

Ethnic Diversity and Competitiveness: Does the Evidence Justify Policy Action?

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Type of Paper: Refereed Research Paper

Objectives: The paper focuses on ethnic and linguistic diversity and economic competitiveness. Specifically, there are three main aims: first, to critically review the evidence regarding the various links between ethnic and linguistic diversity and competitiveness; second, to present some new data on diversity/competitiveness connections from London; and, third, to assess whether the evidence base justifies policy action

Prior Work: Previous research has tended to focus on one or a limited number of the potential linkages between ethnic diversity and competitiveness, suggesting a need to bring these studies together 'under one roof'. The major weakness of the evidence base is, therefore, its partiality rather than its substantive or methodological shortcomings.

Approach: Seven types of ethnic diversity/competitiveness linkage are categorised as a way of framing the literature search and primary data analysis: ethnic diversity and entrepreneurship; ethnic diversity, creativity and innovation; supplier diversity; access to resources and markets through diaspora-based networks; workforce diversity; linguistic diversity; and attracting foreign direct investment. These linkages are overlapping and interdependent rather than wholly distinct. Primary data were obtained from interviews with business owners and support providers, identified primarily through London Development Agency contacts and their partner organisations.

Results: Existing evidence on the links between ethnic and linguistic diversity and city competitiveness is of uneven coverage. Though a number of plausible hypothesised links may be proposed, the empirical evidence required to confirm, refine or reject them is quite limited. Without further systematic research, it is difficult to argue whether, and under what conditions, ethnic and linguistic diversity can contribute to economic competitiveness. A number of diversity/competitiveness linkages are identified as of great potential interest to policymakers within and beyond London and as worthy of more detailed research.

Implications: Ethnic and linguistic diversity can contribute not only to policymakers' social inclusion objectives but also to competitiveness goals. Several diversity/competitiveness connections are identified offering numerous opportunities for policymakers and practitioners to intervene to achieve competitiveness objectives at local/regional level.

Value: The paper contributes a broader understanding of the links between ethnic and linguistic diversity and competitiveness, considers issues of evidence in establishing such links empirically, and discusses the policy implications of such links. The paper will, therefore, be of value to policymakers, practitioners and academics concerned with researching the impact of diversity on competitiveness, supporting BME businesses and encouraging local/regional economic development.

Key Words: BME business, ethnic diversity, competitiveness, policy, London

Introduction

Policymakers in the UK and elsewhere have begun to view diversity, in its many forms, as a potential contributor to economic competitiveness, although there is often little explicit reference to *how* diversity might shape economic outcomes (e.g. GLA 2007a). Drawing on a study funded by the London Development Agency (LDA), this paper investigates the relationship between ethnic and linguistic diversity and city competitiveness in order to assess whether there is sufficient justification for policymakers to consider actions designed to facilitate and/or enhance diversity-competitiveness links. Specifically, the paper attempts three tasks: to examine the evidence regarding ethnic and linguistic diversity and competitiveness; to present some new data on diversity/competitiveness connections from London; and to assess whether the evidence justifies policy action. As the vast majority of UK businesses are small, any policy interventions directed towards business will inevitably impact, directly or indirectly upon those considering or actually operating small enterprises.

We begin by sketching out the London context for the study. Second, we present a conceptual framework specifying the mechanisms through which ethnic and linguistic diversity might influence competitiveness. Third, we outline the methodological approach adopted. Fourth, as a precursor to presenting our findings, we discuss the relationship between evidence and policy in the context of research funded by policy-making bodies. Fifth, the paper concludes with an assessment of whether the evidence base supports policy action.

The London context

London is the most ethnically diverse city in the UK and one of the most diverse cities in the world (Benton-Short et al. 2005). Black and minority ethnic (BME) groups constituted 30 per cent of London's population in 2004, compared with 11 per cent in England as a whole (GLA 2007b). The two largest groups, Asian/Asian British and Black/Black British, comprised 24 per cent of London's population (Table 1), although there has been considerable immigration from EU accession countries, notably Poland, since then (Home Office 2006). Ethnic minority communities are typically younger and growing more rapidly than white groups; their share of London's population is estimated to rise to 39 per cent by 2026 (Hall 2007). 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 (LDA 2006a). An estimated 300 languages are spoken in London (London Equalities Commission 2007) and 18% of adult Londoners use a first language in the home other than English (Spence 2006), compared to 3% in the UK as a whole, although this figure is probably an under-estimate. The figure is higher for children. Spence (2006) reports that approximately one third of children in London have English as a second language.

