborg (2019, 2022) developed a framework called GSIEE (Gender and Socially Inclusive Electricity for Entrepreneurship) to explicitly link technology design with DEI goals. This framework emerged from their recognition that while electricity access is often promoted as a catalyst for economic development, existing approaches rarely consider whether energy systems can be designed in gender-sensitive ways to promote equal entrepreneurial opportunities.

The GSIEE framework operates on two interconnected levels. First, it examines how entrepreneurs in local contexts interact with renewable electricity systems (RES) and how this access stimulates new entrepreneurial opportunities and enables small businesses to develop novel products or services. Second, and critically, it investigates how electricity systems may inadvertently rely on and perpetuate existing socio-political structures and institutions that maintain socio-economic and gendered imbalances—thereby affecting entrepreneurial outcomes even when technical access is provided.

When Osunmuyiwa and Ahlborg (2022) applied this framework in rural Tanzania, they found that while access to renewable electricity did boost entrepreneurial activities overall, significant gendered differences

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emerged in entrepreneurs' capacity to initiate and sustain new product or service offerings. Although electricity access positively affected perceptions about female business ownership and social status, most women entrepreneurs remained confined to low-growth enterprises due to persistent socio-economic and power imbalances.

In other words, providing technical infrastructure alone, without addressing underlying structural inequalities, proved insufficient to generate genuinely inclusive entrepreneurial outcomes. The framework thus illustrates how DEI must be embedded within technology design itself, explicitly accounting for how infrastructural interventions interact with existing power structures and social norms to either challenge or reinforce patterns of exclusion.

Their aim was to make explicit the linkages between electricity, gender, and entrepreneurship to help (re)design socially inclusive electricity systems that tackle gender barriers to entrepreneurship at local and national levels. This is a powerful case of inclusive systems design by recognizing that something as technical as an electricity provision system can either reinforce inequalities or help overcome them. By redesigning the system with input from women and marginalized entrepreneurs through designing affordable connection models, training programs, and equitable access to financing, the initiative created conditions where women could start and grow businesses rather than being left in the dark (literally and figuratively). Such efforts underscore that inclusive design is both social and technical, and it is about rethinking policies, infrastructure, and processes in tandem with empowering people. When done well, the outcome is not just a fairer system but a more innovative and resilient one. In the GSIEE case, drawing on the talents of women in the community leads to new businesses and economic growth, benefiting everyone.

A critical enabler of inclusive systems design is the involvement of SMEs and entrepreneurial actors (see Morris et al., 2015; Bruton et al., 2013; Tobias et al., 2013). Inclusive systems design hinges on engaging SMEs and entrepreneurs (Morris et al., 2015; Bruton et al., 2013; Tobias et al., 2013). Unlike large firms' performative DEI, resource-constrained SMEs often view such gestures as irrelevant or threatening (Hawksley, 2021). European SMEs cite limited time, budgets, and lack of formal HR as primary barriers (European Commission, 2015). However, their flatter hierarchies and inherent flexibility make them paradoxically better suited for authentic, non-performative inclusion (Koçyiğit and Akkaya, 2020; Arsawan et al., 2022). By leveraging these collaborative structures,

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SMEs can move beyond symbolic acts to gain true adaptive advantages (Arsawan et al., 2022).

Smaller and newer organizations often have greater agility to experiment with novel approaches and can embed values from the start, whereas large incumbents may be constrained by legacy structures. Moreover, SMEs collectively make up a huge portion of the economy and employment. According to the OECD (2023), empowering SMEs and entrepreneurs is crucial to sustainable and inclusive growth as these firms fuel innovation and competition and champion inclusion and represent the lifeblood of local economies and communities. In other words, inclusive progress at the macro level (society) partly depends on countless micro-level efforts by small businesses and start-ups that choose to innovate in inclusive ways. Entrepreneurial actors tend to have a bias for action and can often see opportunities where large bureaucracies see headaches. They can prototype solutions to inclusion challenges, whether it is a tech start-up developing an app for people with disabilities or a local small business proactively hiring and training people from historically marginalized neighborhoods. These bottom-up innovations accumulate into broader social change, especially if they can be scaled or replicated.

