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NAVIGATING FINANCIAL TIDES: ETHNIC-MINORITY ENTREPRENEURS IN IRELAND'S ECONOMIC RECOVERY"

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Abstract

This paper investigates the sources of finance for ethnic-minority small and medium-sized enterprises (SMEs) in post-crisis Ireland, considering the crucial role of the SME sector in the country's economic growth and sustainability. Against the backdrop of the Global Financial Crisis (GFC) aftermath, which significantly disrupted bank lending in Ireland, the study addresses the challenges faced by SMEs, with a specific focus on ethnic-minority entrepreneurs.

The economic landscape shaped by the GFC in Ireland witnessed a severe disruption in bank lending, leading to a notable reluctance among Irish businesses to seek credit. Holton and McCann (2012) observed that businesses refrained from applying for credit due to the prevailing belief that such applications would be rejected. Ireland's loan/overdraft rejection rate stood as the second highest in Europe during this period. Additionally, Irish firms faced stringent terms and conditions for bank financing, making it one of the tightest environments in the Euro area.

The impact of the GFC on the volume of credit extended to the Irish SME sector was profound, with a dramatic negative effect noted by Holton et al. (2014). The Irish Small and Medium Enterprises Association (ISME) reported a 32 per cent reduction in demand for bank credit, coupled with a persistent high refusal rate of 52 per cent for credit applications by SMEs between March and May 2014.

While lending conditions have improved since the GFC, SMEs, including those led by ethnic-minority entrepreneurs, continue to face challenges in securing credit. Banks, adapting to the new financial landscape, have modified their approach by offering performance-dependant short-term and/or restricted credit to SMEs. This serves as a gateway to accessing more substantial, longer-term funding opportunities (Trethowan, 2014b).

This study contributes to understanding the unique financing dynamics experienced by ethnic-minority SMEs in post-crisis Ireland, shedding light on the evolving financial landscape and the persistent challenges faced by businesses seeking credit in the aftermath of the GFC.

Introduction

Given the importance of the SME sector in economic growth and sustainability in Ireland (Lawless and McCann, 2012) and the increasing population of ethnic entrepreneurs in Ireland (CSO, 2011), this paper explores

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the ethnic-minority SME sectorsources of finance in post-crisis Ireland. The economic context of this study is the aftermath of the Global Financial Crisis (GFC) in Ireland, where bank lending was severely disrupted. At this time, Holton and McCann (2012) found that Irish businesses did not apply for credit due to the belief that they would be rejected and that the loan/overdraft rejection rate of Irish businesses was the second highest in Europe. Moreover, the terms and conditions of Irish firms‟ bank financing, were among the tightest in the Euro area. In particular, the GFC had a dramatically negative effect on the volume of credit extended to the Irish SME sector (Holton, *et al.*, 2014). According to the Irish Small and Medium Enterprises Association (ISME), there was a 32 per cent reduction in demand for bank credit and an enduring high refusal rate of 52 per cent of credit applications by banks to SMEs that applied within the period of March – May, 2014 (ISME, 2014b). There is evidence that lending has improved since the GFC but securing credit continues to be challenging for SMEs. For example, banks adapted their approach and offered SMEs performance-dependant short term and/or restricted credit, as a gateway to more substantial longer-term funding (Trethowan, 2014b).

While it is understood that the GFC was very harsh on the Irish SME sector, there is no specific information on how the crisis impacted funding requests by ethnic-minority small and medium sized entrepreneurs (hereafter eSMEs) post the GFC in Ireland. Therefore, this paper examines the case of the Irish eSME and their funding experiences at a point in time (2013/2014) when access to bank loans was problematic for the entire Irish SME sector (ISME 2013a; 2013b; 2014a; 2014b; 2014c).

