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Abstract

The article assesses the proposition that ethnic and linguistic diversity is a potential source of competitive advantage at the city/regional level. Seven potential links between ethnic diversity and competitiveness are proposed on the basis of previous literature, although the article focuses on three: ethnic diversity as a source of creativity and innovation; the role of diaspora-based networks; and linguistic diversity, using a combination of secondary material and original case studies. The overall conclusion is that although a number of plausible hypothesized links between diversity and competitiveness are proposed, and evidence is presented to support them, further systematic research is required before the frequency of occurrence of such diversity/competitiveness connections can be determined and their importance in economic development fully assessed.

Keywords

competitiveness, entrepreneurship, ethnic diversity, linguistic diversity, transnationalism

Introduction

The aim of this article is to assess the proposition that ethnic diversity is a potential source of competitiveness at the city/regional level. If supported, the proposition is potentially powerful in political terms, since it suggests that an ethnically diverse society is potentially stronger economically than a less diverse one, with potential welfare gains for the population as a whole. As a consequence, policies designed to encourage and support ethnic minority business development may be justified by the potential economic benefits for society, as well as promoting greater social inclusion for ethnic minorities. If supported, the proposition will also have conceptual implications, since it emphasizes competitive ethnic minority business development rather than marginality and high labour intensity.

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Diversity is currently topical in policy circles, driven by a combination of the social inclusion and competitiveness agendas and fuelled by the writings of Richard Florida, in the context of wider globalization debates. Diversity-competitiveness linkages may be explored at the micro (individual enterprise) and/or the macro (e.g. city/region)¹ level. Since the competitiveness of a city/region is affected by the trading performance of enterprises located within it, competitiveness can be enhanced by creating and sustaining the conditions that enable local enterprises to trade successfully.

Cities/regions may enable businesses to become successful by offering close proximity to resource suppliers and markets, and through the availability of assets that are external to, but which benefit, individual enterprises. Such assets include public infrastructure (e.g. transport links, communications), a local skills base, knowledge and technology spillovers and high levels of trust between economic actors. Each of these assets can potentially enable businesses to achieve a higher level of performance than would otherwise be possible. Managing such externalities represents one of the ways in which policy makers can influence the competitiveness of enterprises and thus of the region.

The article examines various ways in which ethnic diversity might be an asset enhancing competitiveness. From a policy perspective, there is interest in identifying the existence of linkages between ethnic diversity and competitiveness, but also in the ways in which policy intervention might contribute to enhancing the role of diversity in stimulating city competitiveness. Ethnic diversity is defined in terms of the proportion of the population composed of black and minority ethnic (BME) groups, their distribution between BME groups, and the associated social and cultural differences.

The context for the research on which the article is based is the expressed interest on the part of policymakers in 'evidence-based policy'. In London, this led to a demand for systematically gathered evidence to support the connection between diversity and competitiveness being suggested by some of the London Development Agency's (LDA) policy advisers. As a result, the Small Business Research Centre (SBRC) at Kingston University was commissioned by the LDA to investigate the relationship between ethnic and linguistic diversity and competitiveness, as part of the LDA's Competitive Advantage of Diversity initiative. This article draws on some of the results of this work.

The methodology employed in the project on which this article is based involved a number of elements. Existing literature was used as a basis for identifying hypothesized links between ethnic diversity and competitiveness, which was then examined using a combination of the existing available evidence, supplemented by case studies that were undertaken as part of the project. The case studies included enterprises of different sizes, although those reported in this article are small ethnic minority owned firms, drawn from the Chinese and Vietnamese communities in London. Businesses were identified with the help of community-based membership and business support organizations, supplemented by the use of snowballing.

The rest of the article is divided into five further sections and a conclusion. Section 2 describes the ethnic and linguistic diversity of London, as the context for the study. Section 3 presents the framework of ethnic and linguistic diversity, emerging from previous literature. Section 4 summarizes the arguments and evidence with respect to links between diversity, creativity and innovation; Section 5 is concerned with diaspora-based linkages; and Section 6 with linguistic diversity.

London: A diverse global city

London is a very appropriate context in which to investigate ethnic diversity-competitiveness linkages, since it is the most ethnically diverse city in the UK and one of the most ethnically diverse

Table 1. Estimated Resident Population in London by Ethnic Group Mid-2005 (experimental statistics)

Ethnic Group	Total	Percentage
White	5,190.7	69.6
Asian/Asian British	960.0	12.9
Black/Black British	804.6	10.8
Chinese or Other ethnic group	247.2	3.3
Mixed	253.3	3.4
Total	7,456.1	100.0

Source: LDA (2007a: adapted from Table 1, p. 1).

cities in the world (Benton-Short et al., 2005). BME groups constituted 30% of London's population in 2005, compared with 11% in England as a whole (London Development Agency, 2007a). There are at least 50 non-indigenous communities in London with populations of 10,000 or more and an estimated 243 national communities with 10 or more residents (London Development Agency, 2006a). Table 1 gives a broad overview of ethnic minority categories in London, showing the two largest groups to be Asian/Asian British and Black/Black British. Since ethnic minority communities are typically younger and growing more rapidly than white communities, their share of London's population is increasing, to an estimated 39% of the London population by 2026 (London Development Agency, 2007a).

