

UNTAPPED RESOURCES

The Opportunities of an Ethnically Diverse Workforce

Summary of Results from the

cemesME

Contribution of Ethnic Minority Employees to Small and Medium sized Enterprises (SMEs)

Research Study



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PRIAE Head Office
31-32 Park Row, 4th Floor, Leeds LS1 5JD
Tel: +44 113 285 5990 Fax: +44 113 285 5999
<http://www.priae.org/>

PRIAE (pronounced 'preeya') is an independent international registered charitable Institute. PRIAE specialises in the area of ethnicity and ageing and covers issues related to employment, enterprise, income and care and quality of life. Established in 1998, the Institute works with policymakers, companies, statutory, private and voluntary sector healthcare providers and research organisations to effect improvements in UK and European policies and services. PRIAE does this through creating and leading on often 'first of its kind' projects in research, information, service developments, training and consultancy.

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CEMESME Research Contributors

- Overall Direction: Professor Naina Patel, OBE, Founder & Director of PRIAE
- Project Director: Ahsan Malik
(Dr. Gonzalo Shoobridge until April 2006)
- Research Officer: Akja Karajakulova
- Project Officer: Melnisha Davids
- Research Adviser: Professor Hafiz Mirza
- Research Consultant: Dr Frank Bartels
- Promotion and Communication: Lord Herman Ouseley (PRIAE Chair), Lord Navnit Dholakia (PRIAE Vice Chair) and Flagship staff.

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Introduction

'Twelve million people depend upon SMEs for their jobs; half of our national wealth' – the then Secretary of State for Trade and Industry, the Rt. Hon. Patricia Hewitt MP, 2004

'Ethnic Minorities represent 5% of the population yet account for 11% of business start ups. 50,000 new businesses are set up by ethnic minority entrepreneurs every year...' the Rt. Hon. Alan Johnson MP, Secretary of State for Trade and Industry, 2006

There are some 4.4 million UK Small and Medium-sized Enterprises (SMEs).¹ Given the number of companies and employees involved, it is not surprising that SMEs are considered as a major engine of economic growth, and particularly, as a significant source of generating jobs. PRIAE's CEMESME² project research was borne out of the fact that there is much to gain from SMEs capitalising on our multicultural society. Just as the UK's demographic pattern is changing due to the ageing of the population, so is the impact of globalisation on human mobility and, consequently, the workforce. How well are UK SMEs responding to these changes, and what support do they need to adapt, are two issues of concern to policymakers and businesses alike – as well as to current and potential employees. The classic picture of ethnic minorities and street corner shops evinces a view about Britain and its minorities' propensity to self employment that has long been overtaken by the reality (Ram 1994).³ However, there are considerable knowledge and information gaps on how SMEs, from both majority ethnic groups and minority ethnic groups, perform when ethnic diversity is factored in and how they view minority ethnic employees in contributing to business performance.

The analysis of, and findings from, the CEMESME survey⁴ need to be set within the context of the dynamics of SMEs. The CEMESME Contribution of Ethnic Minority Employees to Small and Medium sized Enterprises research considers three key questions:

1. How are managerial characteristics linked to Human Resources diversity practices, business support networks, and potential institutional discrimination environments?
2. What are the variables affecting the numbers of ethnic minority employees and their distribution within a company's hierarchy?
3. What is the impact of workforce ethnic diversity on a company's financial and export performance? (Shoobridge 2006)⁵

Methodology

The CEMESME research was carried out between years 2005-2006. 'SME' is defined as a company which employs less than 250 people (DTI and EC). The CEMESME survey consists of questions relating to a total of 252 variables relating to: the characteristics, nature and profile of SMEs; the dynamics of employment and ethnic minority contributions to, and within, SMEs; business intelligence and marketing; and the business performance of SMEs, including exports as a performance measure. The questionnaire includes specific variables on the nature of ethnic diversity and equal opportunities within SMEs.

The survey sample of 297 UK SMEs' responses came from a potential target of 8,593 companies, giving an unadjusted response rate of 3.5%. The data returns have been subjected to three statistical procedures, namely frequency, cross-tabulations and factor analyses (FA). The importance of factor analyses lies in the fact that the reduced set of factors, which explain the variation in the population, with or without imposing a hypothetical or causal model on the data, suggest an underlying pattern or structure in the data. This is useful for policy design as it makes it easy for limited policy resources to be focused on a smaller set of significant factors, as opposed to a much greater number of individual variables (some of which may be responsible for hardly any variation in the data). Not all types of variables can be subjected to FA. Only the multivariate data with relatively wide Likert scale measures are amenable to exploratory FA. Therefore, the exploratory FA scrutinizes the following information, to establish the underlying structure to the data:

- 1 FA1 – Organizational Performance (OP);
- 2 FA2 – Export Development (ED);
FA3 – Regional Markets (RM);
- 3 FA4 – Diversity Orientation (DO)
FA5 – Diversity Effect (DE);
- 4 FA6 – Business Encouragements (BE);
FA7 – Business Obstacles (BO);
- 5 FA8 – Business Intelligence and Strategy (BIS);
- 6 FA9 – Sources of Business Information (SBI); and
FA10 – Use of Business Information (UBI).

For convenience, the terms SMEs, firms, enterprises and companies are used interchangeably to denote SMEs throughout this report.

Key findings

1. SMEs' Characteristics

The earliest established business among our respondents is an SME whose foundation was in 1806. The most recent establishments are three SMEs founded as recently as 2005, giving a total range of nearly 200 years. A histogram of the frequencies shows a distribution among the respondents that is skewed, as would be expected, towards the latter part of the 20th century. In the '70s there is a peak of nine companies founded in 1976; in the '80s, a peak is in 1982 of fifteen SMEs; in the 1990s, the rate drops slightly to six per year; and since 2000 the rate of establishment is about three a year.⁶

- No ethnic minority SMEs appear until the 1950s reflecting immigration patterns from the Commonwealth.
- The ownership of SMEs shows a majority of 193 (66.8%) companies as family owned in contrast with 96 (33.2%) that are not family owned.
- The majority of SMEs 239 (80.5%) are in manufacturing; and 58 (19.5%) are in services. For White-owned (W-SMEs) the distribution is 81.3% manufacturing compared to 68.4% for Ethnic Minority-owned SMEs (EM-SMEs); and 18.7% W-SMEs are engaged in services compared to 31.6% for EM-SMEs.
- 24 (8.2%) firms have 30 to 40 employees; and 50% of SMEs have 34 or fewer employees.