However, to fully leverage SMEs for inclusive design, supportive ecosystems are needed (see Klingler-Vidra, 2019). This includes access to funding for underrepresented entrepreneurs, mentorship networks, and policies that encourage inclusive business practices. It also means knowledge sharing: small firms should not have to reinvent the wheel in isolation. Communities of practice can help disseminate what works (and what does not) in inclusive innovation. Furthermore, this calls for a radical rethinking of knowledge itself, moving beyond questions of who gets to make authoritative knowledge claims, as Foucault might frame it, toward reimagining knowledge as communal rather than proprietary (Foucault, 1980). When knowledge about inclusive practices is treated as a shared resource rather than competitive intellectual property, SMEs and communities can collectively build upon each other's insights, accelerating transformative change. For example, one entrepreneur might pilot a new hiring practice to reach talent in overlooked communities; if successful, this model can spread to other businesses. Complex systems thrive on variation and selection; therefore, many ideas tend to be tried in parallel, which ensures that the effective ones spread. By having many SMEs experiment with inclusive strategies, we increase the odds of finding transformative approaches. The role of intention here is to set the direction and then encourage diverse actors to pursue it in their own

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contexts, learning and adapting as they go. It is a far cry from a top-down mandate; rather, it is more about cultivating a landscape of innovation and letting adaptation and self-organization do the rest.

It is also noteworthy that inclusive design is linked to resilience and long-term sustainability. When systems are designed to include those who have been historically marginalized, they often become more robust. This is partly because they tap a wider pool of talent and ideas, and partly because they build trust and legitimacy. For instance, a government service designed with input from all demographics will likely see higher adoption and less resistance, making the public system stronger. A McKinsey workshop on design recently underscored that inclusivity is not just a social imperative, but also a strategic way to build more resiliency into products and services (Tupe, 2023). Whether in business or public policy, designing for the full range of human diversity leads to solutions that can adapt to change and serve more people under more conditions. An inclusive product might, for example, work better for people with disabilities and therefore also be easier to use for everyone, the classic curb-cut effect. By contrast, designs that assume a narrow average user may fail disastrously when conditions shift or when taken up by a broader population.

4. Leadership in complex systems through distributed agency and emergent change: embedding DEI in SMEs' daily work

In a complex entangled system, agency is not centralized; it is distributed among many participants and even the environment itself (Emirbayer and Mische, 1998; Garud and Karnøe, 2003). This has profound implications for DEI. Traditional views might cast a few individuals (executives, HR leaders, etc.) as the primary agents of diversity and inclusion, responsible for driving initiatives. A complexity view, by contrast, sees every member of the system as an agent who influences, and is influenced by, others. Change emerges from countless micro-interactions, such as everyday conversations, decisions, and behaviors that collectively shape culture (Lichtenstein, 2000; Chiles et al., 2004; Baxter, 2011; Fairclough, 2014). No single actor can deliver inclusion by intention alone; it must be co-created by entire communities. Vaara et al. (2025) illustrate this in their study of an academic community, noting that the identity of the organization is not defined by its formal leaders' decisions, choices, or statements so much as by the discussions and debates about issues

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of concern for the community, through dialogic identity work. In other words, who we are (as an organization or community) is a product of ongoing collective dialogue and identity work, not just leadership edicts. Agency is circulatory, where leaders set tones and provide structures, but the community at large continually negotiates and redefines its norms and identity through interaction.

For SMEs, this distributed understanding of agency offers a particularly valuable pathway. Rather than investing in elaborate top-down DEI programs that may strain limited resources, SMEs can leverage their inherent relational proximity and collaborative ethos to create spaces for ongoing dialogue, team meetings where inclusion concerns are regularly surfaced, informal communities of practice where employees collectively problem-solve around equity issues, or routine reflective sessions where teams examine their own biases and behaviors. By positioning DEI not as a separate initiative but as an everyday practice embedded in how the organization talks, decides, and learns together, SMEs can mobilize the distributed agency already present in their communities. This approach acknowledges that meaningful inclusion emerges from the accumulated weight of daily micro-interactions and shared identity work, rather than from occasional diversity training or policy pronouncements alone.