For centuries, London has been, and remains, the first destination for most migrants (defined as those born abroad), into the UK (BBC, 2005). Today, London is home to nearly two million migrants, representing 29% of London's total population (London Development Agency, 2005a). At the same time, there is considerable variation between London boroughs in the proportion of foreign-born residents: in Havering, in the East, for example, 94% of residents are UK-born; in Brent, in North West London, the proportion is 53% (London Development Agency, 2006a).

A distinctive characteristic of UK ethnic minorities, compared with some continental European countries, is the high proportion of second and third generation migrants, reflecting the longstanding nature of the UK as a destination for migrants, particularly for those from former colonial territories. Many of London's BME groups are second or third generation migrants; for example, almost 60% of Black Caribbeans and almost 50% of Bangladeshi and Pakistani people in London were born in the UK (London Development Agency, 2005a). This is important because people born, reared and educated in the UK might be expected to have different motivations and resources with respect to entrepreneurial activities, compared with newly arrived migrants.

In terms of entrepreneurship, self-employment rates vary considerably between ethnic minority groups. According to the Census of Population (2001), Chinese, Pakistani, Indian and White Irish groups have the highest rates of self-employment in London at over 20% of those in work in each group (Figure 1). This contrasts with Black Caribbean, Black African and Black Other groups, which have among the lowest rates at between 10%–13%. In each minority ethnic group, male self-employment is considerably higher than female.

The 2006 London Annual Business Survey indicates that almost one in five (19.5%) of London's 350,000 businesses are majority-owned by ethnic minorities; 12% are Asian-owned and 4% are owned by Black groups (London Development Agency, 2007b). The largest minority ethnic business group is from South Asia (India, Pakistan, Bangladesh, Sri Lanka, Afghanistan and Nepal), followed by Black-owned businesses (Black Caribbean and Black African), the East Asia group (China, Japan,

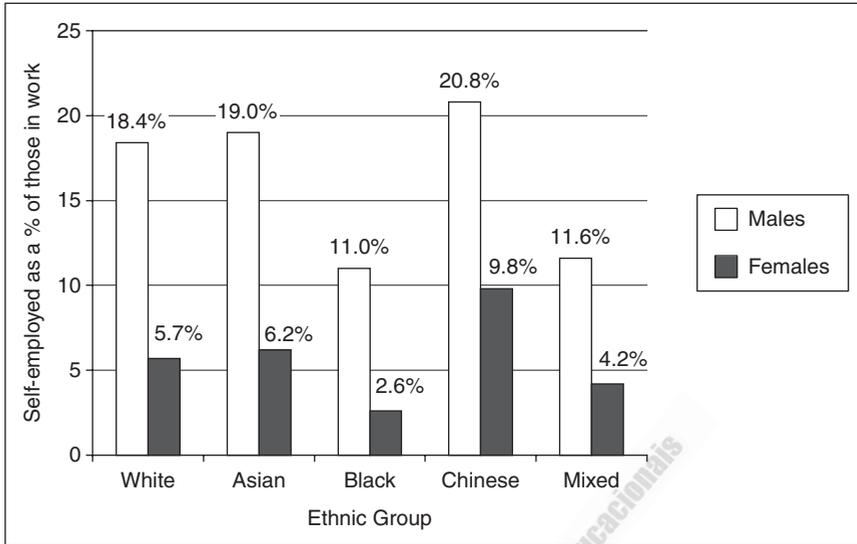


Figure 1. Self-employment by Ethnic Group in London (over 25s)

Vietnam, Korea, Indonesia and the Philippines), and the West Asia group (Turkey, Turkish Cypriot and Kurdish communities and the Middle East) (London Development Agency, 2005b).

BME-owned enterprises in London tend to be micro-enterprises (London Development Agency, 2006b), as they are in the UK more generally (Ram and Smallbone, 2003). Black and Asian-owned business establishments employ a mean of 3.9 and 5.4 people, respectively, which is significantly lower than the London average of 9.7 (London Development Agency, 2006b). Only 4.1% of Black-owned businesses employ more than 10 people, compared with 12.6% of white-owned businesses and 8.4% of Asian-owned businesses (London Development Agency, 2006b). BME businesses are disproportionately concentrated in particular sectors; for example, Asian-owned businesses are far more likely to be involved in transport and communications (21%), than are other groups (London Development Agency, 2006b). There are, however, a number of new emerging fields of activity, including IT services and various sub-sectors in the creative industries, such as design, often involving second or third generation migrants (Ram and Smallbone, 2003).

Ethnic diversity, entrepreneurship and competitiveness

Analytical framework

The initial literature review suggested that at the level of the city/region ethnic diversity can, potentially, contribute to business competitiveness through a variety of causal mechanisms, which may in some cases interact with each other. Specifically, the review identified seven potential diversity-competitiveness links (Smallbone et al., 2007):

1. Ethnic diversity, creativity and competitiveness
2. Ethnic diversity, diaspora networks and competitiveness

3. Linguistic diversity and competitiveness
4. Business start-up, business development and competitiveness
5. Supplier diversity and competitiveness
6. Workforce diversity and competitiveness
7. Diversity as an asset to attract foreign direct investment, customers and visitors.