Table 1: Estimated Resident Population in London by Ethnic Group Mid-2004 (experimental statistics)

<i>Ethnic Group</i>	<i>Total</i>	<i>Percentage</i>
White	5,182.2	69.8
Asian/Asian British	949.1	12.8
Black/Black British	809.0	10.9
Other ethnic group	240.5	3.2
Mixed	247.7	3.3
Total	7,428.6	100.0

Note: sub-groups do not sum to Total figure due to rounding

Source: Greater London Authority (2007b: adapted from Table 1.9, p12)

Conceptualising the Ethnic Diversity and City Competitiveness Connection

At its simplest, city competitiveness can be defined in terms of the trading performance of enterprises located within the city.¹ Competitiveness can, therefore, be enhanced by creating and sustaining the conditions that enable local enterprises to trade successfully. Cities may enable businesses to survive and prosper by offering close proximity to resource suppliers and markets, and through the availability of assets – infrastructural, institutional, social, technological – that are external to, but which benefit, individual enterprises. Ethnic and linguistic diversity, understood in terms of the range of ethnicities and languages present in the city, constitute assets enhancing competitiveness if they stimulate economic activity. Policymakers might, therefore, seek to introduce initiatives intended to develop diversity as an asset in order to further competitiveness objectives.

Ethnic and linguistic diversity may causally influence competitiveness through a variety of mechanisms. Potentially, each of these mechanisms offers policymakers options for action to harness their capacity to stimulate economic activity. These 'diversity mechanisms' include²:

- ethnic diversity and entrepreneurship
- ethnic diversity, creativity and innovation
- supplier diversity
- diaspora-based networks
- workforce diversity
- linguistic diversity
- attracting foreign direct investment

Each of these mechanisms may contribute independently to business and city competitiveness. Policy might, therefore, play a role in enhancing the advantages of diversity in relation to competitiveness goals and/or mitigating any possible disadvantages arising from increased diversity. Contextual factors influence the impact of these diversity mechanisms on competitiveness outcomes. Such factors are potentially wide-ranging but would include the size and composition of BME communities within a given territory, the resources they possess or can access, and links with other groups in society. Only under certain conditions do diversity mechanisms contribute to higher levels of competitiveness. Policymakers are likely to be interested in understanding how, and under what conditions, diversity generates particular competitiveness effects. Policymakers might, therefore, intervene to influence these wider conditions.

Methodology

Primary and secondary data were obtained to investigate whether ethnic and linguistic diversity enhance competitiveness. Primary data were collected from face-to-face interviews with London business owners and support providers, identified primarily through LDA contacts and their partner organisations. Secondary evidence was gathered through a search of library materials, electronic databases and internet sources. Drawing on contacts with experts in a number of countries, we also sought examples of policy initiatives around the world that were attempting to exploit diversity to achieve competitiveness goals. Details of the initiatives found are reported in more detail in Smallbone et al. (2007a), several of which were primarily intended to achieve social policy, rather than economic competitiveness, goals, although they may have implications for competitiveness. We begin by considering some of the key issues involved in conducting policy-related research.

¹ Other measures include the efficiency with which local businesses produce their products and the utilisation of local human, capital and natural resources (Turok 2004).

² This list is not meant to be exhaustive. No doubt other diversity mechanisms might be identified.

Policy-Related Research: Some Considerations

The first Blair administration's proposals for 'modernising Government' included developing policy on the basis of good quality evidence to secure long-term goals rather than as a response to short-term pressures (Cabinet Office 1999). The Government espoused a commitment to a pragmatic, anti-ideological approach to policy – 'what matters is what works'. Developing policy and practice on the basis of research evidence has become increasingly entrenched in the UK in recent years, initially in the field of medicine but then extended into education, social work, criminal justice, urban regeneration and other fields (Solesbury 2001; Burton 2006). This kind of policymaker stance offers researchers the opportunity of a deeper engagement with policy. It is pertinent, though, to consider the implications of the shift towards 'evidence-based policy' (or, perhaps better, *evidence-informed* policy) for practising researchers and their relations with policymakers. In the context of the present study, we consider: the formulation of the research question/problem; the nature of evidence, issues of data quality and the treatment of conflicting research findings.³

The project brief specified examining the available research base to find evidence of the links between ethnic and linguistic diversity and competitiveness. This, of course, presumes that such evidence does, in fact, exist. There is a danger here of capture, that is, researchers being co-opted for policymakers' ends and the loss of an independent, critical stance. On the other hand, working closely with policy makers provides researchers with an opportunity to exert some influence over policy, as well as to engage with policy makers over what constitutes acceptable 'evidence'. Building a robust evidence base, however, requires seeking empirical cases that both confirm *and* disconfirm policymakers' (and researchers') preconceptions and, second, attempting to provide a causal explanation to account for conflicting findings. This we attempted to do despite the leading wording of the brief. Policymakers may have particular agendas to promote but this should not constrain researchers unduly. Disconfirming cases and the broader explanations they call forth will be of real value to policymakers, even if the latter do not recognise this.