This perspective highlights why inclusive change efforts must engage the whole system. If only a small subset of actors is tasked with DEI, the effort will be disconnected from the everyday ethos of the organization. Instead, everyone needs voice and agency in the process; this includes frontline employees, middle managers, clients, and stakeholders. When diverse voices are genuinely heard in shaping policies and practices, those practices are more likely to be adopted, refined, and reinforced at all levels. Distributed agency also means solutions can emerge from unexpected places. A grassroots employee resource group might pioneer practices that could be adopted by a community of SMEs, or informal conversations might surface tensions leading to creative inclusion strategies.

Complex systems often exhibit emergent properties, where outcomes that no single agent intended arise from their interactions. We see this in culture shifts; for example, a workplace may gradually become more open and accepting due to many small actions (stories shared, minor policy tweaks, mentoring relationships) that build on each other. The intention of inclusion, in this sense, must be woven into the fabric of interactions rather than implemented as a top-down program. Everyone's choices

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matter, but so do the feedback loops between individuals. As Gershenson and Heylighen (2005) suggest, a network of agents connected through many communication channels can spontaneously improve by learning from experience, as effective interactions get reinforced and ineffective ones fade out. This kind of self-organized learning is the holy grail of sustainable DEI; when inclusion becomes a self-reinforcing norm, not needing constant external enforcement.

However, such distributed learning is still slow and unreliable in typical organizations if left to chance (Gershenson and Heylighen, 2005). It works best when organizations consciously apply principles of self-organization and feedback, for instance, creating mechanisms for people to share experiences and best practices, or setting up systems that naturally connect those who have inclusion challenges with those who have solutions. In short, the role of leadership in a complex, entangled system is not to micromanage outcomes but to facilitate connections, remove barriers, and let the collective intelligence emerge.

5. Navigating paradoxes in DEI within the European SMEs

Embracing DEI as a core practice in a complex world also means embracing paradox (Smith and Lewis, 2011; Ferdman, 2017). Complex social systems are rife with persistent, contradictory demands that result in tensions that cannot be resolved at once but must be continuously navigated. European SMEs bring distinctive organizational features to this challenge, features that can both enable and complicate paradox navigation. Their relational embeddedness in local communities (Uzzi, 1997; Jack et al., 2008), flexible organizational structures (Welsh and White, 1981; Mintzberg, 1979), and often values-driven management approaches (Spence, 1999; Jenkins, 2004) create unique conditions for engaging with paradoxical tensions in DEI work.

Inclusivity itself often presents paradoxical tensions. For example, an organization might strive to be open and welcoming to all (inclusivity) while also having certain membership criteria or exclusive spaces to preserve cultural integrity or safety (exclusivity). Vaara et al. (2025) and Baxter and Montgomery (1996) identify inclusivity and exclusivity as one of several paradoxical tensions their community had to manage, describing it as identity work of balancing openness and closeness. For European SMEs, this paradox takes on particular dimensions given

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their typical rootedness in specific regional and cultural contexts. Many European SMEs, particularly those in craft-based or traditional sectors, carry forward localized knowledge systems and occupational identities that are simultaneously sources of community coherence and potential barriers to newcomers (Audretsch and Lehmann, 2005). The German *Mittelstand*, for instance, exemplifies organizations deeply embedded in their *Standort* or their specific location and regional ecosystem, where identity is tied to both local tradition and the capacity to innovate globally (Simon, 2009; Audretsch et al., 2018).

Such paradoxes are non-resolvable in the sense that there is no permanent solution, only a dynamic equilibrium where the needs on both sides are acknowledged and attended to over time. Here, the temporal orientation common to many European SMEs becomes relevant. Unlike publicly traded corporations facing quarterly earnings pressures, many non-listed European SMEs, particularly family-owned firms, operate with patient capital and longer time horizons (Berrone et al., 2012; Jaskiewicz et al., 2015). This temporal patience can support the sustained attention that paradox navigation requires, allowing organizations to experiment with integrative solutions over years rather than seeking immediate resolution (Lubatkin et al., 2005). Trying to eliminate the tension, for instance, by being singularly inclusive with no boundaries, or rigidly exclusive to preserve tradition, would undermine the system's health. Instead, the organization must learn to live in the paradox, using a both/and approach.