Each of these diversity-competitiveness linkages independently generates performance effects, although they may also operate simultaneously. These connections might reinforce or counteract one another, depending on the wider social context. Because this article focuses on the links between ethnic diversity, entrepreneurship and competitiveness, only those studies and case evidence most relevant to these themes are reviewed here (see London Development Agency, 2005c). These are diversity as a source of creativity and innovation; the role of diaspora networks; and linguistic diversity, with entrepreneurship in the sense of business start-up and growth acting as a focus underpinning these three themes.² For each proposed link, propositions are put forward specifying the nature of the linkages through which ethnic diversity might generate specific competitiveness effects. These are then considered in relation to the available evidence.

Ethnic diversity and entrepreneurship

The rise of immigrant business ownership is an international trend, evident in Britain (Ram and Smallbone, 2003), the Netherlands (Kloosterman, 2003), Germany (Pecoud, 2003) and Australia (Collins, 2002), among others. Self-employment and business ownership rates are often higher among some ethnic minorities than among the indigenous white population, although there is also typically considerable variation between ethnic groups. The key question for the current discussion is: does a more diverse self-employment/business owner base in a particular city/region stimulate higher levels of competitive performance and, if so, how and under what conditions?

Ethnic diversity can contribute to city competitiveness through new venture creation, in circumstances where, firstly, differences exist between BME groups in the propensity to engage in entrepreneurship; and second, the city contains concentrations of groups with a high incidence to form businesses. In such circumstances, an ethnically diverse city has a potential asset, particularly if at least some of the latent entrepreneurship can be channelled into higher value added activity.

Ethnic minority business owners can contribute to competitive performance in a number of ways. First, they may extend the range of goods and services available to customers. Porter (1995) has argued that the demand for ethnically specific products and services can foster business opportunities for local inner-city providers. Ethnic-specific food and drink products are a well-known example, though more recently, there is evidence of 'breakout' into the arts and creative industries (Henry et al., 2002; Smallbone et al., 2005). Asians represent 6% of total employment in London's creative industries but have a higher presence in music, performing arts, arts and antiques, designer fashion and software/computing. These businesses are more likely to be owned by second and third generation Asians who have eschewed the 'traditional' Asian industries of clothing and retail, for more profitable ventures.

A second, though less innovative, means by which ethnic minority business owners can contribute to city/region competitiveness is through the provision of goods and services already available in the marketplace. Entry into established markets may place pressure on existing firms to lower prices or improve efficiency in order to retain market share; market entry may, therefore, lead to increased competition, with possible displacement of existing businesses. One documented example in the UK was the move into low-order retailing in several inner cities by Asians through the

1970s and 1980s (Jones et al., 2000). The former is a more innovative process with potentially more enduring effects on economic development than the latter.

Ethnic diversity, creativity, innovation and competitive advantage

A major contributor to the diversity-competitiveness debate is Richard Florida (2004, 2005; Lee et al., 2004), who argues that diversity influences economic competitiveness indirectly by fostering creativity and innovation, which is the principal driving force of economic development. Creative people, he suggests, are attracted to tolerant places, where there are low barriers to entry. Tolerant places provide the habitat where all forms of creativity (artistic, cultural, technological and economic) can take root and flourish. Creative people move to such places because they provide opportunities to validate their identities as creative. Places with diverse mixes of creative people, it is argued, are more likely to generate new combinations of ideas and resources which, in turn, lead to greater innovation, firm formation, job generation and economic growth.

Florida has developed three quantitative indices of diversity to rank cities/regions (i.e. the Gay Index, Bohemian Index and Melting Point Index), plus a fourth, Composite Index. These diversity indices are then correlated with measures of human capital, high-technology industry and economic performance. Associations are strongest with the Composite Diversity Index, suggesting that all three influences contribute. Taken individually, the Gay Index is the strongest predictor of the performance indices, followed by the Bohemian Index and then the Melting Pot Index, although the latter appears to be more important in smaller cities. It is not suggested that gays, bohemians or immigrants cause economic growth directly, but rather that their presence in a particular city/region is an indicator of a place that is open and conducive to new ideas.

Two criticisms can be made of Florida's work, from the standpoint of ethnic diversity and competitiveness. First, his Melting Pot Index is a measure of *immigrants* rather than *ethnicity* and it should not be assumed that all immigrants into the US are from visible minorities. In fact, Florida suggests there is no correlation between the proportion of non-whites in a city/region and the concentration of high-tech industry, which is one of his foci (Florida, 2004: 254). Second, correlation alone does not provide a sound foundation for making causal inferences. Beyond proposing a vague notion of a 'creative ecosystem', Florida does not discuss the precise causal mechanisms through which ethnic diversity generates creativity and economic development effects (Storper and Venables, 2004). It is likely, moreover, that diversity generates a range of competitiveness outcome effects, varying with the wider economic and social context, rather than a single, uniform effect.

