

## **Ethnic minority businesses in the UK: An overview**

Monder Ram and Trevor Jones\*

**Abstract** So rapidly have ethnic minority businesses (EMBs) multiplied in the United Kingdom over the past four decades that they now number over a quarter of a million and are regarded as significant contributors to the nation's small business population. Such impressive growth has been facilitated by a deregulated economic policy regime and further boosted by a growing range of support initiatives. Despite vigorous quantitative development, however, quality is markedly uneven, with EMBs largely concentrated at the bottom of the value-added chain and located in some of the most deprived areas of the UK. Breakout from this situation is hampered by problems of access to finance (particularly for African-Caribbeans) and to public sector business support. To address these barriers, support initiatives now include at least five approaches: specialist programmes focused on EMB clients; the incorporation of an ethnic dimension within mainstream provision; sector-based approaches; access to finance initiatives; and strategic initiatives. Even so, policy-makers are still left with a daunting range of challenges, including improving data on EMBs; engaging EMBs in business support programmes; promoting sectoral diversification; sharing good practice and improving evaluation.

**Keywords** ethnic minority entrepreneurship, United Kingdom, policy, regulatory change.

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### Introduction

For various reasons, British interest in ethnic minority businesses<sup>1</sup> (EMBs) has developed at a rapid pace in recent years. First, ethnic minority enterprise is 'an emerging economic force' (Barclays Bank, 2000), with growth in EMB start-ups at twice that of the wider small firm populations (Barclays Bank, 2005) and likely to further increase since the ethnic population is expected to double over the next 25 years.

Second, at a national level, the government has signalled its commitment to supporting EMBs through its remit to encourage and support entrepreneurship in all social groups (DTI, 1999). Boosting enterprise in disadvantaged areas is an important strand of Government policy on small firms; and it is clear that the overwhelming majority of ethnic minorities reside in the most disadvantaged areas of the UK (Mascarenhas-Keyes, 2006). Finally, there continues to be a low take-up of business support services by EMBs, despite their significance to many metropolitan areas (Ram and Smallbone, 2002). Hence on the grounds of equity, there is a pressing policy concern to ensure that public sector business support is being utilised by all communities.

In this paper our aim is to provide an overview of policy developments relating to EMBs in the UK, with particular emphasis on the most important challenges for policy-makers and practitioners. Before this, however, it is vital to note that policy operates, not in a vacuum, but within an overarching context of economic deregulation. The comparatively neo-liberal UK regime generally is less subject to interventionist state control than is the case in most of mainland Europe, where EMB is often seen as hampered by stifling restrictiveness. In reality, however, deregulation is a mixed blessing for ethnic minority entrepreneurs, often producing outcomes in direct contradiction to the goals of the EMB support system.

### The UK regulatory context and its impact on EMBs

According to Kloosterman *et al.*'s (1999) theory of mixed embeddedness, any ethnic community's business development is shaped not only by its own social capital networks but also decisively by the surrounding commercial environment. As they argue, outcomes will be powerfully influenced by the "wider economic and institutional context into which immigrants are inevitably also inserted" (Kloosterman

*et al.*, 1999: 257). Explicitly presenting this context as a duality, they insist that the role of the state be given at least equal prominence with that of the capitalist market upon which it impinges.

This heralds a major departure from the formerly dominant interactionist model (Waldinger *et al.*, 1990), which had little to say about EMBs at the political-institutional level, concentrating principally on the structure of economic opportunities and constraints created by market forces. By downplaying the State, this approach is unable to explain sharp international variations in the performance of EMBs, instead depicting a post-industrial world in which favourable conditions for EMBs are in effect universal. At the same time as globalisation and rising immigration have expanded the supply of potential ethnic minority entrepreneurs, so manufacturing outsourcing and the explosion of consumer services have opened up the kind of easy entry labour-intensive opportunities classically suited to immigrants. Despite the near ubiquity of such conditions, however, EMB development has leapt ahead in the Anglo sphere while significantly lagging throughout most of mainland Europe.