A major concern in policy-funded research concerns how researchers define and interpret evidence and assemble it for consumption by policymakers. What sources are considered relevant to the research team, and how is their contribution to be assessed? Researchers might wish to include not only academic research in their reviews but also policy- and practitioner-based literature. This is not a weakness, as such sources may identify key issues and causally important influences on the topic of interest, but researchers should be free to make judgements as to the relevance and rigour of all sources they identify. Just because material comes from a policy-based source does not mean it is more or less relevant per se; rather, its relevance has to be argued for.

Data never speak for themselves but have to be interpreted in terms of some particular analytical framework, whether this is stated explicitly or left implicit. Data can always be interpreted in multiple ways and it is, therefore, important that researchers explicitly elaborate their causal explanations and underlying assumptions. Policy research studies vary in their methodologies, datasets, analytical frameworks and in the quality of their arguments. It should be no surprise, therefore, that studies often present conflicting arguments and data in relation to particular policy issues. The use of the method of systematic review, to synthesise disparate studies and evaluations, can go some way towards accounting for conflicting evidence (Boaz et al. 2002), but there is an inescapable interpretive element in such reviews as there is in the primary studies they incorporate. Although additional research can help, particularly in relation to social phenomena about which little is known, 'collecting more data' does not necessarily solve the research problem (Tenbensel 2004).

³ We do not discuss the role of research evidence in particular policy-making processes and outcomes. This would require a deeper understanding of the key policy actors involved, their motivations and power resources, and their interactions. Although the term 'evidence-based policy' suggests a primary role for reason in policy-making (Sanderson 2002), research evidence is only one influence on policy and possibly subordinate to key actors' political agendas. Moreover, a range of policy choices are always possible with any given evidence base, even if all parties interpret that evidence similarly.

Diversity/Competitiveness Connections: Evidence and Policy Implications

Policymaker interest in the use of diversity to achieve competitiveness objectives has been fuelled by the work of Florida (2004, 2005), particularly in North America (Peck 2005). Florida insists that diversity can contribute to competitiveness by bringing together different kinds of people in the same place, enabling them to generate new combinations of ideas and resources which, in turn, lead to greater innovation, firm formation, job generation and economic growth. Diverse places are tolerant places, with low barriers to entry for people. A new Creative Class of talented creative people, Florida claims, are attracted to tolerant, diverse places. Tolerant places provide the habitat where all forms of creativity (artistic, cultural, technological, and economic) can take root and flourish. Creative people move to them because they provide opportunities to validate their identities as creative. Florida supports his argument by correlating measures of the proportions of gays, bohemians and foreign-born immigrants resident in particular cities/regions with measures of economic performance. The argument is not that gays, bohemians or immigrants cause economic growth directly but rather that their presence in a particular city/region is an indicator of a culture that is open to new ideas.

While there is surely something in the notion that diversity can stimulate creativity that, in turn, produces economic benefits, Florida fails to articulate *how* diversity generates economic benefits; correlation of statistical variables does not suffice (e.g. Peck 2005). Precisely, how does diversity cause 'creativity effects' – through what causal mechanisms does diversity produce the outcomes ascribed to it? Do these mechanisms exist at the level of the business, firm networks, the city, or at some other level? Beyond proposing a vague notion of 'creative ecosystem', Florida does not elaborate these issues. Moreover, Florida's Melting Pot Index is a measure of *immigrants* rather than of *ethnicity* per se; not all immigrants are from visible minorities.

We now turn to identifying the key diversity mechanisms examined in the research. For each proposed mechanism, we discuss the primary and secondary evidence gathered during the study and consider the policy implications. Although individual mechanisms can be distinguished for analytical purposes, in practice, there are inter-connections between them. Each subsection concludes with a discussion of the policy implications; more detailed discussions of policy implications can be found in Smallbone et al. (2007b, forthcoming).

