

Building resilience in under-represented entrepreneurs:

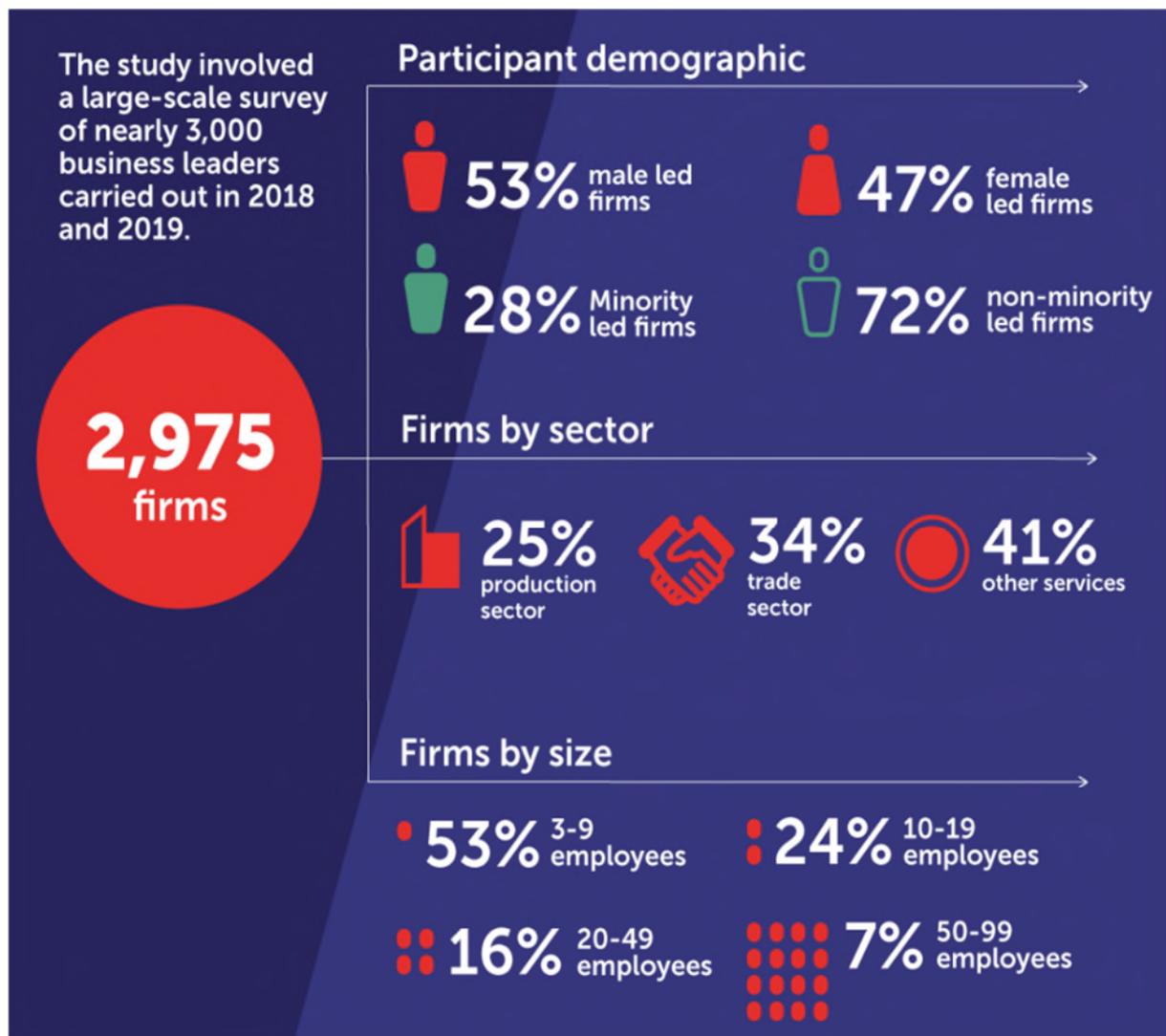
A European comparative study



EXECUTIVE SUMMARY

The study

This report is the result of a two year, five-country study into small business resilience with a particular focus on firms with female and ethnic minority leaders. The overarching aim of the research was to deliver insight into what makes small businesses resilient and thus more able to survive crises. We also wanted to understand whether entrepreneurs from underrepresented groups face particular challenges related to their status, and if so, what could be done to address these challenges.



