Diversity and SMEs: Existing Evidence and Policy Tensions

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# Diversity and SMEs

## Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive Summary</td>
<td>4</td>
</tr>
<tr>
<td>1. Introduction</td>
<td>7</td>
</tr>
<tr>
<td>2. Ethnic Minority Owned Businesses</td>
<td>7</td>
</tr>
<tr>
<td>2.1 The Context of Disadvantage</td>
<td>8</td>
</tr>
<tr>
<td>2.2 Money</td>
<td>9</td>
</tr>
<tr>
<td>2.3 Markets</td>
<td>10</td>
</tr>
<tr>
<td>2.4 Management</td>
<td>11</td>
</tr>
<tr>
<td>3. Women Owned Businesses</td>
<td>12</td>
</tr>
<tr>
<td>3.1 Explaining Female Under-Participation in Enterprise</td>
<td>13</td>
</tr>
<tr>
<td>3.2 Money</td>
<td>16</td>
</tr>
<tr>
<td>3.3 Markets</td>
<td>17</td>
</tr>
<tr>
<td>3.4 Management</td>
<td>19</td>
</tr>
<tr>
<td>4. Policy Tensions</td>
<td>20</td>
</tr>
<tr>
<td>4.1 Discrimination: perception or reality</td>
<td>20</td>
</tr>
<tr>
<td>4.2 Quantity versus quality</td>
<td>21</td>
</tr>
<tr>
<td>4.3 Mainstream versus specialist provision /institutions</td>
<td>22</td>
</tr>
<tr>
<td>4.4 Market failure</td>
<td>23</td>
</tr>
<tr>
<td>5. Future work</td>
<td>24</td>
</tr>
<tr>
<td>NOTES</td>
<td>27</td>
</tr>
</tbody>
</table>
Diversity and SMEs

Executive Summary

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.
Diversity and SMEs

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.
Diversity and SMEs

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)
Diversity and SMEs

1. Introduction

The purpose of this White Paper is to present an overarching review of the evidence that currently exists with regard to diversity and SMEs. It outlines longstanding concerns that entrepreneurial activities and ambitions are restricted to a narrow range of social groups, with others, in particular some ethnic minority groups and women, characterised as having both lesser interest in enterprise and lower levels of resources necessary to participate. Attempts to increase participation rates of under-represented groups have resulted in only modest changes. This White Paper introduces the key evidence relating to ethnic minority and women-led enterprises, explaining the context of each group, and summarising research evidence relating to their relative access to finance, markets and management.

Research and policy within the field of diversity and SMEs is characterised by a number of tensions, relating to perceived or real discrimination; whether to promote a volume of new businesses or focus on high growth potential firms; whether specialist business support is more effective or desirable than mainstream provision; and whether there is evidence of market failure in the support provided to diverse enterprises.

2. Ethnic Minority Owned Businesses

Ethnic minority-owned businesses (EMBs) are a complex and rapidly changing group of enterprises that include long-standing communities, notably South Asians and African-Caribbeans, and comparatively new arrivals from Eastern Europe and Africa. They constitute around 8 per cent of the small firm population\(^1\); the figure rises significantly in the main urban areas, notably London, Birmingham, Manchester and Leeds. While the term 'ethnic minority business' is a convenient way of describing enterprises owned and managed by ethnic minorities, and is the term adopted in this paper, it is important to be cautious in its use. Ethnicity should not be taken as the defining characteristic of such businesses; and one should recognise that many EMBs do not wish to be so defined,
Diversity and SMEs

eschewing the ethnic label. Such firms merit recognition both for the challenges that they face and the contributions that make. The challenges, although wide-ranging, relate mainly to access to finance, the often narrow markets and sectors that EMBs serve, and the limited attention to management issues. Contributions include: between £25 billion and £32 billion to the economy per year, revival of declining sectors and places, conduits for transnational trading links, and adaptation of new migrants. Many of these non-economic contributions are difficult to capture. Yet there can be little doubt that they are pivotal to the functioning of local economies and are an important means of promoting social integration.

2.1 The Context of Disadvantage

Many EMB owners are subject to structural disadvantage arising from the market sectors in which they are concentrated. While this applies broadly to all ethnic minority identities in the UK, it operates with special force in the case of South Asians, over-concentrated as they are in some of the most problematic markets.