Ethnic Diversity and Entrepreneurship

It is widely recognised that self-employment and business ownership rates are higher among some minorities - though not all - than among the indigenous white population in the UK and in other countries, including the Netherlands, Germany (Pecoud 2003), Canada, the USA (Ram and Smallbone 2003) and Australia (Collins 2003). In London, nearly one in six (16.5 per cent) of the capital's 338,000 businesses are majority-owned by ethnic minority groups (Figure 1). This contrasts with 10 per cent of businesses in England that are ethnic minority-owned (Whitehead et al. 2006). BME-owned businesses in London tend to be micro-enterprises, with black and Asian-owned businesses employing a mean average of 3.9 and 5.4 people, respectively, a significantly lower figure than the London average of 9.7 (LDA 2006b)

However, the extent to which a high propensity towards self-employment and business ownership among ethnic minority communities may be viewed as an asset for city competitiveness depends on the types of businesses being established and the basis of their competitiveness. In particular, it is affected by the extent to which they are developing new products/services and/or new markets. BMEs that are adding to the range of goods and services available to customers and/or developing new markets, such as ethnic-specific food and drink and arts products (Henry et al. 2002; CEEDR 2003) are generating higher added value than businesses that are offering undifferentiated products/services to existing markets, such as low-order retailers (Jones et al. 2000). The former is the more innovative process with potentially more enduring effects on economic development; the latter might simply lead to displacement of existing operators by new entrants owing to intensified price competition (Ram et al. 2000).

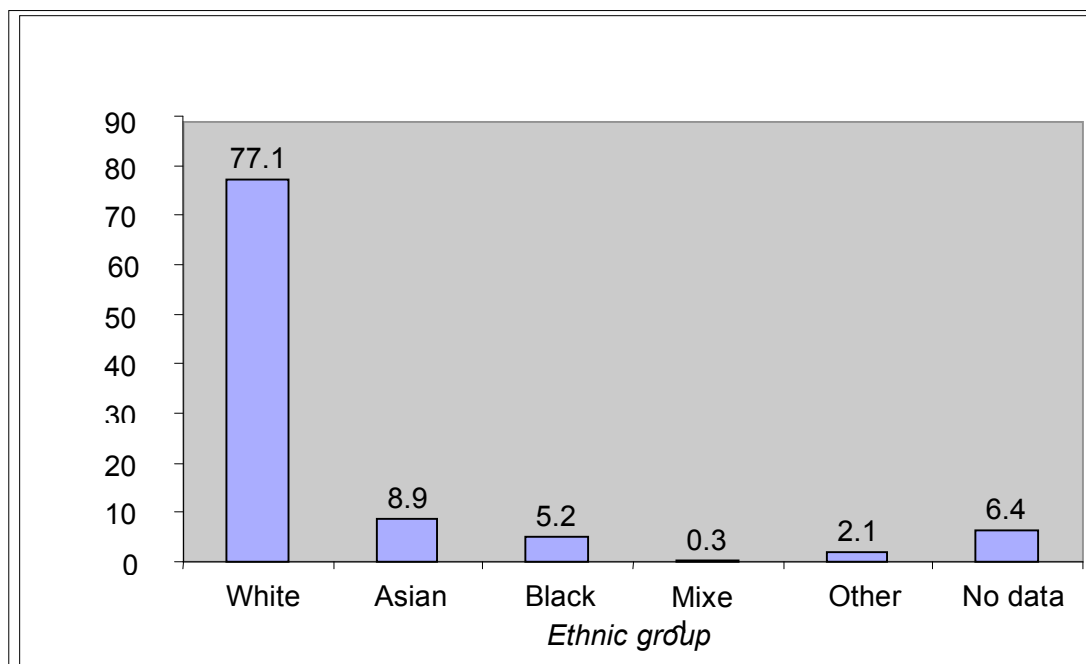


Figure 1: Ethnicity of London Business Owners, 2005 (LDA 2006b)

Encouraging more BME businesses to move up the value chain is a well recognised policy objective. However, achieving it in the past has been affected by the lack of penetration of BME communities by mainstream providers of business support, such as Business Link Operators (e.g. Ram and Smallbone, 2003). An alternative means of encouraging BME business start-up and development is through assisting the business support services of community-based organisations. The present study examined two such initiatives - Vietnamese Business Action and Salon Strategies. Their contribution to London's competitiveness depends on their ability to support BME-owned businesses by mobilising community-based, as well as external, resources and by encouraging and assisting these enterprises to identify and exploit wider national and international markets. Such organisations are closer to their communities than mainstream business support providers and this helps them to build the trust-based relationships with client businesses that are at the heart of effective business support delivery. Evaluation evidence of the REFLEX initiative supports this view (Blackburn and Odamtten 2004; Blackburn et al. 2005).⁴

The main disadvantage of such initiatives is their typical reliance on project funding, which can be associated with under-resourcing, a lack of strategic commitment and, historically, a lack of suitably qualified, community-based business advisers. Moreover, as Business Links move towards a brokerage model, they are increasingly dependent on working with key partner organisations, and serving the needs of London's BME communities remains a strategic priority for the LDA. Linking the universal brokerage service with community-based business support is a potentially attractive delivery model, as has been demonstrated in London with REFLEX/SIED.

