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## Competence Challenges and Strategies in Swedish Family SMEs – The Role of Industry Affiliation and Location\*\*

### Abstract

In recent decades, it has become increasingly difficult for rural firms to attract workers with specialised skills, and employment rates have decreased. A majority of rural firms are family SMEs. Family SMEs are, therefore, important contributors to employment in rural areas. In spite of this, little attention has been given to rural family SMEs in terms of competence management, geographical location and comparative industry affiliation. Thus, the aim of this qualitative multiple case study of two labour-intensive industries in Sweden is to explore how industry affiliation and geographical location affect competence management in rural family SMEs using the resource-based view. The findings show that irrespective of industry affiliation, rural family SMEs face similar competence challenges as a consequence of their rural setting, and the examined industries employ similar yet different strategies to moderate the negative effects of these competence challenges. Due to the scarcity of internal competencies, rural family SMEs rely on cooptation, local networks, and mutual industry-specific recruitment to make ends meet. The finding that rural family SMEs gain a competitive advantage by cooperating with competitors contributes to the body of knowledge regarding the resource-based view, where competitive firm resources are mainly managed internally in the firm.

Keywords: competence management, strategy, family SMEs, resource-based view  
(JEL: J2, J6, L6, L8)

### Introduction

One of the most valuable resources within a firm is employees who have the required skills and competencies to perform specific work tasks (Dibble, 1999; Manuti & Giancospro, 2019). Skills and competencies are considered to be valuable internal resources, and they are the foundation of firm strategy development (Grant, 1991; Kabue & Kilika, 2016). Consequently, competence strategies can steer firms in a certain direction as they aim to secure competencies and skills (Buck & Watson, 2002; Cloutier et al., 2015). However, in the last decade, researchers have observed a decrease in employment and a mismatch in available competencies,

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especially in rural areas (Keuschnigg et al., 2019; Nyström, 2021). In most European countries, rural labour markets have been marked by constant, rapid change in recent decades, which has led to a change in the nature of work in rural areas (Breitenecker et al., 2017; Lindsay et al., 2003). Today, the shortage of specialised competencies negatively affect the labour supply in rural areas, as many firms struggle to meet their competency needs (Nyström, 2021; Phillipson et al., 2019). Furthermore, recent research shows that workers with a higher education level and specialised skills and competencies are increasingly moving to larger cities (Bjerke & Mellander, 2017; Keuschnigg et al., 2019). As a result, workforce deficit are a general problem in the rural context (De Hoyos & Green, 2011; MacGregor, 2004; Phillipson et al., 2019). However, little attention has been given to determining whether challenges related to the workforce deficit and the strategies used to meet these challenges are industry- or location-specific (Bettinelli et al., 2014; Cucculelli & Storai, 2015; McAdam et al., 2019). Even fewer studies have been conducted regarding the workforce deficit in the most common corporate form in the rural context – the family SME.

Firms with a turnover lower than EUR 50 million, with less than 250 employees and with at least two people related by family who are involved in the management of the firm may be defined as family SMEs (European Commission, 2021; Kelley et al., 2020). Family SMEs constitute a majority of all firms operating worldwide, and they make a significant contribution to the global economy (Astrachan & Shanker, 2003; De Massis et al., 2020; Sharma et al., 2020). Worldwide, family SMEs are primarily established in rural settings, where they play an important role in the local community (Baù et al., 2018). Rural family SMEs are significantly tied to the community in which they operate, where they are seen as trustworthy, long-term employers and drivers of local business (Eddleston et al., 2010; Fletcher et al., 2012). With their unique characteristics (family-run with a focus on family values), they hold a special position in the local community (Cubico et al., 2017; Kelleci et al., 2019; Kellermanns et al., 2008). In Sweden, family SMEs are concentrated in the rural setting and account for approximately one-third of all employment in the country, which also makes SMEs significant contributors to the national economy (Bjuggren et al., 2011; Karlsson, 2018). However, a shortage of specialised skills, competencies and knowledge may jeopardise rural economic prosperity, as access to specialised skills and competencies is a prerequisite for equal access to the labour market (Ribeiro-Soriano, 2017; Ulrich, 2010).

As specialised skills and competencies are valuable resources for firms that can offer a competitive advantage, and a shortage of skills and competencies has resulted in a rural workforce deficit, it is valuable to outline how competencies and skills are acquired, managed and developed (Aldrich & Cliff, 2003; Basco et al., 2019; Danes & Brewton, 1985; De Hoyos & Green, 2011). In the resource-based view, competencies are considered as key resources within the firm (Barney, 1991; Kruesi & Bazelmans, 2022). However, if local access to competencies is scarce, firms may

need to find alternative ways to manage existing and potential competencies. As previous research has suggested, limited local access to competencies puts rural employment in jeopardy (Ribeiro-Soriano, 2017). The resource-based view suggests that resources that provide a competitive advantage are found internally within the firm (Barney, 1991). However, rural settings are associated with scarce internal resources due to a lack of local access to competencies (Karlsson, 2018). In this study, attention is drawn to how family SMEs in different industries and rural locations find solutions to the lack of access to competencies in the local area. The study investigates whether competence challenges faced by family SMEs are industry- or context-specific. As previous studies on rural family SMEs have mainly focused on employment (e.g., Karlsson, 2018), this study focused on the micro-level holistic approach of ‘competence management’, which includes not only the process of finding, attracting, or retaining employees but also finding, attracting and retaining knowledge and skills internally or externally (Delamare Le Deist & Winterton, 2005). et al., 2005). Thus, the aim of this study is to examine *if*, and in such cases, *how* different rural locations and industry affiliations affect competence challenges and strategies in rural family SMEs. To achieve this aim, three research questions guide the study:

