



# ETHNIC DIVERSITY IN BUSINESS:

Removing barriers impeding business success

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**As the UK region with the most businesses and the people from ethnic minority backgrounds, London is a good starting point for talking about ethnic diversity in business. London's complex history as a trade and commercial city is underpinned by a rich tapestry of ethnic diversity, while increasing immigration has boosted entrepreneurship and commerce in the city.**

The little we know about ethnic minority led businesses suggests that many of them are likely to be in sectors such as food, personal care and communications but see less success in wider business. Thankfully we are seeing Black businesses emerge in research and consulting, in energy and environmental technology and in Venture Capital, banking and small business investment. It is a clear and credible start and we need it to be mainstream. While an increasing trend of people from ethnic minority led backgrounds operating hugely successful businesses (as well as in high growth sectors) continues to emerge, many of them are being held back due to several factors including stereotyping and outdated perceptions of the businesses which others feel ethnic minorities should run. There is also inadequate data on ethnic minorities in entrepreneurship and business and available data is often not granular enough especially to reflect the diverse ethnic makeup of ethnic groups and their respective experiences.

Minority led businesses also report difficulties with accessing funding to grow their businesses. The problem is multi-faceted. There appears to be an aversion to applying for funds by business owners and those who apply are less likely to receive. A disproportionately low percentage of Venture Capital funding goes to ethnic minority led businesses. Black people are also more likely to report negative experiences with banks and people from Asian backgrounds are likely to report difficulties with attracting funding outside of their communities. Similarly, the power of procurement as

a taxpayer tool to provide social value and boost ethnic diversity is seemingly not being maximised.

With racial equality issues gaining dominance in recent years, it is important for bolder steps to be taken to achieve ethnic diversity in business. The economic contribution that ethnically diverse businesses make is enormous. Even by conservative estimates, this is about £25 billion and other figures suggest this could be as high as £74 billion. Addressing the issues highlighted is crucial to maximising this and unleashing the potential of everyone irrespective of their background.

This should begin with tackling the socio-economic factors especially the education (training) and employment prospects that crop up later to influence success in business. Work needs to be done both in engaging with minority led business owners, in examining and addressing issues with receiving funding from banks and through Venture Capital as well as boosting representation within the Venture Capital community. In particular, relevant financial institutions signing up to collect data about and provide support for ethnic minority led businesses similar to what they do under the 'Investing in Women' code would be a useful step in addressing access to finance issues. The fashioning of a post-Brexit procurement regime should also be grasped as an opportunity for procurement to be used to deliver ethnic diversity in procurement.

This paper while only scratching the surface of issues affecting diversity in business highlights the need for more robust data gathering and research on ethnic minority led businesses while reflecting the diverse makeup of ethnic groups. It also points to the need for strategic engagement between and concerted efforts from the business community, government and people from ethnic minority backgrounds.

It is important to highlight the successes and challenges of ethnic minority led businesses, to foster relationships and build networks between them and importantly ensure that they become and are seen as part of the mainstream business

landscape. As Chairs of London Chamber of Commerce and Industry (LCCI)'s Asian Business Association (ABA) and Black Business Association (BBA), we are pleased to be able to play a role in this regard and to advocate for more equitable business.



**TONY MATHARU**

Founder and Chairman, Integrity International Group & Blue Orchid Hotels

Chair of London Chamber of Commerce and Industry's Asian Business Association



**LORD DR HASTINGS OF SCARISBRICK CBE**

Chair of London Chamber of Commerce and Industry's Black Business Association

Business and enterprise are part of the UK fabric. Ethnic diversity has also become a recognisable feature of the UK population demographics. In London, where there is both a high proportion of ethnic minorities, particularly Black and Asian people, and entrepreneurial activity, ethnic diversity in business is brought into sharp focus.

Ethnic minority led businesses (EMB) constituted 5% of Small and Medium sized Enterprises (SME) employers<sup>1</sup> and 4% of SMEs with no employees in 2020.<sup>2</sup> They were also most common in London. The economic contribution of ethnic minority-led business is also substantial and estimated to have added £25 billion to the UK's Gross Value Added.<sup>3</sup>

Despite the existence and contribution of ethnic minority led businesses, the business landscape is an unequal marketplace by ethnicity. Businesses led by people from ethnic minority backgrounds are concentrated in particular sectors which are often low paying. There are unequal number of EMBs as a proportion of their percentage of the population and they constitute even lower of the country's business base for ethnic groups like Black people. The success rates of ethnic minority led businesses are also lower compared to those of their White counterparts.

An investigation of the demographics of ethnic minorities and the socio-economic factors that affect success in business shows that the education, employment, income and home ownership outcomes for people from an ethnic minority background show a disadvantage for entrepreneurs from ethnic minority, particularly Black and other Asian people leading to worse entrepreneurial outcomes.<sup>4</sup> Lower wealth because of these factors and the tendency to live in urban areas like London is commonly associated with people from

ethnic minority backgrounds mainly Black and Asian people. Consequently, this affects their success in business and makes external support necessary.

Despite this, access to finance and procurement opportunities by people from ethnic minority backgrounds as avenues by which they can get backing for their businesses or entrepreneurial ventures is unsatisfactory. Black and Asian businesses struggle to access funding and procurement opportunities, including the startling fact that all-ethnic teams received an average of 1.7% of the venture capital investments between 2009 and 2019<sup>5</sup> This concerning phenomenon suggests that not only are Black and Asian people facing hurdles in setting up and running businesses, but they also face challenges in accessing additional support which compounds rather than alleviates their problems.

Importantly, the current picture does not match the sheer size of ambitions and potential of people from Black and Asian backgrounds. Growing understanding of diversity, social mobility and even the government's levelling up agenda suggests that individuals irrespective of their backgrounds, in this case, their ethnicity should be able to reach their full potential. Moreover, there is an economic case that true ethnic diversity in business holds the promise of potential gains. Baroness McGregor-Smith's review revealed that the value of lost benefits to the UK economy for underutilising BME Talent was £24 billion.

While barriers to ethnic diversity and inclusion have received increasing focus across a range of industries since 2020, there is a significant path ahead to bridging gaps in the inclusion of ethnic minority business owners, founders and entrepreneurs.

The inadequate collection and categorisation of data pertaining to business and ethnic minorities including the ethnicity of founders and business owners as well as the

activities they undertake and the opportunities they access is a theme that runs through this paper.

To achieve the goal of ethnic diversity in business, it is important to improve the socio-economic attributes particularly education (and training) as well employment outcomes of people from ethnic minority backgrounds in order to increase their chances at success in business. With regards to access to finance and funding, in addition to the current predominant focus on highlighting and boosting representation within businesses, efforts should be made to better understand the experiences of and support those businesses that are ethnic minority-led. Local government, national government and industry should also improve policies and practices to address the challenges in access to procurement.

<sup>1</sup> Department for Business, Energy and Industry Strategy, [Small Business Survey 2020: SME Employers, UK, 2020](#) (Businesses with 1-249 employees) Published August 2021, Updated January 2022 p63

<sup>2</sup> Department for Business, Energy and Industry Strategy, [Small Business Survey 2020: businesses with no employees, UK, 2020](#) Published August 2021, Updated January 2022

<sup>3</sup> FSB 'Unlocking Opportunity: The value of ethnic minority firms to UK economic activity and enterprise' July 2020

<sup>4</sup> British Business Bank, [Alone Together: Entrepreneurship and Diversity in the UK](#), 2021

<sup>5</sup> Extend Ventures, [Diversity Beyond Gender](#), 2020

## Working together

Strong engagement between business leaders, the government and people from ethnic minority backgrounds is key to boosting ethnic diversity in business.

- Businesses and member organisations have a role to play in facilitating links between ethnic minority networks and government. This can be through strengthening relationships with stakeholders from ethnic minority backgrounds and embedding their networks within mainstream business community. This kind of engagement would also enable the facilitation of information about government support and schemes, while enabling policies to be shaped with feedback through the lens of ethnic minorities.
- Government should engage with business leaders and stakeholders with experience of engagement with ethnic minority stakeholders in devising the new standards for recording, understanding and communicating data.
- Employers and other private sector organisations should adopt a mindset towards collecting, analysing ethnicity related data and addressing identified issues. Care should be taken to consult guidance and best practise on how to go achieve this. Government support should be sought where needed
- The government should involve and seek the input of businesses as part of its expected cross-government analytical work programme on the impacts of migration.

## Socio-economic factors

### Place

- Implement policies and initiatives to boost small businesses in sectors dominated by ethnic minority led businesses in London.
- Educate people from ethnic minority backgrounds about and support them to access opportunities in high growth sectors.

## Education

The Government should

- **Ensure (by working with relevant stakeholders) that its promised state scholarship is inclusive from an ethnicity point of view**, widely known of by people from ethnic minority backgrounds and capable of being maximised by them.
- Deliver on commitments to ensure students from ethnic minority backgrounds can make ambitious decisions about the courses they choose and universities they attend to reduce the drop-out rate and increase their chances of enrolling on high quality courses at higher tariff universities.
- **Ensure feedback from businesses and people from ethnic minority backgrounds at the heart of the HSBC-led government competition-based, entrepreneur support programme** on entrepreneurship in universities. It should also ensure the programme is inclusive and capable of being utilised by people from a wide variety of ethnic minority backgrounds.
- Ensure its engagement (through the DWP) with ethnic minority representatives is extensive and business focused
- Monitor **outcomes of its [Get the Jump: Skills for Life](#) communications campaign and the impact featuring ethnic minorities has had**. It should also **deliver on commitments to track the apprenticeship uptake by ethnic minorities** and go further to measure their participation in other vocational routes.

## Employment

To increase the employment outcomes for people from ethnic minority backgrounds including their entry into work, progression into higher management, inclusion at work and engagement with professional networks

- Employers should **adopt and implement policies that enable them to attract, retain and promote staff from ethnic minority backgrounds. This includes widely advertising in areas that can attract people from ethnic minority backgrounds and the use of apprenticeships and vocational training to train staff.**
- The Government and employers should work together to ensure that the progression plans relating to the new in-work support are underpinned by the development of skills that equip people to climb the career ladder.
- The **Government should include representatives of businesses of a wide sectors and sizes** in devising its proposed 'Inclusion at Work Panel,' Equality Hub, Positive Action Guidance and the 'Inclusion Confident' Scheme. It should ensure that these initiatives are capable of being used by a wide range of businesses and have a strong emphasis on inclusion from an ethnicity perspective.
- Employers and business organisations should facilitate links between ethnic minority networks into the mainstream business landscape.