The research, which was carried out in late 2018 and 2019 in London, Frankfurt, Milan, Madrid and Paris, used both quantitative survey and qualitative interview methods to examine the ways in which small firms approach and manage risk. It also explored their experiences of, and responses to, adversity. Adopting this mixed methods approach allowed us to establish statistically robust findings with the survey element, and to explore in more depth specific issues that arose in the survey in face-to-face interviews with entrepreneurs. As well as delivering insight and recommendations into this under-researched area, the study sought to inform the development of practical interventions in the form of toolkits to help small firms in general, and those led by underrepresented groups in particular, to become more resilient.

Key Findings

Our findings indicate material differences between ethnic minority and non-ethnic minority-led firms, as well as significant sectoral variation, across our five-city sample when it comes to experience of and planning for crisis, and response to crisis

1. Small businesses and their leaders

In all cities, small business owners in our study scored highly on the Connor Davidson resilience scale, indicating that these leaders are generally very resilient individuals. Keeping their business the same is a shared priority amongst respondents in this study, regardless of gender and ethnic background: 77% of firms cited this as an important objective. However, female and ethnic minority-led firms approach their businesses differently from their male and non-ethnic minority counterparts, and the picture varies depending on the city under study. For example, female and ethnic minority leaders are more likely than their counterparts in all five cities to express socially and environmentally-focused objectives for their firms. In all cities except Frankfurt, ethnic minority leaders take less external advice than non-ethnic minority leaders, whereas in Madrid and Paris, female leaders are more likely than male leaders to access external advice.

The likelihood of a firm's leader to seek any kind of external advice for their business also varies with gender and ethnicity of leader, as does the kind of advice the leader is likely to access. Ethnic minority leaders generally seek less external advice, and both ethnic minority and female leaders are more likely to consult informal sources of advice than non-ethnic minority and male leaders. Qualitative insights suggest that this may be due to lower participation in business networks by female and ethnic minority leaders. It may also be because these leaders do not see the support on offer as directly relevant to their specific

circumstances, something which was also commonly expressed in the entrepreneur interviews. Additionally, we see variation also in the types of advice accessed by city, which suggests that contextual factors may have a part to play here. For example, in Madrid, 74% of leaders who sought advice went to a legal professional, compared with only 36% in Milan, and in London, family was a source of external advice for 52% of those seeking help, compared to only 22% of leaders in Madrid and 8% in Milan.

When it comes to how entrepreneurs assess potential future risks the most cited future worries relate to factors that are internal to the firm, with the top concern being staff, especially the loss of key staff members, which is a fear expressed by 53% of leaders across the five cities. Depth interviews with firm leaders confirm they prioritize day-to-day survival and running their firms. We observe some variation by city in the risks identified, some of which can be attributed to the sector profile of the businesses we accessed. For example, in Milan, costs and materials are a key worry, and this reflects the higher proportion of manufacturing firms in our Milanese sample. The likelihood of a firm to plan for future risks varies by both leader type and city. For example, male leaders in London and Frankfurt are more likely to plan than females, whereas proportions are similar in the other three cities. Ethnic minority -led businesses are much less likely to plan than their non-ethnic minority counterparts in Madrid and Milan, whereas similar proportions plan in the other three cities.