*RQ1: What challenges are associated with competence management in rural family SMEs?*

*RQ2: What competence management strategies are used by rural family SMEs?*

*RQ3: How do industry affiliation and location affect competence strategies in rural family SMEs?*

## Theoretical Background

### The Resource-based View

According to the resource-based view, firm resources may be defined as the overall competitive assets of the organisation (Barney, 1991; Barney et al., 2021). However, the resource-based view also includes the perspective that the value of an organisation is limited by the amount of knowledge within it and how competitive resources are allocated within the firm (Grant, 1991; Kruesi & Bazelmans, 2022). The resource-based view focuses on the ability to identify internal competitive resources; however, it does not include externally acquired resources to a significant extent (Kruesi & Bazelmans, 2022). The concept of firm resources includes competencies, skills and knowledge and refers to the strategies an organisation develops to improve these resources (Barney, 1991; Barney et al., 2021). Within the resource-based view, competencies may be defined as “the training, experience, judgement, intelligence, relationships and insight of individual managers and workers in a firm” (Barney, 1991, p. 101). Additionally, unique firm resources, such as specialised

competencies, may generate an organisational competitive advantage within the given industry (Barney, 1991; Kruesi & Bazelmans, 2022).

From a resource-based point of view, strategy development can be described as the relationship between the firm's internal resources and the external business environment (Grant, 1991; Barney & Felin, 2013). The environment in which the firm operates creates threats and opportunities, which need to be managed by employing internal resources, competencies and knowledge (Grant, 1991; McGee, 2014). In a rapidly changing external business environment, the firm relies to a great extent on its internal resources, competencies and knowledge to guide strategy development. Thus, according to the resource-based view, internal resources and competencies constitute the foundation of firm strategy development (Habbershon & Williams, 1999; McGee, 2014). A firm may choose to develop in-house resources and competencies, though the expansion of resources and competencies is another route used to obtain a competitive advantage (Habbershon & Williams, 1999; McGee, 2014). The unique internal resources that family firms possess are sometimes referred to as 'familiness', where family values are intertwined with firm-specific resources (Habbershon & Williams, 1999, p. 1. In the resource-based view, family firms can be described as an integration between internal resources, values, and family relationships (Habbershon & Williams, 1999; Tokarczyk et al., 2007). However, little attention has previously been given to how family SMEs allocate their resources if internal competencies are scarce. The management or orchestration of existing or potential competencies and the strategies applied by family SMEs are crucial factors to consider when internal competencies are scarce (Kellermanns et al., 2008; Kruesi & Bazelmans, 2022).

The term family business refers to a complex environment in which the concepts of family and firm are intertwined, for example, in relation to values and family dynamics (Pötschke, 2020). This is even more evident in family SMEs than in larger family firms (Bird & Zellweger, 2018). The family SME consists of a smaller team of employees and has limited access to competencies, and the family spirit is thus even more noticeable (Bird & Zellweger, 2018; Kellermanns et al., 2008; Pötschke, 2020). As many family SMEs – especially in rural areas – are small, the team of employees and competencies in the organisation are even more important for the performance and longevity of the firm than they are in larger family firms (i.e., firms with more than 250 employees) (Baù et al., 2018; Heider et al., 2022). When competencies leave rural areas, it has a tremendous impact on firms operating in this context, especially SMEs, as they make up a large proportion of the firms in rural settings. According to the resource-based view, there is a recognition of "geographical and competency immobility", which refers to firm-specific resources and competencies that are tied to a particular geographical location (Grant, 1991, p. 126). This is applicable to family SMEs in the sense that their resources and competencies are tied to the area where they operate, and SME firms can seldom be operated remotely (Baù et al., 2018). The lack of local access to competencies due

to urbanisation means that family SMEs have fewer competencies from which to choose. The traits, resources and competencies of a family business are unique in a number of ways (Rovelli et al., 2021), and the way family businesses employ these is addressed in the following section.

### Competence Management

Delamare Le Deist and Winterton (2005) describe ‘competence’ as the holistic concept of incorporating knowledge and skills within a firm, as well as defining labour mobility. Additionally, competence management may be defined as the structured ways in which a firm invests in competencies, skills, and knowledge in order to fulfil and maintain the need for specific resources (Ward, 1988). Already in 1998, Hodgson observed and described an increasing need for more skilled staff and specialised competencies within firms. The increasing need for specialised competencies has resulted in a corresponding increase in competitiveness among businesses, organisations, regions, and countries (Hodgson, 1998; Man et al., 2008). Hence, the ability to find, attract, and retain specialised competencies and skilled labour within a firm is essential in order to achieve a competitive business advantage (Hodgson, 1998; Le Breton-Miller & Miller et al., 2006; Chua et al., 2018).

Resources are defined as all competitive assets, competencies, organisational processes and knowledge controlled by an organisation, and they enable the organisation to employ strategies that boost efficiency and effectiveness (Barney, 1991; Barney et al., 2021). Additionally, the ability to combine and reconfigure these resources requires an “ability to integrate, build and reconfigure internal and external competences to address changing environments” (Teece et al., 1997, p. 516). The retention of valuable competencies within the firm is essential for successful business performance (Erdogan et al., 2020; Freiling, 2004). It is, therefore, important for SMEs to use all of their resources wisely and to incorporate their competencies into their overall business strategy (Minovic et al., 2016). Thus, in today’s changing business environment, competencies are of great significance for obtaining a competitive advantage, especially for family firms (Chirico & Sirmon, 2011; Chua et al., 2018; Danes et al., 2008). However, in rural settings, the shortage of specialised competencies and skills has been identified as an obstacle to this (Nyström, 2021). The national or local context in which a firm operates can give rise to both differences and similarities in organisational behaviour (Piana et al., 2015). As an example, urbanisation in Sweden has accelerated at a rapid pace in recent decades and has made it more and more difficult for firms to find specific competencies. It has been observed that firms that operate in a rural setting, especially family SMEs, apply strategies different from those of firms in an urban setting (Phillipson et al., 2019). In a rural setting, the supply of specialised competencies is limited to the local context (Bjerke & Mellander, 2017). The low population density in rural areas limits the recruitment pool and thus makes it difficult to find candidates with the

necessary level of specialisation (De Hoyos & Green, 2011; Piana et al., 2015). Nevertheless, the demand for essential specialised competencies is not lower in rural settings than in urban settings (Karlsson, 2018; Keuschnigg et al., 2019).