For obviously historical reasons, the variety of ethnic backgrounds in the UK is relatively wide. The breakdown of ownership of the SMEs in terms of ethnic minority groups is displayed in **Table 1 – SMEs' Ownership and Ethnicity**.

Table 1 – SMEs' Ownership and Ethnicity

Ethnicity	Number of SMEs	% of SMEs
White British	268	90.5
White Irish	6	2.0
White other	3	1.0
Mixed White & Black Caribbean	1	0.3
Mixed other	2	0.7
Indian	3	1.0
Pakistani	4	1.3
Asian other	1	0.3
Black Caribbean	1	0.3
Chinese	2	0.7
Multiethnic	2	0.7
Other	3	1.0

The ownership structure of SMEs is highly skewed to a group of ethnicities described, for ease of exposition, as 'White' (and the term 'Ethnic Minority' is used for similar reasons). W-SMEs make up over 90% of the sample. Less than 10% of the sample SMEs is owned by ethnic minorities.

Whereas there is no significant relationship between the year of establishment and the nature of ownership of the SMEs (whether family owned or not), there is a significant relationship between the year of establishment and the ethnicity of ownership and directors. No ethnic minority SMEs appear until the onset of the 1950s.⁷ This clearly reflects the onset of migration from the Commonwealth to the UK. Regarding the year of establishment and the sector of operations there is no significant relationship.

There appears to be some significant relationship between the year of establishment (or longevity) of the SMEs and the ownership (family owned or not) in that, as we move into the modern era, and more SMEs have non-family owned structures.⁸ This reflects the increased variety of financial instruments available to SMEs from the various capital markets and financial institutions, as well as the expanded options for ownership within changing legislative formalities associated with business incorporation and commercial law.

2. Are SMEs profitable?

The survey sample of SMEs shows a distribution of employment numbers that is skewed towards the lower end of the range of the minimum of two people [five (1.7%) of the SMEs in the survey sample] to a maximum of 450 employees [one (0.3%) of the SMEs] with an average of 51 employees. Most frequently 24 (8.2%) firms have 30 to 40 employees⁹ and 50% of the SMEs have 34 or fewer employees.

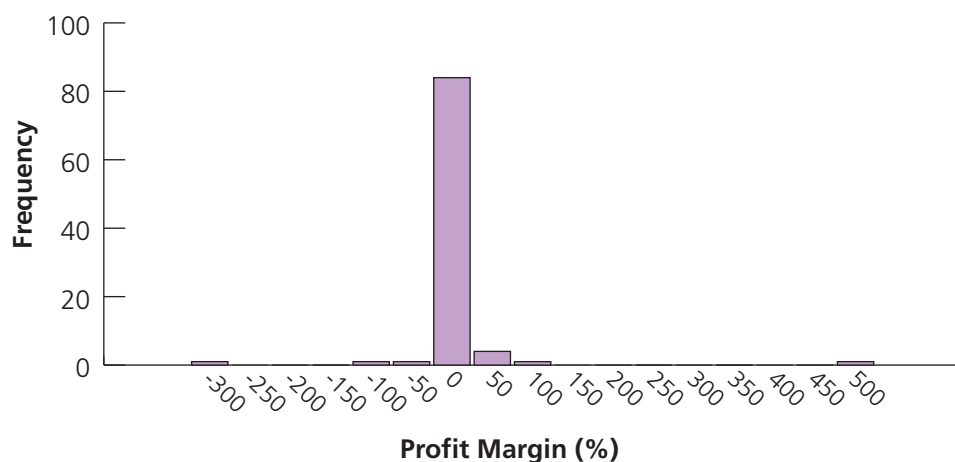
With regard to the future of employment in the SMEs, 73 (25.4%) firms expect fewer employees in three years' time (2008) compared to 91 (31.7%) who indicate the same number of employees and 123 (42.9%) who expect to be employing more workers in 2008. The annual turnover (2005) of the SMEs is also skewed towards the lower end of the range from £1,164 to £28 million. The average turnover is about £4.6 million with a mode of £2.0 million.

Table 2 – SMEs' 2005 Revenue Profile, presents the financial performance of the survey sample of firms.

Table 2 – SMEs' 2005 Revenue Profile

Revenue (£)	SMEs (Number)	SMEs (Percent)
1,000 ≤1,000,000	52	19.0
>1,000,000 ≤3,000,000	101	36.8
>3,000,000 ≤5,000,000	52	19.0
>5,000,000 ≤10,000,000	40	14.6
>10,000,000 ≤20,000,000	21	7.7
>20,000,000 ≤28,000,000	8	2.9

In general, the results of frequency analysis paint a picture of domestically-oriented SMEs that perceive themselves to be doing reasonably well in terms of business performance, with educated and experienced business management and leadership. However, financial analysis of balance sheets using FAME - UK financial information and the best selling company database in the UK, indicates that the perception may be a little rosy. The figure shown below indicates that the average profit margin is a modest 6.4% (but the most frequently occurring margin is a low 2.3%).



While the average return on shareholders' funds is 14.0%, the most frequently occurring figure is -9.8%. Return on capital employed is on average 15.5% (the most frequently occurring figure is 8.1%). The average return on total assets is 8.2% (the most frequently occurring figure is 10.2%). Looking forward, SMEs see their revenue trend growth averaging 9.1%, while the most frequently occurring figure is -26.9%.

Looking at the performance of Ethnic Minority-owned SMEs (EM-SMEs) and White-owned SMEs (W-SMEs), we find that:

- The average profit margin for EM-SMEs is 4.4% (mode is -14.6%), while for W-SMEs it is 6.5% (mode is 2.3%).
- Regarding return on total assets, EM-SMEs report 9.7% (mode is -14.6%) in comparison with W-SMEs' having 8.1% (mode is 10.2%).
- Comparing sector distribution, for W-SMEs the distribution is 226 (81.3%) manufacturing and 52 (18.7%) services. For EM-SMEs, the comparative distribution is 13 (68.4%) manufacturing and 6 (31.6%) services.
- The contrast between EM-SMEs and W-SMEs with regard to performance perception shows that for EM-SMEs 'doing well' are 78.9% compared to 66.45% W-SMEs; doing 'averagely' 15.8% and for W-SMEs 21.2%; and 5.3% EM-SMEs are doing 'poorly' compared to 9.2% W-SMEs. It is necessary to note the survey sample ratio of

EM-SMEs to W-SMEs is 19 to 277.

