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Black Business and Development: A Strategy Paper

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BLACK BUSINESS DEVELOPMENT

A Strategy Paper

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BLACK BUSINESS DEVELOPMENT

A Strategy Paper

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BLACK BUSINESS DEVELOPMENT

A STRATEGY PAPER

1. Introduction

- 1.1 The purpose of this paper is to put forward a national strategy for assisting and encouraging effective ethnic minority business development. The paper begins by looking at the need for such a strategy and the problems currently faced by ethnic minority businesses. We then go on to set out a series of proposals for dealing with these.

2. The Need

- 2.1 As the British industrial base declines, the ethnic minorities continue to be over-represented among the most vulnerable groups in the working population. The young, unskilled, or semi-skilled manual workers frequently employed in declining manufacturing industries. It is becoming increasingly likely that some of the black population may spend much of their adult life unemployed and will turn to self-employment as a solution. It is also true that while discrimination in British industry continues and opportunities decrease, aspiring black managers are increasingly likely to contemplate setting up their own business. There is also a growing recognition that for full equal opportunities to be a reality, black people must share in the ownership of the economic base. The experience of organisations such as the UK Caribbean Chamber of Commerce and other specialist advisory and consultancy agencies shows that there is already considerable and increasing interest within the black community in self-employment and business start-up.

- 2.2 The need to encourage and facilitate black business development was recognised by Lord Scarman in his report on the 1981 Brixton disorders. Emphasising the need for black people to secure a real stake in the community, Lord Scarman wrote: "I do urge the necessity for speedy action if we are to avoid the perpetuation in this country of an economically dispossessed black population". The Home Affairs Committee in their 1981 report on Racial Disadvantage, noted that: "It is thus in the interests of the whole community that obstacles to the full participation by members of any minority group in the creation and running of small businesses should be removed". The encouragement of ethnic minority small businesses, like any other small business, is a means of creating jobs and part of the process of re-generating the whole economy.

Finance

- 2.3 Lack of capital is a major barrier to the start-up and growth of black businesses. A history of overall economic disadvantage has left many black entrepreneurs with no opportunity to accumulate sufficient capital themselves, and they have in the main failed to attract the necessary finance from other sources, particularly the banks. Various reasons for this have been identified. These include "objective" factors, such as lack of business experience, and of collateral to create leverage for bank borrowing, and "subjective" ones, such as negative stereotyping by bank managers, discrimination, whether actual or perceived, and a mutual lack of understanding between bank managers and black business people. A particular source of concern in recent years has been the failure of the Government's loan guarantee scheme to meet the needs of black businesses.¹ Another is the absence of any significant Afro-Caribbean financial institutions within the UK.

Markets

- 2.4 Many black businesses have been dependent on limited local and/or ethnic minority markets and, while this may have its early advantages, it was seen in a recent study as a major weakness in the long term, leaving businesses vulnerable to adverse developments in the local economy. Yet black businesses face difficulties in breaking into wider markets because of factors such as lack of capital, inadequate marketing knowledge and skills, and a widespread perceived experience of discrimination by buyers. While training and advice in marketing may provide a partial solution, it is unlikely that there will be any significant change without more direct assistance in increasing market opportunities.

Government Contracts

- 2.5 One mechanism which has been used in the US is the requirement for a percentage of Federal funds for local public works projects to be used by the state or local grantee to purchase from minority businesses. Even with a legislative base for this requirement, there have been difficulties in implementing it, but it has been very effective in providing minority businesses with access to markets which would otherwise have been closed to them, and consequently with an opportunity to expand and develop further.

Management Training and Advice

- 2.6 Many black entrepreneurs or potential entrepreneurs lack management and business experience and expertise but, while they are aware of their needs in this area, they do not always have the opportunity or knowledge to enable them to acquire these skills, either through training for themselves, or in the form of professional advice or consultancy from others. The services provided by Government to small businesses (The Small Firms Advisory Service and the Business Opportunities Programme) have largely failed to reach black businesses,² and the development of independent black consultancy agencies has

been hampered by the inability of black businesses to pay an economic cost for their services. In the field of training a variety of agencies has begun to look at and attempt to respond to the needs of black businesses, but the development has been piecemeal and uncoordinated.