1) Small Retailing is an easy-to-enter area, making relatively modest demands on capital and expertise and hence highly popular with under-resourced immigrant entrepreneurs. Consequently supply outlets have tended to out-run market potential, creating excessive competition and market saturation, stifling the earning capacity of competing businesses. Heightening this problem is exposure to fierce competition from corporations, a process particularly acute in lines like food retailing, a massively important source of livelihood for South Asian shopkeepers. Though this is also a problem for African-Caribbean and Chinese entrepreneurs, their exposure is less acute because of their lesser concentration in shop-keeping. Indeed African-Caribbean self-employment is not only much smaller than South Asian but also much less restricted to disadvantaged sectors.
Diversity and SMEs

2) Catering in the form of restaurants and take-away food outlets is another major specialisation for South Asians and even more so for Chinese entrepreneurs, whose concentration in this trade is truly intense\textsuperscript{11}. Once again, this sector is exposed to corporate competition in the shape of restaurant chains and other large scale players. Moreover the fast-growing social trend of eating out has attracted a myriad of competitors from every conceivable ethnic origin. For the most part, however, the most intense competition faced by South Asians and Chinese is with one another, a surfeit of catering outlets succeeding in over-crowding even this rapid growth market\textsuperscript{12}.

3) Clothing Manufacture Since the 1980s, the out-sourcing of this traditional activity to the developing world has been partially interrupted by the entry of South Asian and (in London) Turkish entrepreneurs. In this field structural disadvantage springs from the fact that UK producer firms are in direct competition with low cost labour in the developing world, with only the rather weak asset of geographical proximity operating in their favour. In the present century, overseas competition has ratcheted up still further, notably with the growing role of Chinese producers. Not surprisingly, survival has been increasingly precarious and dependent on extreme cost-cutting measures, sometimes even requiring non-compliance with minimum wage requirements\textsuperscript{13}. Coupled with this, their customers are mostly large scale high street retailers, whose terms and conditions tend to be disadvantageous\textsuperscript{14}.

2.2 Money

Access to finance is often cited as one of the most significant barriers facing EMBs. Ethnic minority groups tend to have widely divergent experiences, with the African-Caribbean business community finding it most difficult to access start-up capital. Large-scale investigations provide the most detailed explanations of this variation to date. Fraser’s study, based on large and representative data sets, drew three key conclusions\textsuperscript{15}. 
Diversity and SMEs

First, credit outcomes were worse for entrepreneurs from particular ethnic groups. For example: Black African firms were more than 4 times as likely as White firms to be denied a loan outright, Black Caribbean firms 3.5 times as likely, Bangladeshi firms 2.5 times as likely, and Pakistani firms 1.5 times as likely. Indian firms had a slightly lower loan denial rate than White firms. Discouragement was highest amongst EMBs than for White firms with 44 per cent of Black African, 39 per cent of Black Caribbean, 31 per cent of Bangladeshi, 21 per cent of Pakistani and 9 per cent of Indian firms compared to 4 per cent of White firms reporting that fear of rejection had meant they had not applied for loans.

Second, standard risk factors (for example, age of business, financial track records) rather than direct discrimination accounted for discrepancies between different ethnic minority groups. “The analysis of loan denials and interest rates points to differences in creditworthiness, not ethnic discrimination, as the probable explanation for poorer EMB credit outcomes.”

Finally, ethnicity remains an explanatory factor for discouragement, particularly for Black Caribbean firms and, to a lesser extent, Indian firms, after removing the effect of other explanatory factors such as poorer credit worthiness. Given the finding that there is no direct ethnic discrimination, this observation suggests that there are misperceptions of discrimination; this points to the importance of improving engagement and information flows between banks and EMBs.

2.3 Markets

Obvious but easily overlooked is the simple truth that, without a viable volume of custom, even the most expertly managed and richly capitalised firm is unable to earn a livelihood. Certainly the initial wave of policy-based EMB surveys tended to pay more attention to lack of financial and human capital than to lack of markets. While it is important to emphasise that markets are closely inter-dependent with these two forms of capital, it is
Diversity and SMEs

equally vital not to over-stress the latter at the expense of the former. Whatever the rationale, the need to drum up custom proved a stern challenge at the outset for immigrant newcomers searching for market space amid a deep-rooted thicket of incumbent native firms.