### Competence Strategy

Even though competencies, knowledge, and skills are seen as highly important assets in a firm, they are often neglected (Barney & Wright, 1998; Dlouhy & Casper, 2021). Previous research shows that firms prioritise cuts to payroll and related costs when budget cuts are necessary (Barney & Wright, 1998). The strategy of reducing costs by cutting payroll and knowledge within the firm is common practice and widely adopted (Barney & Wright, 1998; Dlouhy & Casper, 2021). However, this can create additional problems, as specialised competencies and skills are important factors in achieving a competitive business advantage (Koch & McGrath, 1996).

One strategy firms use is to further develop in-house resources and competencies (Zellweger, 2017; Barney, 1991). Competence development is an example of a strategy employed by firms, especially family firms, to retain valuable competencies within the firm (Moreira et al., 2022; Zellweger, 2017). Due to the long-term commitment of family firms, competence development is considered to be a rather 'safe' way of investing in competence (Zellweger, 2017). Another strategy firms use to secure specialised competencies, skills, and knowledge is to hire short-term employees or seasonal staff (Ainsworth & Purss, 2009; Guillaume et al., 2019). This can be a way to strategically prolong a seasonal business activity or to expand projects within the firm (Ainsworth & Purss, 2009; Guillaume et al., 2019). A third strategy used to secure specialised competencies or skills is to cooperate with other competing firms, i.e., *coopetition* (Guenther et al., 2022; Walley, 2007). Coopetition processes in rural settings have been the subject of previous studies, as this particular setting often requires cooperation between local firms (Corbo et al., 2022; von Friedrichs Grängsjö, 2003). For rural SMEs, the need for cooperation, or coopetition, is even greater than for larger firms (Corbo et al., 2022; Morris et al., 2007). Cooperation and coopetition are strategies firms use to manage the challenges linked to the shortage of specialised competencies and skills (Gast et al., 2017).

Furthermore, it has been observed that the difficulty in finding specialised competencies vary between different industries (Aynalem et al., 2016; De Hoyos & Green, 2011). The specific industry in which the (family) SME operates affects its ability to find, attract and retain specialised competencies in the long term (Hauswald et al., 2016; Melin et al., 2014; Zellweger, 2017). Only a few previous studies have examined how specialised competencies are found and retained, with a focus on different industries operating in the rural context (Backman & Palmberg, 2015; Bettinelli et al., 2014; Freiling, 2004). These studies have mainly focused on macro employment levels rather than competencies in family SMEs. The studies have

shown that depending on industry affiliation, different strategies are needed to meet different needs. The manufacturing industry and tourism industry are two labour-intensive industries widely represented in rural settings (Boter & Lundström, 2005; Bryden & Bollman, 2000; Kallmuenzer & Peters, 2018; Nilsson et al., 2007). Therefore, these industries not only influence the local labour market and the demand for specialised competencies, but they are also significant drivers of local development (Bryden & Bollman, 2000; Kallmuenzer & Peters, 2018). Industry affiliation may also have an impact on competence management (see Aynalem et al., 2016; De Hoyos & Green, 2011).

On an organisational level, family firms, and family SMEs in particular, behave differently from other firms (Hauswald et al., 2016). Still, no previous studies have outlined how family SMEs strategically manage a shortage of competencies in relation to industry affiliation and geographical location. Rural settings may affect a firm's ability to recruit qualified employees (Backman & Palmberg, 2015). Different industries may have different needs regarding strategy development, and the rural context may present different prerequisites for business operations depending on geographical location (Kallmuenzer & Peters, 2018). Therefore, this study investigates the complex relationship between competence challenges, strategies to meet these challenges and the link between industry and geographical location.

### Case Study Design and Analysis

To address the topic of how competence resources are allocated and managed by rural family SMEs and to investigate the lived experiences of these firms, qualitative multiple case studies are applied (Yin, 2014). The study includes four cases in rural Sweden. The resource-based view is applied as an analytical tool to explore this topic.

### Sample

This study was based on primary data, applying a qualitative comparative perspective of the dataset, where a multiple-case perspective was applied to illustrate several levels of data analysis. The choice of a qualitative multiple-case study was based on the value of "identifying important processes in an industry-specific, family firm context" (De Massis & Kammerlander, 2020, p. 63). The study applies a comparative perspective between two labour-intensive industries (the manufacturing industry and the tourism industry) in two entrepreneurial regions of Sweden – Jämtland and Småland. Prior to collecting data through structured interviews, four cases were set up to guide the study. These four cases were defined as I) the manufacturing industry in Jämtland/north (\*Case 1: MN), II) the manufacturing industry in Småland/south (\*Case 2: MS), III) the tourism industry in Jämtland/north (\*Case 3: TN), IV) and the tourism industry in Småland/south (\*Case 4: TS). These four cases were set up to explore whether industry affiliation (manufacturing/tourism)