## Income

- Awareness of the Government's lifelong learning entitlement and skills training schemes should be promoted especially among people from ethnic minority backgrounds.
- The government's anticipated guidance on voluntary ethnicity pay reporting should be simple and capable of being used by a wide range of businesses irrespective of size and sector
- Businesses should monitor and address ethnicity pay within their organisations.

## Access to finance

### Banks

- Steps should be taken to monitor and address the perceived and actual experiences of ethnically diverse business owners with accessing banking services, e.g. opening accounts and applying for loans.
- Banks and financial institutions should work to collect data with a granular breakdown of who makes contact and is successfully able to access loans and services.
- Government should consider giving incentives to lenders who consistently perform well on racial lending indicators
- Banks and financial institutions should review their lending practices and eliminate requirements that place unnecessary hurdles in the path of ethnic minority owned businesses.
- Steps should be taken across the public and private sectors to address negative perceptions amongst ethnic business communities about taking on debt and improving trust in the availability of financial support. This can be achieved through targeted campaigns. However, it is critical that they engage with these communities to establish the right channels and messaging.
- Targeted programmes should be introduced to assist ethnic minority-led businesses to access finance. There should also be wide promotion of these programmes to ensure that those who can benefit the most are fully aware of opportunities.
- Financial institutions who are signatories to the Investing in Women Code should sign up to the government's proposed pilot which seeks to include ethnicity to improve access to finance and the entrepreneurial ambitions of people from ethnic minority backgrounds. Organisations which are not signatories to the Code should commit to similar monitoring and support of ethnic minority led entrepreneurs.

It became clear to me that there was a problem to be solved upon witnessing my church's experience and hearing the first-hand experiences of other minority ethnic entrepreneurs who had tried to seek funding. A research report by Monder Ram et al, I came across which highlighted that ethnic minorities are 2-4 times more likely to be rejected for finance than White people provided the further push for me to set up Lendoe.

Demi Ariyo, Founder of Lendoe, a funding platform which focuses on providing access to finance for underestimated entrepreneurs

When I wanted to open up Slidercuts Studios I went to the bank with my business plan but they didn't believe in me. Despite my plans being water tight, I had to approach family and friends and that's when I was introduced to Lendoe. 3 years later I have 20 employees and a thriving business.

Mark, SliderCuts, SliderCuts Studios

The funding process during covid was bad, we had different people dealing with us and I had to repeat myself on several occasions, even with all of that, we were unable to get the amount we needed. We weren't given a clear reason why, we was just told we did not meet their criteria.

Ismail Oshodi - Food Junky, Food Junkee Express

My bank told me to come back at a later date once my business had taken off and it was more stable, when I initially approached them with my business plan. A few years later I did but they still rejected me. They claimed that I couldn't qualify for a loan or overdraft because I have another business product (invoice factoring).

Eddie, Lynward Recruitment

My lack of credit history meant I couldn't even have a discussion with the bank, let alone try and access credit for my business. I felt as though my experience and assets overseas would help a little bit.

Artur, Get Potted

The first mainstream high street product I got was super high, it ate up all my profits. It was only once I was able to search for an alternative provider that I was able to find something cheaper.

Eddie, Lynward Recruitment

## Venture Capital

Improving access to funding:

Industry has a key role to play in fully utilising and accelerating the growth of existing resources in this space:

- **Equity providers should work with trade bodies and ethnic minority networks to create clear, practical guidance for improving access to funding and eliminating exclusionary practices that create (and sustain) barriers to raising capital.**
- Industry should back the scale up and support of ethnic minority led businesses by funding existing programmes by investors that invest in ethnic minority led businesses and developing more of such schemes.
- **The establishment of a Strategic Growth Fund that specifically targets or contains criteria to address the funding problems ethnic minority founders and business leaders face would be helpful.**
- Targeted programmes should be introduced to assist ethnic minority-led businesses to access finance. There should also be wide promotion of these programmes to ensure that those who can benefit the most are fully aware of opportunities.
- **Government should allocate funding to researching the funding of Black and Asian entrepreneurship through Venture Capital in the UK.**
- Government should support and work with entrepreneurial ecosystems, that build strong networks for capital, expertise and information to flow between Black and Asian people. This could be through online training, incubator programs and webinars.
- **Business organisations should build links within venture capital and facilitate collaborations** to provide support, information and advice relevant for securing support and funding.

- **Financial institutions who are signatories to the Investing in Women Code should sign up to the government's proposed pilot which seeks to include ethnicity to improve access to finance and the entrepreneurial ambitions of people from ethnic minority backgrounds. Organisations which are not signatories to the Code should commit to similar monitoring and support of ethnic minority led entrepreneurs.**

Improving diversity and inclusion within the industry:

Improving access to funding for ethnic minority founders should go hand-in-hand with increasing diversity within the VC industry. Measures must address both sides of this equation.

A holistic approach must be taken to increasing ethnic diversity within the sector:

- Companies should review and improve recruitment processes to attract and recruit people from diverse backgrounds, drawing on the examples of blind recruitment and contextual recruitment.
- More diversity internships should be created with the aim of boosting ethnic diversity within and across the talent pipeline.
- Firms must also boost diversity at the top of their organisation(s). Increased representation of ethnic diversity at the top level of management and on company boards will support a trickle-down effect.
- Professional networks for financial institutions and lenders should forge relationships with informal networks that ethnic minority business leaders tend to belong to.

## Public Procurement

- Effective careers advice and proactive measures are needed to ensure that people from ethnic minority backgrounds are aware of skills training schemes and maximise them to train and re-skill in sectors relevant to procurement.

## Industry

Industry leaders should facilitate discussions on issues as well as share and promote examples of good practice.

- Procurement should be seen as a means of bringing about real cultural and procedural changes in practice, instead of minimal compliance with contract terms in order to secure contracts.
- Supplier diversity (in terms of ethnicity) and targeted transparent recruitment and retention efforts aimed at increasing the diversity of the workforce should be pursued as part of Corporate Social Responsibility, with evidence-based results
- The use of social clauses and S106 agreements, particularly in regeneration projects, should be adopted with emphasis on non-monetary benefits such as targeted support, guidance or recruitment opportunities for ethnic minority-led businesses or employees from their communities.
- Examples of good practice need to be promoted and widely adopted within the industry.
- There should be better information gathering on ethnic make-up and the information should be sensitively collected to reflect the diverse make-up of minority ethnic groups. The number of ethnic minority-led businesses who are on-boarded onto contracts should be critically evidenced, measured, and verified across the supply chain(s).
- Industry, particularly leaders tasked with widening ethnic representation, should engage more with ethnically diverse networks and other trusted intermediaries within ethnic communities.

## Government

- **A dedicated Government taskforce should be convened to establish effective measures to boost the inclusion of ethnic minority-led businesses** in public procurement. It should particularly seek to address:
  - Moving beyond a best endeavour approach and identifying more effective and appropriate ways for boosting supplier diversity, such as introducing minimum target percentages.
  - Boosting the inclusion of micro-businesses in the supply chain to address the barriers business owners.
- As the Government develops its new procurement regime, it should **consult more with ethnic minority businesses (and their representative networks)**, as well as take full account of their concerns and interests to shape regulation, policies and support including funding.
- Enable contractors to score highly on points related to diversity including having or proving efforts at having diversity within their supply chain as part of evidence of an advantageous rather than economically advantageous tender
- Simplify the procurement process - **review language and requirements on procurement forms and remove jargon** and references that might be difficult for people who do not have extensive expertise or networks to understand
- The Government should establish a prestigious awards system to highlight ethnic minority businesses.
- Entities that “win contracts” without following due guidelines and process should be penalised.
- The **Government should also put in measures to build the capacity of ethnic minority-owned businesses and work with business organisations like Chambers of Commerce** and dedicated networks of ethnic minority led business owners, to understand the hurdles that they face in the procurement process and address these challenges.

- Modern-day technology solutions should be adopted to equip the deployment of the necessary measurement instruments to deliver real time analytics and data-sets as well as better and more informed decision makingg.

## London Government

- The Greater London Authority’s Architecture Design and Urbanism Panel places a **diversity and inclusion requirement** on the design teams of all authorities utilising the panel, by which ‘equality and diversity’ principles within their practice and projects will account for at least 5% of evaluation scores at the ‘Invitation to Tender’ stage.<sup>6</sup> **This is a welcome approach that should be progressed across other areas of public procurement in London, and adopted and built on by other local and national bodies.**
- Clear steps to boost supplier diversity (in terms of ethnicity) should be included within London Councils’ pledges to business, and London’s local authorities should be encouraged to set procurement targets to support ethnic minority led businesses.
- **Local authorities should also look to provide support for smaller businesses to help them navigate and understand application processes and requirements.** This support could be provided through training and workshops, for example.
- Modern-day technology solutions should be adopted to equip the deployment of the necessary measurement instruments to deliver real time analytics and data-sets as well as better and more informed decision makingg.

## Research Scope

This paper explores ethnic diversity in business. To achieve this, it investigates the characteristics of people from ethnic minority backgrounds and details their experiences and outcomes in business. Ethnic minority in this paper refers to people from non-white racial backgrounds, with particular focus on the Black and Asian sub-grouping. As the Government has recently acknowledged, the Black, Asian and Minority-Ethnic Group (B(A)ME) categorisation is imperfect for several reasons. For instance, it lumps several ethnic groupings together and does not capture the differences between sub-groups, for example the differential outcomes between Indian and Pakistanis within the Asian sub-group. However, some sources referred to in this paper use it in highlighting relevant data and statistics. For this reason, the BAME categorisation is cited in this paper in some instances to highlight the experiences and outcomes for non-white people that this paper focuses on. Importantly, where possible and necessary, this paper singles out particular ethnic sub-groups in order to highlight their experiences and outcomes.

Diversity is both complex and understood differently by various stakeholders. In this paper, ethnic diversity defines the variety of economic activity undertaken across sectors and the breadth of resources available to them. To examine the outcomes of people from ethnic diversity backgrounds, it investigates the sizes of ethnic minority led businesses, the sectors within which they operate, how well they do and the resources and opportunities available to them.

It begins by examining the socio-economic factors that affect business and how this relates to people from ethnic minority backgrounds. The ability to secure external funding and support is also crucial in ensuring that high margin profit businesses are built across ethnic groups with consequent benefits flowing to their communities. Access to finance is a means by which people venturing into or already in business can get financial support to build something irrespective of their background, while procurement offers a taxpayer

funded means of putting diversity at the heart of business and levelling the playing field. In light of this, this paper investigates access to finance and procurement opportunities by people from ethnic minority backgrounds as avenues by which they can get backing for their businesses or entrepreneurial ventures.

