



EUROPEAN POLICY BRIEF

DIVERSITY IN ENTREPRENEURSHIP



Diverse neighbourhoods represent significant opportunities for different forms of entrepreneurship, which can contribute to their economic regeneration. This policy brief focuses on entrepreneurship in deprived and diverse neighbourhoods. It discusses the relations between diversity and entrepreneurship and presents evidence on the connections between entrepreneurship, diversity and economic performance, and the role of entrepreneurship on social cohesion. It argues for revising existing policies related to the different forms of entrepreneurship in diverse and deprived neighbourhoods, as well as for new measures to support entrepreneurship.

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INTRODUCTION

Achieving high levels of economic growth and increasing the well being of citizens are the main objectives of urban policies. They are closely related to entrepreneurship and the ability to create new enterprises. In the global era, cities compete for enterprises with strong economic performance and talented entrepreneurs, while also creating the necessary conditions for new start-ups. Cities that are open to diversity are able to attract a wider range of entrepreneurs than those that are relatively closed. Understanding of how the economic performance of cities is connected to urban diversity is quite limited, and has to date provided evidence predominantly at a macro level. One of the aims of DIVERCITIES is to close this gap using evidence collected at a neighbourhood level from 14 diverse cities. A central goal is to reveal the circumstances under which diversity tends to have beneficial effects on economic performance by describing, analysing and demonstrating the relationships between entrepreneurship, neighbourhood conditions and diversity.

This Policy Brief reports on the findings from fieldwork concerning entrepreneurs in the DIVERCITIES project. It examines how policies and arrangements with respect to urban diversity—and urban diversity itself—affect the decisions of entrepreneurs in diversified neighbourhoods and their economic performance. It also introduces the policy implications of these findings. It argues that

diverse and deprived neighbourhoods, which are defined by small-scale retail and services and immigrant enterprises serving local customers, have become attractive for new businesses. The increasing diversity of enterprises attracts different types of customers, inhabitants and new types of services to the deprived districts of metropolitan areas, which alters the dynamics of the social and economic composition of these areas. These changes, while they may help to create favourable conditions for new enterprises, may negatively affect the performance of small-scale enterprises, which have an important role in the social cohesion of such neighbourhoods. This Policy Brief argues that there is need for a change in attitude of public actors towards entrepreneurs, better recognition of needs at a local level, and a more comprehensive streamlining of bureaucratic and administrative processes. New policies and measures of governance are especially needed for small and disadvantaged enterprises. Tailor-made policies are important to promote different types of entrepreneurship in deprived and diverse neighbourhoods next to local policies and measures related to social facilities and the built environment.

EVIDENCE AND ANALYSIS

The research was undertaken in eleven EU cities: Antwerp, Athens, Budapest, Copenhagen, Leipzig, London, Milan, Paris, Rotterdam, Tallinn, Warsaw; and three non-EU cities: Istanbul, Toronto, and Zurich. Research teams in each city explored the connections between neighbourhood diversity and entrepreneurship. The selected research areas are neighbourhoods with socio-economic deprivation (low individual income, high rates of unemployment, low quality of urban environment); diverse (in terms of ethnicity, socio-economic status, gender, age, lifestyles); and dynamic (change of socio-demographic composition and of land uses). In terms of location, the neighbourhoods are in, or in close proximity to, the city centre or located far from the centre on the periphery. Field research was conducted in 14 cities and includes 40 in-depth interviews with entrepreneurs and 3-4 local business organisations working within the case study neighbourhoods.

Diversity in entrepreneurship varies substantially in the 14 cities. In terms of economic conditions three distinct groups of cities can be defined: Eastern European cities where urban economies are still in transition; Southern European cities severely hit by the 2008 recession; and Western European cities with small enterprises doing relatively well despite experiencing problems in economic survival and urban economies. Regardless of their differences, the fieldwork findings indicate important commonalities. The findings are grouped under seven headings.