and geographical location (north/south) affect competence management challenges and strategies in rural family SMEs. Both the manufacturing industry and the tourism industry are labour-intensive industries and are especially present in rural areas (see Boter & Lundström, 2005; Bryden & Bollman, 2000; Kallmuenzer & Peters, 2018; 2017; Nilsson et al., 2007). Jämtland and Småland are two regions located in the north and south of Sweden, respectively, that include multiple rural areas known to have a high concentration of family SMEs and an entrepreneurial spirit (see Business Gnosjöregion, 2022; SCB, 2022; Swedish Agency for Economic and Regional Growth, 2022; Wigren, 2003). Jämtland and Småland counties are both known as expansive entrepreneurial regions, with high demands for specialised competencies (see Region Jämtland Härjedalen, 2021; SCB, 2022; Swedish Agency for Economic and Regional Growth, 2022). At the same time, these two regions are subject to high regional emigration, where people are moving away to find work (Region Jämtland Härjedalen, 2021; Swedish Agency for Economic and Regional Growth, 2022). This study explores this phenomenon further to increase knowledge about how this problem is managed among family SMEs. The perspective includes northern and southern Sweden in order to be more representative since SMEs in various industries may use different strategies depending on their regional context (Artz et al., 2016; Stearns et al., 1995). In general, rural areas of Sweden are characterised by a large number of family SMEs, which also inspired the focus on rural areas in this study (Andersson et al., 2021). The definition of rural (in contrast to urban) in the present study is based on the following criteria: low population density, remote geographical location, or few registered firms (Lye & Cowling, 2015). Family SMEs are not only the largest contributor to the national economy, but they are also the greatest source of income in Sweden (Andersson et al., 2017; Bjuggren et al., 2011). The competency needs of rural family SMEs are also a concern from a broader, national political perspective (Karlsson, 2018; Swedish Agency for Economic and Regional Growth, 2020). The supply of specialised skills and competencies is seen as a prerequisite for equal access to the labour market (Ribeiro-Soriano, 2017; Ulrich, 2010). Thus, a shortage of specialised skills, competencies and knowledge can jeopardise rural economic prosperity.

## Data Collection

Four cases were set up prior to identifying eligible firms and conducting data collection. Within the four cases, 20 firms were identified according to the following criteria: I) family-owned SME, II) operating in the manufacturing industry or the tourism industry and located in either Jämtland or Småland, III) geographically spread throughout both regions and operating in different branches within the two selected industries. Thus, 20 firms were identified according to each category in the criteria. The family SMEs included in the sample were chosen through snowball sampling, in which one firm was identified, leading to another suggested



firm (De Massis & Kammerlander, 2020). To identify the first case, local networks within the relevant industries were approached. The first case identified was chosen because of its representability in relation to the criteria of the study. The criteria guided the search and resulted in the selection of 20 family SMEs in rural Sweden. The owners then engaged in in-depth structured interviews. Ten interviews were dedicated to each industry and each region, which equates to five interviews in a particular industry and region.

**Table 1. Sample Description.**

SAMPLE OVERVIEW			
INTERVIEWEE CODE	NUMBER OF EMPLOYEES	FAMILY-OWNED SINCE	DESCRIPTION OF FIRM
<b>CASE 1 (MN*): MANUFACTURING INDUSTRY NORTH</b>			
MN-A	30	1989	Mechanical component production enterprise
MN-B	13	2003	Engineering tool production enterprise
MN-C	55	1991	Steel construction and production enterprise
MN-D	10	1990	Wood, glass, and joinery enterprise
MN-E	24	1925	Aluminium production enterprise
<b>CASE 2 (MS*): MANUFACTURING INDUSTRY SOUTH</b>			
MS-A	56	1950	Timber production and sawmill enterprise
MS-B	74	1907	Contractor and asphalt paving enterprise
MS-C	30	1958	Sand and gravel enterprise
MS-D	39	1949	Mechanical component production enterprise
MS-E	10	2005	Glass production enterprise
<b>CASE 3 (TN*): TOURISM INDUSTRY NORTH</b>			
TN-A	10	2004	Hotel, nature, and tourism enterprise
TN-B	10	1999	Nature and sports activities enterprise
TN-C	20	1999	Food crafts and gastronomy enterprise
TN-D	12	1949	Ski equipment shop and ski production enterprise
TN-E	10	1969	Woodcrafts, hospitality, and hotel enterprise
<b>CASE 4 (TS*): TOURISM INDUSTRY SOUTH</b>			
TS-A	112	1963	Hotel, spa, golf, and conference enterprise
TS-B	32	2009	Experience centre and resort enterprise
TS-C	26	1993	Restaurant, bakery, and events enterprise
TS-D	14	1967	Nature experiences and outdoor enterprise
TS-E	12	1990	Sports and tourist activities enterprise

*Note.* \* MN = Manufacturing Industry North, MS = Manufacturing Industry South, TN = Tourism Industry North, TS = Tourism Industry South.

The interviews were conducted in the autumn of 2019, using an interview guide consisting of 30 structured questions. The interviewees were given the opportunity to reflect on their own lived experiences regarding competence challenges and strategies. Questions asked included ‘How do you perceive your ability to recruit new employees to your firm?’, ‘How would you describe the opportunities to

recruit employees in the geographical area where your firm is located?’ and ‘Which strategies do you use to find and attract competencies/employees to your firm?’. In the table below (Table 1), an overview of the four cases is presented.