It is recognised that people from ethnic minority backgrounds are not a homogenous group differentiated only by ethnicity. There is also an intersection of gender, sexual orientation and disability among others. This paper does not explore these but welcomes further research that explores the issues in this paper using those attributes.

## Methodology

This paper focuses on analysing the current entrepreneurship outcomes for ethnic minorities with focus particularly on Black and Asian entrepreneurs. It measures this by looking at the characteristics that pre-dispose them to success in business, the level of funding and support they are able to access for their business and their access to procurement opportunities. It reviews existing literature on funding and support as well as the demographics of businesses and their founders and access to opportunities. This includes reports, blogs and government briefings and statistics. The findings are contextualised in the background of disparity evident in education, employment and wealth generated through extensive literature review.

This paper also includes feedback from committee members of London Chamber of Commerce and Industry's Black Business Association and Asian Business Association. It also includes feedback from businesses who have tried to access funding

This paper posits that change in government policy and industry practice as well as better engagement between business and government would lead to better outcomes for entrepreneurship and improve diversity in business.



## THE ETHNIC MINORITY BUSINESS LANDSCAPE

Setting up a business is perhaps one of the most fulfilling and economically productive ventures individuals can embark on. People from a range of backgrounds are motivated to set up and run businesses for various reasons. This includes the desire to do something for the community, have more control as part of a caring role, a lack of other avenues where there is lower household income and identifying a gap in the availability of products suited to them.<sup>7</sup>

The UK has 5.6 million small and medium sized businesses which constitute 99.9% of private sector businesses.<sup>8</sup> Ethnic minority led businesses constituted 5% of SME employers<sup>9</sup> and 4% of SMEs with no employees in 2020.<sup>10</sup> The economic contribution of ethnic minority-led business is also substantial and estimated to have contributed £25 billion in 2018 to the UK's Gross Value Added<sup>11</sup>, which as noted by the FSB is similar in size to the outputs of Birmingham and Manchester. London has the most businesses (1.0 million) of any region in the UK.<sup>12</sup> It also has the most ethnic minority led businesses.<sup>13</sup>

Businesses led by people from ethnic minority backgrounds particularly Black and Asian people to an extent reflect the complex and evolving history of ethnic diversity in the UK. Initially setting up in geographies where they settled and in sectors they could break into,<sup>14</sup> Black and Asian people are now leading businesses in diverse sectors and various locations.<sup>15</sup>

Creative methods using artificial intelligence have been used to uncover the extent of ethnic minority entrepreneurship which is not captured by official records. This shows that ethnic minority led businesses are now evident in technology, large scale wholesale, energy, supermarket and discount store chains and consultancies.

In addition to people of Indian descent who are achieving great feats, people from other Asian backgrounds are doing well too. While Black businesses have tended to be fewer and smaller, there is thankfully an emergence of Black-led businesses in areas such as consulting, technology and small business investment. This is welcome and needs to be mainstream. Yet, ethnic minority led businesses report hurdles such as a disconnection from connections and mainstream business as well as stereotyping which means they are taken less seriously due to their ethnicity. This suggests that there is still a long way to go in achieving ethnic diversity in business and makes the analysis of data necessary.

A breakdown of data relating to EMBs is revealing. The Indian sub-group of Asians were the most likely of (known ethnic groups) to be directors or owners of SMEs with and without employees, in contrast to people of Pakistani ethnic origin. Black people (especially Black Africans) were on the low rungs of the ladder.<sup>16</sup> This sheds light on a trend that sometimes emerges where Black people and some Asian people for example Pakistanis perform differently to other groups like Indian people. These differentials point to the inherent disparities between ethnic minority groups, the danger of lumping them together and the importance of collecting accurate, granular data that does not mask this.

The differences in representation of various ethnic groups both as a proportion of ethnic minority led businesses and the wider business population has various implications. For example, it could point to a higher proportion of people from ethnic minority backgrounds (or Black people for

instance) employed or preferring to be employed rather than in business. However, ethnic minority entrepreneurs have typically reported a higher Total Entrepreneurial Activity (TEA) rate than non-ethnic minority entrepreneurs since 2002.<sup>17</sup> This begs the question of whether these entrepreneurial ambitions are being realised.

Businesses led by people from ethnic minority backgrounds are also noted to be concentrated in particular sectors often low paying. For instance, ethnic minority led SME employers were more likely in information and communication (9%) and accommodation and food (7%) sectors. They were less likely in primary (none) and education sectors (1%).<sup>18</sup> The concentration in particular sectors might mean that entrepreneurs might be serving the ethnic communities they belong to and possibly solving identified problems. However, the implications of being concentrated in often low paying sectors suggests that the economic benefits of operating in high value businesses are unlikely to flow to these entrepreneurs and their communities. It has been suggested that other than choice, entrepreneurs from ethnic minority backgrounds face hurdles in breaking into other sectors including a belief from others that they do not belong in those sectors.<sup>19</sup>

Data pertaining to the entrepreneurial ventures of people from ethnic minority backgrounds sheds further light. The success rates for ethnic minority led businesses particularly Black and some Asian entrepreneurs are lower compared to those of White owners. The British Business Bank found that even when controlling for other factors such as sector, money, human and social capital and access to finance, Asian and Other Ethnic Minority entrepreneurs make up 3.4% of business owners but 8.2% of aspiring entrepreneurs who

<sup>7</sup> British Business Bank, Alone Together: Entrepreneurship and Diversity in the UK, 2021 p34

<sup>8</sup> Department for Business, Energy and Industrial Strategy, [Business Population Estimates 2021](#)

<sup>9</sup> Department for Business, Energy and Industrial Strategy, [Small Business Survey 2020: SME Employers, UK, 2020](#) (Businesses with 1-249 employees) Published August 2021, Updated January 2022 p63

<sup>10</sup> Department for Business, Energy and Industry Strategy, [Small Business Survey 2020: businesses with no employees, UK, 2020](#) Published August 2021, Updated January 2022

<sup>11</sup> FSB 'Unlocking Opportunity: The value of ethnic minority firms to UK economic activity and enterprise' July 2020

<sup>12</sup> Department for Business, Energy and Industrial Strategy, [Business Population Estimates 2021](#)

<sup>13</sup> [2] Department for Business, Energy and Industry Strategy, [Small Business Survey 2020: SME Employers, UK, 2020](#) (Businesses with 1-249 employees) Published August 2021, Updated January 2022 p63

<sup>14</sup> FSB 'Unlocking Opportunity: The value of ethnic minority firms to UK economic activity and enterprise' July 2020

<sup>15</sup> MSDUK, Minority Businesses Matter, 2021

<sup>16</sup> Department for Business, Energy and Industrial Strategy, [Small Business Survey 2020: SME Employers, UK, 2020](#) Published August 2021, Updated January 2022

<sup>17</sup> FSB, Unlocking opportunity: The value of ethnic minority firms to UK economic activity and enterprise, 2020

<sup>18</sup> Department for Business, Energy and Industry Strategy, [Small Business Survey 2020: SME Employers, UK, 2020](#) (Businesses with 1-249 employees) Published August 2021, Updated January 2022 p63

<sup>19</sup> MSDUK, Minority Businesses Matter, 2021

failed in starting a business.<sup>20</sup> Large differences in success between groups were also noted following the launch of a business. While Asian and Other Ethnic Minority business owners presented a mixed picture, where they reported less success across two measures but above average turnover, Black business owners reported substantially worse outcomes of business success across all objective and subjective measures.<sup>21</sup>

Moreover, it has been noted that taken together with other data, financial outcomes appear to be worse for ethnic minorities.<sup>22</sup> For instance, 38% of Asian and Other Ethnic Minority business owners and 28% of Black business owners asked, reported making no profit compared to 16% of White business owners.<sup>23</sup> With regards to turnover, the median for Black business owners was £25,000 compared to £35,000 for White business owners and £40,000 for Asian and Other Ethnic Minority business owners (although they had a lower median productivity).<sup>24</sup> Business performance itself showed variable results for ethnic minority groups, with declining revenues over a year (during 2019) reported by 20% of Black and 19% of Asian and Other Ethnic Minority business owners compared to 15% of White business owners.<sup>25</sup> Again, a mixed picture emerges showing poor outcomes for Black people and some Asian people within ethnic minority sub-groups but poorer outcomes for ethnic minority led businesses as a whole compared to businesses led by White people.

It is important to note that substantial growth does occur with ethnic minority led businesses and that when it occurs it is more often reported by ethnic minority led businesses compared to White business owners.<sup>26</sup> This is testament that ethnic minority led businesses can grow to become

substantially more successful than they are. It does not change the snapshot of the business landscape which shows a peculiar feature for ethnic minority owned businesses typified by poorer outcomes compared to their White counterparts.

## SOCIO-ECONOMIC FACTORS

To gain an understanding of the phenomenon outlined above, it is important to investigate the factors that contribute to success in business. Starting and running a business requires more than an idea and drive. Several socio-economic factors such as education, employment, income, home ownership and place contribute to success in business. This makes the examination of these factors critical.

### Place

London is a great city and an important one for business. London has the most businesses of any region in the UK,<sup>27</sup> is home to many high growth businesses and Europe's start-up capital. It is also a difficult place for some entrepreneurs to do business. Previous research found that Greater London had the lowest success rate, with 15% of previous aspiring entrepreneurs living in the capital, but only 11% of current business owners.<sup>28</sup>

For businesses that struggle to do well in London, the challenge of competing with a high density of other businesses, the higher levels of deprivation<sup>29</sup> and high costs of living<sup>30</sup> means entrepreneurs might have less but need stronger finances to weather challenging business conditions. This is evident by the low rate at which entrepreneurs have been found to meet their financial and non-financial

aims, with above average median turnovers but only 71% of business owners reporting making a profit (versus 84% UK-wide).<sup>31</sup>

At the same time, London as an urban city is home to most of the UK's ethnic minority population<sup>32</sup> mainly Black people and has the most ethnically diverse entrepreneur population.<sup>33</sup> Almost half (46%) of Black entrepreneurs and 33% of Asian and Other Ethnic Minority entrepreneurs in a survey were found to be in Greater London, compared to 11% of White entrepreneurs.<sup>34</sup> This suggests that for many people from ethnic minority backgrounds mainly Black and Asian people, starting a business in their familiar territory is unlikely to yield successful results. Additionally, the fact that most ethnic minority led entrepreneurs do not 'run the kind of businesses that can benefit from London's investment ecosystem'<sup>35</sup> is perhaps exemplified by the overrepresentation of ethnic minority led businesses in low growth sectors. This is concerning as it shows ethnicity intersecting with place such that ethnic minority led businesses particularly Black led businesses are less likely to be successful in business.