Premises

- 2.7 Like other small businesses, particularly in inner city areas, black businesses have difficulty in obtaining access to suitable premises, but the existence of the additional disadvantages faced by black businesses tends to exacerbate their difficulties in this area as well. The kind of problems which have been identified relate to the unsatisfactory size, location and condition of the premises which nonetheless are also more likely to have to pay higher insurance premiums because of racially motivated vandalism, and the obtaining of local authority planning permission has also emerged as a problem in some surveys.³

3. A Strategy for Change

- 3.1 It is clear that ethnic minority businesses are not benefiting from present provision and we believe that it is time that government responded to the special needs of such businesses by making available facilities which will reach those businesses. Because the problems described in Section 2 are all inter-related, and because a wide variety of agencies may be involved in devising appropriate responses, we consider it crucial that a single central government agency should be given national responsibility for coordinating the different elements of any strategy for black business development. In addition to coordinating Government financial activity on ethnic minority business development, including financial assistance, this central unit would also be a source of information, expertise and advice for any agency seeking to respond to minority business needs.

Finance

- 3.2 It is clear that if ethnic minority businesses are to have the opportunity to compete on equal terms in the business world, they must have fair access to the start-up and development finance so crucial to business success. In order to bring this about, we believe that loan finance must be made available through a fund established for that purpose. The fund would have the facility to provide loans on a large scale, so that ethnic minority businesses would have the opportunity to be more flexible in their areas of operation, developing in capital intensive sectors rather than concentrating on small, low capital service activities. The fund will need to be large enough to sustain an average of 10,000 new jobs per year over a five year period.
- 3.3 We are emphatically not suggesting that loan facilities should be afforded to all ethnic minority business, irrespective of the viability of the proposal. What is necessary, however, is for decisions about making loans to be based more on the future prospects of the business proposal, taking into account the availability of intensive advice and consultancy which would accompany many loans, rather than the historical requirements relating to the individual business people's track records. It is these requirements which at present so disadvantage black entrepreneurs, especially if accompanied by negative stereotypes held by those normally in a position to make loan decisions. It is also important that no unrealistic collateral requirements should be imposed, although in some cases it may be appropriate to ask for a limited level of collateral.
- 3.4 We envisage that the loan fund would be a joint public/private venture, channelled through the proposed co-ordinating agency, but locally determined, administered and delivered, through Minority Small Business Investment Companies, which should be capable of receiving funds from local as well as central sources, both public and private.

Representatives of the DTI, DE, DOE and the Home Office, other Government departments and local authorities might be represented on the governing boards of these companies. (See para 3.9 for a description of the proposed function of Minority Small Business Investment Companies.)

- 3.5 Any loan fund would, of course, have to be designed and established with due regard to the provisions of the Race Relations Act 1976.

We therefore propose that the fund be defined and targetted with reference to economic and social deprivation, with the local Investment Corporations sited in particular areas of inner city deprivation and high ethnic minority population so that ethnic minority business people would be the main, but not the sole, beneficiaries of the fund.

- 3.6 In addition to the fund, and in appropriate cases, we would also hope to see ethnic minority businesses take advantage of the Loan Guarantee Scheme, although recent reductions in the level of guarantee and increased interest rates make this scheme less attractive.

Governments Contracts Policy

- 3.7 One of the prime requirements of a successful business is a full order book. We believe that Government has a major role to play in providing the increased market opportunities needed by ethnic minority businesses, and an inescapable responsibility, in its expenditure of public money, to ensure that its contract policy is one which ensures fair treatment for ethnic minority contractors and sub-contractors. The Government should first take steps to monitor its contracts, in order to establish how many contracts and sub-contracts go to ethnic minority businesses, and the sums involved. There should then be a full review of possible changes to procedures to ensure fair representation of ethnic minority businesses in government suppliers. Among the steps which could be taken would be ensuring that leaflets such as

"Selling to the MOD", designed to help small firms and component suppliers to compete for MOD business, were published by all departments and made widely available to sources in contact with ethnic minority businesses. It may also be necessary to make funds available for the establishing of minority suppliers associations, which could then produce and publish directories of suppliers in particular fields, so that these organisations could be contacted direct.

We believe that it is important that government having first established the present level of ethnic minority contractors, should set realistic targets for improving ethnic minority "take-up" of government contracts.

Private Sector Purchasing

- 3.8 It is also important to ensure that the private sector plays its part in providing new markets to ethnic minority businesses. We are particularly keen to see those businesses which at a local and/or national level are contributing to the funding of Minority Small Business Investment Companies, entering into contractual supply arrangements with the businesses to whom they are directly or indirectly providing loan finance. In so doing, they stand to derive considerable benefit themselves, in terms of increasing the probability of success in businesses they fund, securing advantages, possibly exclusive, arrangements for supply, and in terms of the community goodwill generated by being seen as a partner in the economic development and /or regeneration of disadvantaged areas.

