Ethnic Minority Entrepreneurship, Diversity and Competitiveness

I. Introduction

A. Entrepreneurship as an Agent of Change

It is increasingly recognized that entrepreneurship plays a central role in economic development and that entrepreneurs are key elements of change in market economies. However, as well as contributing to the development of more competitive economies, fostering entrepreneurship has increasingly been seen by policymakers as a means of combating social and economic exclusion, by encouraging enterprise in disadvantaged communities and localities. In this context, entrepreneurship appears to offer a mechanism for drawing marginalized ethnic minorities and immigrant communities into the mainstream of societies and economies, with potential benefits at both the macro and micro levels.

There is already a good deal of literature on ethnic minority entrepreneurship focusing on its contribution to social inclusion. By contrast, this particular paper examines the arguments and evidence to support the proposition that ethnic diversity, as such, is a potential source of competitiveness, through the involvement of members of ethnic minorities in entrepreneurship. The involvement of ethnic minorities in entrepreneurial activities has attracted growing interest in recent years for various reasons. One of them is that as well as contributing to reducing social exclusion and raising living standards in groups that are often among the more disadvantaged in society, it can be argued that, from an economic standpoint, the ability of European economies to be entrepreneurial depends on their ability to encourage and support entrepreneurship in all sections of society, including ethnic minorities. The argument needs to be viewed in the wider con-

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text of the growing evidence of the links between entrepreneurship and economic development at the national level.

In the UK, for example, the current strategic framework for government policy with respect to small businesses includes ‘enterprise for all’ as one of its seven priority themes, referring to “the encouragement of more enterprise in disadvantaged communities and disadvantaged groups”.2 Because of a tendency for ethnic minorities to concentrate in particular localities, the development of some local economies—and the standards of living within them—may be heavily influenced by the nature and extent of ethnic minority involvement in self-employment and business ownership. As a consequence, the UK government views the promotion of different forms of entrepreneurship as a mechanism for developing those communities and areas.

The rest of this paper is concerned with ethnic minority entrepreneurship in the UK. In the UK context, ethnic minority communities are a result of a long history of immigration, which includes migrants from former colonial territories, as well as, more recently, asylum seekers and migrants from other member states of the EU. In established ethnic minority communities, members include second- and third-generation migrants, who have been born and educated in the UK. Following a discussion of some of the distinctive characteristics of and challenges facing ethnic minority entrepreneurs and a summary of ethnic minority involvement in entrepreneurship in the UK, the proposition that ethnic diversity may be a source of potential competitive advantage will be examined. The case of London is used to illustrate the argument, partly because it represents one of the most ethnically diverse cities in Europe and partly because the research on which this paper is based was commissioned by the London Development Agency (LDA).3 If supported, the proposition is potentially powerful in political terms, since it suggests that an ethnically diverse society is potentially stronger economically than a less diverse one, with potential welfare gains for the population as a whole. As a consequence, policies designed to encourage and support ethnic minority business development may be justified by the potential economic benefits for the society, as well as promoting greater social inclusion for ethnic minorities.

B. Challenges Facing Ethnic Minority Entrepreneurs

Since most ethnic minority-owned businesses (EMBs) are small firms, they share many of the characteristics and challenges faced by small firms more generally. These include frequent problems in raising finance to start a business and/or expand (particularly in the early stages) and deficiencies in certain core management competencies, such as marketing and financial management skills. One

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