While the arguments regarding diversification of the business base are well-established, a number of specific policy implications arise from the foregoing discussion in relation to the role of community organisations in delivering support to start-ups and existing businesses. First, supporting community organisations to enable them to provide financial and other, softer, forms of support such as business advisor training linked to accreditation (e.g. SFEDI), would be useful. Without adequate resources and suitably skilled advisers, community-based initiatives

⁴ Similar arguments could be made in relation to the successor to the REFLEX programme, the Social Inclusion for Enterprise Development (SIED) initiative.

seem doomed to fail. Second, fostering relationships between community organisations and Business Links to provide a conduit for BME businesses to access the wider business support system, encourage take up of BL support by BME businesses and to mainstream BME-specific projects might be beneficial. Supporting community-based initiatives can thereby add value by enhancing what already exists. At the same time, external links with a variety of organisations are critical if community-based business support is not to be ghettoised and opportunities to access a wider range of business support services closed off to this market.

Third, policymakers might consider transferring 'good practice' experience in community-based business support into the mainstream. Experience with the REFLEX/SIED project in London, suggests that delivering business support through community-based business advisers is one way of accessing some of the more traditionally 'difficult to reach' groups, such as recently arrived immigrants. Fourth, acknowledging the long-term character of some BME enterprises' support needs is crucial. The case studies demonstrate that packages of support, ranging from mentoring, identifying new markets and language support, are sometimes necessary to achieve this. Given limited resources, such support needs to be targeted selectively at clients where maximum impact for this investment can be achieved.

Ethnic Diversity, Creativity and Innovation

Although a significant proportion of minority businesses are concentrated in highly competitive, low entry barrier sectors, such as catering, food retailing and textiles (LDA 2005), rendering many operators insecure (Watson et al. 2000; Ram et al. 2000; Barrett et al. 2002), new activities have recently emerged. These include business and professional services, music, the arts and software, often involving second or third generation migrants (CEEDR 2003; Smallbone et al. 2005). In creative sectors, particularly, ethnic diversity is a potential strength, because it can contribute to both product and process innovation, either within individual enterprises or clusters of firms. Many Asian creative businesses sell to both co-ethnic and mainstream markets, in the UK and elsewhere, which is contributing to growth in the London economy. Similar examples may be found in sectors such as food and music, based on the principle of fusion of styles and traditions.

There is some evidence of the role of ethnic diversity in relation to London's creative industries, particularly with respect to the music and performing arts and software and computing sub-sectors (e.g. CEEDR 2003). 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 growth of the creative industries is important because it is part of the transformation of London's economy that has been taking place since the 1970s, generating income, new job and business opportunities and a wider range of products and 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.

Primary evidence from a small record label recording and distributing Caribbean music is suggestive of the potential for product innovation based on the fusion of cultures and traditions. The company focuses on cross-fertilising UK urban and Caribbean music. Sales include both Caribbean and UK markets and 30-40% of sales are estimated to be outside the UK. The fusion of musical styles represents an attempt to differentiate the business from other record labels and builds on what is arguably a unique asset of second and third generation immigrants, born and brought up in the UK, namely, being able to combine home country experience with the cultural traditions inherited from parents and grandparents.

Policymakers might consider action to support such connections in order to develop and exploit the capacity of BME-owned businesses to provide higher value-added activities. First, policymakers should prioritise support for BME businesses in emerging, creative sectors such as design, music and performance arts which can benefit from the increased profile associated with exhibitions and special events, particularly if these are backed by mainstream organisations. Sectoral diversification of the BME business stock would reduce dependency upon a limited market. Second, policymakers might wish to link the ethnic diversity of their cities with tourism (e.g. for London, in marketing the 2012 Olympic Games). Policymakers might explicitly link business support and tourist strategies. The case of the City Mondial project in the Netherlands

offers some good learning experience in this respect (http://www.lda.gov.uk/upload/pdf/Competitive_advantage_of_diversity.pdf), since it combined physical, economic and social measures with locally based initiatives involving local residents and representative groups (e.g. housing associations, voluntary groups).

Supplier Diversity

Supplier diversity can be defined in terms of the number of businesses with specified characteristics - for example, small or BME firms - that supply goods and services to private and public sector organisations. Supplier diversity can contribute to economic competitiveness by enabling client businesses and public sector organisations to access high-quality, differentiated inputs (materials, components and other intermediate goods and services) that would otherwise be unavailable or more expensive to acquire from other sources. This is particularly attractive as an economic development tool for public policy makers in a UK context where widening market opportunities can help to facilitate a diversification of the BME business base.