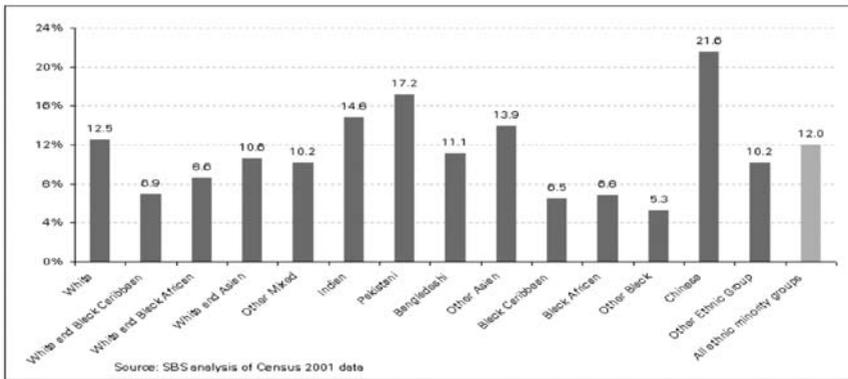
Such international variations are only explicable by reference to the rules and regulations governing economic activity. Not only does the regulatory regime do much to shape the general commercial environment for new small firms as a whole but, as the contributors to Kloosterman and Rath (2003) show, various forms of immigration and labour legislation may bear down specifically on ethnic minorities, often posing almost insurmountable obstacles to their would-be entrepreneurs.

In the case of Austria, Haberfellner (2003: 1) speaks of a “tradition of exclusionary mechanisms for newcomers in general and foreigners in particular”. In strong contrast, Britain is free from virtually all such official restraints on ethnic minority entry to any part of the labour market and additionally presents a lightly regulated regime post-entry. Not only are controls themselves relatively few but many of those that are in place are often weakly enforced, as the authors of this article have demonstrated in studies of non-compliance with National Minimum Wage legislation (Ram *et al.*, 2007a).

At first sight, this neo-liberal regime has led to the entirely predictable outcome of large numbers and rapid growth of EMBs in Britain. Drawing on Mascarenhas-Keyes (2006) and Ram and Jones (2008), we note that by 2004 EMB in the UK had created a quarter of a million firms contributing at least £15 billion (€19 billion) to the UK economy and accounting for 11 per cent of new business start-ups, a growth rate double that for total business start-ups (Barclays Bank, 2005). Seen against a non-white ethnic minority population of eight per cent of the total, it is evident that racialised minorities are substantially over-represented as entrepre-

neurs (though with marked inter-group variations – see Table 1). All this ostensibly confirms the expected negative correlation between regulation and ethnic self-employment, suggesting that neo-liberal economic policy is indeed the master key to unlocking the entrepreneurial potentials of socially excluded groups. In reality, however, unregulated breakneck expansion has produced sheer quantity at the expense of quality [Barrett *et al.*, 2003], and created a number of seemingly intractable issues to be addressed by policy-makers.

**Table 1 - Self-employment Rate of All Economically Active People Aged 16-74, England and Wales**

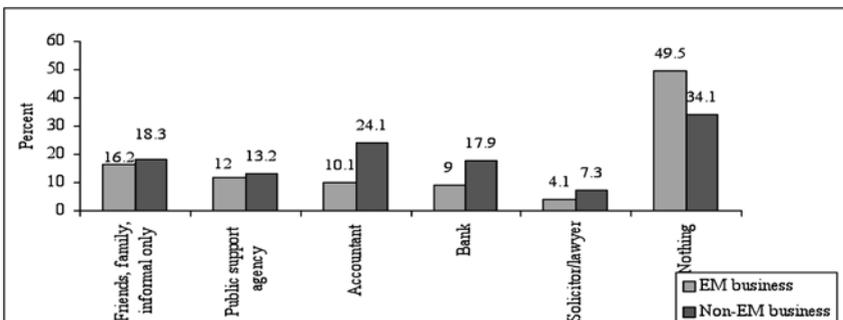


While numerically impressive, EMBs are decidedly less so in terms of performance, being lamentably skewed towards a narrowly constricted range of poorly rewarded and fiercely competitive sectors - catering, clothing and low-order retail sectors for South Asians (Ram and Jones, 2008), the take-away food trade for Chinese (Song, 1999), and corner shop retailing and hairdressing for African-Caribbeans (Ram and Jones, forthcoming). Not only do all these sectors demand punishing work for poor rewards, but prospects for business development are threatened by competitive market pressures, continually exacerbated by regulatory change. All of this means that the promotion of market diversification, or 'breakout', by policy-makers has to be a top priority (Ram and Smallbone, 2003). Furthermore, problems of market access are aggravated by spatial disadvantage, with 32 per cent of ethnic minorities living in the UK's most deprived wards (Mascarenhas-Keyes, 2006), with an impoverished local customer base and the inherent problems in raising finance and insurance (Ram and Jones, forthcoming).