Finding 1: Increasing diversity of enterprises in diverse and deprived neighbourhoods

There is a strong degree of entrepreneurialism in diverse and deprived neighbourhoods. In recent years diverse and deprived neighbourhoods have been attracting new businesses leading to an increased diversity of entrepreneurship. They represent not only booming creative industries, but also other types of new enterprises. The fieldwork made it possible to observe increasing numbers of new types of entrepreneurs: social, professional, cultural, senior and others. Fieldwork in post-socialist cities showed a dualistic nature of entrepreneurship with clear differences between older traditional small firms, and newer ones that aim to answer new market needs and new customers. Firms belonging to the first group are mainly shopkeepers, often elderly, who fight steadily for survival. Recently set-up businesses tend to supply to the young middle-class coming to the area, tourists and other well-off brackets of the population. Creative enterprises are noticeable in the most gentrified areas; they avoid mainstream business models and work hard to distinguish their enterprises from others. In Southern European cities, where the number of employees and the added value produced by micro enterprises are high, the economic crisis of 2008 brought negative outcomes. While some microenterprises had to close their doors, others used a certain degree of informality in order to cope with negative market conditions. However, this doesn't mean that new types of enterprises—especially creative, cultural and social enterprises, or other forms of enterprises—have emerged only in the last few years. New forms of entrepreneurship are more evident in Western European cities, a result of commercial gentrification and the emergence of new types of services. The growing visibility of niche products (design stores, biodynamic beverages or food) and consumption ventures (trendy coffee shops and restaurants) are also the outcomes of new types of entrepreneurship contributing to the transformation and commercial gentrification in diverse and deprived neighbourhoods. The main change to the composition of enterprises is due to

the increasing number of creative endeavours initiated by different types of entrepreneurs, including some who turned their hobbies into enterprises.

However, ethnic entrepreneurship is still important in almost all cities. Apart from many examples confirming the conventional view that ethnic entrepreneurs predominantly work in low-end sectors such as retail, pubs and restaurants, we also found highly skilled ethnic entrepreneurs working in healthcare, judicial and financial services as well as in creative fields. Creative people are predominantly native entrepreneurs or immigrants coming from other EU countries. Based on the findings of the fieldwork, it is possible to say that while many ethnic entrepreneurs started their business in a traditional line of business due to limited opportunities on the labour market (push factors), there is also an increasing number of (young) ethnic entrepreneurs that are motivated by pull factors and that try to exploit opportunities that can change market conditions. Therefore, some of those with an ethnic background do not see themselves as ethnic entrepreneurs, as they do not only sell ethnic products to ethnic clients, but also have customers from different backgrounds. That said this trend should not overshadow the disadvantaged position of many immigrant enterprises struggling for survival.

Finding 2: Differing roles of neighbourhood diversity for different types of enterprises starting a business

Only a few entrepreneurs deliberately settled in diverse and deprived neighbourhoods. We did not find clear evidence that the enterprises directly seek to locate their businesses in diverse neighbourhoods, at least not because of the diversity per se. In relation to the motivations for choosing the location of their business, the immigrant/ethnic entrepreneurs mentioned the proximity to potential customers, other businesses and their homes. Ethnic entrepreneurs tended to start businesses where there were high concentrations of co-ethnic residents and where networks form among ethnic groups. Besides ethnic entrepreneurs, others were attracted to these neighbourhoods because they are home to a wide range of social groups in terms of lifestyle, race, ethnicity, culture or income, to which they can cater their products and services. If diversity is not the main concern, what are the important factors when choosing to locate in one of these neighbourhoods? The answer is almost always the same in all cases: the availability of new and/or relatively affordable physical space for their businesses provides many opportunities for different types of entrepreneurs—relatively low property prices and rents, and diversified markets due to its mixed population. Location plays a significant role. Important pull-factors include the provision of good public transport and a central location at the metropolitan scale.

Finding 3: Considerable differences in the economic performance of new/creative and small enterprises serving local customers

There are considerable differences in the economic performance of enterprises: those struggling to survive and those that are quite successful. There is a clear difference between the two groups of enterprises in terms of their performance in general, and profitability in particular: new and/or creative enterprises were doing well, while small businesses serving local residents in traditional sectors maintained low-level profitability. Small enterprises (retailers, pub and restaurant owners) had the most complaints concerning financial hardships, while highly skilled entrepreneurs in the new service and creative sectors were more positive about their economic performance. In general, the businesses that perform best do not rely on the neighbourhood for their customers, and therefore do not capitalise on local diversity. Some of the enterprises see their businesses as part of a wider, thriving and diverse urban economy. This is especially true for creative enterprises, as they do not sell everyday products and services. These companies have significantly larger catchment areas than other enterprises and they are more dependent on economic trends. In some cases, entrepreneurs in creative industries were attracted to the vibrant atmosphere that local diversity brings to the neighbourhood.