- Looking at the business 'as a whole' most firms 195 (67.2%) indicate they are doing well; 60 (20.7%) are doing averagely; and 35 (12.1%) are doing poorly.
- There is a statistically significant correlation between the volume of annual sales (reported in 2004) and the number of employees in the SMEs – the larger the number of employees, the higher the volume of sales. In group terms, for the annual turnover interval of up to £3 million, SMEs with ten or fewer employees comprise 18.3% in contrast with the turnover interval of £10 – £30 million, which is captured by only 3.4% of the SMEs with ten or less staff. Comparatively, at the other end of the scale, only 11.1% of SMEs with up to £3 million annual sales have between 50 and 500 staff, whereas 86.2% of SMEs with between 50 and 500 staff capture £10 - £30 million annual sales.
- There is a significant relationship between the ethnicity of ownership of the SMEs and the multilingual skills available at managerial level. 29.6% of White-SMEs have 1-4% of managers with multilingual skills and 9.3% have 50-100% of managers with multilingual skills; in contrast 6.3% Ethnic Minority-SMEs have 1-4% of managers with multilingual skills and 56.3% have 50-100% of managers with multilingual skills.
- Market Power and Firm Advantage are the key influential factors in SMEs competitiveness.

3. Are SMEs prone to diversity and how does this impact on business performance?

In recent times, the issue of diversity has increasingly gained attention across businesses, policymakers, research organisations and the media. Legislative imperatives and the economics of the labour market are two major drivers for this change. There are gaps in our understanding due to limited research (Ram and Jones 2007).¹⁰ The CEMESME respondents provide us with a range of issues that inform the nature of investment needed to realise the fact that ethnic minorities are an asset and not a burden to business goals.

- 104 (35.5%) SMEs do not have ethnic minorities in their workforce; 7 (2.4%) do not have women; and 21 (7.1%) do not employ people over 50 years old.
- The managerial profile of ethnicity in the workplace is highly skewed with nearly three-quarters of SMEs employing no managers from an ethnic minority background; and almost 90% of firms having 10% or fewer ethnic minority managers.
- Multiracial make up of the company workforce shows that 235 (79.9%) SMEs have either an entirely or mostly white workforce; 27 (9.1%) have a mixed workforce of white and ethnic minorities; and 32 (11.0%) have an entirely or mostly non-white workforce.
- 255 (89.2%) SMEs do not know the ethnic minority background of their UK customers in contrast to 31 (10.8%) who claim to know.
- A significant proportion of SMEs are convinced that diversity leads to improved business performance (profitability). They overwhelmingly indicate that teamwork is not affected negatively by ethnic diversity.
- Regarding company image, innovation and creativity, decision-making, communications, personnel turnover, exports growth, new market expansion, adaptation to changing markets, and superior service - on average 78.4% of SMEs indicate 'very little' effect (on average the neutral response is 31.7%) while 21.6% SMEs indicate 'very much' effect.
- 40 (14.4%) SMEs conduct diversity training for managers; and 69 (24.9%) indicate that management supports inclusion strategies for ethnic minorities.
- Linguistics skills and inter-cultural training seems to be of low priority as only 50 (17.3%) SMEs agree that management supports these activities.
- 111 (42.8%) SMEs indicate that management does not have strategies that facilitate business relationships with ethnic minority suppliers.
- SMEs management, in general, does have inclusion strategies for women employees and workers over 50 years old, whether these are ethnically diverse or not.
- 105 (37.5%) SMEs have not carried out training for managers in leadership and management during 2004.
- Regarding job advertisements, recruitment and selection, and dealing with customers, an average of 75.7% of SMEs indicate that they comply with the legal requirements.
- 241 (82.3%) and 119 (40.6%) SMEs indicate they have neither a racial equality action plan nor policies on racial harassment; and 186 (64.4%) have no one responsible for racial equality.
- 255 (89.2%) SMEs in the survey sample do not know the ethnic minority background of their UK customers in contrast to 31 (10.8%) who claim to know. And, with regard to the percentage of ethnic minority customers served by the SMEs in the UK, of those SMEs that responded to the question [that is 32 (10.8%) of the sample] only four (12.5%) had 20.0% of their UK clients in the category ethnic minority clients, while only two (6.3%) had 90.0% of their UK clients in the category ethnic minority clients.

Table 3 – SMEs' Diversity Profile (depicts the profile of views on diversity among our survey sample SMEs).

Diversity Variables	Disagree		Neutral		Agree	
	No.	%	No.	%	No.	%
Ethnic diversity contributes to performance	91	34.0	87	32.5	90	33.5
Teamwork suffers with ethnic diversity	236	84.0	30	10.7	15	5.3
Management has strategies to facilitate business relationships with ethnic minority suppliers	111	42.8	99	38.2	49	19.0
Management supports language and inter-cultural skills training	168	58.3	70	24.3	50	17.3
Management conducts inclusion strategies for ethnic minorities	133	48.0	75	27.1	69	24.9
Management conducts inclusion strategies for female employees	88	30.7	79	27.5	120	41.8
Management conducts inclusion strategies for employees over 50 years old	79	27.8	77	27.1	128	45.1
The firm has good relations with ethnic minority employees	5	2.3	30	14.0	180	83.7
The firm has good relations with ethnic minority customers and suppliers	3	1.1	52	18.8	221	80.1
The firm is proactive in reaching out to minority customers and suppliers	88	38.5	99	36.0	40	14.5
The firm conducts diversity training for managers	147	63.9	60	21.7	40	14.4

Table 3 – SMEs' Diversity Profile shows that there are four dimensions to the diversity profile, namely: diversity and performance; managerial strategies for diversity; managerial strategies for supporting ethnic minorities, women and workers over 50 years old; and external relations involving diversity. A significant proportion of SMEs (33.5% of respondents) are convinced that diversity leads to improved business performance, manifests as improved profitability, although nearly the same number do not think this is the case (34.0%). However, allowing for the fact that the remaining third of respondents are neutral on this matter, and very significantly, the overwhelming majority (84%) dispute the counter proposition that 'teamwork suffers with ethnic minorities' diversity', this is a very positive finding. In other words, many of the SMEs not convinced of the benefits of diversity, which is understandable because of the lack of research and evidence, maintain an open mind.