UK small businesses in general, and BME firms in particular, face barriers in accessing procurement contracts for a number of reasons. These include: clients' purchasing practices (such as contract bundling); the bureaucracy of the procurement process can bar SMEs with limited internal management resources; and the channels used to disseminate information about supply opportunities may not be those that small businesses are typically plugged into. There are also supply side constraints. The size and sectoral characteristics of BME firms suggest that a limited number of them may benefit from attempts to increase supplier diversity in the short term, because of capacity and other constraints, such as a lack of quality assurance certification.

In the UK, private businesses have no legal obligation to engage BME suppliers or to monitor supplier details. Public sector bodies, conversely, have a statutory duty to promote race equality and to take account of it in policy-making, service delivery, employment practice and other functions. The National Procurement Strategy 2003-6, moreover, suggests that local authorities should develop diverse and competitive sources of supply, including procurement from BME firms. In practice, supplier diversity initiatives in the UK are still in their infancy and evidence regarding their outcomes in terms of business benefits is limited. The evidence we have suggests the number of participating BME firms is small, with little evidence of positive benefits for them. Nevertheless, initiatives such as *Trade Local and the Haringey SME Procurement Pilot* and *Race for Opportunity* demonstrate that some private sector organisations are aware of the business case for supplier diversity and are willing to open up market opportunities for BME suppliers (e.g. Small Business Service 2004). Some public sector organisations have taken steps to increase opportunities for small businesses, which, depending on locality, may include a significant number of BME firms.

A number of policy implications arise. First, policymakers might consider actively promoting supplier diversity to businesses and public bodies in their regions to demonstrate what can be achieved within the context of existing legislation. Contractors might, for example, be required to demonstrate a commitment to supplier diversity as a condition of winning public sector contracts, reflecting an interpretation of 'best value' that includes social inclusion criteria. Other demand-side changes would be useful, including: simplification of purchasing regulations; use of smaller contracts; advertising procurement opportunities in the local press, ethnic media and community organisations; training for procurement staff to think more widely than the usual list of corporate suppliers.

A second policy implication is that a strategy of building the capacity of BME businesses on a 'fit-to-supply' basis is a more attractive long-term option in the UK context than one of positive discrimination. This will require mainstream business support through seminars, meet-the-buyer and other local business events. Third, policymakers might consider promoting and supporting the role of intermediary institutions, particularly those that have a demonstrated capability to engage with both purchasers and potential BME suppliers. Fourth, the creation and maintenance of accurate BME business databases is a priority if policy is to be effective in: reaching BME businesses, facilitating matches between buyers and suppliers, monitoring supply chain initiatives, and evaluating their impact. Fifth, policymakers should monitor contracts

awarded by public and private bodies to assess whether BME businesses really benefit from supply chain initiatives; to report on buyers' perceptions of the benefits/problems of diversifying their supplier base; and estimate the impact on competitiveness. Requiring public bodies to publish data on the distribution of contracts between firms of different sizes and ethnic groups would be a good start.

Public sector policy makers can also contribute to increasing supplier diversity in the corporate sector. One of the key policy levers they possess is to make a firm's commitment to diversity in their supply chain a condition for bidding for public sector contracts (e.g. by first tier contractors). The public sector also has a role in promoting the social responsibility agenda to the corporate sector, particularly in circumstances where the business case for supplier diversity is weak. Whilst this may primarily be a task for central government, local authorities also have a role to play.

Access to Resources and Markets through Diaspora-based Networks

Diaspora-based networks, defined as relations between ethnic and national groups across international borders, have, historically, been very important in facilitating trade in migrant communities within and between countries (McCabe et al. 2005). Studies in the UK and elsewhere have found that communities – including Chinese, Indian, Pakistani, African-American, Greek, Vietnamese, and Jewish - use diaspora-based networks to provide business ideas, access valuable resources (capital, labour, raw materials and supplies, information on trading opportunities), and to provide markets for products (e.g. Rauch 2001; Collins 2002; Portes et al. 2002; McEwan et al. 2005; Bagwell 2007).

Diaspora-based networks both enable and constrain actual and would-be business owners. A reliance on ethnic-based networks at a local level can, in some circumstances, constrain business start-up and development by restricting access to resources and markets. Some ethnic groups, moreover, are marked by strong internal divisions and/or lack developed community structures that restrict the usefulness of diaspora relationships (CEEDR 2006). The 'mixed embeddedness' thesis suggests that competitiveness depends not only on business owners' strong ties (Granovetter 1973) with ethnic networks but also on their capacity to draw on wider market and institutional contexts (Rath and Kloosterman 1999; Jones et al. 2000; Kloosterman and Rath 2001), which vary spatially. Growth-oriented BME enterprises might need to 'break out' into mainstream markets, in order to expand or diversify (Ram and Jones 1998). Second and subsequent generations are more likely to have access to a wider variety of social connections beyond the diaspora.