Finding 4: Changing market conditions and customer base force entrepreneurs to adopt new strategies for improving their economic performance

Changing market conditions are decisive factors in the performance of enterprises. Weaker economic performance within the sector of crafts and handicrafts and small-scale retail is the result of new consumption patterns and changes in the tastes and lifestyles of customers. Enterprises in poor neighbourhoods face the additional problem of operating with a customer base with low pur-

chasing power. When addressing a local clientele, businesses in these neighbourhoods need to offer their products at lower prices in order to synchronise with the limited income of residents, and therefore have low profits. Several enterprises used other strategies in order to change their economic performance. Firstly, some ethnic entrepreneurs who started their businesses in response to the needs of their ethnic community improved their economic performance by opening up their niche business to a broader market of diverse customers in the neighbourhood. Secondly, several businesses in diverse neighbourhoods, especially the ones located in and near the city centres, provided services that attracted not only local clientele, but also customers from other parts of the city. Having multiple customer groups makes their business more resilient to economic fluctuations

Finding 5: Impacts of regeneration projects and gentrification processes on diversity and the performance of enterprises

Regeneration projects and the processes of gentrification have different impacts on entrepreneurship and neighbourhood diversity. A number of entrepreneurs reported that their firms had benefited from an increase in their customer base, new and wealthier clients, and the changing image of the neighbourhoods as a consequence of wider gentrification processes. They consider that recent immigration focused on highly skilled labour, the rising relevance of the creative class and ongoing gentrification mutually reinforced each other. Others were certain that regeneration and gentrification processes were rapidly increasing housing and business costs as well as being responsible for changes in built-up areas and the social composition of residents. The general idea is that gentrification usually weakens the position of small enterprises. Along with the falling number of older long-standing residents, it would also see a loss of their traditional customers who, due to increasing property values, move to other neighbourhoods. Similarly, most of the migrant entrepreneurs faced difficulties in sustaining their activities following the gentrification process, since their customers are often forced to move to other areas.

Finding 6: Different roles of enterprises for social cohesion

Small enterprises (retailers, pub and restaurant owners) fulfil important social functions in deprived neighbourhoods, although the low purchasing power of local customers creates difficult conditions for small retail and service companies. The findings show that they play an important role in the neighbourhood in several ways. They offer affordable and specialised goods and services that cater to the needs of the local population and they provide employment for disadvantaged people seeking work. In some cities, they also create demand for a high proportion of vacant commercial buildings. In many deprived neighbourhoods they also function as spaces of interaction, which is important for increasing social cohesion. Interestingly, along with the absence of a diverse locally embedded network of creative industries, we discovered that their contribution to these neighbourhoods is limited. The findings show that business owners who are owners of successful cultural, creative and social enterprises mostly do not reside in the neighbourhoods where their businesses are located. Often job seekers in the neighbourhood are not qualified for the types of jobs generated by these enterprises. Their existence is, however, important to create a new image of the deprived neighbourhoods and attract new customer groups, which has spillover effects on other businesses and the generation of further employment opportunities.

Finding 7: Low impact of institutional support by local and central governments

Institutional support by local and central governments and existing measures have low impact for both new start-ups and the performance of existing enterprises. Entrepreneurs know relatively little about local and national-level business initiatives and EU policies. Scepticism regarding the local authority's plans for existing businesses was commonplace among many of the entrepreneurs with ethnic minority backgrounds and those firms who had been blighted by regeneration. Except for a few examples, the research findings show that local, citywide and national government policies do not aim to use diversity as an asset or to foster the diversity of entrepreneurs. At the same time, some of the policies indirectly support the production of economic inequalities with diversity seriously eroded if the local business climate is not supportive of small enterprises.

In relation to policies and measures, there is a clear distinction between small and medium-sized businesses and creative and new enterprises. Small and medium-sized businesses, particularly those with local clientele, often feel unappreciated, and sometimes even worked-against or dis-

criminated by regulatory institutions. Public policy was perceived to be becoming increasingly hostile towards small firms, especially in recent years with the expansion of austerity-related cutbacks in many cities. On the other hand, creative enterprises are more positive in their perceptions of central and local policies. Small start-up enterprises run by highly educated entrepreneurs can receive substantial attention and support as is observed in the Rotterdam case. While many entrepreneurs do not evaluate the central and local policies positively, they are also sceptical of different types of NGOs, especially business associations. In all cases, it was surprising to observe how entrepreneurs unanimously expressed a wish for better recognition by institutions for their positive contribution to social and economic life in their locality.