When we examine the responses as to whether ethnic diversity affects SMEs' organisation 'very little' or 'very much', across variables such as company image, innovation and creativity, decision-making, communications, personnel turnover, exports growth, new market expansion, adaptation to changing markets, and superior service, all of the gross responses are skewed towards the 'very little' effect. On average, 46.7% SMEs indicate 'very little' effect while 21.6% SMEs indicate 'very much' (the neutral response is given by 31.7% SMEs).^{11 12} Having said this, the fact that 21.6% of SMEs argue that ethnic minority diversity leads to an appreciable positive effect in various performance measures is a very significant finding. This is especially the case in light of the fact that the preponderant share of SMEs in the sample is ethnically homogenous in ownership and workforce (Table 1) and, moreover, 79.9% have either an entirely or mostly white workforce.

Therefore, it is not surprising that there is ambivalence towards the value to performance from having an ethnically diverse workforce. In general, SMEs do not appear to have a sufficiently broad experience of diversity either in employment terms or in market terms. If the evidence from the group of firms who regard ethnic diversity as a positive contributor is compelling, this evidence could be presented to other SMEs, especially those with little experience of diversity. There is some evidence that a significant proportion of SMEs in the sample are located in areas where the concentration of ethnic minority populations is low (Table 4). However, this does not pre-empt a policy towards capitalising on the benefits of diversity, especially with respect to management of employees.

Table 4 - Distribution of White and EM - SMEs per Regions & Distribution of Ethnic Minority Population in the UK

White SMEs				Ethnic Minority SMEs				
Sample Region	Number	Sample Valid	Sample Cumulative	Number	Sample Valid	Sample Cumulative	Ethnic Minority Population	Thousands
		%	%		%	%		
London	1	.4	.4	2	10.5	10.5	44.63	2 068 732.60
South East	36	13.0	13.4	3	15.8	26.3	8.45	391 682.51
South West	38	13.7	27.1				2.44	113 101.22
East of England	18	6.5	33.6	2	10.5	36.8	5.68	263 284.81
West Midlands	27	9.7	43.3	3	15.8	52.6	12.79	592 854.35
East Midlands	13	4.7	48.0	1	5.3	57.9	5.86	271 628.34
Yorkshire & the Humber	31	11.2	59.2	4	21.1	78.9	6.98	323 543.66
North West	56	20.2	79.4	3	15.8	94.7	8.07	374 068.38
North East	27	9.7	89.2	1	5.3	100.0	1.29	59 795.31
Scotland	13	4.7	96.8				2.19	101 512.98
Northern Ireland	9	3.2	100.0				0.27	12 515.29
Wales							1.33	61 649.43
Total	277	100.0						
Missing System	1							
Total	278			19	100.0		100	4 635 296.00

Source: Office for National Statistics (2001) <http://www.statistics.gov.uk/statbase/Expodata/Spreadsheets/D6589.xls>

Being convinced is not enough, however, proactive policies on the part of companies are needed. In the main, the management in our survey sample SMEs do not appear to have strategies for increasing the ethnic diversity of the business internally or externally either in terms of the workforce and its skills or engaging increasingly with ethnic minority customers or suppliers.¹³ For example, in only 40 (14.4%) cases do we get the impression that the firm conducts diversity training for managers and relatively few firms 69 (24.9%) indicate that management supports inclusion strategies for ethnic minorities. Furthermore, linguistic skills acquisition and inter-cultural training (vital as part of the armoury for SMEs to increase their export potential) seems to be low on the list of priorities for our survey sample SMEs. Only 50 (17.3%) SMEs agree that the management supports these two activities. Additionally, 111 (42.8%) SMEs indicate that management does not have strategies that facilitate the possibility for, or potential of, ethnic minority suppliers to the business. However, internal networks within an SME are very strongly related to associated external groups (as indicated by the second factor in the factor analysis presented in appendix 1). Therefore, a policy of encouraging internal networks, and inclusion of ethnic minorities in these, can result in good relations with ethnic minority customers and suppliers (see appendix 2).

In contrast, SMEs' management, in general, does have better inclusion strategies for women employees and workers over 50 years old whether these are ethnically diverse or not. These existing strategies should be viewed positively from the perspective of similar strategies for ethnic minorities. There is a strong association between all types of inclusive and diversity-related policies (see the discussion pertaining to the first factor identified in appendix 1), so encouraging SMEs to engage in one type of inclusive policy is likely to have a positive effect on others.

With respect to management training in leadership and the participation of ethnic minority employees in the learning and informal network function of the workplace, we find that 105 (37.5%) SMEs have not carried out training for managers in leadership and management during 2004. Of the firms that did engage in leadership and management training, 32 (11.4%) trained 10% of the senior staff; 27 (9.6%) trained 50% of the senior staff; and only 26 (9.3%) trained 100% of their managers. This reflects the serious shortcomings in management of SMEs in general. So while training is low on the managerial priorities, most SMEs [142 (68.3%)] agree that ethnic minorities and the host majority engage in mutual learning, while 116 (63.1%) agree that ethnic minorities are engaged in the informal networks of the business.

The patterns of diversity and preparations for managing diversity that emerge, are of SMEs which are, firstly overwhelmingly white in ownership and workforce, and secondly that they are unaware (or at least do not seem to be mining their customer information databases sufficiently deeply) of the characteristics of their customers. In other words, the bulk of the SMEs in the survey sample may not be very customer-oriented.

Furthermore, SMEs and their managers do not appear particularly active in providing the strategic orientation that facilitates greater ethnic diversity in the workplace. This is partly because they may not be convinced that such diversity is beneficial from a business point of view, and because most SMEs [221 (80.1%)] agree that they have good relations with ethnic minority customers and suppliers. They may feel that external orientation to ethnic diversity is more significant than an internal orientation.

However, a significant number of SMEs, 88 (38.5%) firms, indicate that they are not proactive in reaching out to minority customers and suppliers. The policy implications for SMEs call for public support strategies for diversity in the workplace. In general, SMEs do not perceive that ethnic diversity have positive effects on business. However, this must be viewed in the context of the ownership profile of the surveyed sample of SMEs which shows that the majority of SMEs are ethnically homogeneous.

4. Leadership Issues

The issue of SMEs' leadership looms large in government policy considerations and the landscape of policy options.¹⁴ This is due to the potential for SMEs to grow over the long-term (notwithstanding that the rate of growth of firms is a function not only of innovation and technology, but also of the rate of growth of markets in which the firms decide to compete). SMEs' growth over time contributes to employment generation and, in the context of a knowledge-based economy, creates higher value-added activities.