It is important that policies and initiatives that enable small businesses in sectors dominated by ethnic minority led businesses are boosted. Additionally, people from ethnic minority backgrounds should be made aware of and supported to access opportunities in high growth sectors.

### Education

Higher educational background is generally considered useful for business success. Although not directly related to success, education has been noted to provide work experience which

<sup>20</sup> British Business Bank, Alone Together: Entrepreneurship and Diversity in the UK, 2021 p44  
<sup>21</sup> ibid p45

<sup>22</sup> BDRC, Ethnic Minority Businesses – Analysis from the SME Finance Monitor Q1 2015 to Q2 2016, 2017.

<sup>23</sup> British Business Bank, Alone Together: Entrepreneurship and Diversity in the UK, 2021 p45

<sup>24</sup> ibid p45

<sup>25</sup> ibid

<sup>26</sup> Richard Hyde, 'Unlocking the potential of ethnic minority businesses: tackling barriers to success' (Social Market Foundation, November 2021) <https://www.smf.co.uk/wp-content/uploads/2021/11/Unlocking-the-potential-of-ethnic-minority-businesses-Nov-2021.pdf>

<sup>27</sup> Department for Business, Energy and Industrial Strategy, [Business Population Estimates 2021](#)

<sup>28</sup> British Business Bank, Alone Together: Entrepreneurship and Diversity in the UK, 2021 p51

<sup>29</sup> London Councils, Indices of Deprivation 2019.

<sup>30</sup> ONS, Relative regional consumer price levels of goods and services, 2018.

<sup>31</sup> British Business Bank, Alone Together: Entrepreneurship and Diversity in the UK, 2021 p18

<sup>32</sup> Ethnicity Facts and Figures, Regional ethnic diversity: Ethnic groups by type of location (urban or rural), 2020.

<sup>33</sup> FSB, Unlocking opportunity: The value of ethnic minority firms to UK economic activity and enterprise, 2020

<sup>34</sup> British Business Bank, Alone Together: Entrepreneurship and Diversity in the UK, 2021 p24

<sup>35</sup> ibid

many entrepreneurs possess. While a survey found many entrepreneurs (64%) to be highly qualified compared to 2% who had no qualifications, the qualifications themselves were found to be relevant to employment and learning which are useful for entrepreneurship.<sup>36</sup>

The picture for educational attainment by ethnicity is mixed and suggests an advantage by ethnic minorities over White people. However, a breakdown reveals disparities even between people from ethnic minority backgrounds which are partly reflected in entrepreneurship. In 2019, the average scores for Indian, Pakistani and Black African pupils were above the average for White British but over 5 points lower than the average for Black Caribbean for the average GSSE Attainment 8 Score.<sup>37</sup>

For the percentage of students attaining a strong pass in English and Maths, the Chinese, Indian and Black outperformed White British students, with Black African students achieving well and Black Caribbean students at the bottom.<sup>38</sup> This trend is again roughly reflected in data relating to students getting at least 3A grades at A-Level.<sup>39</sup> Moreover, while ethnic minorities are more likely to attend university than White people, Black Caribbean people are less likely to attend university. Many people from ethnic minority backgrounds however attend lower performing universities and enrol on courses with lower rates of employability. For instance, Black students constituted the lowest percentage (17.6%) of all ethnic groups who went to high tariff providers (Oxbridge and Russell Group of universities)<sup>40</sup>

It appears that the mixed educational outcomes for ethnic groups is to an extent reflected in entrepreneurship. The poorer educational outcomes for a greater proportion of Black Caribbean entrepreneurs, seems to affect their career opportunities as entrepreneurs. An analysis of a sample of entrepreneurs showed entrepreneurs with an Indian background to be most qualified on average.<sup>41</sup> This was followed by Other Asian and Other Ethnic Minority, and Black African groups which had similar educational levels and types, while White British and Black Caribbean groups were the least qualified, with 36% and 37% respectively having only A-levels as their highest qualification.

While having the highest educational attainment does not necessarily guarantee success, people without formal qualifications experience less success in business as measured by less profit, substantially lower turnover and lower productivity.<sup>42</sup> This makes improving the educational outcomes for people from ethnic minority backgrounds imperative. Moreover, the remarkable results (highest median turnover and productivity) associated with people<sup>43</sup> whose highest education was an apprenticeship or vocational course requires that the low vocational skills training rates among ethnic minorities is addressed and government schemes maximised for these groups.

In this regard, the government's acknowledgment of some of the issues affecting the disparity in education outcomes for ethnic groups is welcome and the commitments made should be progressed.<sup>44</sup> The government should ensure (by working with relevant stakeholders) that its promised state scholarship is inclusive from an ethnicity point of view, widely known of by people from ethnic minority backgrounds and capable of being maximised by them. For higher education, it is important that it delivers on commitments to ensure students from ethnic minority backgrounds can make

ambitious decisions about the courses they choose and universities they attend to reduce the drop-out rate and increase their chances of enrolling on high quality courses at higher tariff universities. The HSBC-led government competition-based, entrepreneur support programme on entrepreneurship in universities is a commendable initiative. Sustained efforts should be made to keep feedback from businesses and people from ethnic minority backgrounds at the heart of it. It should also be inclusive and capable of being utilised by people from a wide variety of ethnic minority backgrounds.

With regards to vocational training, the government should ensure that the DWP's engagement with ethnic minority representatives is thorough and business focused, while reaching the communities of minority ethnic groups. Its communications campaign [Get the Jump: Skills for Life](#) featuring ethnic minorities in the campaign imagery should be measured for effectiveness.. It should deliver on commitments to track the apprenticeship uptake by ethnic minorities and go further to measure their participation in other vocational routes.

## Employment

Previous employment is an important contributor to success in business. Careers prior to starting a business have been found to be strongly related to success as an entrepreneur. People previously working full-time have been known to have a median turnover six times that of those previously working part-time and the previously self-employed have also been noted to see more success.<sup>45</sup>

The employment rate for ethnic minorities is lower compared with the employment rate for white workers.<sup>46</sup> This gap is even more pronounced for some ethnic groups, for

<sup>36</sup> British Business Bank, Alone Together: Entrepreneurship and Diversity in the UK, 2021 p24

<sup>37</sup> Strand, S, (2021), 'Effects of Ethnicity and Socio-economic Status on Attainment', University of Oxford. Available at: <https://www.gov.uk/government/publications/the-report-of-the-commission-on-race-and-ethnic-disparities-supporting-research/ethnic-socio-economic-and-sex-inequalities-in-educational-achievement-at-age-16-by-professor-steve-strand>

<sup>38</sup> Ethnicity Facts and Figures, (2020), 'GCSE English and maths results', England, 2018 to 2019 school year. Available at: <https://www.ethnicity-facts-figures.service.gov.uk/education-skills-and-training/11-to-16-years-old/a-to-c-in-english-and-maths-gcse-attainment-for-children-aged-14-to-16-key-stage-4/latest>

<sup>39</sup> Ethnicity Facts and Figures (2020), 'Students getting 3 A grades or better at A level' Available at: <https://www.ethnicity-facts-figures.service.gov.uk/education-skills-and-training/a-levels/apprenticeships-further-education/students-aged-16-to-18-achieving-3-a-grades-or-better-at-a-level/latest#by-ethnicity>

<sup>40</sup> [Inclusive Britain: government response to the Commission on Race and Ethnic Disparities, 2022](#)

<sup>41</sup> British Business Bank, Alone Together: Entrepreneurship and Diversity in the UK, 2021 p24

<sup>42</sup> British Business Bank, Alone Together: Entrepreneurship and Diversity in the UK, 2021 p60

<sup>43</sup> *ibid* p60

<sup>44</sup> [Inclusive Britain: government response to the Commission on Race and Ethnic Disparities, 2022](#)

<sup>45</sup> British Business Bank, Alone Together: Entrepreneurship and Diversity in the UK, 2021

<sup>46</sup> [Race in the workplace: The McGregor-Smith Review - GOV.UK \(www.gov.uk\)](#)

instance, those of Pakistani or Bangladeshi background. These discrepancies in employment outcomes are worrying considering the expectation for a university degree to increase wages. Research shows that despite 54.9% of Asian and 48.6% of Black students getting into university compared to 33.3% of White students<sup>47</sup>, White graduates are more likely to enter graduate roles following university<sup>48</sup>. The choice of universities and courses as well as drop-out rates of people from ethnic minority backgrounds might partly explain this. However, it is still concerning that of Black people in the UK who are employed, this is much less likely to be in a graduate role. Research by the Higher Education Statistics Agency has also shown that in the Academic years 2017/18 to 2018/19, only 10,825 Black graduates were in full time work compared to 147,825 White graduates.<sup>49</sup>

Since the development of human capital through employment correlates with success in business, this suggests that the entrepreneurial ambitions of people from ethnic minority backgrounds are likely to be impeded by the poor employment outcomes associated with them. Moreover, advancement on the career ladder into leadership and managerial roles further enables the honing of skills and harnessing of talent. This makes the underrepresentation of people from ethnic minority backgrounds especially Black people in roles as managers, directors and officials in the workplace<sup>50</sup> problematic as it reduces their likelihood to further develop relevant human capital and subsequently build profitable businesses. While some progress is being made, much more is needed to drive genuine (structural, representative and cultural) change. In November 2020, 21 FTSE 100 companies had no ethnic minority representation on their boards. Ethnic diversity on FTSE 100 companies' boards rose from 52 to 74 between January and November

2020. Seven more businesses reported appointing a director from a minority ethnic group by March 2021<sup>51</sup>. Steady improvement in this direction is therefore necessary for improving diversity in business. This point is echoed by previous findings that the lack of opportunity to develop skills and knowledge through holding senior positions in the workforce, can make the transition into entrepreneurship harder as a result.<sup>52</sup>

Employment may also offer avenues for building personal and professional networks which are considered important sources of information and advice. The importance of accessing these networks for entrepreneurial success cannot be overemphasised as a source of business support, otherwise hard to obtain information and advice on refining a product or service. This is underscored by the positive relationship useful advice has been found to have with higher median turnover and productivity by all entrepreneurs.<sup>53</sup> It makes the noted challenge of some under-represented groups accessing these networks<sup>54</sup> and the poor employment opportunities for people from ethnic minority led backgrounds regrettable.

To address these issues, employers should adopt and implement policies that enable them to attract, retain and promote staff from ethnic minority backgrounds. This includes widely advertising in areas that can attract people from ethnic minority backgrounds and the use of apprenticeships and vocational training to train staff. The Government's new-in work support offer including the appointment of Progression Champions is a welcome step in boosting the progression of ethnic minority staff in work. Both the government and its officials and employers should work together to ensure that the progression plans are underpinned by the development of skills that equip people to climb the career ladder.