As well as taking over abandoned premises and customers from retiring native white businesses (the vacancy chain), EMB firms, especially South Asian retailers, were also powerfully driven by their own co-ethnic communities with their demand for Asian food, clothing and other ethnocultural artefacts. This was supplemented by demand for non-specific items purchased fellow Asians from a combination of ethnic loyalty and neighbourhood proximity. It has occasionally been argued that the comparatively slight volume of Black Caribbean retailing at that time stems from a lack of this ethnic customer particularism.

From the 1980s, Asian and other ethnic minority retailers have increasingly spread out into more expansive white residential markets. Increasingly this has caused a shift towards non-ethnic general purpose necessities, with food retailing and newsagents in the vanguard. In these low profit lines commercial survival is often a struggle based on painful labour intensiveness. Ultimately it might be argued that exposure to unequal competition from giant corporations is the paramount threat to small EMBs; and that their future prospects depend upon diversifying into markets higher up the value-added chain. It hardly needs stating that such a break-out requires financial and human capital on a scale as yet unavailable to most EMBs.

2.4 Management

Access to appropriate skills and expertise is key factor in the viability of EMBs. Evidence from the USA reveals a close connection between the possession of higher level qualifications and the development of ‘emerging’ business lines (that is, new business sectors like media, information technology [IT] and engineering). Black African-American graduates are
Diversity and SMEs

more like to be found in these sectors than their Korean counterparts, who tend to cling on to traditional niches.

Three trends are evident in British studies. First, EMBs are increasingly to be found in non-traditional sectors (notably, pharmaceuticals, IT and the media), and run by highly-credentialised owners. The possession of higher level skills creates opportunities to engage in knowledge-based entrepreneurial activities where knowledge is a primary asset and a source of competitive advantage. One study of the international trading activities of British Indians and British Chinese entrepreneurs shows the close connection higher level skills and the development of knowledge-based businesses.

Second, there is a lengthy and persistent history of mismatch between qualifications and occupation in the field of self-employment with highly qualified individuals in activities completely unrelated to their specialised expertise. Recent studies of new migrant business repeat this finding.

Finally, the ‘break-out’ or market diversification that is often called for in policy discourse is heavily dependent on the adoption on more strategic deployment of labour. This is likely to require a re-direction of the proprietors' efforts, if not a more substantial change in their role. This can be challenging for the many EMBs that operate on a tight budget with little paid assistance. Labour intensification is often a feature of EMBs that have diversified, something which is evident in ethnic minority suppliers to large organisations.

3. Women Owned Businesses

There is considerable concern that the low rates of participation by women in entrepreneurship constitute a major ‘gap’. Women’s enterprise can be difficult to precisely define and enumerate, but it is estimated that about 20 per cent of the UK’s 4.8 million enterprises are women-led and that women comprise about 30 per cent of the UK’s self-employed population. Despite
Diversity and SMEs

many initiatives to increase the number of women in enterprise, men are still almost twice as likely to start businesses as women\textsuperscript{30}. While the under-representation of women in entrepreneurship is an international concern\textsuperscript{31}, relative to other high income countries, particularly the US, UK rates of female business ownership are persistently low\textsuperscript{32}. The scale of the UK enterprise ‘gap’ is illustrated by estimates suggesting that an additional 150,000 businesses would be created if rates of business ownership among women were the same as men, and an additional 900,000 businesses would be created annually if the UK had the same rates of women’s business ownership as in the US\textsuperscript{33}.

Although attention has focused on women’s lack of participation in entrepreneurship in the UK, the contribution of women-led businesses to the British economy is likely to be substantial; estimates suggest that women-led businesses contribute £70 billion GVA and turnover £130 billion\textsuperscript{34}. However, most female entrepreneurship is undertaken within traditionally female occupational sectors, such as personal services, much is undertaken in a part-time capacity, and more women than men use their home as a business base\textsuperscript{35}. Research evidence suggests a bimodal profile of male-owned and female-owned businesses with regard to size, age, income and other performance measures\textsuperscript{36}; however, the extent and causes of female ‘under-performance’ have been subject to extensive debate\textsuperscript{37}.

3.1 Explaining Female Under-Participation in Enterprise

Because the UK lacks gender disaggregated data sources, the evidence base of women’s business ownership depends on Labour Force Survey self-employment data and small-scale surveys. Both sources confirm that while women are still in the minority, there are signs that growing numbers of women are participating in enterprise.