The type of capacity and capability of our survey sample SMEs is important. The gender ratio of the managing directors (MD) in the SMEs of men to women is nearly twenty to one. 277 (94.9%) of SMEs have men as managing directors, whereas only 15 (5.1%) of the firms have women-leaders of the business. The age of managing directors ranges from under 30 to over 70 years with the following distribution: one (0.3%) under 30; 118 (40.3%) between 31 and 50; 162 (55.3%) between 51 and 70; and 12 (4.1%) above 70 years. Given the profile of SMEs which export, the foreign language skills of the managing directors show that the majority do not speak another language 172 (60.1%). The distribution of one, two and three foreign languages spoken by SMEs' leadership is as follows: one foreign language 79 (27.6%); two foreign languages 29 (10.1%); and three foreign languages 6 (2.1%).

Table 5 – SMEs' Leadership Overseas Experience shows the relative exposure of SMEs leadership to overseas business.

Table 5 – SMEs' Leadership Overseas Experience

Overseas Experience Variable	Scale Measure – Years; % [SMEs No. (%)]				
MD experience abroad	None	1 – 5 Yrs	6 – 10 Yrs	11 – 20 Yrs	>20 Yrs
	195 (67.9%)	73 (25.4%)	13 (4.5%)	4 (1.4%)	2 (0.7%)
MD international business experience	None	1 – 10 Yrs	11 – 20 Yrs	21 – 30 Yrs	>31 Yrs
	83 (31.1%)	91 (34.0%)	64 (24.0%)	25 (9.4%)	4 (1.5%)
MD % time spent abroad per year	None	1 – 10%	11 – 20%	21 – 50%	>50%
	34 (12.1%)	180 (64.3%)	42 (15.0%)	21 (7.5%)	3 (1.1%)

Table 5 needs to be read taking into consideration the following findings. Firstly, the ratio of UK born managing directors to non-UK born is about twelve to one [272 (92.5%) to 22 (7.5%) respectively]. Secondly, the ethnicity of the SMEs managing directors is overwhelmingly white British or Irish [277 (94.2%) compared to non-white 17 (5.8%)]. Thirdly, regarding managing directors from ethnic minorities, the generation of immigration to the UK is 12 (52.2%) 1st Generation; 9 (39.1%) 2nd Generation and 2 (8.7%) 3rd Generation. One may conclude that SMEs in the survey have a reasonably well-educated leadership and management, with not inconsiderable experience, including overseas and international business experience (about 30% of SMEs have managing directors with up to ten years overseas experience) but without a broad range of language and intercultural skills. Our survey sample SMEs appear to have potential but, in the main, are struggling to realise that potential.

5. SMEs and the World - Internationalisation

- Experience in exporting ranges from none to 159 years; and 91 (48.4%) of SMEs have been exporting for up to 10 years.
- The approach to exporting is reactionary (arm's length and responding to unsolicited orders).
- Very few SMEs (less than 1%) exploit overseas markets through international licensing and/or franchising.
- Only 11 (6.4%) SMEs are directly involved in overseas markets through foreign direct investment (FDI), foreign wholly owned subsidiaries (FWoS) or international joint ventures (IJV).
- SMEs are very dependent on the single European market (including Eastern Europe) and North America.

- Very few SMEs are exploiting their knowledge base and serving overseas markets through international licensing and/or franchising, FWOs, IJVs etc. Despite this, 63.2% of SMEs expect to increase their market coverage in the period to 2008.
- 55 (19.1%) SMEs indicate that business information access is difficult; 61 (21.3%) have a neutral opinion; and 171 (59.6%) indicate that business information access is easy. 184 (64.6%) SMEs indicate their Management Information System (MIS) is highly informal, 38 (13.3%) are neutral, and 63 (22.1%) indicate that theirs is highly formalised.

Internationalisation Process - Exporting

The methods employed in achieving export performance and the reliance on specific overseas markets further illustrates the challenges faced by Exp-SMEs. *Table 6 – Exp-SMEs Preferred Export Methods* indicates the variety of export channels used.

Table 6 – Exp-SMEs Preferred Export Methods

Export Method	No.	%
Unsolicited Orders	52	27.8
Sell Directly to Customers	16	8.6
UK Intermediaries	21	11.2
Foreign Distributors/Agents	60	32.1
Firm Travelling Sales Force	25	13.4
Overseas Subsidiary	9	4.8
Franchising/Licensing	1	0.5
Joint Venture	2	1.1
Foreign Direct Investment	1	0.5

Table 6 needs to be viewed in the light of the findings above of relative longevity in exporting and that most of the survey sample SMEs have only 5% of their sales overseas, yet export dynamics and performance are not stellar. Although the number of years of experience in exporting ranges is from none to 159 years and 91 (48.4%) SMEs have been exporting for up to ten years, Table 6 shows that a significant number of Exp-SMEs have an approach to exporting that is not strategic but purely reactionary (unsolicited orders).

Direct selling is carried out by a small fraction of 8.6% and this ‘direct selling’ could be augmented to 22.0% if the firm’s sales force is included. A substantial percentage, 32.1% of Exp-SMEs use export intermediaries. This is a response to risk and the typically limited resources available to the SMEs, but prevents them from learning about international markets – and potentially utilising the diverse skills of their workforce for longer term profitability and performance. In a similar vein, SMEs are also forgoing opportunities for learning and longer-term international expansion, by avoiding use of foreign direct investment and other methods, which require deeper levels of contact with foreign environments, businesses and customers.

Overall, the picture that emerges with regard to exporting is that the Exp-SMEs in our survey sample are fairly limited in their approach to exporting, even though the time scale for exporting ranges from none to 159 years. The rate of learning is not as rapid as could be expected, given the export market dynamics and performance indications. This is partly because of resource constraints, but also choices made. One of the relevant choices often made is the average tendency not to pursue deep involvement with foreign partners and businesses, thereby foregoing opportunities. This is in line with the low proactive capitalisation on ethnic diversity, as discussed earlier, including a lack of investment in languages and intercultural training. The policy implications revolve about risk perceptions, strategic intentions and resources for venturing overseas without intermediaries and the necessity for public policy to provide risk intermediation support mechanisms. This may be accomplished by government or by the private capital and financial markets.