Essentially, then, a liberal regulatory regime is far from a guarantee of EMB success and indeed may operate in the precisely opposite direction by encouraging the creation of a host of firms that are completely ill-equipped to thrive under conditions of unbridled competition. Financial capital is the resource with which they are most ill-equipped. Access to finance is a perennial issue for EMBs (and often for small firms in general). Recent survey evidence confirms that it is the African-Caribbean business community that finds it most difficult to access start-up capital from the credit market, a problem compounded by the paucity of informal sources from family and community (Ram *et al.*).

Alongside this, we would also argue that ethnic entrepreneurs tend to be motivationally ill-equipped. Although South Asian entrepreneurialism has been persistently explained positively as a voluntaristic expression of 'cultural' attributes (Basu, 1998), weighty evidence suggests that the Asian drive into self-employment is better seen as largely a survival mechanism during a period of de-industrialisation and catastrophic job loss which, in a racist job market, affected ethnic minorities even more severely than other workers (Jones *et al.*, 1992; Ram, 1994). More recently, work by Clark and Drinkwater (2000) and Mascarenhas-Keyes (2006) confirms the continuing prevalence of 'necessity entrepreneurship' amongst EMB owners. Furthermore, given this obvious neediness, it is also an issue of concern that EMBs are actually less likely than others to turn to formal sources of business support (Ram and Smallbone, 2003; Deakins *et al.*, 2003; Ram *et al.*, 2002). This is confirmed by Table 2, which shows that half of EMBs do not seek advice, compared to one-third of non-EMBs.

**Table 2 - Sources of Advice about Starting up a Business  
(Percentage in each category of all businesses trading for less than 4 years)**



Source: Ethnic Minority Boost (2003), Annual Survey of Small Business.

## Policy developments and ethnic minority businesses

A growing awareness of the disadvantageous context in which EMBs operate has spurred attempts to develop more effective business support policies, a move given extra impetus by the Small Business Service (SBS)'s remit to cater for all businesses (Ram and Smallbone, 2003) and the promotion of enterprise as a means of tackling disadvantage in deprived areas (Blackburn and Ram, 2006). The creation of an advisory body, the Ethnic Minority Business Forum, within the Department of Trade and Industry has also kept the issues to the fore in the agenda on small business policy. Finally, the Race Relations Amendment, giving public authorities a statutory duty to promote racial equality, has provided yet further stimulus.

In a comprehensive review of the ends and means of EMB support policy, Ram and Smallbone (2003) trace its evolution from an essentially one-dimensional strategy in the 1980s to a wide-ranging system now employing at least five distinct approaches. The first of these – *specialist agencies or programmes directed explicitly at EMB clients* – emerged in response to the Scarman Report on the 1981 urban riots, which recommended enterprise promotion as an antidote to what is now termed 'social exclusion'. From this came five Black-led enterprise agencies targeted at African-Caribbeans, followed rapidly by a proliferation of other ethnic-orientated bodies.

Subsequent concern about the potential isolation of these ethnic-specific agencies from the mainstream support system has led to moves to incorporate an *explicit EMB dimension within mainstream provision*. Typically this approach includes establishing targets for assisting EMBs within generic programmes; involving ethnic minority advisors in programme delivery; and recognition of the need to translate promotional material into the relevant languages.

In a third approach, *sector-based initiatives* have also been used to support EMBs. For example, the Coventry Clothing Centre offers a potentially fruitful synthesis between the sectoral logic of enterprise support, and credibility derived from being embedded in appropriate community and business networks. Beckinsale and Ram (2006) report on an initiative to promote the uptake of Information and Communications Technologies (ICT) amongst EMBs in the retail and catering sectors. Inspired by USA precedents, efforts are now underway to engage the corporate sector in supplier diversity initiatives, in which EMB firms are encouraged to become involved in the tendering process (Migration Policy Group, 2002; Ram *et al.*, 2007b). Despite the friction of transplanting this approach across the Atlantic, results so far are encouraging.

Initiatives to improve *access to finance* comprise the fourth element of the Ram and Smallbone typology. As noted, members of ethnic minority communities face

additional funding barriers compared with other firms, particularly at start-up (see Ram *et al.*, 2002 for review). In response, there have been a number of attempts to provide financial support for EMBs, one notable case being the Muslim Loan Fund, an innovative finance initiative for business owners unable to access interest-bearing funds for religious reasons.

The fifth and final component relates to *strategic initiatives* that aim to locate and identify the key characteristics of EMBs. This can be seen as a response to the widely noted problem of inadequate information on the scale and dynamics of EMBs. To this end, a number of Business Links<sup>2</sup> in Birmingham and London have made strenuous efforts to improve data on the scale and dynamics of EMBs in their catchment areas (Ram and Smallbone, 2003).