2. Experiencing crisis

Overall, 31% of our sample of 2,975 firms across five cities had experienced a crisis which threatened the survival of their business in the past five years. We find variation by city and firm type, both in terms of likelihood of crisis and of cited cause (see table 1). Overall, ethnic minority-led firms were more likely to have experienced a crisis in the preceding five years that had threatened the survival of their business, but this was not the case in each city. In London and Frankfurt, ethnic minority-led firms were more likely to have experienced such a crisis, while in Milan and Madrid, non-ethnic minority-led firms were more likely to have experienced a crisis. Ethnic minority and non-ethnic minority-led firms in Paris, and female- versus male-led firms in all cities, were similarly likely to have experienced a crisis. There was some variation in the attributed cause of crises across cities resulting from, for example, local policy choices and prevailing economic conditions, although within cities, both ethnic minority and female-led firms tended to identify similar causes.

In all cities the top causes of crises differed from the top risks that firm leaders had identified earlier, suggesting that leaders of SMEs in these cities struggle to identify the most potent risks to their firms (see table 1 below). Also, whereas most risks identified tended to be internal to the firm, most of the crisis causes can be characterised as external factors, such as loss or failure of a major customer and cost rises in materials, services or labour (see table 1). Insights from the depth interviews indicate that firm leaders lack the time, resources and skills to plan for crisis, because they are preoccupied with day to day running of their businesses, which is consistent with their predominantly internal focus in identifying potential future threats.

Table 1: Top three perceived threats and causes of crisis by city, all firms

		1	2	3
Paris	Perceived risks	Staff	Illness	Cashflow
	<i>Crisis causes</i>	<i>Customers</i>	<i>Cashflow</i>	<i>Strike</i>
Frankfurt	Perceived risks	Staff	Regulation	Cybercrime
	<i>Crisis causes</i>	<i>Customers</i>	<i>Staff</i>	<i>Cashflow</i>
Milan	Perceived risks	Customers	Costs	Materials
	<i>Crisis causes</i>	<i>Customers</i>	<i>Strike</i>	<i>Competition</i>
Madrid	Perceived risks	Illness	Regulation	Cashflow
	<i>Crisis causes</i>	<i>Customers</i>	<i>Strike</i>	<i>Staff</i>
London	Perceived risks	Staff	Costs	Cybercrime
	<i>Crisis causes</i>	<i>Costs</i>	<i>Cashflow</i>	<i>Staff</i>
All cities	Perceived risks	Staff	Costs	Illness
	<i>Crisis causes</i>	<i>Cashflow</i>	<i>Customers</i>	<i>Staff</i>

3. Dealing with adversity

Small firms respond to crises in different ways, depending on the city where they are located, and the ethnicity of their leader. Tapping into financial reserves and taking advice from friends & family have been the most common ways to deal with crisis for the surveyed entrepreneurs. Small firms in our sample did not tend to implement pre-developed plans in response to a crisis, indicating that crisis planning is not widely undertaken. These results indicate that contextual environmental factors may be a primary influence in the way that firms deal with adversity. While gender of firm leader does not seem to make a difference to the chosen response to a crisis, ethnicity of leader does.

Regression analysis to interrogate the links between crisis planning and crisis experience has identified a number of significant associations. Larger firms (i.e., those with more employees) are significantly less likely to have experienced a crisis that threatened the survival of their business in the preceding five years, and significantly more likely to have in place plans to deal with possible future crises. Older firms are more likely to have experienced an existential crisis

in the preceding five years. However, they are no more likely than younger firms to have resilience plans in place. Area where the firm is located (i.e., low- or middle-income borough) is not linked to the likelihood of crisis or the presence of crisis plans, but sector makes a difference to the likelihood of a firm to have had a crisis, and to the likelihood of crisis planning. Firms in manufacturing, construction and business services are significantly more likely than those in other sectors to have had a crisis in the preceding five years. When it comes to planning for future adversity, firms in manufacturing and trade are significantly less likely than those in other sectors to have crisis plans in place.

Implications

The picture is complex. SME resilience appears to have a number of antecedents, including individual leader characteristics, sector context, the accessibility of appropriate support, the right people within the business, and the ability to understand the macro-environment of the firm.