Export orientation, export performance and ethnicity

In terms of the export methods employed by our survey sample SMEs we find that orientation towards foreign regional markets is not significant with respect to SMEs’ stage in foreign market servicing strategies (such as foreign agents, licensing, foreign subsidiary, and FDI). However, for our Exp-SMEs there is a statistically significant relationship between export methods and dependency on the EU, NA, and SAANZ (South Africa, Australia and New Zealand) markets,¹⁵ with the strongest effects being for the non-European markets. 5.8% Exp-SMEs are ‘very dependent’ on unsolicited orders for exporting to the European markets in comparison with no SMEs that indicate this for the other markets highlighted. However, for the deepest and most resource-intense type of commitment to

foreign market servicing (which takes the form of FDI), 100% of Exp-SMEs indicate that they are 'very dependent' on FDI for these markets. Apart from Europe, no foreign language skills are required for servicing the North American, and SAANZ markets.

This is not the case for other markets. We also find that there is a significant correlation between ethnic minority managers in SMEs and 'dependency' on markets other than Europe and North America. These other markets include, SAANZ, Latin America, the Middle East and North Africa (MENA), South Asia and East Asia.¹⁶ Presence of multilingual managers and the ethnicity of ownership are correlated - higher language skills are found in non-white SMEs ownership. Furthermore, managerial language skills in SMEs and achievement of export market objectives are correlated - the greater the percentage of multi-lingual managerial staff, the more satisfied the SMEs are with achieving export market objectives.

It is worth mentioning that 'dependence' on certain markets is the consequence of opportunities arising from, for example, the employment of ethnic minority managers who have links with certain parts of the world. The strategic response to this 'dependence' is to increase workforce diversity – among various measures – so that firms can do business in other international markets. This may well be the tendency among Exp-SMEs: we find that the presence of multilingual managers and SMEs' management support for foreign languages/inter-cultural skills training are correlated.

Implications and recommendations

Implications for SMEs

SMEs have to examine robustly their business models in that the approach to business has to move towards the more systematic and strategic. We have found that business systems and strategies are generally weak. SMEs are not making the most use of what they have in terms of their information and customer databases. They are probably not investing sufficiently in research and development and innovation. Consequently, the product, service and market development profile of SMEs is generally weak. SMEs need to make better use of the knowledge about their own products and services that is currently locked up in their customers. They are also passive when it comes to exporting and internationalisation. Their internationalisation is therefore truncated.

While it is acknowledged that internationalisation is procedural and staged, the process can be accelerated by improving information search and, through mechanisms that moderate risk (such as increased networking to enable better quality of learning). Increased networking can also lead to reduced costs of innovation. The tendency towards parochialism would need to be overcome so that firms can be more willing to join SMEs' R&D consortia. The survey instrument serves as a comparative 'benchmark' in terms of the frequency of responses to the variables. The instrument may be used as a yardstick against which SMEs can measure the various elements of their overall performance relative to the average in the sample. Such benchmarking can lead to improved business methods. It is suggested here that the SMEs are invited to measure themselves against the average in the sample.

Implications for Government

The implications for the provision of public goods through various government bodies, such as UK Trade & Investment, emerge from the important finding that government sources of information are not commonly used. This could be a problem of awareness, accessibility, and cost. Whatever the reasons, government provision would need to be such that the outreach to SMEs is improved. Noting that most of the SMEs are in fact small rather than medium, the various schemes available may have to be better fine-tuned to the needs of those SMEs that have up to 50 employees. With regard to diversity, it has been recognized in the findings that gender and age are better catered than ethnicity in the employment profile of the SMEs. Compliance with legislation may be insufficient.

Implications for Banking and Financial Institutions

On the basis that the SMEs in the sample are representative (and the statistical significations enable us to draw such a conclusions), clearly these firms need to invest in order to overcome resources constraints and improve their business capability. The upgrading of Management Information Systems (MIS) and the use of Information and Communication Technologies (ICT) are cases in point. Upgrading business infrastructure systems are needed. The business that can be derived from increasing the loan portfolio to SMEs may be substantial. A second area for the potential of increasing loan and, should financial instruments permit, equity portfolios, is in the financial and capital resources to enable a more systematic and strategic approach to internationalization. SMEs need to be assisted in accelerating their passage through the stages of internationalisation, as rapidly as possible, bearing in mind the sector of operations, the product, service and market conditions. Again, SMEs will not be able to innovate without resources that defray the costs involved in investing in the generation of new ideas.

There is a need for improved private equity and venture capital for the small SMEs. Notwithstanding the tendency of family-owned businesses to remain so, long after the industrial logic for such ownership is passed, there is a need for the kind of financial engineering that caters for small scale mergers and acquisitions to enable SMEs to have options on growth that are not entirely dependent on in-house organic growth. SMEs would need to be given more options in the 'make' or 'buy' decision. Furthermore, the provision of information is an area that seems to be worthwhile considering, given that SMEs do not tend to source information from banking and finance institutions. Lastly, just as the survey instruments are a basis for SMEs to benchmark themselves against the average, so too the questionnaire may be used advantageously as a basis of dialogue between banking and finance institutions and SMEs.