The both/and approach contrasts with the classical either/or logic (Jarzabkowski et al., 2013; Zhang et al., 2015). Instead of choosing between competing demands, leaders and community members seek integrative solutions or creative compromises that honor both sides of a paradox. The organizational structure of SMEs can facilitate this adaptive approach. With flatter hierarchies and greater proximity between management and employees (Kotey and Slade, 2005; de Kok et al., 2006), European SMEs often enable more direct dialogue across organizational levels. This structural informality, sometimes termed “organic” organization (Burns and Stalker, 1961), allows for the kind of improvisational coordination that paradox navigation requires. Inclusivity vs. exclusivity might mean being very inclusive in inviting participation and voice, while also recognizing the need for certain affinity groups or safe spaces for marginalized members to facilitate openness with mindful boundaries (Solebello et al., 2016).

Navigating paradox, the ability to hold competing demands in productive tension rather than resolving them into an either/or choice, is a skill of complexity mindset. It requires comfort with ambiguity and an understanding that conflicting values can coexist and even reinforce each other in the long run. European SMEs' resource constraints, paradoxically, can foster what Baker and Nelson (2005) call "bricolage", creative problem-solving by making do with what is at hand and recombining existing resources in novel ways. This bricolage capability, observed across European SME contexts (Senyard et al., 2014; Stinchfield et al., 2013), can translate into innovative approaches to DEI paradoxes, finding low-cost but culturally meaningful ways to honor multiple stakeholder needs simultaneously.

Research suggests that in pluralistic contexts, such as diverse communities or organizations, paradoxes are navigated through collective processes and leadership that can hold tension rather than force false choices (Denis et al., 2012). This often entails what Vaara et al. (2025) call collective leadership, essentially a distributed form of leadership where multiple people across levels engage in the sense-making and decision-making needed to address these tensions. The relational density of SMEs—where employees often maintain multiplex relationships spanning work and community life (Granovetter, 1985; Ram et al., 2001) can support such distributed leadership, though it can also make conflict avoidance more tempting when tensions arise.

A practical illustration is the tension between innovation and tradition, yet another common paradox particularly salient for craft-based European SMEs. An organization committed to equity might wrestle with how to honor long-standing cultural traditions and occupational practices to preserve continuity, while also changing practices that have excluded certain groups to instigate change. In European contexts, where many SMEs participate in institutionalized apprenticeship systems and sector-specific training regimes (Crouch et al., 2009; Thelen, 2004), such tensions connect to formal institutional structures beyond the individual firm. This is not solved by a one-time decree but by ongoing dialogue and perhaps adapting traditions in consultation with those who were previously marginalized, thereby creating new traditions that carry forward the spirit of the old in a more inclusive way. The embeddedness of SMEs in local labor markets and community networks means this dialogue necessarily involves external stakeholders, local schools, chambers of commerce, regional development agencies, making DEI work inherently relational and ecosystem-level rather than purely organizational.

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The key is a dialogic process, to enable continual conversations where stakeholders reflect, “Who are we? Who do we want to be? How do we include new voices while respecting our history?” Such identity work, as Vaara et al. (2025) emphasize, is central to managing paradoxes. Identity, be it organizational or individual, is not static, but is formed and reformed through these conversations. For European SMEs operating within distinct regional institutional contexts, from Nordic social democracy to Mediterranean familism to Rhineland stakeholder capitalism (Hall and Soskice, 2001; Amable, 2003), this identity work necessarily engages with broader questions of how firms relate to their institutional environments and what social purposes they serve (Spence, 1999). DEI becomes a core practice here in that maintaining a healthy identity in a changing world requires inclusive dialogue. The moment an organization stops engaging diverse perspectives in defining its path, it risks falling into stagnation or one-sided decisions that exacerbate tensions. Yet the very smallness and informality that can enable dialogue in SMEs can also become sources of insularity if not actively countered (Edwards et al., 2003; Marlow et al., 2010).

It is worth noting that these paradoxical tensions are not unique to any single organization; in fact, they are widespread in the entangled modern landscape. Moreover, such tensions intersect with broader trends. For example, an organization might simultaneously aim for inclusivity and sustainability and find that making progress on one raises challenges for the other, for instance, hosting an inclusive global conference versus reducing carbon footprint. For European SMEs navigating tightening environmental regulations while also addressing labor shortages and demographic shifts (European Commission, 2022), these intersecting paradoxes are lived realities rather than theoretical abstractions. This intersection of goals is exactly what an entangled world looks like, where everything is connected, and we must navigate multiple important values at once. DEI cannot be isolated from other system goals like economic viability or environmental responsibility as it is interwoven.