Our primary data, drawing on the experiences of four London business owners – three Vietnamese-owned restaurants and one Chinese-owned health business - suggests that exploitation of diaspora networks is a necessary condition of operation for certain kinds of BME businesses in London, particularly those 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 specialised nature of the inputs required. Diaspora connections alone, however, 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 thrive. Diaspora-based linkages are an ethnic resource for business development, although the extent to which they are capitalised on depends on a variety of other influences, including managerial skills and knowledge.

The discussion suggests a number of possibilities for policymakers (Kitching et al. forthcoming). First, policymakers and business advisers working with London's minority businesses should encourage owners to view diaspora-based networks as potential assets for business development purposes, enabling access to crucial resources and/or markets. As the Vietnamese Business Action example illustrates, diaspora-based linkages represent a significant community

asset that can be used to mobilise resources (e.g. labour), but also to access new market opportunities. Second, business advisers should include network contacts when auditing BME firms' resources. Third, policymakers might consider providing financial support, on a pilot basis, to business support and/or community organisations with viable proposals for the exploitation of transnational diaspora-based networks for BME business development. Fourth, little systematic data is available on the size and sector distribution of the ethnic minority-owned business stock in London or on the conditions under which business owners are best able to exploit diaspora-based connections. More research is required to establish whether these findings can be generalised to a wider set of ethnic minority groups and business settings before substantial resources are allocated.

Workforce Diversity

Workforce diversity refers to the range of ethnicities present in a particular business. Workforce diversity can potentially contribute to increased competitiveness in three major ways, by enabling businesses to: access a wider pool of labour skills; develop more creative and innovative products and working practices; and to access a more diverse customer base (Kandola and Fullerton 1998; Metcalf and Forth 2000). Critics, conversely, maintain that, in certain circumstances, increased diversity might cause a decline in competitiveness, for example, due to employment relations or communication problems (e.g. Williams and O'Reilly 1998; Ogbonna and Harris 2006). These conflicting findings suggest that workforce diversity can generate a variety of consequences and that these are contingent on wider business and market circumstances (e.g. Kochan et al. 2003).

Our primary studies investigated the provision of improved employment opportunities for BME groups as a means of enhancing business competitiveness. Data were obtained from the UK operations of two large companies, an energy multinational and a high street retail bank. Both companies are members of the *Race for Opportunity* network, a membership organisation of 180 private and public sector organisations, used by employers to benchmark their diversity performance with regard to employment, suppliers, communities and the environment. In the bank, managers and employees were interviewed at two East London branches, both areas of high BME populations. Attempts to match the ethnic profile of the workforce with that of the local customer base, through recruitment and redeployment, had proved very successful in one branch in terms of individual and branch performance. There had been more limited success in the other branch where the manager had been much less active in implementing the diversity policy. This highlights the importance of managerial agency in achieving policy objectives. Without high levels of commitment from senior executives and line managers, workforce diversity initiatives will not succeed.

Our primary and secondary findings suggest a number of policy implications. First, policymakers might wish to promote further ethnic diversity in employment and to address the structural and cultural barriers that continue to disadvantage BME groups. Without increasing the presence of BME groups in the workforce, employers will be unable to benefit from diversity. Second, policy might encourage businesses (particularly SMEs) to develop a more systematic approach to HR policy and practice, including monitoring of employment practices and outcomes to ensure BME groups are treated equitably in terms of recruitment, reward, training and promotion opportunities. This will be difficult in small enterprises, however, where the formalisation of employment practices is limited. Third, Government support for the *Race for Opportunity* network might encourage other employers to join and extend its influence.

Linguistic Diversity

Linguistic diversity refers to the range of languages present and potentially of use within any particular territory. Linguistic diversity can potentially contribute to city competitiveness by enabling businesses to offer (new) language-based services to the market. A survey of senior executives in 500 major European companies ranked London the highest of over 50 European cities for languages spoken as an influence on location decisions (Cushman & Wakefield 2006). To explore these issues, data were collected from two companies; a small hotel, with nine employees; and a contact centre, employing 35 people, a subsidiary of a large Japanese multinational. Without diverse language skills, the businesses would not have been able to

attract and retain their respective client bases but neither had exploited linguistic diversity fully as a strategic asset. In the hotel, a multi-lingual website was used to attract foreign visitors but there was little evidence of a proactive targeting of particular countries or of systematic recruitment of individuals with *specific* language skills. In the contact centre, staff with particular languages had been recruited to service particular contracts but over time, the diversity of the language skill base had diminished as loss of contracts had led to redundancies and clients increasingly preferred to speak English with centre staff. In neither case was there much evidence of employers thinking strategically about the acquisition and deployment of language skills in order to exploit them fully.