A key explanation of female under-participation in enterprise lies in the persistence of highly gendered sectors and occupations, such as
Diversity and SMEs

construction and skilled trades, in which apprenticeships lead large numbers of men into self-employment. The construction sector accounts for 30 per cent of male self-employment, but just 3 per cent of female self-employment\(^{38}\). The skilled trades account for 15 per cent of male employment and 39 per cent of male self-employment, but just 2 per cent of female employment and 7 per cent of female self-employment\(^{39}\). A similar effect can be seen within the occupational category process and machine operatives which accounts for 12 per cent of male employment and 10 per cent of male self-employment, but just 2 per cent of female employment and 3 per cent of female self-employment. Together, the two occupational groups of skilled trades and process and machine operatives account for 49 per cent of total male self-employment, but just 10 per cent of female self-employment. Female self-employment is more apparent within public administration, education and health (27 per cent of female self-employment), banking, finance and insurance (24 per cent of female self-employment), other services (20 per cent of female self-employment) and distribution, hotels and restaurants (17 per cent of female self-employment).

Analyses of self-employment trends by sector and occupation highlight the links between employment and self-employment, and demonstrate that gendered employment patterns are reproduced among the self-employed\(^{40}\). Male self-employment is fuelled by occupational choices which steer men into traditional skilled trades, in particular apprenticeships within the building trades that lead a relatively high proportion into self-employment. In contrast, women’s occupational choices steer them towards administrative and public service occupations where conversion into self-employment is a less obvious outcome. Gendered divisions within employment are a key explanation of the differing levels of male and female self-employment.

Increases in female self-employment may occur over time as a consequence of two different trends. First, the growing number of women entering the liberal professions such as accounting, law, medicine and
Diversity and SMEs

Veterinary science has the potential to lead more women into self-employed private practice\textsuperscript{41}. Self-employed women are generally better educated, with 34 per cent of women educated to degree-level compared with just 21 per cent of self-employed men. In contrast, 29 per cent of self-employed men, compared with 20 per cent of self-employed women, have GCE A-levels or equivalent as their highest qualification. Self-employed men are nearly twice as likely as self-employed women to have no qualifications (11 per cent compared with 6 per cent)\textsuperscript{42}. Second, the rapid expansion of the personal services sector may also provide a clear route whereby women can convert more easily from employment into self-employment.

Because studies of entrepreneurs typically focus only on the individual, it is easy to overlook the important role of family and household members in starting and running a business. While women constitute only a minority of business owners and the self-employed, these statistics disguise the much wider participation of women in businesses either co-owned by men and women, often as marital partners, or where men are majority owners\textsuperscript{43}. For example, Small Business Survey data from 2012 shows that 19 per cent of businesses with employees were women-led and a further 23\% of businesses were co-owned by men and women, suggesting that 42 per cent of businesses with employees are at least 50 per cent women-owned.

Studies of entrepreneurial households demonstrate that an individual is more likely to become self-employed if their spouse is in paid employment\textsuperscript{44}. It is notable that the growth of business ownership by men over the past thirty years broadly coincides with the growth of women’s participation in the labour market. Within two partner households, the regular wage or salary income and fringe benefits of employment earned by one partner provides financial security to the household, allowing the other to pursue their entrepreneurial ambitions. Hence, employment undertaken by a household member can be viewed as a subsidy to entrepreneurship as it removes the burden of household income generation. While evidence of household subsidies to entrepreneurship has
mainly focused on self-employed women ‘subsidiized’ by employed spouses\(^45\), it is likely that male entrepreneurship is also ‘subsidiized’ by female employment. Indeed, given the relatively higher rates of male self-employment, a female employment subsidy to male entrepreneurship may be more common\(^46\).

### 3.2 Money

Access to finance is regarded as the major obstacle preventing women from starting and growing a successful enterprise. Although access to finance appears to be gender neutral, women perceive higher financial barriers\(^47\) and are more likely to be discouraged borrowers\(^48\). Sources of finance for male and female led businesses are very similar, but studies show that women-owned businesses start with lower levels of overall capitalization, use lower ratios of debt finance, and are much less likely to use private equity or venture capital. There is also evidence that initial under-capitalisation, which is more likely to be experienced by women-owned businesses, has a long term effect constraining future business growth prospects\(^49\).