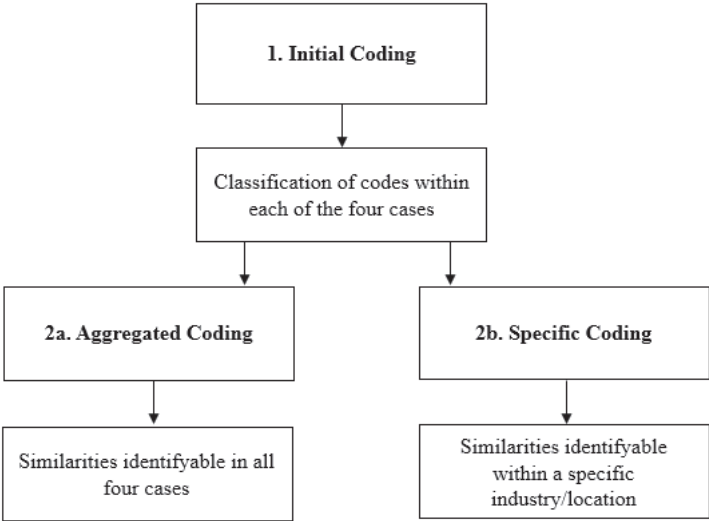
### Data Coding and Analysis Process

The interviews were transcribed from audio format, and selected interview excerpts were translated from Swedish to English. Previous research has suggested that comparative analysis is beneficial when analysing interviews (Berg, 2009). In the data analysis process, the interviewees were anonymised in order to generate deeper knowledge about competence challenges and strategies. A theme-based approach was then applied to analyse the collected data (see Neale & Nichols, 2001). The categorisation of codes in the interviews was carried out using the qualitative analysis software program NVivo 12 Plus. In NVivo, codes are identified as nodes (see Paulus et al., 2017; Richards, 1999). Coding is done by selecting text related to different themes from, for example, structured or semi-structured interviews (see Paulus et al., 2017; Richards, 1999). Words or phrases are extracted from the dataset in order to identify meaningful patterns or structures (see Alam, 2021). Data analysis was thus performed through the identification of themes and similar quotations in the interviews. Firstly, initial coding was conducted, which refers to the placement of quotations according to study themes (competence challenges and strategies) within the four cases (MN, MS, TN, TS). Secondly, aggregated coding versus specific coding was conducted, which refers to the distinction between overarching and general themes in all four cases and in which themes are specific according to industry and/or location.

Figure 1 presents an outline of the data analysis process. The resource-based view has guided the data analysis process in the sense that quotations and phrases were extracted relating to how rural family SMEs use resources and competencies and what kind of resources and competencies they use. First, the initial coding was done by categorising quotations from each firm in each case. Secondly, the specific coding versus the aggregated coding was done by searching for quotations or phrases that could either be associated with one of the specific industries in the study or that were applicable to all four cases. In this way, industry-specific or location-specific competence challenges or strategies were identified. In this final coding step, it was also possible to determine whether certain competence challenges and strategies were applicable to all four cases. The categorisation was made through the identification of shared patterns in quotations from the interviewees. If similar quotations or phrases were detected in the interview material, these were categorised as industry-specific, location-specific, or overarching in all four cases. Based on the interview questionnaire and the qualitative data analysis process, it was possible to identify several competence challenges and strategies related to family SMEs operating in the rural context. Using NVivo, the qualitative analysis process was conducted by identifying different nodes, quotations, and themes in the dataset.

The nodes, quotations, and themes were identified through the topics addressed in the interviews and the responses provided by the interviewees. The focus of the analysis was to identify challenges and strategies related to rural competence management in the two industries studied: manufacturing and tourism.

**Figure 1. Data Analysis Process (inspired by Jackson & Bazeley, 2019).**



**Empirical Analysis and Findings**

**Competence Challenges**

Competence challenge nodes and quotations were identified in the manufacturing industry (Case I (MN), Case II (MS)). The following table (Table 2) presents direct quotations (derived from the total dataset) from the interviews in which competence challenges in the manufacturing industry were addressed:

Table 2. Competence Challenges in the Manufacturing Industry.

	Identification of Competence Challenges
Case I (MN)	<p>“It will presumably become more difficult for us to find the competencies we need in the coming years due to the fact that people are moving away from the region”. (Respondent MN-A)</p> <p>“It is quite difficult to find skilled workers due to our geographical position. We have already employed all the local competency there is to be found in the region”. (Respondent MN-E)</p> <p>“We have started to see a challenge in recruiting employees. In our geographical area, there are no employees to be found. It is extremely rural”. (Respondent MN-D)</p> <p>“The region in which we operate has already been scanned for competency. There is no one left to hire”. (Respondent MN-C)</p> <p>“It is really difficult to find relevant and skilled workers and competence. We have major problems with that. I would say that the entire industry has a general competency problem”. (Respondent MN-B)</p>
Case II (MS)	<p>“Several industry-specific education programmes in the region have closed down, which means that it is more difficult for us to find the skilled staff that we need now than it used to be”. (Respondent MS-B)</p> <p>“It is extremely important not to steal employees from other firms within the region. However, it is extremely important to recruit within the region since that means keeping local skilled labour in the region. That is important for us as a business, as well as for the development of the region”. (Respondent MS-A)</p> <p>“This started about 3 years ago when several of our especially skilled workers retired. We said to ourselves: What shall we do now?” (Respondent MS-C)</p> <p>“One thing is for sure – nowadays, it is more difficult to find competence in repairing and maintenance because the systems have become more and more complex”. (Respondent MS-D)</p> <p>“We have difficulties in finding and attracting specialised competencies, as it is directly industry specific. It is a very narrow niche”. (Respondent MS-E)</p> <p>“People usually do not have the ambition to move to this rural area. However, it is impossible to work in this firm remotely. Besides, we cannot compete with the salaries offered in larger cities. That makes it difficult to attract competencies”. (Respondent MS-C)</p> <p>“If the area in which you operate as a firm is too small or too rural, there is a risk that there will be constant relocation or emigration of the workforce. And that results in fewer competencies to choose from when recruiting. Furthermore, it means that the local area loses its appeal, and it is more unlikely that you will be able to find the necessary skills or competence. It is all a downward spiral. And our industry is more or less dependent on the growth of the local area”. (Respondent MS-A)</p>

One of the challenges manufacturing interviewees reported in relation to competence management was difficulty finding and attracting competencies due to the firm’s rural geographical location. This is evident both in the north and south regions of the sample. The interviewees expressed the importance of and challenges related to local recruitment, where skilled competencies are scarce in the rural context. The interviewees describe their situation as a downward spiral, where retirement or the emigration of competencies leaves rural areas with less skilled labour to choose from in the recruitment process. Another challenge identified in the interviews is a lack of local education programmes for specialised competencies.