Policy Recommendations

1. Compliance with legislation needs to be translated into proactive inclusion business strategies for ethnicity, gender and age, even though gender and age inclusion is ahead of ethnicity. Ethnicity is less well mainstreamed than gender and age in the employment profile of managers and employees. This is reflected in both Ethnic Minority and White SMEs, although, in Ethnic Minority SMEs, ethnicity is more pronounced and is male and young. Ethnic Minority SMEs are less mainstreamed in women and old age while, in White SMEs, there is a better cross-section of women and age and who are of one ethnicity – white.
2. Diversity is not a concern for many SMEs, especially where they do not see any connection to their business. However, other SMEs are convinced of the benefits of ethnic diversity on a variety of performance measures and, although SMEs do not have much experience of diversity, there is ample scope to furnish evidence to SMEs with an open mind. There is a need for a greater dialogue between SMEs, so that they can share their experience and knowledge on business benefits of having a diverse workforce.
3. Given some resistance to the idea that diversity can boost performance, conventional approaches to mainstreaming diversity in the workplace may be counter-productive. The business case should be continually underscored in all efforts to promote and support ethnic diversity in SMEs. For example, an analysis of the connection between ethnic diversity and export performance shows that there is a significant connection, including a strong link between ethnic employment, linguistic skills and sales in specific regional export markets. The linguistic and intercultural skills that have been identified would need to be emphasised increasingly in terms of the need for a global outlook, even in the smallest of firms.
4. White SMEs are domestic not outwardly oriented and, when they are internationally oriented, at best they are reactive and, at worst passive. Ethnic Minority SMEs tend to be more internationally risk-welcoming compared to White SMEs. Ethnic Minority SMEs tend to be less satisfied with their achievement of export objectives and, yet, they have greater market coverage and see more increases in market trends going forward. A dialogue should be fostered between Ethnic Minority-SMEs and White-SMEs to support a sharing of experience and knowledge.
5. Ethnic Minority SMEs have higher language and intercultural skills that need to be leveraged increasingly as competitive assets and comparative advantages in internationalisation. They should be supported in this by ensuring that existing (or future) actions and incentives aimed at SMEs recognise that EM-SMEs might have differential needs to W-SMEs.
6. SMEs need to be assisted in accelerating their export performance. They are passive with respect to exporting, with the majority having less than 5% of sales overseas. 65% of firms export some of their products and services, but 86% have no intention to export or expand exports within the period up to 2008. Few SMEs use direct methods and government policy would need to be focused increasingly on direct methods including joint ventures especially for the group of SMEs with less than 50 employees. Government policy would need to assist SMEs to moderate the risks involved in reacting to unsolicited orders to direct methods of internationalisation such as greater export market guarantees for micro companies. This could increase support for investment in more advanced Management Information Systems (MIS) and Information and Communications Technologies (ICT), both of which would reduce uncertainty and the costs involved in acquiring market and business knowledge, especially overseas.
7. Diversity is not in itself a guarantee of improved business performance. The business case for diversity rests in the added potential that a diverse workforce can bring to a company. But potential needs to be nurtured. Therefore, SMEs need to be supported in upgrading the skill levels of their employees and managers through schemes that incentivise them to release staff for upgrading and training.
8. The passive compliance with the law and guidance on diversity is rational from the SMEs' point of view in order to minimize adverse reaction. SMEs need to be encouraged to generate inclusion strategies that go beyond adherence to the minimum standards regarding diversity. Fundamentally, SMEs must be encouraged to recognise ethnic minorities (and diversity) as an untapped resource (see appendix 2).
9. The education and skill base of leaders in SMEs is generally high and needs to be further enhanced through context and issue specific management training and upgrading schemes.
10. Support should be given for further research, in particular, to identify mechanisms which best support SME capitalisation of the untapped resources of an ethnic minority workforce.

Appendix 1

Factor Analysis of Diversity Orientation in Survey SMEs

Three factors extracted through a factor analysis of the diversity orientation of SMEs (F_{DO1} - Minority Inclusion, F_{DO2} – Internal Networking and F_{DO3} – External Networking) account for 54.1% of the variation in the data. They may be interpreted in the following terms:

- Minority Inclusion implies that there is a strong cross-correlation between diversity management and inclusive strategies in SMEs. Measures to encourage one type of inclusive strategy are likely to have a positive affect on others. Thus, firms moving to an inclusive strategy for older employees are more likely to move to inclusive strategies for ethnic minorities and women.
- Likewise, the Internal Networking expresses the extent to which there are learning and synergistic cross correlations between intra-firm groups (management, minorities, the majority) and inter-firm relationships. For example, generally speaking, firms with good internal intra-group networks enjoy good relations with associated external groups (such as ethnic minority customers and suppliers).
- The third factor F_{DO3} External Networking is firstly a relatively weak factor in terms of the two variables' factor loading and secondly, the factor positively influences and negatively influences the two variables.

One way of interpreting this unexpected result is through the lens of the factor loadings which are relatively close to the 0.55 cut-off point for the variables to do with ethnic minorities external to the SMEs (Marketing Strategies to Enter Ethnic Minority Markets in the UK, Firm Enjoys Good Relations with Ethnic Minority Customers and Suppliers, Diversity Management contributes little to performance, and Firm is Proactive in Reaching Ethnic Minority Customers and Suppliers).

Bearing in mind that F_{DO1} alone accounts for 30.6% of the total variation in the data compared to F_{DO2} and F_{DO3} which account for 14.9% and 8.7% of the total variance, SMEs appear to be influenced relatively more strongly by minority inclusion strategies than internal or external networks.

Appendix – Factors of Diversity Orientation (DO)¹⁷

Variable	Factor name	Factor 1 (F_{DO1}) Minority inclusion	Factor 2 (F_{DO2}) Internal networking	Factor 3 (F_{DO3}) External Networking
Diversity Management and Inclusion Strategies to Support Female Employees		0.865		
Diversity Management and Inclusion Strategies to Support Ethnic Minority Employees		0.840		
Diversity Management and Inclusion Strategies to Support Older Employees		0.797		
Firm Conducts Diversity Training for Employees		0.673		
Marketing Strategies to Enter Ethnic Minority Markets in the UK		0.583		
Management Supports Training in Foreign Language and Intercultural Skills?				
Ethnic Minorities participate in the firm's Informal Networks			0.742	
Firm Enjoys Good Relations with Ethnic Minority employees			0.742	
In Firm, Minorities and Majorities Learn and Respect each Other			0.734	
Firm Enjoys Good Relations with Ethnic Minority Customers and Suppliers				0.589
Teamwork with Ethnic Minorities?				
Diversity Management contributes little to performance?				0.655
Firm is Proactive in Reaching Ethnic Minority Customers and Suppliers				-0.646

Appendix 2

Complementing the research process with practical developments in mentoring and resource materials for individual and company learning

a. The Professional International Mentoring Programme (a pilot)

The Professional International Mentoring Programme at PRIAE involves the linkage between an experienced Ethnic Minority student as a 'Mentor' with a local SME developing their international business activities. UK and overseas ethnic minority postgraduate business students from diverse professional backgrounds, at Bradford University School of Management, are regarded as 'Mentors' to assist a company's exporting activities for up to 4 months. Within the subject area of international business, marketing and human resource management, the Mentors' skills and experience have been applied to tackle specific issues based on the company's needs. They develop ideas for the firms' senior managers and their attitudes towards employing a diverse workforce. Upon the completion of the Programme, the company receives an individually tailored business action plan and an assessment report of its findings with recommendations for implementation. This is coupled with an improved understanding of the business benefits in employing an ethnically diverse workforce. This is what two companies and Mentors had to say at the end of the programme:

'We were looking for a way to identify new opportunities but did not have the resource to do it. The PRIAE scheme enabled us to brief the Mentors in a professional and commercial way. Our expectations of the work to be produced were actually quite low, how wrong could we be! The work was professionally produced and enabled us to make important decisions about our longer-term strategic objectives, much sooner than we thought. Would we do it again? I can't wait for next year'.

Mick Karol, Managing Director at Ulsys/ Blueprint Innovation Ltd. commenting on Ms Wei Ren, Bradford University School of Management (MA)

'A postgraduate engineer with instrumentation knowledge who immediately understood my product range and how to apply them. This meant that we could concentrate on the market requirements with confidence'.