Why is the study of ethnic-minority entrepreneurs important? The presence of eSMEs can contribute to the societal well-being, innovation and economic growth of a nation. eSMEs can create employment for their relatives, friends and acquaintances (Rath and Swagerman, 2011) and supply goods and services that local entrepreneurs could not or are less likely to provide (Portes, 1995). Furthermore, eSMEs acting as innovation agents, introduce new products and services and new methods of marketing (Wilpert, 2003), adding to the social and economic well-being of their adopted community.

According to Rath (2010) and Krieger (2011), ethnic-minority entrepreneurship is a growing phenomenon in Europe in recent times. This phenomenon is most evident in Ireland with strong economic growth (NíChonaill, 2009) heralding dramatic demographic changes, which can be attributed to Irish emigrants returning but also to new immigrants entering Ireland (Mottiar and Walsh, 2012). According to the Central Statistics Office (CSO), 11 per cent of the population in Ireland were immigrants in 2006 and despite the intervening GFC (2008 to 2012), the numbers of immigrants increased to 17 per cent of the total population by 2011 (CSO, 2011). According to the 2016 Irish Census, there were 347,233 non-Irish nationals in the labour force and in the same year, immigration figures were 82,300 of which 47,651 were non-Irish nationals (CSO, 2018). More recent figures show that asylum rates are still rising as, in 2017 Ireland had some 2,910 applications for asylum (CSO 2017a). It is expected that this rate of asylum seeking will significantly increase based on the figures for the first two months of 2018 (Lally, 2018). This rising immigrant population has brought with it a wave of eSMEs who continue to establish businesses in Ireland (CSO, 2011).

Amorós and Bosma (2014) found that despite the constrained economic environment post the GFC, the number of eSMEs establishing businesses in Ireland grew to its highest level in 2013, while the number of immigrants intending to set up a business in the following three years was at the highest level since 2010. Indeed, according to the Global Entrepreneurship Monitor Report (GEM) (Fitzsimmons and O‟Gorman 2014), eSMEs in Ireland are more likely to set up businesses than their Irish counterparts as the early stage entrepreneurship participation rate amongst immigrant groups is now at 11 per cent compared to 8.8 per cent amongst the native-born population. This evidence suggests that Ireland is an attractive destination for immigration and for eSMEs.

Understanding exactly what is *'ethnic entrepreneurship'* and how can it be distinguished from entrepreneurship in general is an important feature of this paper. There are several definitions of ethnic entrepreneurship, including immigrants who own businesses (Bager and Rezaei, 2000), who are not necessarily part of a minority group (Basu and Altinay, 2002). Masurel *et al.,* (2002, p.3) indicated that ethnic entrepreneurship is a broad concept and agreed with Bager and Rezaei (2000) that they were engaged in a business activity but by people who were of a „different ethnic or cultural origin than the indigenous population‟. Chaganti and Greene (2002, p.1) posit that to define an ethnic entrepreneur it is dependent on his/her involvement in the ethnic community instead of „reported ethnic grouping‟. Previous research is centred on ethnic minority groups in their host country, such as the Greeks in the United States, West Indians in the Netherlands or Vietnamese in Canada, (Juteau and Pare, 1996). The native-born ethnic minorities, for example Jewish or African Americans, or Indians in the Caribbean, are also included in the literature as ethnic-minority constituents (Ryan and Barclay, 1992). Considering the general thrust of this literature, we decided to include all ethnic-minority SMEs that are owned and managed by immigrants to Ireland. Therefore, this paper adopts the definition proposed by Cooney and Flynn (2008) where an ethnic entrepreneur is a foreign national who creates an enterprise in Ireland (ibidp.35).

In this context, this paper aims to explore the eSMEs experiences of raising external debt finance and their views on the SME-focused government initiatives, post GFC. This paper contributes to the under-developed body of academic research on the ethnic-minority SME sector in Ireland and the ethnic-minority entrepreneurship literature worldwide, by exploring the accessibility of bank and other finance, through the theoretical lens of the pecking order hypothesis (POH), mediated by social capital theory. By giving voice to the experiences of these eSMEs when sourcing funds, this paper canoffer specific policy recommendations to support the ethnic-minority SME sector in Ireland.