Partly similar challenges are identified in the tourism industry. The following table (Table 3) illustrates the competence challenges identified in the tourism industry:

**Table 3. Competence Challenges in the Tourism Industry.**

	Identification of Competence Challenges
<b>Case III (TN)</b>	<p>"It is not easy to find the skilled employees we need, and it has a lot to do with our geographical location. It has a lot to do with the geography". (Respondent TN-B)</p> <p>"One problem is that people do not train to work in the hotel or restaurant industry anymore. This means that there are less skilled workers available for us". (Respondent TN-C)</p> <p>"We see that a lot of people who apply for positions in our firm are not really interested in working here when it comes down to it". (Respondent TN-A)</p> <p>"In general, we are only interested in hiring someone who is willing to live here locally. It is simply not possible to work remotely from another place or to commute". (Respondent TN-A)</p> <p>"I believe that the competence that we have here in the area is already here, so to speak. People do not move here – they move away". (Respondent TN-D)</p>
<b>Case IV (TS)</b>	<p>"It is becoming more and more difficult to find people with the specific and relevant competencies needed. Several of our employees are due to retire soon. I believe that our business will face extensive problems a few years from now. It was easier to find skilled workers a few years ago". (Respondent TS-B)</p> <p>"It is definitely not easy to find skilled labour. However, that is not because we are a family-owned firm but is more related to our geographical location". (Respondent TS-E)</p> <p>"We have trouble finding competence or skilled staff to work in the restaurant". (Respondent TS-C)</p> <p>"Generally speaking, finding staff for the kitchen or restaurant is quite difficult. This, I believe, has to do with the geographical location of our firm". (Respondent TS-A)</p> <p>"The entire industry is screaming for specifically skilled competence. And the staff must be able to fit into the hospitality industry in order to work here. There has to be a passion for hospitality". (Respondent TS-C)</p>

The main challenge identified by the SMEs within the tourism industry is similar to that of the manufacturing industry, that is, the competence challenges resulting from the rural geographical location. Retirement and relocation are other challenges related to the competence shortage in the SMEs within the tourism industry. Another challenge identified is a lack of skilled labour in the restaurant sector.

The main challenges associated with competence management in the total sample are identified as the rural geographical setting, extensive retirement, emigration of competencies and lack of local education programmes for specialised competencies. In response to challenges relating to competence management, the manufacturing industry and the tourism industry have both adopted a number of proactive strategies to address competence problems.

Competence Strategies

In the data, several strategies are identified in relation to competence management in the manufacturing industry. The following table (Table 4) presents quotations from the interviews in which competence strategies in the manufacturing industry were addressed:

Table 4. Competence Strategies in the Manufacturing Industry.

	Identification of Competence Strategies
Case I (MN)	<p>"We educate staff internally. It is very important for us to continuously develop the competence we already have within the firm". (Respondent MN-A)</p> <p>"The internally provided competence education is an essential part for us". (Respondent MN-B)</p> <p>"We have participated in several projects relating to directed specific training programmes through the Swedish Public Employment Service, which has given quite rewarding results". (Respondent MN-E)</p> <p>"Sometimes we have been more or less forced to take in subcontractors to meet our need for certain competencies. Or we have shared competencies with other firms in the area". (Respondent MN-D)</p> <p>"We educate competence internally within the firm. For example, we recently trained two people within the firm to program a robot. We also rotate skilled workers internally between different machines". (Respondent MN-C)</p>
Case II (MS)	<p>"We have found employees mainly by recruiting locally. When it comes to certain key competencies that are difficult to find in the region, we must share these with competing firms in the area. They are well sought after, which demands that we are willing to collaborate". (Respondent MS-A)</p> <p>"There are some competencies that are essential and in high demand, which means that they are difficult to find or expensive to recruit. In those cases, we share these competencies with competing firms in the area. These competencies are necessary if an entire production or supply chain breaks. Those types of control systems require specific competencies". (Respondent MS-C)</p> <p>"If we have connections in the area, we use those to recruit, but the last person we hired was actually a family member who had attained the required skills through training". (Respondent MS-B)</p> <p>"We try to hire family members to a large extent because they are quite loyal. I mean, we expect them to stay within the firm for a lifetime". (Respondent MS-D)</p> <p>"I believe that we have an advantage as a small local firm, as we can absorb competence in the local or regional area. For maintenance staff, we hire with short-term contracts". (Respondent MS-E)</p>

Strategies adopted by rural family manufacturing SMEs include further developing in-house competencies through competence development and education and training initiatives. This can be seen for SMEs in both the north and south of the sample. Another strategy that manufacturing SMEs adopt is to recruit family members, which is largely related to mutual trust and shared values. A third strategy adopted to meet competency needs is to recruit via the Swedish Public Employment Service or to recruit locally. A fourth strategy is to use short-term contracts

or subcontractors. A fifth strategy to meet competency needs is cooptation (i.e., collaboration among competing firms). This is more evident in the manufacturing industry in southern Sweden.