Turning to the available evidence, there is empirical evidence of the role of ethnic diversity in stimulating creativity and innovation in London's creative industries. This specifically refers to London's Asian population with respect to the music and performing arts and software and computing sub-sectors (Smallbone et al., 2005). The creative sectors in London grew rapidly in the 1990s so that they now represent the second largest source of wealth for the capital's economy after business services. The sector is also contributing to growth in other parts of London's economy, because of its secondary impacts and interdependencies with activities ranging from clothing to tourism.

Music and the performing arts are good examples where diversity can feed into creativity through fusion, by drawing on different cultural traditions to create something that is new and distinctive. In such cases, an individual's ethnicity and cultural experience has a major potential input into the creative process. Examples include the fashion sector, where there is strong interest among young Asians in developing traditional designs into forms that are suitable for contemporary garments. A successful fusion can lead to products that have an appeal in mainstream, as well as narrowly Asian markets. Young British Asians are in a good position to achieve this fusion, since it

reflects their own experience. The diversity/innovation link may operate *within* firms, possibly linked to workforce diversity, but it might also apply to links *between* firms, as part of a cluster of enterprises. Such examples may be considered to represent a more direct link between ethnic diversity and competitiveness than those hypothesized by Florida.

Our case evidence includes a small music business, led by a young woman entrepreneur and her partner. In fact, there are two related businesses: the first is a record label company, which records and distributes Caribbean music; and the second is a social enterprise, specializing in music industry education and training for disadvantaged youth. The innovative nature of the business activity focuses on an attempt to cross-fertilize UK urban and Caribbean music. Sales include both Caribbean and UK markets and between 30% and 40% of current sales are estimated to be outside the UK. The fusion of musical styles represents an attempt to differentiate the business from other record labels. In this respect, the enterprise is building on what is arguably a unique asset of second and third generation immigrants, who have been born and brought up in a UK environment, since they are able to combine home country experience with the cultural traditions inherited from parents and grandparents.

The ethnic mix of the staff involved in these two linked businesses includes Caribbean, Black British and mixed race individuals, who are clearly creative people and experts in their field. This has undoubtedly been an asset for the business in marketing the record label, although their lack of previous business experience was said to have acted as a constraint when searching for finance. As a result, it was necessary to use a 'bootstrapping' approach to raising funds when the business was started, based on the use of credit cards. The business has benefited from public policy support post start-up. The co-owner spoke positively about the benefits of a UKTI-subsidized visit to Barbados,³ which enabled them to promote their label at a major Caribbean music event, gaining access to high level music industry contacts there, which they would not have been able to reach on their own.

Although there is an overall recognition within the creative industries sector that cultural diversity encourages creativity and innovation, there are differences between sub-sectors in the relationship between culture and ethnicity and their role in the core business definition. In music and performance arts, for example, an artist is creating or performing work that is likely to reflect their personal (cultural) experience, which in the case of young Asians in London, is typically a blend of Asian and western culture.

Another example of a business where ethnic diversity is contributing creativity and innovation is a theatre company, started by two founders from different ethnic backgrounds. Over its 17-year life, the company has won various awards for their productions, which have aimed to reflect the Asian experience both in Britain and in the Indian sub-continent. Such enterprises represent a new breed of BME businesses in London, demonstrating the creativity and innovation that is a positive source of potential competitive strength in small companies. Although ethnicity and cultural distinctiveness is at the heart of the business concept, and with an estimated 60% of its audience comprising people of Asian descent, the company has successfully broken out of its ethnic market niche to penetrate the mainstream theatregoer market. Similarly, while performers are typically of Asian descent, employees of Asian origin make up a minority of the total workforce.

Design is another branch of London's creative industries, where Asian-owned businesses are making a distinctive contribution. These are typically small firms, offering services, such as graphic design, which may be combined with other related services (e.g. advertising, photography and multimedia communications). Close links with advertising are common, particularly where design consultants are dealing with the corporate sector, in areas such as product design or branding. Some Asian design companies work mainly for London-based customers providing specialist services within a larger cluster of creative activity. Others are serving a predominantly international market, which is increasingly facilitated by Internet technology.

The relatively high value added nature of the business activities involved in London's creative industries, which are typically knowledge or skill based, contrasts with the low value added nature of many of the traditional areas of Asian business activity in the UK, in sectors such as clothing, catering and low-order retailing. In this context, it is perhaps not surprising that Asian businesses in the creative industries are typically owned and run by second or third generation migrants, many with graduate level education. The higher value added characteristic is an important one for Asian entrepreneurship (in a UK context), facilitating the diversification of ethnic minority enterprise out of low value added, low entry threshold activities, into higher value added activity. The trend can potentially contribute to more competitive Asian business development, as well as to increased social inclusion, with potential welfare gains for the society as a whole.