A literature review: The Challenges of being an eSME

Waldinger *et al*., (1990) suggested that the development of eSMEs is shaped by the existence of certain impediments toethnic minorities, where necessity acts as the catalyst for entrepreneurship. Whether the impetus for ethnic entrepreneurship is opportunity or necessity, the eSME is challenged on many levels,including access to finance, market concentration and a deficit of management skills (Carter, *et al*., 2015; Weight*et al*., 2015). In relation to Ireland, eSMEs face similar difficulties and challenges, including access to capital, lack of or inadequate skills and competencies that are required to start a business (Cooney and Flynn, 2008; Birdthistle, 2012). Additionally, access to support services and knowledge of such services, language barriers and limited sales and marketing skills have been highlighted by Birdthistle (2012).

These challenges create barriers to eSME‟s business growth and diversification and consequently dampen their potential value to the economy and society in general. Focusing on credit availability for the SME sector, the lending environment (which includes the legal system, information infrastructures, bankruptcy laws, governance and tax compliance) can negatively affect the extent to which different lending technologies can be extended to SMEs and other businesses (Berger and Udell, 2006). Shimasaki (2009) suggested that this restriction is a lifetime career challenge faced by entrepreneurs. In comparison to their bigger counterparts, SMEs experience restrictions in terms of accessing credit due to information asymmetries and moral hazard associated with their limited asset base and fractured financial history (Stiglitz and Weiss, 1981).

Overall, the eSME literature records the sustained difficulty of accessing bank finance (Jones,*et al*., 1994; Volery, 2007; Altinay and Altinay, 2008) which results in underinvestment and limited market and growth opportunities for this ethnic minority businesses (Jones, *et al*., 2000; Bewaji, *et al*., 2015). Relative to the mainstream SMEs, eSMEs have had more severe problems raising finance and hence relied upon "bootstrapping" as a financing strategy, even before the GFC (Irwin and Scott, 2010). An early study of Irish-based eSMEs found that accessing finance was the key challenge for eSMEs as they relied on bank loans as a key source of finance, in 2006 (Cooney and Flynn, 2008). The majority of eSMEs did not explore other external sources of finance (including state agencies) and their knowledge of external financing sources was limited to financial institutions and personal contacts. The most frequent reasons given by eSMEs for raising bank finance at that time, were to expand their product range and to enter new markets. As this study is based on 2006 data, prior to the GFC, there is a gap in our current understanding of how credit rationing affected Irish eSMEs.

Theoretical explanation of funding choices

The choice of funding sources in SME sector can be explained by the pecking order hypothesis (POH), (Myers and Majluf,1984; Beck *et al.*,2008). This hypothesis suggests that if internal equity and retained profits are insufficient for SME‟s funding needs, then external financing (such as bank debt/credit) is the next alternative, followed by equity funding as a final preference. In the Irish context, Mac anBhaird and Lucey (2010) confirmed the POH as the best explanation of funding choices in Irish SMEspre GFC. In post-crisis Ireland, these financing preferences endured for Irish SMEs (Mac anBhaird, 2013;Mateev*et al*., 2013), underlining the importance of bank finance (in comparison to equity) for Irish SME survival and growth. Specifically, Irish SMEs tend to rely heavily on (internal) retained profits and short-term debt, in line with POH predictions (Mac anBhaird and Lucey, 2011).

