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**DIVERSITY AND SMES:
EXISTING EVIDENCE AND POLICY TENSIONS**

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Ethnic minority-owned businesses (EMBs) are a diverse and changing group that comprise long-established communities and new migrants from a wide range of countries. They constitute around 8 per cent of the small firm population.

EMBs make important contributions to the UK economy, including: between £25 billion and £32 billion to the economy per year; regeneration of declining sectors and places; catalysts for transnational trading links; and the integration of new migrants.

The challenges facing EMBs are complex, but relate mainly to: access to finance, their concentration in particular sectors and markets, and the limited attention to management skills.

- Access to finance: There is a growing consensus on three key points: poor credit outcomes for particular ethnic groups, notably Black Africans and Bangladeshis; standard risk factors rather than direct discrimination explain variation between different ethnic minority groups; ethnicity remains an explanatory factor for discouragement, particularly for Black Caribbean firms.
- Access to markets: Many EMBs owners are subject to structural disadvantage arising from the market sectors into which they are concentrated. This is a feature that applies to many ethnic minority groups, and is a pattern that is recurring amongst new migrant communities.
- Access to management: Ethnic minorities are increasingly well credentialised and a growing presence in 'non-traditional' sectors such as IT, pharmacy and the media. Nonetheless the mismatch between qualifications and self-employment occupation persists. Further, EMBs face management challenges if they are to diversify into higher value-added sectors.

Women comprise about 20 per cent of the UK's 4.8 million enterprises and about 30 per cent of the UK's self-employed population. Collectively, women-led businesses annually contribute an estimated £70 billion to the British economy.

Gendered employment patterns are a key explanation of differences in self-employment. Nearly 40 per cent of male self-employment is in the construction sector. Increases in female self-employment have occurred as a consequence of the growth of the personal and other services and the expansion of private practice among the liberal professions.

The main challenges confronting women entrepreneurs are similar to those faced by ethnic minority entrepreneurs, and relate to: access to finance, access to markets; and the effects of the initial resource constraints on business growth.

- Access to finance: women-led businesses perceive higher financial barriers, start with lower levels of overall capitalization, use lower ratios of debt finance, are much less likely to use private equity or venture capital, and are more likely to be discouraged borrowers. There is almost no evidence of supply-side discrimination, but substantial concerns that demand-side debt aversion is more pronounced among women.
- Access to markets: women-led businesses are typically smaller and often located within services sectors, so access to markets may be constrained than is observed among male-led enterprises.

- Access to management: Studies demonstrate that, given the same starting resources, business performance by gender does not differ. However, women-owned enterprises typically start with lower levels of resources.

Four tensions characterise debates on policy and diverse SMEs.

First, to what extent are the outcomes of diverse enterprises a product of discrimination or a reflection of complex social, economic and institutional factors?

Second, successive governments have tried to boost self-employment among women and ethnic minority groups; but should greater emphasis be accorded to *qualitative* business development?

Third, there is continuing debate on the desirability of mainstream approaches to business support versus more specialist interventions for diverse enterprises.

Finally, the extent to which there is *market failure* in the support provided to diverse enterprises is still a matter of debate.

The programme of future work undertaken by the Enterprise Research Centre within the diversity work-package comprises three main strands: understanding the drivers and barriers of entrepreneurial growth in under-represented groups; understanding the connection between households and the decision to finance and grow diverse businesses; and mapping and activating support for diverse business networks through the Enterprise Diversity Alliance (EDA).