Exploiting diaspora networks

Ethnic diversity at the city/region level may enhance the competitiveness of an enterprise by enabling or stimulating business owners to commercially exploit diaspora links, which may be viewed as a form of social capital. While accepting that commentators attach multiple meanings to the term 'diaspora' (Brubaker, 2005), the term is used in this article to refer to the dispersion of ethnic and national groups across international borders. No assumptions are made regarding diaspora members' self-identities vis-a-vis their host societies, or their orientations towards any putative homeland. Diaspora networks vary in terms of the number of actors they incorporate, their location, the benefits they can make available to individual members and the strength of relations between network actors, all of which can influence business competitiveness. Business owners may exploit diaspora networks in two main ways: first, to access resources that are unavailable, or more expensive to acquire, from other sources; and second, to provide access to markets for goods and services. Cities and regions that are home to BME groups possess a potential competitive asset, if these diaspora-based linkages can be exploited commercially.

International studies show extensive use of ethnic-based networks to access sources of finance, labour, information and markets for goods and services (Rauch, 2001). Rath (2002) for example, refers to networks as being instrumental in acquiring knowledge, distributing information, obtaining capital, recruiting labour and establishing strong relations with clients and suppliers. Ethnic networks in Canada were considered essential to business success for the Asian, Chinese, Indian, Korean, Sri-Lankan, Vietnamese and Jewish communities; and in the USA for Chinese, Asian, Iranian, Korean, Jewish and African-American communities (among others).

Trust is an important component of ethnic networks, without which they would not function effectively (Collins, 2002). Trust, a necessary condition for the sustainability of networks and the deterrence of opportunistic behaviour which could undermine them, is enforced by the threat of expulsion from the network. At the same time, networks also need to be open to new members; otherwise, such 'efficiency enhancing *domestic* networks' can actually impede international trade (Rauch, 2001).

However, it is important to recognize the role of the broader social context as an influence on business competitiveness, rather than focusing exclusively on ethnic resources and networks. The 'mixed embeddedness' thesis suggests that competitiveness depends not only on business owners' embeddedness in ethnic networks but also their capacity to draw on, and exploit, wider market and institutional contexts (Rath and Kloosterman, 1999; Kloosterman and Rath, 2001), which can vary spatially. BME groups often operate in product markets that do not require high financial outlays or high skill or qualification levels, as these are easier to enter. Because of this, co-ethnic markets are often very competitive and dependence on them is likely to constrain business performance and growth (Barrett et al., 2002). The concept of 'breakout' was introduced to describe the capacity of BME-owned enterprises to reach customers beyond the ethnic group (Ram and Jones, 2007).

In order to achieve this, business owners may have to exploit their 'weak ties' (Ram and Jones, 2007); in other words, those with whom they do not have close relationships but who possess key resources or who can become important customers. This contrasts with a continued reliance on 'strong ties'; in other words, with family members and others with whom the owner has close relations, to provide key resources.

A number of UK studies have found that BME groups use diaspora-based networks to access valuable resources and to provide markets for products (Bagwell, 2008; Henry et al., 2002). McEwan et al. (2005) stress the importance, for the ethnic food and Bhangra music industries in Birmingham, of import/export linkages with countries of origin, such as India and China. Jones et al. (2006) highlight the importance of drawing on local and illegal co-ethnics as a source of labour in the West Midlands' restaurant and clothing sectors. In practice, many businesses would simply not survive without undocumented immigrant labour.

Our primary data draws on the experiences of four London business owners: two Vietnamese restaurants; a Chinese herbal medical clinic and a Vietnamese nail-bar. The key questions investigated were: To what extent were BME owners using diaspora-based networks to enhance business competitiveness? What conditions support, or limit, the use of diaspora networks? How does the use of diaspora links influence business competitiveness?

Business owners used diaspora links to access resources and, to a lesser degree, as markets for goods and services. In all four businesses, both local and transnational diaspora links were used to obtain authentic ethnic resources at affordable cost: finance (2 cases); labour (all 4 cases); supplies (all 4 cases); premises (2 cases); and advice and information (1 case). This Vietnamese restaurant owner describes how he uses his contacts both in the UK and in Vietnam to recruit the staff that he reports he is unable to do in the UK:

Older generation ... own their own shops and are too tired to work in the kitchen. Younger generation do not want to work in a restaurant. Hard to recruit head chefs or kitchen staff for long hours and low pay. So I get work permits from the Home Office, got good relations with staff there. I sponsor a family in Vietnam to come over and work in my restaurant. They are here on a one year trial, which is renewed if they work well. A local business person in a village has set up a recruitment agency to select people to work abroad in places like London so he selects the right family for me. (Owner-manager Vietnamese restaurant)

All four businesses employed co-ethnic staff for a number of reasons, the most important of which were to facilitate communications, and cultural knowledge. Such cultural knowledge was perceived as essential to the operation of both Vietnamese restaurants and the Chinese herbal medicine clinic, in particular. In the case of the restaurants, staff were required to have a comprehensive knowledge of Vietnamese menus and culinary techniques as well as knowledge of the correct way to present and serve food. The owner of the Chinese herbal medicine clinic also made a point of recruiting directly in China to find candidates with the right qualifications, including cultural knowledge:

It is difficult to find staff locally. We need Chinese people for understanding medicine and prescriptions in Chinese. Local people may not speak Mandarin, so there are language problems. Tried to educate local people, but we really need graduates. But graduates who learn Chinese, want to work in China now. Organising staffing is a big problem. I spend 50 per cent of my time on recruitment. I have a PA, who is a graduate in Chinese, to help sort out language and visa problems. This all makes expanding difficult. We recruit outside UK, from the Chinese mainland. But there is more money, more opportunities in China now. As the economy in China has improved fewer people are coming to the UK to work. The highly educated are less likely to emigrate and people are staying in China for education and job opportunities. (Director of a chain of Chinese Herbal Medicine Clinics)

The recruitment problems faced by this business owner had led him to look for suitable employees in the wider Chinese diaspora, and outside the Chinese mainland. At the time of the interview he was planning a number of visits to continental Europe to meet recruitment agencies that may help with locating and hiring Mandarin speakers. Prior connections with the local diaspora network were important initially in identifying the business opportunity, and in recruiting staff with the necessary language skills and cultural knowledge. At the same time, these connections were less important as a source of markets for goods and services, since in three cases, businesses had 'broken out' into serving a 'mainstream' customer base. Nevertheless, in all four cases, the existence and exploitation of diaspora networks was a condition of business start-up and development.

Not surprisingly, the case studies revealed that the capacity of business owners to exploit diaspora links varied according to a number of conditions: first, the perceived benefits of the diaspora in terms of what it could offer to business owners in the form of the resources or markets for products; second, the owners' willingness and ability to draw on diaspora resources; and third, the geographical concentration/dispersion of the diaspora. Where the local diaspora-based network is large, key resources may be available locally, but where the local network is small, or the resources sought in scarce supply, business owners might need to extend the search internationally.

Where suitable local sources were unavailable and/or unaffordable, business owners were forced to search elsewhere. For example, finding suitable staff presented a challenge to three business owners. Although this is a commonly reported problem by London employers in general, in the case study businesses, labour requirements had a specifically ethnic dimension. As the examples described earlier demonstrate, two businesses had actively sought to recruit staff from their home countries (i.e. Vietnam and China) using labour market intermediaries, who helped recruits to relocate to the UK to meet labour shortages. The nail bar had initially sourced key supplies from the USA because of their known high quality but had now switched to local sources as these had become available. In fact the growth of specifically Vietnamese nail bars in the UK and in London in particular (there are reportedly over 400 nail bars in London), has created a new market for nail products suppliers. These suppliers source their products from Vietnamese wholesalers in the USA. This transatlantic supply chain evolved as a direct result of the unique spread of the Vietnamese diaspora. The experiences of this owner-manager illustrate the point:

The Vietnamese nail bars have their own supply chain, they don't use the supply chain here in the UK. The owners all go over to the US for training and then come back to the UK. That's what I did, I trained in California and then came back to London and set up my own business and then trained the local staff myself [Vietnamese and members of her close family]. Even supplies, we don't buy from the UK suppliers here, we buy from the USA. These beauty products are approved by US authorities and are higher quality and cheaper compared to UK products. In fact, now there is the demand some Vietnamese nail suppliers have set up in the UK mainly in London who import US products. There is a warehouse that has just opened down the road, so that is even more convenient for me. (Owner-manager Vietnamese Nail Bar)

Owners' business objectives also influence the quantity and quality of resources needed. For example, growth seeking business owners are likely to require more resources than those motivated mainly by a desire simply to create a job for themselves. In this context, 1 of the 3 firms had grown rapidly over the 10 years since start-up to employ 300 staff, mainly using connections with China to source qualified labour. At the same time, while this recruitment channel had been successful in the past, as the extracts from the case study above show, there were signs that rapid economic development in China had restricted the flow of suitably qualified Chinese medical staff to the UK.

The four businesses studied varied in terms of business performance. Although diaspora connections had enabled businesses to start up and to some extent grow, reliance on co-ethnic markets can constrain growth, unless the size of the local diaspora is large relative to the number of rival producers. In cities such as London, with large concentrations of particular EMB groups, it is possible for businesses to succeed and grow serving a largely co-ethnic market. Having said this, among the four enterprises studied, it is those that had achieved some degree of breakout that had achieved the best performance. Only one business continued to serve a mainly co-ethnic client base and its position appeared the most precarious of the four businesses studied. This business owner, who owned another Vietnamese restaurant, had tried several strategies to grow her business including meeting with a Business Link adviser and seeking out public procurement opportunities. However, this business owner disliked the perceived formality of Business Link and felt that the statutory requirements to bid for public procurement contracts were unattainable. This business owner was further hampered by a lack of English, and the services of a translator were used for the case study interviews. As she explains:

I prefer to ask my family for advice and support because Business Link is too formal. Also information about finance and running the business is my private business and also private to family backers.

Many local Council events now have Vietnamese food on offer but it is not authentic Vietnamese catering. It is also difficult to get on to the approved supplier lists. The language barrier makes filling out forms difficult. Another barrier is the need to comply with regulations such as health and safety and environmental legislation and also equal opportunities. Complying with equality and diversity employment guidelines is difficult for my business because I want to employ only Vietnamese staff. (Owner, Vietnamese restaurant)

Analysis suggests that exploitation of diaspora networks is a necessary condition for the operation of BME businesses providing authentic ethnic-based goods and services. Where businesses provide such products, owners need to secure suitable sources of material inputs and labour, as well as start-up finance and intangible assets, such as credibility. However, business owners' capacities to access diaspora networks are variable, because of the specialized nature of the inputs required. Owners' relations with these networks vary and, consequently, so do the types of resources they are able to access through such relations.