Promoting resilience, especially for underrepresented entrepreneurs, requires responsive, locally-informed approaches: There is no single blueprint for running a resilient SME: firm leaders have diverse business objectives, access different types of advice, and employ varied approaches to crisis. For example, female leaders tend to seek more advice, but more from informal networks, than their male counterparts, potentially reflecting and contributing to disparities in their levels of social and human capital compared to male leaders but also indicating the need for new, tailored models of support. Ethnic minority leaders tend to use less external advice than non-ethnic leaders, reflecting lower formal network participation, but also opportunities to engage in novel ways. Especially where borough variation is observed, for example in London, bespoke initiatives that help to identify and engage female and ethnic minority-led firms to ensure advice and support is appropriate, relevant and needed may be key.

Establishing ecosystems of support for underrepresented businesses requires a long-term focus to aid relationship building and to build effective networks.

Bespoke support with crisis planning can encourage entrepreneurs to assess a wider range of risk factors, that may not otherwise be on their radar. The difference between the perceived future risks that female and ethnic minority firm leaders articulate and the causes that they identify for actual crises suggests that initiatives to help them identify the most potent future risks and to develop a response plan may be appropriate. While it does not necessarily

follow that crisis planning will make companies immune to risk, it does at least suggest that planning initiatives may encourage firms to look beyond their immediate internal environment to external factors which have the potential to derail their firms. Clearly sector, size of business and environmental/cultural factors may impact different firms in different ways, and so bespoke advice and support for female and ethnic minority-led firms related to their sector and location would appear to be appropriate. This should be an ongoing process, not simply a one-off exercise.

Initiatives that address specific context-related threats may be appropriate. E.g., in London support for Brexit issues should be aligned to the sector and context of SMEs. For example, the key risk in service sectors (where many female and ethnic minority firms are) could be loss of migrant workers or relocation of customers.

The disconnect amongst many SMEs between perceived challenges and likely causes of crisis places additional emphasis on the need to be nimble and responsive to the macroeconomic environment. This will likely be a combination of early warning about potential external threats stemming from changes in economic circumstances, technology developments (e.g. cyber threats) or legislative changes and explicit support or sign-posting to aid business recovery from a crisis.

Entrepreneurs would benefit from more effective systems for accessing support. Routes to expertise should be clear for when businesses hit adversity. Initiatives should focus on plugging business leaders into the right support ecosystem for them. This will inevitably look different in different cities, so while there is a place for best practice, taking one solution and attempting to fit it to all contexts is not appropriate. Flexibility is key.

As business moves to a digital world, online sign-posting and resources become increasingly important but may exclude some audiences. Female-led firms indicate online resources are becoming more important for thinking about business challenges, whereas Milan-based entrepreneurs showed an aversion to digital solutions overall. Cultural and technological factors need to be taken into account when deploying online solutions.

Strong networks which can facilitate peer exchange and expert input, ideally with a sectoral dimension, would help engage underrepresented entrepreneurs with less experience of engaging with formal sources of advice. In London, for example, although government-backed growth hubs are charged with signposting business support offerings, our study pinpoints insufficient sector context, and a lack of effective engagement with ethnic

minority-led businesses and those located in low-income boroughs. In Frankfurt, however, the availability of stable networks and support delivered through a broad spectrum of partner organisations may go some way to explaining the homogeneity of experience across the firms surveyed in the city.

An understanding of the local business support ecosystem is essential to deliver effective models of support. Our research indicates that not all businesses are being adequately engaged by existing support services and networks, but the model of delivery needed to address these gaps requires tailoring to local and sectoral circumstances. For example, our study shows that some London, Madrid and Paris-based firms would like to have access to other firms like themselves, which have had similar experiences. Firms in London and Paris say that they often feel unsupported by financial services providers. In addition, identifying and sharing best practice such as co-ordinated responses to specific local issues (e.g., growth hub support in national emergencies to respond to businesses affected by local flooding in the UK) may be relevant.