Minority Small Business Investment Companies

- 3.9 As described above, these agencies would be the channel through which the loan fund was distributed to individual businesses. We envisage these agencies being based in fairly small areas at a "district" level, in order to ensure optimum availability to ethnic minority communities.

In addition to their role in allocating loan funds, the Companies would have an additional budget, to enable them to meet the other needs of ethnic minority businesses, particularly for advice and training. We believe that given the range of organisations currently involved in providing these facilities, it is desirable to leave the choice of resource to the Companies themselves, and also to individual businesses. What we recommend therefore, is that the Companies should have budgets which enable them to buy in any training/advisory consultancy facilities deemed appropriate to the particular needs of a particular area business. They should also of course be working closely with education authorities and the Manpower Services Commission in ensuring that the resources of these bodies are utilised with due regard to the needs of ethnic minority entrepreneurs. While it may be advantageous for the Central Government Co-ordinating Unit to take on an advisory role in relation to standards of training and advice, we do not believe that it would be desirable for any central body to have the right to determine "approved" sources of training and advice.

The investment companies would also have a role in the procurement officers who seek to break down the tender barriers between small businesses and large corporations in both the private and public sector. As an extension of this role, we would like to see an experiment of Minority Suppliers Associations in 5 to 6 areas. These would be associations of large established businesses which would combine support and initiative for promoting the goods and services of minority small businesses.

Premises

- 3.10 We believe that one of the most useful types of initiative which has been taken with regard to premises is on the lines of the "BON MARCHE" model in Brixton, where private enterprise, the local authority and central government went into partnership to provide low cost accomodation for

burgeoning small businesses on a single multi-unit site, where business advice is also available. We would therefore see as the major role of Minority Small Business Investment Companies to encourage this kind of development, but they should also have funds which would enable them to take direct action themselves to ensure the availability of such low cost accommodation if necessary and appropriate.

4. Conclusion

- 4.1 We believe that the above proposals provide a framework around which a national response to the needs of black businesses can be coordinated and developed. Many details remain to be resolved and the black business community itself will need to be involved at the outset. This community is already organising to meet its own needs, and we consider that it would be dangerous to stifle the growth that is already taking place by imposing structures devised without reference to the existing expertise available in the black business community. Similarly, it is fundamental to the success of the national unit, and the local Investment Corporations, that they have the full acceptance of ethnic minority entrepreneurs, and make full use of the knowledge and skills which have already been built up by a number of agencies and individuals with the most direct first-hand experience of the problems black businesses have to face. We believe that a genuine and equal partnership between the black business community and government and private sector agencies could be a powerful force for revitalizing economic development in areas which so desperately need a substantial and speedy injection of entrepreneurial spirit and activity.

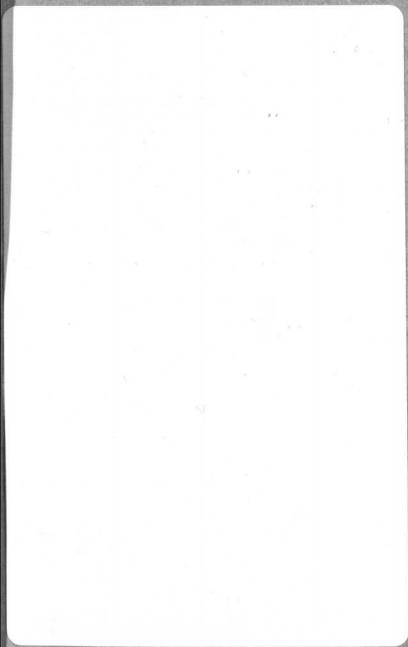
Footnotes

1. This fact is accepted by the Department of Trade and Industry. See also Martin Kazuka's study in Hackney and Peter Wilson's survey in Brent.

2. See Kazuka, Wilson and MSC research into ethnic minority take up of its business opportunities provisions
3. See for example, Kazuka and Wilson

SUMMARY OF RECOMMENDATIONS

1. The establishment of a minority business unit within the most appropriate Central Government department to co-ordinate Government assistance to minority businesses.
2. Central Government should monitor its contracts in order to establish how many contracts and sub-contracts go to minority businesses.
3. There should be a full review of possible changes to procedure to ensure a fair and equitable representation of ethnic minority businesses in Government suppliers.
4. Government should set realistic targets for improving minority "take-up" of Government contracts.
5. The creation of Minority Small Business Investment Companies situated in areas of high ethnic minority population to administer and deliver the programme at the local level. These investment companies to be a partnership of the public and private sector with ethnic minority representation on the governing boards.
6. The establishment of a minority suppliers association initially as an experiment in 5 or 6 areas.



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