At the same time, diaspora connections alone are unlikely to be sufficient to guarantee business success and confinement to diaspora networks, especially as a market for goods and services, may restrict business development. More specifically, reliance on co-ethnic markets will be a disadvantage where the local diaspora is small and/or where many others have already started businesses in easy-to-enter markets. In such circumstances, efforts must be made to 'break out' into mainstream markets if businesses are to grow, or even survive. Exploiting diaspora *and* non-diaspora networks for business gain depends on owners possessing the resources and skills to be able to do so. Diaspora-based linkages represent a form of ethnic resource for business development, although the extent to which they are capitalized on depends on a variety of other influences, including management skills and knowledge.

Linguistic diversity and competitiveness

Linguistic diversity can be defined as the range of language skills available within a given population. In this regard, there are an estimated 300 languages spoken regularly in London (Benedictus,

2005). Whilst this is not dependent on the diversity of London's BME and immigrant population, it is clearly influenced by it. Linguistic diversity can be an economic asset if it contributes to the competitiveness of London by attracting foreign businesses, investors and customers to the city and/or is valued as an asset by London's businesses.

In terms of evidence, primary data were obtained from interviews with managers and employees in two businesses: a small Central London hotel, employing 9 people (3 interviews: 1 owner and 2 employees); and a UK subsidiary of a Japanese contact centre multinational, employing 35 people (4 interviews: 1 senior manager, 3 employees).

In the case of the hotel, linguistic diversity was used as a marketing tool to attract overseas customers and, to some extent, as an asset to deliver a high-quality service. The company website was presented in several languages to attract customers, which appears significant since 80% of bookings were reported to be made online. Language skills were perceived by the employer to be a potential source of competitive advantage, higher turnover and profits. Communicating with customers in their native tongues was seen as enhancing customers' experiences by making them feel more at home. This might encourage return visits and generate positive word-of-mouth to others on their return home. The employer speaks several languages, and together with the rest of the staff (who originated from Eastern Europe and the Far East, as well as other Western European countries), 12 languages were spoken between them (8–9 fluently). However, all employees had been recruited in the UK, with English language skills a pre requisite, although management reported foreign language skills to be a key factor when choosing between job candidates.

Despite offering certain advantages, language skills appeared to be an under-used asset in this hotel business.

... Our language capabilities that we have don't cost any more money. Most businesses have it in-house, they just don't utilise it or tap into it 'cos they don't actually realise it, if you know what I mean.

First, there was little explicit attempt to 'match' workforce skills with same-language client groups, by targeting marketing efforts at particular customers. Clearly, this could lead to skill gaps and/or redundancy of the language skills that current employees possess. This failure to match workforce skills and customer needs is partly explained in terms of the high levels of staff turnover which the employer was experiencing. High staff turnover not only increases costs but also means the workforce language base can change regularly. Greater stability would enable the employer to make longer-term plans to penetrate certain markets. Failure to reward employees for their language skills could be viewed as a missed opportunity to reduce the current levels of staff turnover.

The second company, which is a wholly owned subsidiary of a Japanese-owned multinational, provides an inbound contact centre service to a wide range of clients. This includes a concierge service, whereby employees contact suppliers in overseas locations to obtain services for clients' customers (such as accommodation, restaurants and transport). The company handles communications with clients' customers on their behalf; and these customers might live anywhere in the world. Projects were reported to be small-scale, typically requiring fewer than 10 contact centre seats, although the premises could accommodate 50 people. The current project portfolio offers a niche market opportunity as larger competitors were perceived to be more interested in higher volume contracts. The company employed 35 people at the time of interview with the senior manager, but only 20 at the time of the follow-up interviews a few months later as a consequence of a loss of some contracts. This had resulted in some staff redundancies and the loss of some language skills, with potentially adverse effects on the types of contracts for which they can bid in future. Sales turnover was reported to be £35m in 2004.

People contact the Call Centre using a variety of communications media, including telephone, fax, email and the Internet. A multilingual workforce has been valuable to the company in enabling them to communicate with non-English speaking customers. The type of client and project influences the demand for specific language skills. When selecting a contact service provider, clients stipulate the language skills they require in order to service a particular contract, which depends on the specific countries where their customers are located. If language skills are not already available in-house, the company will recruit staff to meet client need. Examples of language skills that are, or have been, available within the company include French, German, Italian, Hindi, Urdu, Punjabi, Gujarati and Dutch and are listed on the company website. Linguistic diversity has been central to business competitiveness in terms of the ability to win and retain contracts, particularly given the international nature of the market.

The senior manager accepted that language resources were not exploited as fully as they could be.

... I know perhaps the guys don't use their languages as much as they'd like to but I do still think it's something that, as a business, is extremely important that we've got it. Because of the clients we deal with, I mean, if you've got that one Cartier client that wants to have that conversation in French, and if you can hold that conversation in French, the benefits to that client who might be spending £100,000 on jewellery ... the reflection back on our client is fantastic. So I think it is very important.