Recommendations

Interventions designed to improve the resilience of SMEs, particularly those led by underrepresented entrepreneurs, need to take account of the variations in leader characteristics and location of the firms that our study has highlighted. Key recommendations based on findings for each of the five cities under study are outlined below.

Paris

Targeted support for low-income areas: The Paris research suggests that bespoke guidance and interventions specific to entrepreneur groups would be appropriate in the city, especially for entrepreneurs in less-economically developed areas who demonstrate potential to improve business performance.

Access to similar entrepreneurs for advice: Underrepresented entrepreneurs show interest in initiatives that help them access advice from other business leaders with similar experiences.

Better financial support: Initiatives to deliver better support from banks and other financial providers would also appear to be relevant to the challenges faced by firms in Paris.

Frankfurt

Online support for crisis planning: The Frankfurt research shows that a range of entrepreneurs would appreciate access to online information about how other firms had overcome similar business challenges. There is no platform that can offer this service as of today, but there could be opportunity to build off the work by the "Offensive Mittelstand" which offers small and medium-sized companies resources free of charge (in print and online version).

Tools for self-assessment: Businesses can be supported to conduct self-checks (independently or with consultants) to prevent business crises from happening and, in the event of a crisis, to offer entrepreneurs hands-on assistance as fast as possible.

Milan

Initiatives to help firms plan for and respond to adversity: This study demonstrates that in Milan firms, many roads can lead to resilience. The way can be paved by constructing a strong professional and personal, relational network, or resources can be invested, and solutions implemented in order to react as quickly as possible to any difficulties that crop up.

Focus on underrepresented entrepreneurs: Institutions and policymakers should develop specific tools and policies to support the resilience of SMEs located in peripheral areas or run by individuals in disadvantaged situations. Moreover, supporting the development of cultural mediators for businesses for specific segments of SMEs could help to improve the already good resilience of the system further.

Madrid

Initiatives with a community focus: In Madrid, most respondents wanted to maintain their business in its current form (over 85% across all groups) and ethnic minority-led firms disproportionately reported seeking a contribution to the local community (73%). Ethnic minority-led firms also reported higher importance on all business objectives. It may therefore be prudent to design support programs that not only strengthen business resilience, but also allow focusing entrepreneurial activity towards such objectives as community development.

Specific support for ethnic minority-led firms: The findings suggest that policy makers and business support groups to continue and grow their efforts to design business support structures and programs that target specific groups. In particular, ethnic minority-led firms might benefit from other sources of advice that were not listed in our survey, such as other ethnic minority business owners.

Crisis planning support: With almost 80% of ethnic minority-led business leaders not doing crisis planning, we suggest this is a call to action for them to engage in more regular planning and for policy makers to support such efforts.

London

Tailored business support for ethnic minority-led firms: In London, ethnic minority-led firms are significantly more likely to experience adversity, which suggests that initiatives focused on these underrepresented entrepreneurs, to help them to identify future risks and to plan for them, are appropriate. The London research also highlights that ethnic minority-led firms are less likely to consult specialist external sources of advice, and that they do not necessarily see existing sources of advice and support as directly relevant to them. This indicates that support organisations with the connections and local knowledge to deliver such initiatives will be key to their success.

Initiatives that support small firms in low-income boroughs: That the differences between underrepresented entrepreneurs and their counterparts in terms of crisis experience is amplified in low-income boroughs indicates that initiatives should take account of the location of the firm. Developing and maintaining programmes to engage and support small firms should focus on low-income boroughs and offer advice and support tailored for their specific context.

Risk analysis and crisis planning programmes for SMEs, with a focus on underrepresented entrepreneurs: The divergence between the perceived threats articulated by firm leaders and the actual causes that those who have experienced adversity attribute the crisis to is clear in London. It is also amplified in underrepresented groups. This indicates that all SME leaders, and underrepresented entrepreneurs in particular, could benefit from programmes relevant to the small firm context to equip them with the skills and resources to identify and plan for key future risks.



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