The tourism industry experiences nearly identical challenges when it comes to competence management. SMEs operating in this industry use a variety of proactive strategies to address their competence challenges. The following table (Table 5) illustrates competence strategies adopted in the tourism SMEs:

**Table 5. Competence Strategies in the Tourism Industry.**

	Identification of Competence Strategies
<b>Case III (TN)</b>	<p>"Periodically, when we have more employees, we apply hourly or short-term contracts". (Respondent TN-A)</p> <p>"It is 55 kilometres to the nearest village, and there, the population is approximately 80 people. But last summer, we actually hired a person from there". (Respondent TN-B)</p> <p>"We hire through advertising in the Swedish Public Employment Service system. And that sometimes works". (Respondent TN-E)</p> <p>"For us, it is important to hire someone who can blend into the team and the firm spirit – the family spirit. It is very important that we can trust the person". (Respondent TN-D)</p> <p>"About half of the people working for us are employed all year round, and the other half are seasonal staff". (Respondent TN-C)</p>
<b>Case IV (TS)</b>	<p>"Every year, we engage in competence development within the firm. There are always new and updated guidelines and competencies to learn more about". (Respondent TS-B)</p> <p>"We use short-term contracts, as it is a good way to avoid having the main responsibility for employees. However, this type of employment is volatile. It does not generate a safe or stable working environment, so to speak". (Respondent TS-A)</p> <p>"Sometimes we hire someone and train that person internally. Although, that is extremely costly". (Respondent TS-E)</p> <p>"Some positions that we have within the firm are entry-level jobs that are valuable to some for getting a foot in the door". (Respondent TS-C)</p> <p>"We operate within an industry that is highly seasonal. Therefore, the seasonal staff are, of course, extremely important". (Respondent TS-D)</p> <p>"Most of the people that we have hired to work in the kitchen are immigrants. Almost none of the staff in the kitchen speak any Swedish". (Respondent TS-A)</p>

The interviewees in the tourism industry identify several strategies related to competence management. One strategy is to use hourly or short-term contracts, which reportedly provide a short-term solution to the immediate need for specialised competencies, though this does not solve the long-term problems associated with competence shortages. This is observed in the data for the tourism industry in both the north and south regions of the sample. Another strategy closely related to the above-mentioned strategy is to employ seasonal staff, which is reported to be advantageous in situations where firms wish to prolong a season or fill the gaps to meet a specific seasonal competence need. A third strategy is to advertise for staff via the Swedish Public Employment Service. A fourth strategy used in tourism



SMEs is internal competence development, which is similar to the strategy adopted in the manufacturing industry.

The main competence management strategies expressed in the total sample are identified as hiring employees on short-term contracts or as seasonal staff, developing internal competencies, hiring family members, using cooptation, and finding potential competencies through the Swedish Public Employment Service.

The following model (Figure 2) summarises the empirical findings in the total sample. The figure describes the findings in terms of competence challenges and strategies among rural family SMEs in relation to industry affiliation and geographical location:

**Figure 2. Description of Empirical Findings Regarding Competence Challenges and Competence Strategies in Relation to Industry Affiliation and Geographical Location (Both on Aggregated and Specific Levels).**

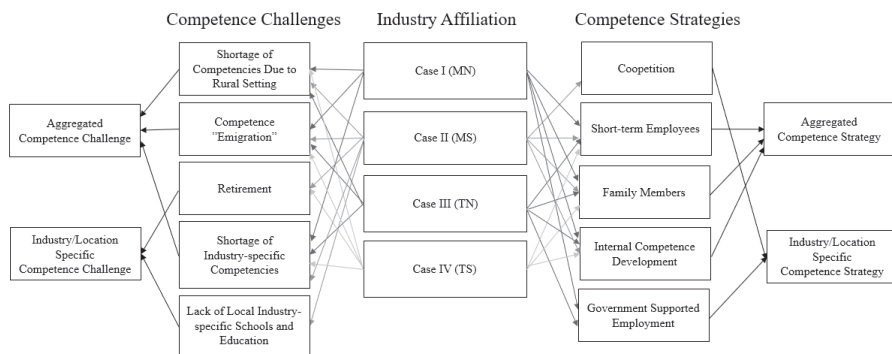


Figure 2 illustrates the challenges associated with allocating and accessing competence resources and the strategies used to overcome these challenges. The arrows signify which competence challenge and competence strategy is related to each of the four cases included in the study. The competence challenges reported by family SMEs are managed by using different strategies and resources. The resources used are acquired both internally and externally due to the rural location of the family SMEs. This means that as a complement to the classic approach of the resource-based view, where firms use their internal resources to obtain a competitive advantage, rural family SMEs also seek competencies externally in order to meet their unique competence challenges.

According to the findings of the present study, rural family SMEs face unique competence challenges. The main challenge expressed by the interviewees is the rural context in which the firms operate. The rural context has limited competencies to offer, and rural family SMEs are thus required to use innovative strategies to meet their competence needs. The shortage of competencies in the rural setting is an

aggregated theme, which means that this competence challenge is expressed in all cases – both across industries and geographically (north and south). Interviewees in both the manufacturing industry and the tourism industry express difficulties in finding, attracting, and retaining competencies due to their rural geographical location. The interviewees from the manufacturing industry express difficulties in competing with the salaries offered by urban firms. Another competence challenge expressed in all four cases is competence “emigration”, which means that competencies are moving away from the area in which the firms operate. This challenge is also expressed at the aggregated coding level, which means that it is present in both industries and in both the south and north of Sweden. A shortage in competencies due to retirement seems to be more of an issue in the south of Sweden, and it is an issue in both industries. A shortage of industry-specific competencies is seen as an aggregate challenge, as it is largely present in both industries and in both geographical locations. A lack of local industry-specific education programmes is mainly seen as a challenge in the southern manufacturing industry.