Boosting employment opportunities for people from ethnic minority backgrounds is likely to increase the likelihood of their exposure to formal networks. Senior management and human resources personnel should also take steps to collect and act on feedback to promote the involvement of staff from ethnic minority backgrounds into such networks.

Importantly, the growing launches of ethnic minority networks by organisations is useful but attention should be focussed on facilitating links between these into the mainstream business landscape. London Chamber of Commerce's [Black Business Association](#) and [Asian Business Association](#) are examples of initiatives to bring the Black and Asian communities together while fostering their links to the wider London business and finance community.

The government's commitments relating to employment have the potential to address some of the issues identified.<sup>55</sup> The proposed creation of the 'Inclusion at Work Panel' to help employers drive fairness across organisations is welcome. Efforts should be made to include representatives of businesses of a wide sectors and sizes to bolster the elements on race. The Equality Hub by government should also be devised with the aim of facilitating access to clear and robust advice on employment relations. The government's commitment to create new updated guidance on positive action to support employers and industry sectors is welcome. It should engage with employers to shape the guidance.

The proposed 'Inclusion Confident' Scheme which includes an evidenced framework for improving race equality and progression should be underpinned by diverse engagement and capable of being used widely. Employers should also engage with and sign up to the scheme when launched.

<sup>47</sup> [Entry rates into higher education - GOV.UK Ethnicity facts and figures \(ethnicity-facts-figures.service.gov.uk\)](#)

<sup>48</sup> Higher Education Statistics Agency, Graduate Outcomes Statistics: UK 2018/19 Available at: [Higher Education Graduate Outcomes Statistics: UK, 2018/19 - Graduate activities and characteristics \]](#)

<sup>49</sup> *ibid*

<sup>50</sup> CIPD, Addressing the [Baddressing-the-barriers-to-BAME-employee-career-progression-to-the-top\\_tcm18-33336.pdf \(cipd.co.uk\)](#)

<sup>51</sup> [Ethnic diversity of UK boards: the Parker review - GOV.UK \(www.gov.uk\)](#)

<sup>52</sup> British Business Bank, Alone Together: Entrepreneurship and Diversity in the UK, 2021

<sup>53</sup> *ibid* p61

<sup>54</sup> FSB, Unlocking opportunity: The value of ethnic minority firms to UK economic activity and enterprise, 2020

<sup>55</sup> [Inclusive Britain: government response to the Commission on Race and Ethnic Disparities, 2022](#)

## Income

Income affects business success. Previous research confirming this showed that business owners with household income of £75,000 had a median turnover 12 times that of those with an income of under £20,000<sup>56</sup>. This poses a conundrum for people from ethnic minority backgrounds who for diverse reasons have less income compared to their White counterparts.

Black, Asian and other minority ethnic workers are paid less than their white counterparts with previous research showing a £3.2 billion gap yearly on average.<sup>57</sup> Research by the Resolution Foundation think tank also found that Black male graduates were being paid 17% less than white male graduates – the equivalent of £3.90 an hour or £7,000 over a year.<sup>58</sup> Between 2015-2018, Black households were most likely out of all ethnic groups to have a weekly income of less than £400. Indian households were however most likely to have a weekly income of £1000 or more.<sup>59</sup> This is another statistic which highlights how the grouping together of people from ethnic minority backgrounds masks key differentials in inequality across ethnic minority groups. It also points to factors such as the overrepresentation of Black people in London, where the cost of living is high and levels of deprivation similarly high. Critically, it emphasises that despite differentials between minorities, ethnic minorities perform worse compared to White people with Black people in particular lagging behind, affecting the disposable income available to start and sustain a business.

A breakdown of a survey by income and ethnicity of entrepreneurs confirms this. For entrepreneurs at the low household income of below £20,000, 23% of them were Black Caribbean and 22% of Other Asian and Other

Ethnic Minority background. For White and Black African entrepreneurs this was 17-19%.<sup>60</sup> At the high-income end of £75,000, this was 16% of Black Caribbean and 17% of Other Asian and Other Ethnic Minority entrepreneurs. For White and Black African entrepreneurs this was 18-20%. Again, Indian entrepreneurs were distinct as an ethnic minority with only 8% of household incomes below £20,000 and 22% above £75,000.

Measures to address these challenges, especially through skills training and monitoring pay gaps are needed. The Independent In-work Progression Commission's<sup>61</sup> report highlighted the importance of lifelong learning to boost pay. It is important to promote lifelong learning and progression pathways for people to develop skills and qualifications to access higher paying roles that help them in business and increase their income for entrepreneurial ventures. The Government's Lifelong Learning Entitlement in conjunction with effective skills training have the potential to increase the earnings of ethnic minorities. This should be promoted to people from ethnic minorities to enable them to maximise them.

The government's commitment to publish guidance to employers on voluntary ethnicity pay reporting<sup>62</sup> also has the potential to embolden employers who are keen to address ethnicity pay gaps and to incentivise ethnicity pay gap overall. The guidance should be simple and capable of being used by a wide range of businesses irrespective of size and sector.

## Home Ownership

Finally, the importance of home ownership to building a business cannot be overlooked. Home ownership provides not only the security for securing funds for building a business

but can be potential income (when sold) for building a business. The English Housing Survey for 2017-2018 showed disparities for home ownership between people of different ethnic backgrounds. Black citizens are on the lower rung of the property ladder, below the national average of 63%.<sup>63</sup> On the contrary, 75% of Indian households were homeowners, as were 68% of white British households. The disparities between Black African and Black Caribbean home ownership rates on the lower spectrum, at 20% and 40% respectively may be due to the prior arrival of Caribbeans to the UK and initiatives such as Padna in African Caribbean communities where members take turns to save and draw on funds.<sup>64</sup> These might have enabled them to accumulate capital and benefit from schemes such as the 1980 Housing Act.

Moreover, the racial disparity in home ownership may be attributed to the combined effect of black people earning less than white people, being an average 10 years younger than white people<sup>65</sup> and concentrated in London, the city with the high prices in the UK and particularly within Lambeth where a 76% rise in prices was noted.<sup>66</sup> Nonetheless, this feature is worrying. As is discussed below, some of the criteria for securing funding for business would be the ability to provide collateral which usually comes in the form of one's ability to borrow against the value of their house. It is clear however that the current situation whereby people from ethnic minority backgrounds lag behind is unfavourable for accruing funds or having collateral to support their businesses.

The examination of the above socio-economic factors has shown a mixed picture between sub-groups for ethnic groups highlighting the importance of granular data. Moreover, it

<sup>56</sup> British Business Bank, 'Alone, together: Entrepreneurship and diversity in the UK' October 2020

<sup>57</sup> Topham, G. 2018. £3.2bn UK Pay Gap for Black, Asian and Ethnic Minority Workers." The Guardian. [www.theguardian.com/money/2018/dec/27/uk-black-and-ethnic-minorities-lose-32bn-a-year-in-pay-gap](http://www.theguardian.com/money/2018/dec/27/uk-black-and-ethnic-minorities-lose-32bn-a-year-in-pay-gap).

<sup>58</sup> Resolution Foundation, Opportunities Knocked? Exploring pay penalties among the UK's ethnic minorities July 2018

<sup>59</sup> Department for Work and Pensions 2019 Family Resources Survey 2017/18

<sup>60</sup> British Business Bank, Alone Together: Entrepreneurship and Diversity in the UK, 2021 p28

<sup>61</sup> Department for Work and Pension, [Independent In-work Progression Commission: Supporting progression out of low pay: a call to action](https://www.independent.gov.uk/independent-in-work-progression-commission-supporting-progression-out-of-low-pay-a-call-to-action)

<sup>62</sup> [Inclusive Britain: government response to the Commission on Race and Ethnic Disparities](https://www.independent.gov.uk/inclusive-britain-government-response-to-the-commission-on-race-and-ethnic-disparities), 2022

<sup>63</sup> Ministry of Housing, Communities & Local Government, English Housing Survey 2017-2018: Headline Report,

<sup>64</sup> Fawehinmi, Y. 2019. "Why Are Home Ownership Levels among Black Households so Low?" The Telegraph. [www.telegraph.co.uk/property/buy/home-ownership-levels-among-blackhouseholds-low/](http://www.telegraph.co.uk/property/buy/home-ownership-levels-among-blackhouseholds-low/).

<sup>65</sup> "Age Groups." GOV.UK Ethnicity Facts and Figures, Office for National Statistics, 31 July 2019. [www.ethnicity-facts-figures.service.gov.uk/luk-population-by-ethnicity/demographics/agegroups/latest/black-ethnic-groups-age-profile](https://www.ethnicity-facts-figures.service.gov.uk/luk-population-by-ethnicity/demographics/agegroups/latest/black-ethnic-groups-age-profile)

<sup>66</sup> Bounds, Andy. "Black-Owned Businesses Struggle to Find Investors." Subscribe to Read | Financial Times, 30 June 2020. [www.ft.com/content/4f7ab34c-5a70-4caeb04d-1c90ed1a230e](https://www.ft.com/content/4f7ab34c-5a70-4caeb04d-1c90ed1a230e).

is clear that while ethnicity does not exist in a vacuum but interacts with socio-economic factors such as education, employment and wages, income earnings and savings in influencing people's ability to set up and build businesses, ethnicity itself plays a strong role in the success of business owners.

Of course, these phenomena are underpinned by historical and social factors. Waves of immigration for example, have affected when, how and where particular ethnic groups settled, their life chances and what enterprise they undertook. The government's commitment to investigate the structural issues that impact immigrants through a new, cross-government analytical work programme is welcome.<sup>67</sup> It should endeavour to include expertise from stakeholders in business to shape this.



<sup>67</sup> [Inclusive Britain: government response to the Commission on Race and Ethnic Disparities](#), 2022

## MONEY AS A KEY INGREDIENT FOR BUSINESS

It is evident from the above examination that while education, employment and income individually affect entrepreneurship, they all cumulatively influence disposable income which in turn, affects business success. It comes as no surprise that ethnic minorities have relatively lower levels of savings or assets than White British people.<sup>68</sup> For every £1 of wealth held by White British households, Indian households have 90–95p, Pakistani households have about 50p, Black Caribbeans around 20p, and Black African and Bangladeshi approximately 10p.