There are three main explanations for gender-based differences in finance usage.

1. **Structural dissimilarities** - differences in finance usage between male and female owned businesses are most often explained as a product of differences in business size, age and sector\(^50\). While this appears to explain much of the difference, it is not a complete explanation. Studies using matched samples of men and women report residual gender-based finance differences even after structural factors have been controlled\(^51\). Importantly, one recent study also suggests the presence of second-order gender effects in US small business borrowing costs, arguing that “the ‘gendering’ of structure is itself a gender effect”\(^52\).

2. **Supply-side gender discrimination** - although there have been high profile accusations of gender discrimination by lenders\(^53\), there is
Diversity and SMEs

virtually no evidence to support this claim. While some, now rather
dated, studies conclude that supply-side practices may inadvertently
disadvantage women business owners54 and others report higher levels
of customer dissatisfaction among women55, the weight of evidence
suggests that differences in finance usage are not the result of systemic
supply-side gender discrimination56.

3. Demand-side risk aversion - apparently higher levels of risk aversion
among women are seen not only in their reluctance to assume the
burden of business debt, but also in their reluctance to engage in fast-
paced business growth57. Debt aversion among women entrepreneurs,
often conceptualised as a quasi-psychological characteristic, is as likely
to be rooted in socio-economic factors: women’s comparatively lower
earnings in employment are reproduced among the self-employed58.

3.3 Markets

Little is known about the relative access to markets among women-led
businesses in the UK, and this lack of data prevents estimation of the scale
of the issue. However, given that women-led businesses are typically
smaller and often located within services sectors, it may be assumed that
access to markets is more constrained than is observed among male-led
enterprises. International efforts to support women’s access to markets
through corporate supplier diversity programmes also suggest that this
could be a significant issue. In the US, WE Connect International, a
corporate-led non-profit organization, is one of the leading proponents of
market access for women-led businesses, whose mission is to connect
women business owners to corporate members that collectively represent
US$700 billion in annual purchasing power.

In the US, greater attention has been afforded to the collection of gender-
disaggregated data on women-led firms, and the strength of US leadership
in promoting women’s business ownership and their collective market
importance is instructive. A recent analysis of US census data reported
Diversity and SMEs

8.34 million women-owned enterprises generating nearly $1.3 trillion in revenues and employing nearly 7.7 million people. Between 1997 and 2012 the number of women-owned enterprises in the US increased by 54 per cent, compared with the national average of 37 per cent, and the number of women-owned enterprises rose by 200,000 in 2011 alone, equivalent to just under 550 new women-owned enterprises per day.

Women-owned firms in the US were found to be just as likely as all firms to generate in excess of half a million dollars in revenues annually in two industries: construction, where turnover in 13 per cent of women-owned firms and 11 per cent of all construction firms was more than $500,000 per year; and in transportation and warehousing, where 6 per cent of each are generating $500,000 or more in revenues. Women-owned firms were also found to exceed overall sector growth rates in seven of the 13 most populous (largest by number of businesses) industries: wholesale trade; finance and insurance; other services; real estate; health care and social assistance; construction and arts, entertainment and recreation.

These remarkable figures illustrate three key issues relating to women’s business ownership. First, they mask rather more prosaic trends within the US. Women-owned enterprises in the US account for 29.2 per cent of all enterprises – up from 26 per cent in 1997, 6.3 per cent of employment (down from 6.8 per cent in 1997) and 3.9 per cent of sales revenues (4.4 per cent in 1997). By comparison, men-owned enterprises account for 50.7 per cent of all enterprises – down from 54.6 per cent in 1997, 33.8 per cent of employment (42.1 per cent in 1997) and 27.4 per cent of sales revenues (35.8 per cent in 1997).

In short, there has been a clear growth in the number of women-owned enterprises in the US, but progress has been both less dramatic and less linear than is often portrayed. Second, they illustrate how strong investment in research and advocacy and the presence of influential lobbying by women’s business groups has provided a continual stream of evidence and an accompanying narrative regarding the economic importance of women’s participation in enterprise. Third, they demonstrate the availability of gender-disaggregated enterprise data.
Diversity and SMEs

within the US, an area in which the UK policy and research communities are severely constrained.