## Discussion

The empirical findings of the present study show that the rural context gives rise to a number of competence challenges, which have partly also been established by previous studies (e.g., Nyström, 2021). The empirical findings show that the geographical location of a rural family SME impacts competence management in a negative way, as it often means access to fewer potential employees with specialised skills during recruitment. This finding confirms previously established results (e.g., Karlsson, 2018; Keuschnigg et al., 2019; Bjerke & Mellander, 2017). However, another complicating issue related to the rural setting is that rural family SMEs’ competencies are largely tied to a specific geographical area, and as a result, the work within the firm cannot be done remotely. This has partly been mentioned in previous research by Grant (1991, p. 126), where “geographical and competency immobility” is observed. Thus, small firms operating in a rural context are particularly tied to their geographical setting in terms of resources and competencies. The present study shows that limited access to competencies is one of the main factors that affect competence management and strategies in rural family SMEs.

According to the empirical findings, industry affiliation plays a role in the competence strategies used in rural family SMEs. Some of the expressed competence strategies are similar between the two industries. The manufacturing SMEs use cooptation as a strategy to meet the need for specialised competencies, which supports the results of several previous studies (e.g., Guenther et al., 2022; Walley, 2007). Tourism SMEs, on the other hand, do not cooperate with their competitors to the same extent. This could mean that the two industries have different needs for diversified competencies. As a complement to the resource-based view, which focuses on protecting internal firm resources, rural family SMEs also seek out exter-

nal resources in the local area to meet their need for competencies, for example, through cooptation and industry-specific recruitment.

The findings show that there is a high degree of competition in rural areas to find, attract, and retain specialised competencies, which has been observed as a general challenge in previous research (e.g., Bjerke & Mellander, 2017). The strategy of internal competence development refers to the development of in-house competence (Zellweger, 2017), and this strategy was observed in both industries, as was the strategy of recruiting through the Swedish Public Employment Service. Hiring family members is a natural part of the family business concept and strategy (Kellermanns et al., 2008). Family members tend to share common values, and the firm is characterised by mutual trust and long-term commitment (Eddleston et al., 2010; Fletcher et al., 2012; Heider et al., 2022). However, if an SME only employs family members, a competence deficit may arise in terms of specialised skills and staff with the right training or education, as previous research has shown that specialised competencies are more likely to be found externally than within the family (Hauswald et al., 2016). Thus, a family SME may choose to search for external employees outside the family in order to find specialised competencies, though this is difficult in a rural setting.

The present study also shows that short-term contracts are applied in both industries in order to meet the challenges of competence management in the rural context. Short-term employment has also been shown to be a useful strategy in rural settings in previous research (e.g., Ainsworth & Purss, 2009; Guillaume et al., 2019). Furthermore, interviewees from both industries state that there are challenges connected to rural competence ‘emigration’. Interviewees in the manufacturing industry are particularly concerned with the shutdown of local industry-specific education programmes, which in previous years have supplied their industry with specialised competencies. According to the interviewees, the industry-specific education programmes have become overly theoretical, which is not in line with the competence needs of the respective industry.

## Conclusions

This study aimed to examine how industry affiliation and location affect competence challenges and strategies in rural family SMEs. Based on the results, it is possible to conclude that industry affiliation is not a significant factor in relation to competence challenges or strategy in rural family SMEs. A majority of the competence challenges these firms face, and the competence strategies they use are similar in both industries and geographical locations. However, the competence challenges related to a lack of local industry-specific education programmes and the competence strategy of cooptation seem to only affect the manufacturing industry. There are observable challenges connected to limited access to competencies in the rural context. Interviewees from rural family SMEs report difficulties in finding, at-

tracting, and retaining competencies due to their rural location, which has also been confirmed in previous studies (e.g., Bjerke & Mellander, 2017; Karlsson, 2018; Keuschnigg et al., 2019; Nyström, 2021). The conclusion that rural family SMEs are increasingly struggling to meet their competency needs due to limited access to competencies in the rural setting is a valuable insight and practical implication for public policymakers, as rural competence management is a prerequisite for local and national economic prosperity (Breitenecker et al., 2017).

The strategies that rural family SMEs use to manage competence challenges can primarily be associated with a short-term perspective. This is rather alarming, as rural family SMEs are considered important contributors to employment and the economy both from a rural and national perspective. This contradicts previous research, which found that family SMEs are characterised by a long-term commitment (Cubico et al., 2017; Kelleci et al., 2019; McAdam et al., 2019). As shown in previous studies, family SMEs tend to carefully select their employees due to their family spirit and values, and this may restrict external recruitment (Baù et al., 2018). One possible conclusion could be that when it comes to competencies, rural family SMEs are characterised by a long-term commitment but a short-term strategy. Thus, it can be argued that industry affiliation and location affect which competence challenges and strategies are present in rural family SMEs, although competence challenges and strategies are similar regardless of industry affiliation. It is rather the rural location, not industry affiliation, that presents competence challenges and dictates the strategies used by the family SMEs. This study complements the resource-based view – which focuses on internal resources – by adding the theoretical implication that rural family SMEs address competence scarcity by seeking out competencies externally, for example, through cooperation strategies.

### Limitations and Further Research

This study was carried out using a sample of family SMEs in two specific industries in northern and southern Sweden for comparison. In this study, the focus is on the owners of family SMEs; however, further studies may benefit from including the employee perspective. Additionally, this study may well be followed up by using a quantitative approach or a larger sample for even richer data. In order to further explore whether the identified competence challenges and strategies are contextually bound to rural Sweden or are related to the fact that these firms are family-owned, further studies may be conducted in non-family-owned firms, as well as in more urban areas.

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