This disparity in wealth rather than the substance of an idea or the amount of time in developing it, contributes significantly to ethnic minority led businesses lagging behind in business. For instance, Black aspiring entrepreneurs have been found to be twice as likely as White aspiring entrepreneurs to be spending three or more days a week working on their idea. Also, almost half (48%) of those from a Black Caribbean background, and 38% of entrepreneurs from an Indian background have been known to spend three or more days a week.<sup>69</sup> Similarly, Black aspiring entrepreneurs have been found much more likely to have spent £1,000 or more developing their idea in stark contrast to White entrepreneurs who are far more likely to have spent less than £100. While this shows Black and Asian entrepreneurs in this instance, going the extra mile, it also highlights the unfortunate reality that people from ethnic minority backgrounds with less money, have to spend more money and time to work on an idea.

When it comes to preparing to launch, entrepreneurs with pre-existing money are able to invest both time and money, two critical ingredients for success into developing their businesses. 22% of aspiring entrepreneurs with incomes of £75,000 or more had spent over £5,000 developing their

idea, compared to just 4% of those with incomes less than £20,000. The average time spent developing the idea was also higher among business owners with income of £75,000 or more from the same report. This unsurprisingly translated into success increasing with income on both financial and non-financial aims. 87% of business owners with income of £75,000 or more reported making a profit in the previous year, compared to 76% of those with income below £20,000. These wealthier business owners were nearly twice as likely to have seen their business grow by at least 20% the year before. The link between ethnicity and income for success in business therefore raises concerns especially for Black people and some Asian entrepreneurs.

Once an entrepreneur moves from business idea to business development, the link between money and success and the racial disparity becomes further evident. The completion of more business development activities has been strongly related to success for all groups of entrepreneurs with the number of activities rising with income, further contributing to wealthier entrepreneurs' success.<sup>70</sup>

In this regard, it is worrying that some groups of under-represented entrepreneurs particularly some Asian and Black entrepreneurs were found to complete fewer such activities. With access to advice and finance associated with doing more business development activities, and receiving advice more strongly related to making a profit, it seems that Black and Asian entrepreneurs who have less money are less likely to be able to build higher value businesses.

<sup>68</sup> Runnymede Trust, The Colour of Money How racial inequalities obstruct a fair and resilient economy, 2020

<sup>69</sup> British Business Bank, Alone Together: Entrepreneurship and Diversity in the UK, 2021 p37

<sup>70</sup> British Business Bank, Alone Together: Entrepreneurship and Diversity in the UK, 2021 p56



# ACCESS TO FINANCE

The importance of money in business has already been noted. With personal income being a problem for people from ethnic minority backgrounds, this suggests their need of access to external finance.

The UK start-up financing scene is notoriously clunky, with funding difficult to access. Sadly, poorer entrepreneurs face the biggest challenges in obtaining finance. Substantially more entrepreneurs with income below £20,000 cite 'difficulties getting finance' as the reason they stopped working on their business idea compared to other groups with more household income. For Black, as well as Asian and Other Ethnic Minority entrepreneurs this was the reason why 39% and 49%, respectively, stopped working on their business idea compared to White British at 25%.<sup>71</sup> People from an Indian background mostly stopped due to finance. This suggests that in contrast, those who are richer – and often from White backgrounds – can 'try, fail, and try again' in their pursuit of entrepreneurial success.<sup>72</sup>

In the absence of personal income and wealth, savings can be a lifeline for people with low income who when asked said they would draw on personal savings (half of them) or be unable to source the money (five times more likely) if they needed to invest £10,000 in their business.<sup>73</sup> Yet, by the measures of disposable income and home ownership already noted for ethnic minorities, it is clear that they are likely to face disadvantages.

This creates a negative cycle because a higher proportion of personal savings allocated into the capital of a business implies that one has less disposable income, savings and would be less likely to have excess funds to purchase property. With

the previously established position of lower home ownership among Black communities this is likely to affect their access to funding and business start-up rates.

## Banks and financial institutions

Banks and financial institutions are a key source of funding which business owners from ethnic minority backgrounds should be able to maximise. Since 2012, 22% of loan recipients of the £500 million British business bank start-up loans programme have come from Black, Asian and other ethnic minority backgrounds.<sup>74</sup>

Yet, it seems that access to finance is not always maximised by ethnic minority led business owners. It appears that around one in five Black ex-business owners closed their business because of difficulties getting finance in a survey conducted. This figure compares to around one in twenty for Asian and Other Ethnic Minority and White ex-business owners.<sup>75</sup> There is also a noted higher proportion of rejection for loans of people from ethnic minority backgrounds compared to White counterparts. Pakistani firms are 1.5 times more likely, Bangladeshi firms are 2.5 times likely, Black Caribbean firms are 3.5 times likely and Black African firms are 4 times more likely than white firms to be denied a loan outright.<sup>76</sup>

Ethnic minority-led businesses also report hurdles in their interactions with banks, for example in opening bank accounts and applying for loans and tend to be averse to taking on debt.

This can stem from previous negative experiences or general long-held perceptions about interactions with banks, among other reasons. Black ethnic businesses owners report fearing prejudice from financial providers more than any other group, as almost half (44%) of Black African and 39% of Black Caribbean express this sentiment in comparison to 31% of Bangladeshi, 21% of Pakistani, 9% of Indian firms and 4% of white firms.<sup>77</sup>

The unfortunate consequence of this is that already disadvantaged groups have to rely on personal savings which would otherwise have been disposable income, savings or funds for purchasing a property, factors all established to help build businesses. Considering the low acceptance rates of credit for ethnic minority owned firms, the aversion to applying for funding even where it is government-backed is also concerning. A survey by Extend Ventures and YSY found that almost half (48%) of ethnic minority-led companies did not seek or expect to qualify for government support schemes during the pandemic.<sup>78</sup> These challenges point to a clear need to better understand negative perceptions among ethnically diverse business communities and for steps to be taken to address them. Examples of the challenges faced tend to be highlighted anecdotally.

Banks and financial institutions should work to collect data with a granular breakdown of who interacts with them and is successfully able to access loans and services. HSBC's [Black Business Matters](#) and Lloyds [Bank's Black Business Advisory Committee](#), which were established to investigate and tackle issues raised by the Black business community, provide

<sup>74</sup> <https://www.british-business-bank.co.uk/press-release/british-business-bank-start-up-loans-programme-lends-500m-to-uk-small-businesses/>

<sup>75</sup> British Business Bank, Alone Together: Entrepreneurship and Diversity in the UK, 2021 p57

<sup>76</sup> Carter, Sara, et al. "Barriers to Ethnic Minority and Women's Enterprise: Existing Evidence, Policy Tensions and Unsettled Questions." International Small Business Journal: Researching Entrepreneurship, vol. 33, no. 1, 2015, 49–69.

<sup>77</sup> Department for Communities and Local Government, Ethnic Minority Businesses and Access to Finance. Available at [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/225762/EMBs\\_and\\_Access\\_to\\_Finance.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/225762/EMBs_and_Access_to_Finance.pdf) page 13

<sup>78</sup> Extend Ventures, Impact of COVID-19 on Black and Ethnic Minority-Led Businesses Reports, 2020

<sup>71</sup> Ibid p57

<sup>72</sup> Ibid p56

<sup>73</sup> Ibid p56

excellent examples to build on to monitor and address the perceived and actual experiences of ethnically diverse business owners with accessing banking services.

More data is needed to paint a clearer picture of these challenges and to therefore support the public and private sectors to take effective action. Educating and encouraging business owners from ethnic minority backgrounds, particularly Asian and Black business owners, to apply for funding is necessary for increasing the number who take advantage of the various funding options to grow their businesses. Steps must be taken across the public and private sectors to address negative perceptions amongst ethnic business communities about taking on debt and improving trust in the availability of financial support. This can be achieved through targeted campaigns. However, it is critical that there is engagement with key stakeholder in these communities to establish the right channels and messaging.

Previous research highlighted that greater risk due to the lack of collateral, asymmetric information between ethnic minorities and financial institutions and differences in creditworthiness rather than discrimination possibly accounted for the restricted access to funding.<sup>79</sup> It is worth stressing however that the transactional (credit-scoring based) and relationship lending type of lending technique used by financial institutions lead to ethnic minorities being denied credit opportunities. This contributes to inadequate funding for business ventures and lower start-up rates. Accordingly, a review by banks and financial institutions of their lending practices would be helpful to eliminate requirements that place hurdles in the path of ethnic minority owned businesses.

A Warwick Business School Report on the effect of the 2008 global financial crisis on bank lending to SMEs, found that during the recession that followed, Black-African owned businesses were 11.9% more likely to be rejected for an overdraft and 14.4% more likely to be rejected for a term loan than white-owned businesses. Those that did secure

overdrafts paid margins that were 2.12% points higher.<sup>80</sup> It is important that in a post-pandemic era, this phenomenon is not repeated and that ethnic minority led businesses are able to access funds to build their businesses and make up for the shortfall created by the lack of personal saving and effects of the pandemic. Government should also consider giving incentives to lenders, who consistently perform well on racial lending indicators.

Targeted programmes should be introduced to assist ethnic minority-led businesses to access finance. There should also be wide promotion of these schemes to ensure that those who can benefit the most are fully aware of opportunities.

## Venture Capital

Venture Capital (VC) is another important source of funding for business owners. Yet, research points to worrying trends in ethnic minority business founders' access to funding. Indeed, a survey by Cornerstone highlighted the dependence of Black and Asian entrepreneurs on their own finances for long periods of time and the use of personal savings and friends & family as a "lifeline".<sup>81</sup>

Although 2019 was pointed to as a "record year" for UK venture capital, with over \$13.2 billion invested in start-ups, less than 2% of that investment went to all-minority ethnic founding teams. The worst outcomes were experienced in the Black business community. Only 38 Black entrepreneurs received venture capital funding between 2009 and 2019. With their teams, Black entrepreneurs represented 0.24% of the total amount invested.<sup>82</sup> This highlights the importance of investigating and addressing barriers for Black people to access venture capital. It is also not uncommon for Asian business owners to invest in Asian businesses. However,

what is concerning is the level of investment from non-Asian investors in Asian businesses. There appears to be a cultural and trust issue and barriers such as these need to be removed for Asian business owners to take advantage of these opportunities.

Additionally, evidence suggests concerning links between being in the 'right circles' and access to venture capital. Cornerstone's research found that only 7% of founders with VC funding did not go to university, with 72% of VC-funded founders reporting that they had either been to a 'top tier' (Russell Group or equivalent) or 'exclusive' (Oxbridge or equivalent) university.<sup>83</sup> This raises concern when considered in light of the noted educational outcomes for some ethnic minority groups. For instance, since Black Caribbeans are less likely to proceed to higher education, and people from minority ethnic groups are less likely to have attended highly ranked universities or completed their courses, their ability to access external Venture Capital for their business will likely be limited.

Equity providers should work with trade bodies to create clear, practical guidance for improving access to funding and eliminating exclusionary practices that create (and sustain) barriers to raising capital. The [Diversity VC Standard](#) launched by leading European and Canadian funds is a practical example of what can be delivered.