3.4 Management

The performance of women-owned enterprises has been a focal point for policy development and academic debate, as studies have consistently demonstrated that women-owned firms are typically smaller, over-represented within service sectors, more likely to be part-time and to operate from a home-base\(^{64}\). In a debate described as ‘the female under-performance hypothesis’, studies have sought to explain the profiles of women-owned enterprises, linking business ownership with broader feminised working patterns, arguing that the performance potential of women’s businesses is constrained by specific socio-economic influences which position their firms in particular gendered spaces\(^{65}\).

Despite the heat generated by this debate, surprisingly little rigorous research has been undertaken on the issue of gender and business performance. Although many studies make some mention of it, most shy away from direct examination of quantitative performance measures. However, two different studies based on the Australian federal government’s Business Longitudinal Survey (BLS) concluded that given the same starting resources in the form of financial and non-financial capital, women-owned businesses perform equally well as male-owned businesses. The initial study extended previous research which tended to focus only on gender differences in performance outcomes, by relating performance outcomes to appropriate input measures. After controlling for industry, age of business and the number of days a business operated, no significant differences between male-led and female-led businesses were found with respect to total income to total assets, return on assets or return on equity\(^{66}\). Later analysis of three consecutive years of the BLS dataset similarly found that ‘consistent statistically significant differences in financial performance and business growth do not exist between female and male
Diversity and SMEs

owner-managed concerns once appropriate demographic and other relevant controlling influences are taken into account. These studies clearly conclude that, given the same starting resources, business performance by gender does not differ. However, in practice, women-owned enterprises typically start with lower levels of resources than male-owned enterprises – and consequently appear to ‘under-perform’. Nevertheless, the evidence is clear: observed differences in performance at the aggregate level are a consequence of differences in resources rather than a lack of managerial competencies.

4. Policy Tensions

4.1 Discrimination: perception or reality

The extent to which discrimination constitutes a barrier for EMBs manifests itself in three key areas. The first relates to the business-entry decision, where a series of studies illustrates the prevalence of ‘necessity entrepreneurship’ amongst EMB owners in the UK. Comparatively high levels of self-employment amongst certain ethnic minority groups should, therefore, not be viewed as an unqualified indicator of upward social mobility. Second, research on access to finance has contributed to a consensus on the view that the divergent experiences of EMBs are attributable to business reasons rather than direct discrimination. However, the perception of unequal treatment continues to linger, and is a continuing concern for finance and policy professionals. Finally, perceptions of inequality have also been noted in studies of EMBs attempts to supply large organisations. For women, debates about potential discrimination centre on relative access to and cost of finance. While differences in finance use and costs between male and female owned businesses are mainly explained as a product of structural differences in size, age and sector, new research based on the US National Survey of Small Business Finances suggests a
Diversity and SMEs

closer examination of the relationship between gender and structure may be timely. A fuller understanding of the relationship between gender of ownership and the structural dimensions which lead to higher borrowing costs, and the extent to which gender and structural dimensions may be coterminous, would help alleviate persistent concerns regarding access to and cost of borrowing.

4.2 Quantity versus quality

It is important to consider both the quality as well as the quantity of businesses of different ethnic minorities and more nuanced motivations for setting up businesses. Ethnic minority entrepreneurship has been marked by a contradiction between the quantitative expansion of businesses run by some groups, notably South Asians, and its low quality in respect of profits, turnover and other performance indicators. The consequences of quantitative proliferation are such that notions of ‘under-representation’ and simplistic policy invocations to become self-employed should be questioned. The US experience of focusing on encouraging well-credentialised minority entrepreneurs in high value added sectors is instructive in this regard.

Discussions of the female enterprise ‘gap’ typically illustrate the under-participation of women using dramatic comparisons with male rates of entrepreneurship, a position contested by critics who point to the inherent problems of encouraging women into self-employment within already crowded, competitive and low value sectors. In this regard, debates over quantity or quality of women-owned businesses echo similar debates within ethnic minority entrepreneurship. However, by focusing on women-owned and male-owned enterprises, a label not often used by entrepreneurs themselves, the debate masks the substantial role of the household in supporting both male-owned and female-owned enterprises. Although business and household have been traditionally regarded as separate spheres, there has been a growing realization that the two institutions are inextricably linked, coupled with persuasive calls to embed
Diversity and SMEs

entrepreneurship research within the context of the family\textsuperscript{76}. Household support for enterprises can be seen both in the initial decision to start in business and in providing financial support to the business, at least in its early years. Discussions about quantity and quality of women-owned enterprises may be less important than understanding why and under what circumstances households facilitate business start-up of both men and women.