POLICY IMPLICATIONS AND RECOMMENDATIONS

Our policy recommendations are presented below. They are divided into three fields of action: (i) governance; (ii) measures to promote entrepreneurship; and (iii) local policies. They underline the need for a change in attitude and approach of local and national governments with respect to the governance of entrepreneurship. There are also specific economic policies and measures that can be defined at a national level, as well as the recommendations for decision makers at local levels, some of which suggest the re-evaluation of existing policies including renewal and regeneration projects.

(i) GOVERNANCE

Change in attitude of public actors towards entrepreneurs

The approaches of public-sector actors towards entrepreneurs are characterised as either bureaucratic and unaccommodating, or as passive and lacking in initiative. Entrepreneurs are calling for a more open and inviting approach in which public sector actors take on a catalyst role towards entrepreneurship. Our respondents highlighted the importance of an increased provision of moral support towards small and medium-sized entrepreneurs. The entrepreneurs feel that there is lack of moral support from the public sector, and at times, even negative attitudes are encountered towards concrete activities even though the general public narrative favours entrepreneurship and innovation.

Better recognition of local level needs and a more comprehensive streamlining of bureaucratic and administrative processes

Increasing bureaucratic obligations and new steering standards are problematic. In this respect, the top-down mentality of public institutions is questionable and should be aligned with a better recognition of local needs. Local governments should be able to reduce legal complexities and remove structural barriers for entrepreneurs. Policies and approaches by government actors must be sufficiently flexible and open to creativity.

Customised and tailor-made policies

Many immigrant entrepreneurs experience language barriers, have little knowledge of legislation, few financial resources with some even experiencing (institutionalised) racism. The standardised implementation of regulations may have a negative impact on these entrepreneurs, as many are in a vulnerable economic position. In order to sustain different types of entrepreneurship in deprived areas, more support with customised and tailor-made measures is required to accommodate the highly diverse backgrounds, abilities, experiences and knowledge of the entrepreneurs.

Increasing awareness of existing policies through the dissemination of information

The findings indicate that many entrepreneurs in the case study areas were not aware of existing governmental support programmes and initiatives. There are few examples where entrepreneurs have substantial knowledge of existing support schemes. Therefore, we recommend that public institutions communicate more effectively about the support programmes and initiatives they provide, particularly in neighbourhoods where many entrepreneurs are struggling to survive.

Improvement of communication between public officials and entrepreneurs

An important challenge regarding policies for supporting disadvantaged groups of entrepreneurs is to gain the trust and engagement of entrepreneurs. Typically, immigrant entrepreneurs are unaccustomed to cooperating with public and semi public sector actors, for example, local authorities, trade associations, neighbourhood-level networks, etc. More open and supportive action should be the first step in building stronger trust between the public sector and entrepreneurs.

Organising and improving dialogue between entrepreneurs, business organisations and other institutions in order to find practical solutions

Support for local business organisations and cultural enterprises in diverse and deprived neighbourhoods are important to enable them to organise activities that stimulate entrepreneurship. For instance, improving the opportunity for dialogue between entrepreneurs and institutions through the implementation of a single point of contact would be useful. It would create an environment where entrepreneurs can meet and share their experiences facilitating trust between public bodies and entrepreneurs, in the process forming a shared platform for entrepreneurs where information can be provided and cooperation established.

Support for local business organisations

Local business organisations and organisations with intermediary roles need more structural support from local governments. Strengthening intermediary organisations, such as training bureaus, consultancies and business associations can be a useful way to reach entrepreneurs.

(ii) MEASURES TO PROMOTE ENTREPRENEURSHIP

Rather than remediating the deficiencies of entrepreneurs, more emphasis should be put on creating better economic opportunities. For many entrepreneurs, particularly those from diverse backgrounds, the provision of high quality, targeted and bespoke support is of enormous value.