Policymakers might encourage employers to think strategically about their acquisition, use and development of language skills. Businesses (particularly SMEs) might be encouraged to think more strategically about their target markets and to link these choices to the language characteristics of the job-seekers they aim to recruit. Second, policymakers and business support providers might wish to encourage businesses (particularly SMEs) to develop a more systematic approach to HR policy and practice. Because language skills reside in individual employees, employers need policies to ensure adequate recruitment and retention of those with language skills. Because many employers might not be aware of the range of language skills possessed by employees, a useful first step might be to conduct an audit of languages currently spoken by employees. Third, policymakers might like to consider promoting the linguistic diversity of their city/regions as part of the 'tourist offer'.

Diversity as an Attractor of Foreign Direct Investment

Foreign direct investment (FDI) refers to all companies operating in a particular territory owned by investors based outside the UK. Ethnic and linguistic diversity can contribute to city competitiveness where it increases the appeal of the city to FDI and all that potentially flows from it - including increases in jobs, goods and services and supply chain development. At the same time, in some circumstances, diversity might potentially lead to a reduction in FDI where it leads to ethnic violence as in Indonesia (Evrensel and Kutun 2007). While the crucial importance of access to resources, infrastructure and markets, a favourable taxation and regulatory framework, and fiscal incentives should not be under-estimated as major influences on FDI (e.g. Kumar 2001; Turok 2004), ethnic and linguistic diversity might be a contributory factor in firms' location decisions.

London is one of the world's top destinations for FDI, being particularly strong in finance and business services (GLA Economics 2003). London was ranked first of over 50 European cities to locate a business in a survey of major European company senior executives in 2006 (Cushman & Wakefield 2006). Think London, the official inward investment agency for London, reports that FDI has a huge impact on London's economy, contributing £52 billion, 27% of economic activity and 500,000 jobs (Think London 2007). Although FDI companies are primarily attracted to London by its status as a global city, and proximity to markets, the study further argues that 64% of the 232 respondents reported that the diversity of London's workforce creates value, with only 3% claiming it did not. The FDI companies surveyed employed an approximately equal number of white British and other ethnic groups, the latter constituting a much higher proportion than their presence in the wider London population.

Policymakers might choose to highlight the diversity of the population to encourage FDI by foreign companies. Such policies might induce foreign firms to relocate in order to serve their own communities in the capital, or for other reasons, such as to take advantage of proximity to the European market. Highlighting ethnic and linguistic diversity in city marketing materials might encourage companies in the home countries of these ethnic and linguistic groups to consider UK cities as destination locations for FDI, although whether this possibility is a real one for cities other than London might be debated.

Conclusions

Our aim has been to examine the links between ethnic and linguistic diversity and city competitiveness and to consider the implications for policy. Our main conclusion is that the evidence base regarding ethnic and linguistic diversity and city competitiveness is suggestive

but uneven. Though a number of plausible hypothesised links between diversity and competitiveness may be proposed, the evidence required to confirm, refine or reject them is patchy. Without further systematic research, it is difficult to claim such diversity/competitiveness connections exist in practice, how strong such connections are, and what conditions support or hinder them, a finding consistent with feedback received from expert commentators around the world. Nor do we claim to have provided an exhaustive classification of diversity mechanisms contributing to business and city competitiveness. Yet systematic evidence and analysis is crucial for policymakers to have confidence that initiatives will be successful.

Although quite limited, the primary and secondary data presented here offer some support for the view that each of the diversity mechanisms identified might contribute to business and city competitiveness. First, the high propensity of some BME groups to form businesses is undoubtedly a potential asset for a city, such as London, particularly where they undertake higher value added, creative and innovative activity. This would also increase the possibility of fusing different cultures and traditions to foster product and process innovation, for example, in relation to the food and creative sectors. Second, diaspora-based networks undoubtedly enable London's BME population to access resources and markets. Enabling nascent business owners to identify and develop diaspora linkages might be crucial to start-up and growth, with consequences for jobs, incomes and competitiveness. Having said this, it is clear, the evidence base is far from adequate and needs developing to offer policymakers confidence.

Reconciling research material related to diversity, and policies aimed at building on it, from different countries, and even different cities within a single country, is a challenge because of differences in the social context. For example, the size, composition and internal relations of particular BME communities, and the resources they possess, in particular cities is a major structural influence on the mechanisms discussed here. Policy approaches developed in one city, region or country cannot simply be transplanted into another without careful consideration. Without a clear understanding as to why particular policies work (or fail) in particular contexts, the transfer of policy from one place to another is fraught with potential difficulties. Nevertheless, provided this 'health warning' is recognised, key principles are potentially transferable.

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