4.3 Mainstream versus specialist provision /institutions

There is a dilemma about how to respond to the needs of ethnic minorities. On the one hand, there is a danger of ethnic managerialism where issues are viewed through the prism of ethnicity to the exclusion of other factors that may be equally or more important. Ethnic managerialism can represent a technocratic management solution to racism/ethnicity which is fraught with difficulties and likely to have unintended consequences leading to new forms of exclusion\textsuperscript{77}. On the other hand, the ‘ethnic blind’ or ‘mainstream’ approach ignores the significance of ethnicity as an important variable when dealing with issues. The coalition Government’s effective retreat from publicly-funded business support has had major implications for this debate since it has led to the demise of institutions that had endeavoured to support EMBs and other diverse groups\textsuperscript{78}.

Discussions about mainstream or specialist provision for female start-ups and women-led businesses centre on two issues. First, there is well-founded concern about the extent to which women wish to engage with specialist institutions. Many women, especially those already within established businesses, view the prospect of women-only business support mechanisms with great reservation. Second, there is an equally well-founded concern that mainstream support particularly that which is offered to businesses identified as high-growth firms, in practice excludes women-led businesses as relatively few are able to meet the thresholds for inclusion in many of these selective programmes and initiatives. In this
Diversity and SMEs

regard, gender-blindness may be disadvantageous to women-owned firms which are typically smaller in scale.

4.4 Market failure

It is important to ascertain that there is a market failure that justifies the provision of specialist business support for ethnic minorities and for women. It may be that ethnic minorities do not take up business support to the expected extent for a variety of reasons: for instance, they may fear contact with official/government agencies, particularly if they are concerned about their immigration status as in the case of refugees and asylum seekers; or such provision does not exist in their country of origin and they do not see the relevance of the provision to them\(^79\). In the case of EMB in the UK, there most certainly is an imbalance between supply and market demand, a distortion which is most extreme among South Asian outlets near the bottom of the value-added chain. Here easy-to-enter market sectors tend to be over-crowded by a surfeit of firms frantically competing for insufficient market space. Once again this raises the ever-recurrent question about quantity versus quality and provides an emphatic restatement of arguments about encouraging too many new starts\(^80\).

Discussions about how best to support the growth of women’s participation in enterprise and the existence of gender-based market failure have been largely conflated with much wider debates about the role of women in the economy. These debates encompass relatively modern concerns about the need to introduce gender-based quotas on the boards of publicly listed companies, the ‘leaky pipeline’ of women in STEM industries, as well as the persistent discussions about the relative social importance of economically inactive, stay-at-home mothers. The conflation of complex and overlapping issues has been unhelpful in delineating a clear view of the existence of market failure in women’s entrepreneurship. The paucity of research is similarly unhelpful in this regard. While some studies suggest that starting one’s own business provides individuals with the means to avoid work-place discrimination and glass ceiling thresholds, more critical
Diversity and SMEs

studies argue that the context of female self-employment simply reproduces gendered outcomes coupled with relative impoverishment. The lack of a clear evidence-base has prevented systematic analysis of whether market failure exists and if so how best it may be addressed.

5. Future work

This cross-cutting research theme explores the drivers of business growth, specifically the quality and role of human, social and financial resources, and the barriers to business development and growth among diverse social groups. 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

The first strand of work entails mining existing datasets to improve the evidence base of diverse groups. This will include a fine-grained analysis of the SME Finance Monitor and Understanding Society, a longitudinal household panel survey. Published data from the SME Finance Monitor suggests many variables of interest with regard to access to and usage of finance, but little analysis by ownership demography. This may be particularly relevant to understanding start-up finance volume and sources, discouraged borrowing, and use of growth capital. Following Wu and Chua’s 2012 analysis of the US small business borrowing costs, this strand will also provide comparative multi-level analysis. This strand will also focus on understanding the household resource conditions conducive to business start-up and growth.