New clients are not actively sought on the basis of the language skills the business already possesses, which was attributed to the small number of speakers of any specific language employed. The three employees interviewed agreed that being able to use their language skills had attracted them to the company. Each employee was competent in at least two languages other than their native tongue but all three preferred to use their language skills more often than the job permitted. The 'luxury goods' client list had recently shifted towards English-language skills. But even though linguistic diversity was not essential to *doing* the job, it was still important in *winning* contracts because clients attached importance to language skills. A more explicit strategy focused on winning contracts with clients with non-English speaking customers, on the basis of the language skills the firm already possess or feel confident could be obtained through recruitment from the external labour market. Although difficult, this might offer the best approach to protecting the firm's market niche and maintaining business success.

Linguistic diversity can be used as an asset for a business to achieve a competitive advantage by attracting and retaining new client groups, although in neither of the companies studied had linguistic diversity been fully exploited as a strategic asset. For businesses to benefit more fully from linguistic diversity, employers should be encouraged to audit employees' language skills. This could feed into their marketing efforts, which might facilitate the development of a particular niche market position. This was evident in both of the companies studied here, although the strategy had emerged in response to opportunities rather than as part of a proactive, planned approach. Additionally, business owners, and employees acting on their behalf, require the resources and motivation to acquire, utilize and exploit language skills, and to shape the customer base in order to render such skills commercially useful. Business owners would benefit from thinking strategically about the acquisition and deployment of language skills in order to exploit them fully.

Conclusions

The argument and evidence presented in the article have implications for wider conceptual debates, as well as for policy. The focus on the potential assets that reside in ethnically diverse populations

rather than on the intensive use of 'sweatshop' labour and marginality is a different emphasis to that of much of the extant literature (McEwan et al., 2005). This particularly applies in the case of the relationship between diversity, creativity and innovation, which in London is associated with generational change and the greater human capital found in second generation Asian-owned firms in the creative industries.

It also applies to the transnationalism, which Zhou (2004), among others, suggests is largely missing in much of the previous BME business research, represented in this article by diaspora-based linkages. At the same time, as the cases presented in the article demonstrate, competitiveness associated with international diaspora-based linkages is subject to certain contingencies, some of which are contextual, while others are attributes of individual entrepreneurs. Transnational links are a potential asset, but by no means a panacea for competitive BME business development. As Jones et al. (2007) have suggested, the significance of transnationalism for BME business entrepreneurs is the opening up of access to vastly enlarged social capital, which is for the most part only available to members of a particular ethnic group and a minority of those in the case of the Somali-owned businesses investigated.

The argument that ethnic (and other forms) of diversity can contribute to the competitiveness of an economy is a politically attractive one, because it emphasizes the integrated nature of contemporary societies and the interdependence between their members. If the proposition can be supported with convincing evidence, there is a potentially powerful message to be disseminated within the society, with implications for social inclusion. However, it must be recognized that although a number of hypothesized links between ethnic diversity and competitiveness can be identified, the empirical evidence required to confirm, refine or reject these is currently rather scarce. While a number of the suggested causal connections are plausible, further research is required to demonstrate the extent to which such links are found in practice; how strong such connections are; and what conditions support or hinder their influence.

Recognizing the limitations of the existing empirical evidence, detailed examination of specific links suggests that the high propensity of some ethnic minority groups to engage in entrepreneurship is undoubtedly a potential asset for a city, provided more of their enterprise can be channelled into higher value added activity. In addition, diaspora-based linkages are undoubtedly a potential asset for London's BME business population, as far as mobilizing resources and exploiting new markets is concerned. However, further research is required in order to clarify the circumstances in which such linkages are most likely to be positively exploited. In the creative industries, in particular, there is some evidence of diversity contributing to the development of innovation that is generating profitable business opportunities, as well as employment. Linguistic diversity is also a potential asset in a global city, where tourism and related activities are making a significant contribution to the economy.

The overall conclusion is that ethnic and linguistic diversity may be a potential asset for city competitiveness, but the evidence currently available is uneven. Though a number of plausible hypothesized links between diversity and competitiveness have been proposed, and evidence presented to support them, further systematic research is required before the frequency of occurrence of such diversity/competitiveness connections can be determined and their importance in economic development fully assessed. Moreover, this finding is consistent with feedback received by the research team from expert commentators around the world.

While it may be argued that the position of London is unique with regards to the ethnic diversity of its population, the principles discussed in the paper are worth exploring in and potentially transferable to, other contexts. Perhaps the key point to note is that while diversity is a source of *potential* competitiveness, resources are needed to exploit it, which in some ethnic minority communities requires a strong supplementary or pump-priming role for public policy.

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Notes

1. Here the term 'city/region' is used as a generic label to refer to sub-national territories, while recognizing that recent discussion distinguishes cities and regions in order to discuss their interrelations (e.g. ODPM, 2004).
2. Evidence with regard to the remaining types of linkage is available elsewhere.
3. UK Trade and Investment (UKTI) is a government agency offering expert trade advice and support to UK-based companies wishing to grow their businesses overseas.

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