The provision of expert help and adapting training programmes to the diverse needs of entrepreneurs

The provision of expert help, specifically training and mentoring, for entrepreneurs to assist them with general business advice on finance, the planning system, taxes and regulations, becoming an employer, and business growth models is essential. This requires funded programmes that ensure that the right types of training and advice are available, particularly for entrepreneurs from ethnically diverse backgrounds. Policies for entrepreneurship in diverse environments must focus on a range of needs:

- Supporting disadvantaged groups of entrepreneurs
- Enhancing the skills and competencies entrepreneurs need to run an enterprise
- Improving the entrepreneurs' human capital, i.e., their skills and professional expertise
- Supporting entrepreneurs who already have comprehensive educational or professional competencies but who want to improve their skills in the same or other fields.

Redesigned financial support measures for disadvantaged enterprises

Entrepreneurs from diverse backgrounds often face difficulties accessing finance in the private sector, which can act as a major barrier to their development plans and projects. Financial support can also be important to those firms looking to expand and take on new employees or move into new markets. Specifically, as many interviewees underlined, the tax and administrative burden for new enterprises has to be lowered. Microcredits provided by either central government or specific financial institutions supported by the central and local governments are important for entrepreneurs who cannot get a bank loan. Furthermore, there should not only be support and guidance for entrepreneurs starting out, but also for those who are more experienced or those who are suffering economic hardship.

Limited attention to small enterprises should be changed

Large businesses, creative and high tech enterprises are often perceived as more important and receive more attention and support. Some local governments pay little attention to small and medium-sized businesses in non-priority sectors in disadvantaged urban areas, or to traditional busi-

nesses serving the needs of local, less affluent people. The limited attention to the latter group makes these enterprises feel excluded and undervalued. They need specific measures to continue their important functions, including various direct and indirect financial support schemes. Local governments should also pay special attention to traditional craftsmanship, which is in decline in several neighbourhoods.

(iii) LOCAL POLICIES

Policies and measures to create a more positive image of the deprived neighbourhoods

Many entrepreneurs complain that their neighbourhoods are associated with poverty, crime and social problems, which present a negative image. Next to measures against crime, drugs, waste and other nuisances, new events and activities can successfully attract people from all over the city to the neighbourhoods, and therefore create a better image of the area. Innovative forms of place marketing, particularly in relation to an area's diversity and creativity, can play an important role in both encouraging diverse individuals to start new firms as well as attracting inward investment and the inward movement of successful businesses.

Increasing the quality of local services and the provision of business premises

There is a need for local authorities to increase services and the provision of business premises. New spaces or the maintenance of existing commercial properties for businesses is important to allow entrepreneurs to develop their businesses from the start-up phase through to maturity. Public resources for the creation of 'incubator spaces' for start-up businesses, the offering of reduced rents and guaranteeing the availability of affordable and appropriate premises for firms to expand is required.

Reconsidering regeneration and renewal policies and zoning regulations

Effective zoning and planning policy measures are necessary in order to serve the individual and collective needs of entrepreneurs. It will allow them to have places of business that fosters networking among entrepreneurs and promotes the dissemination of knowledge. The impacts of regeneration and renewal policies on small and disadvantaged businesses, and on the vitality of street life, should be taken into consideration. Many examples show that regeneration and renewal policies equate to the gentrification of neighbourhoods, which push many immigrant enterprises and small businesses to leave their community.

RESEARCH PARAMETERS

Our multi-method research deploys an interdisciplinary approach, which draws on urban geography, political science, organisational studies, urban planning, economics and sociology. It aims to provide a comprehensive approach to the governance of complex urban dynamics and to understand the case-specific characteristics of diversity in different contexts. It analyses new policy approaches that recognise and manage hyper-diversity, and suggests instruments that can work to meet a variety of demands. Field research is being conducted in 14 cities by the teams that make up the project partnership. The lead author of this report, and the coordinator for the Work Package "Fieldwork Entrepreneurs" is Professor Ayda Eraydin (ayda@metu.edu.tr) from the Middle East Technical University, Ankara, Turkey.

PROJECT IDENTITY

PROJECT NAME

DIVERCITIES

Governing Urban Diversity: Creating Social Cohesion, Social Mobility and Economic Performance in Today's Hyper-diversified Cities

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EU contribution: M€ 6.5

WEBSITE

<http://www.urbandivercities.eu/>

FOR MORE INFORMATION

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FURTHER READING

- Towards Hyper-Diversified European Cities. A Critical Literature Review
- Urban Policies on Diversity (14 city reports)
- Governance Arrangements and Initiatives (14 city reports)
- Fieldwork Inhabitants (14 city reports)
All available from our website www.urbandivercities.eu/publications/