John Slevin, Managing Director Hawker Electronics Ltd commenting on Ms Natalia Gonzalez, Bradford University School of Management (MA)

'I have been able to apply the tools and techniques learnt during my MBA to the practical situations involved during the PRIAE international Mentoring Programme. I would highly recommend this programme for future students.

Mentor Student Mr M. Kamran Saeed on the Bradford MBA working with VMI (Blackburn) Ltd

b. The diverSME CD-ROM (a Pilot)

The diverSME CD-ROM is one of the training activities under the CEMESME project, aimed at helping SMEs to develop their diversity management practices within their organisation. Developed by PRIAE, the CD-ROM offers specific advice and guidance on how to provide more effective leadership by applying diversity and equality strategies.

For further information please contact mel.davids@priae.org

Notes and references

1. The Department of Trade and Industry (DTI) defines SMEs as companies employing less than 250 people. These range from micro enterprises, employing a small number of people to those which are much larger. The European Commission Recommendation 96/280/EC defines SMEs similarly and where their annual turnover does not exceed EURO 50m, or an annual balance sheet total not exceeding EURO 43m.
For further information see <http://www.sbs.gov.uk/sbsgov/action/layer?topicId=7000000237>;
http://ec.europa.eu/enterprise/enterprise_policy/sme_definition/index_en.htm
2. The acronym stands for the 'Contribution of Ethnic Minority Employees to Small & Medium-sized (SME) Enterprises'.
3. Ram M (1994) *Managing to Survive: Working Lives in Small Firms*, Oxford, Blackwell
4. The survey executed in 2005, returned 297 SMEs responses out of 8593 viable targets giving a 3.5% response rate.
5. Shoobridge, G. (2006). Multi-ethnic workforce and business performance. *Human Resources Development Review*. Vol. 5, No.1, March 2006, Sage Publications.
6. The frequency analysis suggests robust survival capability of the survey sample. This is in contrast to the DTI's Small Business Service Analytical Unit, February 2006, UK Survival rate Figures, Businesses Registering for VAT between 1994 and 2003 which shows a 31.4% survival rate to 10 years.
7. λ 0.048 (t-statistic 2.706) 0.007 significance.
8. χ^2 13.808; df 5; 0.017 significance.
9. This compares with the US-SMEs-SS2004 database which shows that 9.2% of UK SMES employ 1-4, 9.2% 20-49, and 5.8% 250-499 people respectively.
10. Ram, M. and Jones, T. (2007) Ethnic Minority Business in the UK: A Review of Research and Policy Developments (Draft) presented at the ESRC/CRE/DTI/EMDA Ethnic Minority Business Workshop, 1st February 2007
11. The 1% discrepancy in summation is due to the fact that SMEs are not numerically consistent in responding to each variable.
12. The view of Ethnic Minority -SMEs is more inclined towards seeing ethnic diversity as positively boosting performance, but the swing is not that dramatic: 37.7% of EM-SMEs regard diversity as having 'very little', 31.8% as having 'very much', with the remainder being neutral.
13. See, for example, Nina Muncherji, Omprakash K. Gupta, Role of human resource management in developing ethnic and diverse enterprises, *International Journal of Management and Enterprise Development (IJMED)*, Vol. 1, No. 2, pp. 155 – 163, 2004, for the role of management in developing a diverse and ethnic-sensitive enterprise as: (a) policies to encourage shared values, (b) management systems (selection and recruitment, training and development, reward and promotion, etc.), and (c) develop processes that reinforce organisational ethnicity and diversity.
14. See, for example, *Joining Entrepreneurs in their World: Improving Entrepreneurship, Management, and Leadership in UK SMEs*, Final Report by Council for Excellence in Management and Leadership, 2002.
15. EU χ^2 70.323; df 48; 0.020 significance. NA χ^2 84.274; df 48; 0.001 significance. SAANZ χ^2 220.302; df 48; 0.000 significance.
16. There is also a significant correlation between women managers in SMEs and the Latin America market. This is unexpected and warrants further research.
17. KMO is 0.785 and BTS is χ^2 670.000; df 78; 0.000 significance. The Cronbach's Alpha (α) reliabilities for F_{DO1} are $\alpha = 0.8448$, Standardized item $\alpha = 0.8421$; F_{DO2} are $\alpha = 0.7273$, Standardized item $\alpha = 0.7318$; and F_{DO3} are $\alpha = -0.7451$, Standardized item $\alpha = -0.7453$.

Notes

UNTAPPED RESOURCES

The Opportunities of an Ethnically Diverse Workforce

Summary of Results from the **CemesME**

Study

A study of ethnic diversity in UK's Small and Medium sized Enterprises.

The CEMESME research examines the characteristics, nature and profile of SMEs; the dynamics of employment and ethnic minority contributions to, and within, SMEs; business intelligence and marketing; and the business performance of SMEs, including exports as a performance measure. The questionnaire includes specific variables on the nature of ethnic diversity and equal opportunities within SMEs. Specific implications for SMEs, Banking and Finance, Policymakers and Research are considered with recommendations.

'In today's deeply diverse and ethnically rich workforce, CEMESME's core values are crucial in promoting equal opportunities and making the corporate culture of British firms more aware of diversity and internationalisation issues in the workplace. I am thrilled to be associated with this important initiative from PRIAE.'

Lord Karan Bilimoria CBE, DL, Founder and Chief Executive, Cobra Beer

Chairman of the National Employment Panel for the Small and Medium-Sized Enterprises (SMEs) Board

'Globalisation and population movement means greater competitiveness. Our society is irreversibly ethnically – diverse and our consumer bases more fragmented. This has to be reflected in goods and services or any company risks alienating itself.'

Lord Herman Ouseley in 'Business disregards diversity at its peril', The Voice, September issue, 2006.

CEMESME Contribution of Ethnic Minorities to Small and Medium Sized Enterprises is a PRIAE concept and project, developed by PRIAE staff, and conducted in association with external UK and European Partners.

PRIAE (pronounced 'preeya') is an independent international registered charitable Institute. PRIAE specialises in the area of ethnicity and ageing and covers issues related to employment, enterprise, income and care and quality of life. Established in 1998, the Institute works with policymakers, companies, statutory, private and voluntary sector healthcare providers and research organisations to effect improvements in UK and European policies and services. PRIAE does this through creating and leading on often 'first of its kind' projects in research, information, service developments, training and consultancy.

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info@priae.org www.priae.org

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