It should play its part in boosting initiatives focused on helping ethnic minority founders to scale up, supporting their access to capital and information. This can be achieved by setting up independent programmes or partnering with organisations already delivering such support. Lessons can be learned from examples in the United States, where affirmative action legislation underpins corporate endeavours, and where a number of initiatives have been established to support and drive investment in businesses set up by founders from minority ethnic groups. These include [One Million Black Women](#) by Goldman Sachs and HarbourVest's [Horizon](#).

<sup>80</sup> Warwick Business School, The Impact of the Financial Crisis on Bank Lending to SMEs, July 2012 [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/24739/12-949-impact-financial-crisis-on-bank-lending-to-smes.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/24739/12-949-impact-financial-crisis-on-bank-lending-to-smes.pdf)

<sup>81</sup> Cornerstone, The Cornerstone report: Access to venture capital, 2021

<sup>82</sup> Extend Ventures, Diversity Beyond Gender, 2020

<sup>83</sup> Cornerstone, The Cornerstone report: Access to venture capital, 2021

In the UK, we must do much more to build on the positive examples established to date. The increasing recognition of and efforts to tackle the critical area of gender diversity in the UK, particularly following the Alison Rose Review of Female Entrepreneurship, provides a blueprint for tackling ethnic diversity in the UK.<sup>84</sup> The [UK Enterprise Fund \(UKEF\)](#) by Coutts and the Business Growth Fund – established to boost women’s access to capital, preparedness for investment and networking – all provide clear examples of the types of initiatives that can be developed to support ethnic minority entrepreneurs. At the same time, a Strategic Growth Fund established by Government that specifically targets and supports ethnic minority entrepreneurs would be a particularly welcome and inclusive measure. Government should also support and work with entrepreneurial ecosystems, that build strong networks for capital, expertise and information to flow between Black and Asian people. This could be through online training, incubator programs and webinars.

Building on positive programmes that have been initiated by private sector organisations, particularly within the financial services industry, is also crucial. These can play a pivotal role in increasing the number of innovative initiatives tailored to the funding needs of these entrepreneurs, like the programmes run by [Foundervine](#).

Moreover, data on the funding particularly of Black and Asian entrepreneurship is sparse, with existing information obtained mainly through creative ways. Government should allocate funding to researching the funding of Black and Asian entrepreneurship through Venture Capital in the UK.

## Venture Capital funding: under-representation on the supply side

The under-representation of ethnic minority employees and investors within the Venture Capital industry is believed to

be a contributing factor in the chronic underfunding of ethnic minority-led businesses through venture capital.

Representation within senior private equity and venture capital is low, with a particular under-representation of Black employees. While 17% of senior private equity and venture capital professionals identified as Black, Asian or of other minority ethnic origin in a survey by BVCA and Level 20, only 1% were Black.<sup>85</sup> Low levels of ethnic diversity among investors are equally noteworthy. Data collected by Diversity VC found that only 3% of venture capitalists in London identified as Black, 14% were of Asian origin and 5% of mixed heritage.<sup>86</sup> This highlights a significant disproportion particularly in context of the percentage of London’s overall workforce who identify as Black.

Diversity internships create positive opportunities to increase the representation of ethnic minorities at entry level in the industry and bridge gaps for ethnically diverse founders in the future. Initiatives such as [Future VC](#) and the [Newton venture program](#) are supporting this progress, but the scale of the challenge means that more of these internships need to be developed.

Companies should review and improve recruitment processes including incorporating a Diversity and Inclusion policy to attract and recruit people from diverse backgrounds, drawing on the examples of blind recruitment and contextual recruitment. Firms should also boost diversity at the top of their organisation(s). Increased representation of ethnic diversity at the top level of management and on company boards will support a trickle-down effect in the VC industry.

The noted importance of professional networks points to their potential to help entrepreneurs to navigate the venture capital landscape and get feedback which may enable them to secure funding. Professional networks for financial institutions and lenders should endeavour to forge relationships with

informal networks that ethnic minority business leaders tend to belong to. Similarly, the professional networks set up by business organisations should facilitate such collaborations as well as provide support, information and advice relevant for securing support and funding.

## Investing in Ethnic Minorities Code

For both access to funding from banks and venture capital, the success of the Investing in Women Code,<sup>87</sup> is instructive. The code committed financial institutions to collect and report gender disaggregated data and take further action to improve female entrepreneurs’ access to the tools, resources and finance needed to grow successful businesses is instructive. This is the kind of ambition that should be set for supporting ethnically diverse entrepreneurs. It is therefore welcome news that the Government has committed to work with Code signatories on a voluntary basis to pilot data collection on ethnicity as well as gender and report on the findings. Financial institutions should sign up to improve access to finance and the entrepreneurial ambitions of people from ethnic minority backgrounds.

<sup>84</sup> HM Treasury, The Alison Rose Review of Female Entrepreneurship, 2019

<sup>85</sup> BVCA, Diversity and Inclusion Survey 2021

<sup>86</sup> Diversity VC and OneTech, Venturing into Inclusion and Diversity, 2019

<sup>87</sup> [Investing in Women Code - GOV.UK \(www.gov.uk\)](#)

# PUBLIC SECTOR PROCUREMENT

Procurement is a key means by which diversity can be delivered especially as it involves the use of public funds. More than a decade ago the CBI highlighted procurement's potential for increasing diversity and for spreading good practice in the private sector through more systemic use of the public purchasing power.<sup>88</sup> Nonetheless, there remain concerns about low numbers of ethnic minority business owners involved or actively engaged in public sector procurement. Black, Asian and ethnic minority led businesses report barriers to engaging with public procurement opportunities. The problem is prevalent within industries such as construction and housing. Among others, this stems from unhelpful industry practice, the disproportionate effect of perennial problems like skills and training issues on ethnic minorities, and insufficient concerted effort by local and central government to boost representation of ethnic minorities, especially where this is a result of procurement policies and procedures.

## Skills issues

The incidence of and over-representation of skills gaps among ethnic minorities poses problems for ensuring there is a pipeline of people from ethnic minority backgrounds who can undertake procurement. This is especially the case in London (where there is a low uptake of apprenticeships) and sectors where skills shortages are prevalent. Government initiatives like apprenticeships, T-Levels among others are a starting point. The Mayor of London has taken welcome steps with the introduction of initiatives like the Mayor's Construction Academy. Effective careers advice and proactive measures are needed to ensure that people from ethnic minority

backgrounds are aware of these schemes and maximise them to ensure a skilled workforce that can utilise procurement opportunities.

## Industry issues

The way industries operate is believed to correlate with the representation of ethnic minorities within. The attraction and retention of individuals and other practices affects the representation of ethnic minorities within the industry, their ability to thrive and to secure publicly procured contracts. An EHRC inquiry into the construction industry in 2009,<sup>89</sup> highlighted a lack of awareness of the diversity of roles in the sector and the informal, word-of-mouth method of recruiting that contributed to an attraction of fewer minority ethnic groups. The retention of ethnic minorities was also impacted by outright racist behaviours (although this had reduced), and culture like banter.

Sadly, this picture continues to be painted in present times, with EG's inaugural survey into race<sup>90</sup> across the real estate sector profiling the experiences of ethnic minorities within the industry. Many are either not attracted to or inclined to stay because they find their environments hostile and are frequently passed and or overlooked for promotion or not even considered likely to succeed. Ethnically diverse business owners, particularly in the Black community, report being denied or taken off contracts because of a lack of trust or perceived outsider status by people with power. As a coping strategy, others have resorted to concealing their

ownership of businesses in a bid to attract contracts.<sup>91</sup> As a related consequence there are few ethnic minority-led businesses accessing procurement opportunities (government contracts).<sup>92</sup> This reduced access to procurement for ethnic minority businesses is a significant concern considering the rightful expectation that public money is spent in a way that promotes equality of opportunity and the benefits of supplier diversity.

The existence of good practice within industry includes efforts to improve oversight on flagship projects. The Balfour Beatty/Vinci (BBV) HS2 joint venture which put diversity and inclusion clauses in all its supply chain contracts, with sub-contractors' diversity practices scored on an ongoing basis and progress measured bi-annually is an example.<sup>93</sup> However, the disparity between the scores of ethnic minorities and white people on their perception of racism in the construction industry for example suggests the need for industry wide action. Industry leaders should facilitate discussions on issues as well as share and promote examples of good practice.

## Government policy

The focus on inclusion of Small and Medium Enterprises (SMEs) skews the balance against ethnic-minority led businesses who are more likely to be micro-businesses (with up to 10 employees), or operating (mainly) with a self-employed business structure either as a sole trader or in a

<sup>89</sup> Race Discrimination in the Construction Industry Inquiry Report Executive Summary, Equality Human Rights Commission,

<sup>90</sup> EG, Race Diversity Survey, 2020

<sup>91</sup> Construction News, Racism Exposed – Why Black Owned Construction Businesses Hide Their Identity, 2020

<sup>92</sup> Philippe Legraine and Martin Fitzgerald, The Contribution and Challenges of Minority Ethnic Business in the UK, 2021

<sup>93</sup> Construction News, Diversity and Inclusion Excellence – Finalists - [Diversity and Inclusion Excellence: Finalists | Construction News](#)

<sup>88</sup> Public Consultation on the Equalities Review Interim Report, 2007.

partnership. The predominance of these business structures also means they have less capacity and fewer employees to navigate the completion of several long and complicated forms including Pre-Qualification Questionnaires (PQQ) and accreditation and assessment schemes required for securing government contracts.<sup>94</sup> Moreover, issued guidance have been difficult to understand and navigate, particularly for those experiencing language barriers, who are likely to include people from ethnic minority backgrounds. The consequence of this is an eventual under-representation of ethnic minority owned businesses accessing procurement opportunities. The expectation for potential suppliers to have a track record also contributes to making this a vicious cycle. The introduction of the PAS91 as a form of standardised questionnaire was a welcome step. However, the non-compulsory nature of the guidance has led to the questioning of its effectiveness.

Previous research pointed to the need for capacity building in minority-owned businesses.<sup>95</sup> Without tailored government support, ethnic minority led business owners are likely to lag behind as they are less likely to have access to relevant contacts, knowledge and support. Although their accessing of government support has increased, they are still more reliant on informal networks and sources of support. This is particularly the case for Asian and Black owned businesses. Alongside looking at introducing minimum commercial spend target percentages for the inclusion of ethnic minority-led businesses, application processes and related guidance will need to become much more accessible, proportionate and easily understandable, in seeking to boost supplier diversity.