## **Supporting EMBs: Key challenges**

### *Data capture*

A “widespread lack of intelligence on the characteristics and needs of EMBs” (Deakins *et al.*, 2003: 857; see also Ram *et al.*, 2002) makes it difficult to assess the extent of EMB participation in these support programmes. Consequently support agencies are denied the data necessary for an accurate picture of the needs and potential of EMBs and hence to devise appropriate responses. The problem is heightened by the growing diversity of EMBs (Ram and Smallbone, 2003), with support services now needing to tailor their responses to widening differences by ethnicity, generation, sector and developmental stage.

### *Engagement*

In response to under-use of business support, urgent attention is now being accorded to pro-active engagement with ethnic minorities under-represented among Business Link clients. Key elements in this engagement strategy include

- Representation for EMBs across the business support system
- An outreach strategy to engage EMBs
- Promotional approaches through the media
- Transparent monitoring and annual reporting of performance of individual business support intermediaries with respect to EMB targets (Ram *et al.*, 2002).

### *'Integrated' system of business support*

A key theme highlighted above is the increasingly divergent experiences of ethnic minority groups in business, with differing trajectories contingent upon a variety of factors, not solely ethnicity. For policy-makers and practitioners, this presents the challenge of redefining the mainstream 'market' for business support around this principle of diversity. As well as recognising the heterogeneity that characterises the small business sector as a whole, policy makers are also beginning to re-evaluate the question of whether it is useful and/or appropriate to treat EMBs as a single category from the standpoint of access to finance and business support.

### *Sectoral diversity*

By far the most pressing practical challenge is to enable EMB to escape from its disadvantageous sectoral concentration through diversification into higher value-added activities, both by helping new enterprises to become established in non-traditional sectors of activity and by helping existing businesses to adjust and/or upgrade. To the extent that the barriers are attitudinal – lack of awareness, lack of confidence to compete in white-dominated mainstream markets – there is a clear role for support bodies in supplying vital market intelligence and in confidence-building. At last some progress is being made here, with a number of initiatives now combining sensitivity to the needs and aspirations of members of different ethnic minority groups with an explicitly sectoral focus (Ram and Smalbone 2003). Essentially, of course, the function of this particular policy thrust is to provide a corrective to the distortions encouraged by macro-economic policy, a further reminder that EMB is caught between two policy forces pulling in opposite directions.

### *Sharing good practice, dissemination and evaluation*

For all these policy advances, however, there is still a dearth of knowledge on what constitutes good practice, a lack of systematic dissemination of key developments, and very little independent evaluation. Though these issues are now being directly addressed, more work needs to be undertaken on the content and impact of such initiatives. In particular, there is a need for evaluation of good practice and for promoting policy learning (Sanderson, 2002).

### *Self-employment: An escape from poverty?*

Ultimately, we would argue that questions need to be asked about enterprise itself as the best means of tackling disadvantage. As many critics have long argued, high levels of self-employment among groups like South Asians should not be seen as an unqualified indicator of 'upward mobility', especially when, as we

have seen, many Asian small business owners are stuck in highly competitive and unstable market niches where survival is a precarious struggle (Ram and Jones, forthcoming). Indeed it is probable that the recent shift away from self-employment into professional employment (Jones and Ram, 2003) is more economically beneficial for groups like Indians and Chinese. Though enterprise support does have a role to play in promoting higher performing business, its main impact may well be in achieving 'social' objectives rather than business competitiveness (Deakins *et al.*, 2003; Ram, 1998). Certainly business ownership should not be regarded as a panacea for the social inclusion of ethnic minorities.

## Conclusion

While the lightly-regulated UK economic regime certainly encourages large quantities of EMBs, too many of these are marginal firms in low value-added markets. As a result, the great flurry of policy initiatives for EMB support have implicitly functioned as a corrective, increasingly aimed at improving quality. Even here, however, questions remain over claims about self-employment as a means of upward mobility and hard evidence on the effectiveness of such initiatives is still scarce, with much remaining to be done in the area of policy evaluation.

## Notes

<sup>1</sup> For the purpose of the current research, EMBs are defined as businesses that are either wholly or at least 50 per cent owned by people of ethnic minority origin, who are from a different cultural and linguistic background to those businesses that are managed predominantly by 'white', European, English-speaking people.

<sup>2</sup> For further information on the Business Link network, please see: [www.businesslink.gov.uk](http://www.businesslink.gov.uk).

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