The hidden champions among European SMEs, firms that achieve global market leadership in specialized niches while remaining locally rooted (Simon, 2009), demonstrate that navigating such complexity is not only possible but can be a source of competitive advantage when done well. Hence, cultivating paradox navigation skills by embracing complexity, listening to differing perspectives, and finding adaptive responses, while attending to the specific organizational features, institutional contexts,

and resource realities of European SMEs, is a critical aspect of DEI as a core practice.

6. Conclusion: toward resilient and equitable futures

In an era defined by unpredictability, global interdependence, and rapid change, the principles of DEI are fundamental to resilience and adaptability for European SMEs. These firms comprising 99 percent of European enterprises and employing two-thirds of the continent's workforce face mounting pressures from demographic shifts, skills shortages, regulatory complexity, and sustainability demands. DEI initiatives ensure that SMEs have the requisite variety to handle shocks, the distributed agency to innovate locally, and the ethical grounding to unite stakeholders around shared purpose even amid paradoxical demands. Reframing DEI through the lens of complexity positions it as far more valuable than a corporate checklist item borrowed from large firm practice. Instead, it becomes a foundational practice for building diverse organizational cultures, developing cultural intelligence across often multigenerational workforces, and encouraging adaptive behaviors that help small firms navigate turbulence while maintaining their distinctive regional embeddedness.

To treat DEI as ancillary, a luxury for resource-rich corporations, is to cling to an outdated mode of thinking that separates people issues from business survival or imagines SMEs can thrive in isolation from their changing communities. Instead, a complexity-oriented mindset recognizes entanglement: SMEs' fates are intertwined with their local labor markets, supply networks, customer bases, and institutional ecosystems across time. Pursuing equity and inclusion is not a zero-sum distraction from competitiveness; it is integral to sustainable business continuity in aging, diversifying European societies. When SME leaders design inclusion into hiring, training, succession planning, and stakeholder engagement, they actively rewire organizational architectures to be more just and more robust. They future-proof their enterprises by building networks of mutual support and understanding with diverse talent pools, community partners, and market actors, networks that can withstand and adapt to demographic, technological, and economic shifts.

To be sure, this is challenging, reflective work that compels SME leaders to reconsider assumptions about control, tradition, and informality. It

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requires accepting that firms must often proceed without full certainty, learning as they go—an approach that aligns with the bricolage and improvisation already characteristic of SME management. It asks for humility, recognizing that owner-managers do not have all the answers, and for imagination in embracing both/and possibilities rather than false dichotomies between tradition and change, local rootedness and openness, efficiency and experimentation. It asks leaders to view workforce diversity as a source of collective intelligence that opens ways to see problems and solutions that homogeneous networks overlook, particularly vital for hidden champions seeking global niches while remaining locally anchored. It demands patience and persistence, because emergent cultural change in close-knit organizations can be slow before tipping points emerge.

Yet the reward is significant. European SMEs that commit to inclusive complexity by making DEI core practice position themselves to create resilient, equitable futures for their firms, employees, and regional ecosystems. Progress becomes measured not merely by growth metrics but by how well firms cultivate environments where diverse talents can thrive, contribute, and belong across generations. This is not utopian idealism but practical necessity. Europe's competitive advantage increasingly depends on SMEs' ability to attract talent in tight labor markets, serve diverse customer bases, and collaborate across difference in innovation ecosystems. These capabilities, by definition, require inclusive engagement.

Reframing DEI in this SME context is both a philosophical shift and a call to action. It is philosophical in challenging owner-managers and employees to rethink agency, tradition, and organizational identity as collaborative and emergent rather than static and top-down. It is a call to action in urging SME leaders, business associations, and policy actors to embed inclusion into everyday practice, not for virtue signaling but to harness the full complexity of human ingenuity in resource-constrained settings. By doing so, European SMEs align with their actual operating reality: deeply embedded in communities, unpredictably creative through necessity, enriched by regional diversity. Facing complexity requires changing ways of thinking; it must therefore change how SMEs build inclusive, thriving enterprises. The task, albeit difficult for small firms with limited formal structures, is nevertheless worthwhile—showing the path to truly sustainable and humane regional economies.

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