The Government's Green Paper on procurement<sup>96</sup> is an opportunity to make procurement more inclusive. With

a focus on a simpler regulatory framework, ensuring transparency, simplifying processes and delivering public good, it has the bearings of a starting point for a new procurement regime that could better level the playing field and enable ethnic minority businesses to thrive. Achieving this begins with a recognition that supporting the procurement capacity of ethnic minority businesses is consistent with principles espoused in the green paper, namely: public good, value for money, fair treatment, non-discrimination, integrity, and transparency. This should be supported by robust policies and procedures throughout the procurement process that provide ethnic minority businesses with a fair opportunity at securing publicly procured contracts.

The proposal to award contracts to the most advantageous rather than the most economically advantageous tender is a positive step forward in ensuring that as well as economic benefit, social value and the public good inherent in supplier diversity is achieved. Rather than a best endeavours approach which has been argued to lack teeth, solid measurable targets such as aiming to deliver a percentage of contracts to ethnic minority-owned businesses, and requirements that contractors score highly on points related to diversity including having or proving efforts at having diversity within their supply chain, should be adopted and implemented.

The simplification ambitions of the Government can be implemented in a way that further support minority-owned businesses by reviewing language and requirements on procurement forms and removing jargon and references that might be difficult for people who do not have extensive expertise or networks to understand.

The Government should also put in measures to build the capacity of ethnic minority-owned businesses and work with business organisations like Chambers of Commerce and dedicated networks of ethnic minority business owners, to understand the hurdles that they face in the procurement process and address these challenges.

## London Government

At a local government level, there is similar room for procurement to be used as a lever in ensuring diversity and inclusion. There is scope for local authorities to review their procurement practices, adopt new policies and use their purchasing power to increase diversity within procurement. London government and local authorities should also adopt diversity consciousness in their procurement practices. The adoption of the TOMS model which puts social value at its heart and the appointment of the procurement steering group is a step in the right direction.

A continued and focused approach to ensuring a diverse talent pipeline would be useful for ensuring diversity of skills within the construction industry is required. There is an opportunity to go further in improving careers advice to highlight the breadth of roles within the sector, to re-train people and to tailor apprenticeships to meet future skills needs.

<sup>94</sup> FSB 'Unlocking Opportunity: The value of ethnic minority firms to UK economic activity and enterprise' July 2020.

<sup>95</sup> Smallbone, Kitching, Athayde and Xheneti, Kingston University, Equality and Human Rights Commission Research Report No. 6: Procurement and supplier diversity in the 2012 Olympics, Autumn 2008, Manchester: Equality and Human Rights Commission.

<sup>96</sup> Cabinet Office, [Transforming Public Procurement, Government response to consultation](#), December 2021

## Common Themes and Working Together

A recurring theme throughout this paper has been on available data. Data relating to the categorisation of people from ethnic minority backgrounds and key measures of factors related to business either do not exist or lump together several ethnic sub-groups. The lack of data usually because it is simply not collected makes it difficult to measure and address patterns. The grouping together of data relating to people from ethnic minorities often using the BAME categorisation also prevents more granular analysis and obscures important differences between subgroups. This issue is complex and for some sensitive. Yet it is important. The government's acknowledgment of this issue in its Response to the Commission on Race and Ethnic Disparities and decision to stop using the acronym BAME is a step in the right direction. It is also welcome that it has made commitments in relation to recording data. It should engage with business leaders and stakeholders particularly those with experience of engagement with ethnic minority stakeholders on devising the new standards for recording, understanding and communicating data.

On a related note, it is evident that strong engagement between business leaders, the government and people from ethnic minority backgrounds is key to addressing many of the issues raised in this paper and boosting ethnic diversity in business. Businesses and representative organisations will need to show leadership in making changes within their organisations, signing up to, shaping and maximising existing and incoming government schemes. Progress has already been made in this area especially in the last two years. But this needs to be done in a way that is helpful to people from ethnic minority backgrounds and business centred. The task ahead is to form and strengthen networks with people from ethnic minority backgrounds to embed these networks within mainstream business community and to get their input. Government should also harness this by widening the

reach of their consultative processes including to business organisations and stakeholders that have a reach into ethnic minority networks. London Chamber of Commerce and Industry's Black Business Association and Asian Business Association referred to earlier present an example of the model proposed. The recommendations in this paper, existing proposals and the government's own commitments especially in its Inclusive Britain paper require business and government collaboration with input from ethnic minority leaders.



# CONCLUSION

This paper has outlined the business landscape uncovering the participation of people from ethnic minority backgrounds in business, the factors that are likely to affect their success and their ability to access funding and procurement opportunities.

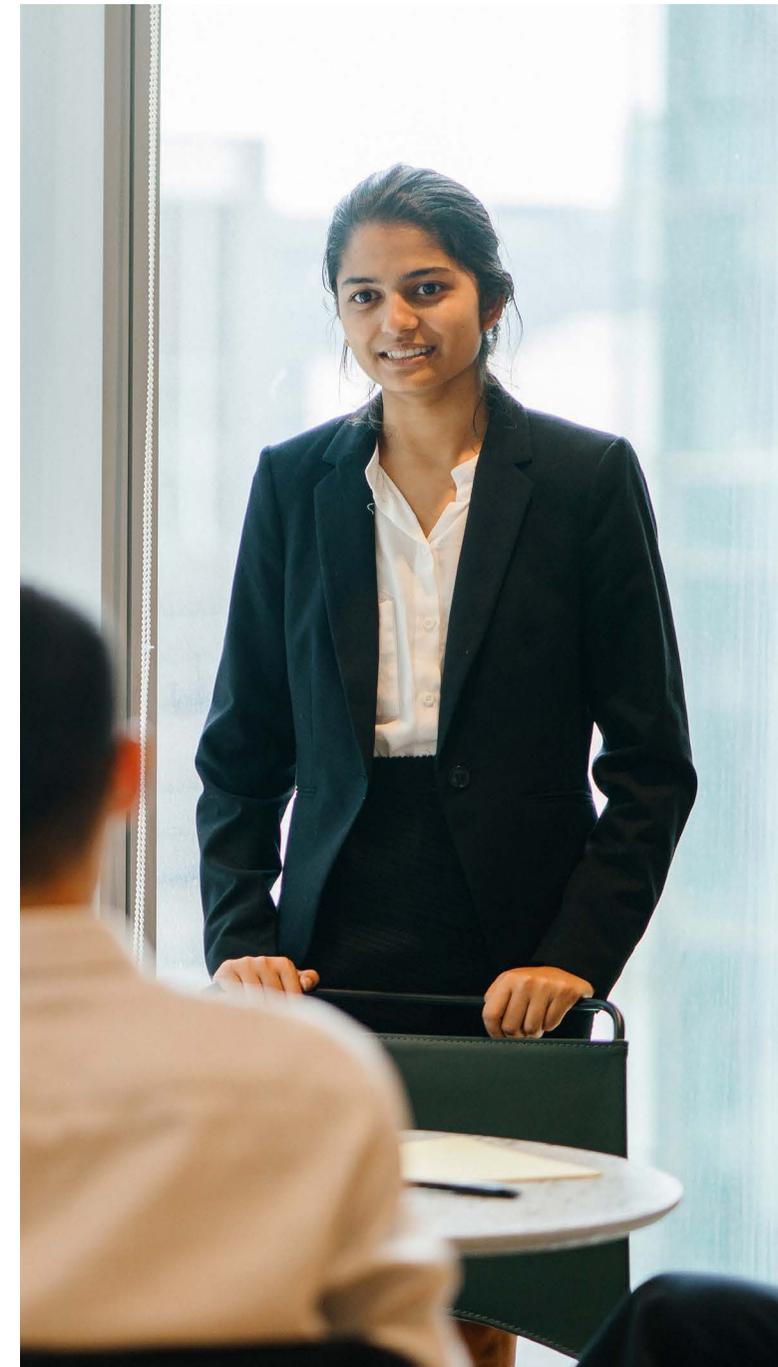
Through a broad survey of existing literature and data based on the indices of employment, income, education and home ownership, it has been highlighted how people from ethnic minority backgrounds lag behind on the factors that lead to success in business. Ironically, despite their need of external support, they rather face hurdles in accessing funds and procurement opportunities.

This phenomenon is particularly acute for certain ethnic minority sub-groups. For example, poor education and employment outcomes as well less success in business are features typically associated with Black people. They are also less likely to receive venture capital and more likely to report problems accessing finance from banks.

People of Indian origin on the other hand, record strong performance in education and employment and show stronger success in business. However, it appears that they struggle to access venture capital funding outside of their community. For some other Asian ethnic sub-groups, there is even lower performance on almost all noted metrics.

This points to the unsatisfactory state of data collection pertaining to people from ethnic minority backgrounds and business which this paper highlights. People from ethnic minority backgrounds are not a homogenous group and lumping them together does little to highlight and address the differential outcomes they present. Moreover, there is insufficient research and data collection when it comes to business especially when broken down by ethnicity. Information on who is setting up businesses, accessing funding and procurement opportunities is not always collected or when it is does not reflect the very diverse make-up of ethnicities to be of meaningful help.

A key concern of this paper is that whilst we must be alert to the differential outcomes existent in the business landscape, this should not be determinative. London and UK business landscape can be economically vibrant and equitable in terms of access to support for people of all ethnic backgrounds. Looking ahead, the prospects of the rise in entrepreneurship and a new procurement regime present significant opportunity for improving ethnic diversity in business, unleashing and maximising the talent of people from ethnic minority backgrounds and increasing the UK's productivity. This requires the granular collection of data working with representatives of ethnic minority leaders, addressing socio-economic issues that manifest in business, concerted effort within industry and by government to make access to finance more inclusive and putting ethnic diversity at the heart of procurement. This way business can be truly diverse, equitable and a better force for good in the UK.



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## ABOUT LCCI

London Chamber of Commerce and Industry (LCCI) is the capital's largest independent networking and business support organisation. It represents the interests of London businesses, enables them to collaborate, creates thousands of connections and offers its members a comprehensive range of business services to see them prosper.

LCCI provides businesses with a platform to raise their profile and helps companies of all sectors and sizes to create new business relationships. From innovative SMEs to global corporations, it provides businesses with a wealth of opportunities to network and grow.

## ABOUT THE ABA

The ABA was established in 1995 in recognition of the contribution of Asian businesses to London's economy. The ABA is an integral forum for Asian businesses and provides a voice for London's Asian business community.

## ABOUT THE BBA

The BBA was created to promote Black business ownership, entrepreneurship and Black employees in the capital. The association aims to create a purposeful outlet for Black professionals to foster a network, promote themselves and their businesses and collectively address barriers to equality in London's economy.



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