Understanding the connection between households and the decision to finance and grow diverse businesses

The second strand of work entails an analysis of entrepreneurial households. The centrality of the household as a key influence on
Diversity and SMEs

entrepreneurial decision making can be seen in the initial decision to start a new enterprise, the allocation of household resources to the nascent enterprise, and the potential continuing household resource 'subsidy' to the growing enterprise. The reasons why entrepreneurial households are prepared to accept the uncertain returns, frugal consumption, and strong savings impetus that accompanies business ownership, while others prefer the financial certainties of employment, are largely unknown. Entrepreneurial households may attend to the management and negotiation of resources differently, but the precise dimensions that underpin variations are unknown. Entrepreneurial households commonly derive income from multiple sources, which advantages the enterprise both by reducing the pressure to generate household income and by providing a source of readily available, cheap, external growth finance. While it is clear that an individual's decision to start-up and grow a business is contingent upon their access to available household resources, and that business and household cross-subsidy is a crucial factor in starting and growing a venture, little is known about the processes involved, the impact of the interaction on business and household, and how these processes can be supported by government, support agencies and financial services institutions.

Mapping and activating support for diverse business networks through the Enterprise Diversity Alliance (EDA)

The third strand will be activated from the start of the Enterprise Research Centre, and comprises two main activities. First, mapping the landscape of enterprise support for diverse businesses and second, staging ERC EDA awareness events in five cities. The seismic changes to enterprise support since 2010 have created a pressing need to identify the networks used by diverse business. The ERC intends to identify and map business networks in five cities with contrasting demographic profiles in respect of diversity (likely cities include Birmingham, Glasgow, Leeds, London and Norwich), conduct key informant interviews to establish the barriers to the provision of enterprise support to diverse businesses, and establish a channel of
Diversity and SMEs

communication between these key and the ERC EDA. Working with key informants to deliver events in five cities will bring EDA partners in direct contact with diverse businesses, thereby broadening the potential networks of diverse entrepreneurs; serve as a platform to promote research from EDA/ERC to non-academic stakeholders; offer direct support, particularly in relation to finance and mentoring, to diverse businesses, and act as a catalyst for the creation of new networks and groupings to support minority businesses

The consensus on the core issues for diverse enterprises – access to money, markets and management – is such that the work package will deliver an active programme of knowledge exchange through the mechanism of the Enterprise and Diversity Alliance. The EDA is a unique grouping of public and private sector organisations dedicated to promoting diversity and enterprise in the UK. Established since 2010, the EDA includes senior staff from the Association of Chartered Certified Accountants (ACCA), Barclays, the British Bankers Association (BBA), Business in The Community (BITC), A.F. Blakemore and Son Ltd, the Chartered Institute of Purchasing and Supply (CIPS), the Consortium, the Equality and Human Rights Commission (EHRC) and Lloyds TSB. It is coordinated by Professor Monder Ram (de Montfort University) and Professor Kiran Trehan (Birmingham University). Its purpose is to apply the insights from a substantial body of social science research to the domains of policy and practice. The EDA will make direct links with diverse entrepreneurs across the country in order to tackle the perception of unfavourable treatment by banks, provide support to businesses, and identify networks with reach into diverse communities.
NOTES


8 Ram and Jones, 2008, op. cit.


10 Ram and Jones, 2008, op. cit.
Diversity and SMEs


14 Ram and Jones, 2008, op. cit.


16 Fraser, op. cit. p. 601.


20 Ward R (1985), Minority settlement and the local economy, in Roberts B, Finnegan B and Gallie D (eds), *New Approaches to Economic Life*, Manchester, Manchester University Press.
Diversity and SMEs


22 Ram and Jones, 2008, op. cit.


24 Ram and Jones, 2008, op. cit.


28 Jones et al., 1994, op. cit.
Diversity and SMEs


34 Alexander et al., op. cit.


Diversity and SMEs


Diversity and SMEs


Diversity and SMEs


Diversity and SMEs


68 See Ram and Jones, 2008, op. cit. for a review.
Diversity and SMEs

69 Fraser, 2009, op. cit.


71 Marlow et al., 2012, op. cit.


73 Ward R (1985), Minority settlement and the local economy, in Roberts B, Finnegan B and Gallie D (eds), New Approaches to Economic Life, Manchester, Manchester University Press.


Diversity and SMEs


80 Shane S (2009), Why encouraging more people to become entrepreneurs is bad public policy, Small Business Economics 33, 141-49.
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