Given the nationalisation of Irish banks and the exit of international banks from the market post the financial and banking crisis (Trethowan, 2014a), the banking sector became more concentrated, which resulted in less favourable conditions for lending to SMEs (as predicted by Berger and Udell, 2006).Indeed, an examination of the SME credit provision in that time period confirmed that reduced credit availability was due to credit rationing rather than improved lending practices as claimed by banking institutions (McCann, 2011; Lawless and McCann, 2012).In recognition of the importance of SMEs as an economic engine of growth and recovery, Irish policy makers launched a finance initiative called Microfinance Ireland (MFI), to bolster the domestic economy and to foster entrepreneurial activities, post GFC. MFI is a not-for-profit lender that was established to deliver the Government‟s Microenterprise Loan Fund[i]. Businesses with fewer than 10 employees and an annual turnover of less than €2m with commercially viable business proposals are the target SME group (Sunday Business Post, 2013).

Our understanding of the preferred funding choices of eSMEs through the lens of the POH does not consider the role of social capital in this process, even though social capital plays a decisive part in gaining access to important resources (Volery, 2007; Seghers *et al.,* 2012). The POH assumes that all funding preferences are made from an equal basis of access to funding choices and a universal understanding of funding alternatives.

Therefore, in addition to examining the funding choices of eSMEs post GFC, we also examine what role the eSME‟s social capital played in securing external debt finance after the GFC.

Funding choices as predicted by POH through a social capital lens

Social capital theory fundamentally proposes that actors and components within a wider environmental network(Lin, 2002) act as gatekeepers of tangible and intangible resources including access to finance (Nahapiet and Ghoshal, 1998; Tötterman and Sten, 2005). Indeed, Seghers*et al.,* (2012) have positively linked social capital with the entrepreneur‟s financing alternatives; stronger social capital is reflected in deeper knowledge of the financing opportunities available. Social capital networks are comprised of three key elements, namely network structure, participant cognition and relationships (Woolcock and Narayan, 2000). In this research, we examine eSME access to credit within the context of their entrepreneurial ecosystem, focusing on exploring and understanding if/how eSME"s utilize social capital to access finance, in line with existing literature (Nahapiet and Ghoshal, 1998; Simsek*et al.*, 2003; Inkpen and Tsang, 2005; Tötterman and Sten, 2005; Fang *et al*., 2010; Soetanto and van Geenhuizen, 2015)[ii].

Both informal and formal structural dimensions of networks are critical to securing eSME funding. The structural dimension of a social network is characterized by the configuration, stability and durability of established informal and formal relationships (Oh *et al.*, 2004; Inkpen and Tsang, 2005; Tötterman and Sten, 2005). Informal networks are exemplified by the ability of an eSME to raise initial equity funding through family, friends and their additional informal relationships within the wider network. Hussain and Matlay (2007) underlined the importance of family and friends to the eSME and their preference for less structured forms of financing. We expect that for eSMEs, informal relationships are stronger than formal relationships and consequently their principal source of finance is derived from family and friends, as opposed to the POH"s assertion that this funding choice is a preference for retaining equity control of their businesses.

The formal networks would be those relationships with external debt and equity providers, for example, banks, business angels and venture capitalists (respectively). Evidence indicates that entrepreneurs, who have a relationship with their banks, can reduce information asymmetries and expand their financing alternatives (Behr and Güttler, 2007; Seghers*et al.*, 2012). We expect that formal bank lending relationships are weaker for eSMEs in a postcrisis Ireland and that borrowing is not a dominant feature of the eSME funding portfolio. Under POH, this funding opportunity is assumed universally accessible to all SMEs, who meet the lending criteria.

The participant cognitive dimension of social capital refers to common goals, shared culture, languages and codes, evidenced in the common representations, interpretations, and perceptions among member actors in a social network (Simsek *et al.*, 2003; Inkpen and Tsang, 2005; Tötterman and Sten, 2005). Here, the eSME"s cognitive links to their own ethnic communities are known as intra-ethnic networks. eSMEs may experience cognitive divergences between their goals, culture and language and the wider community, more specifically native-born providers of external funding within their inter-ethnic networks, (networks which occur between people of different ethnicities). Van Auken (2001) demonstrated how the knowledge base of the entrepreneur determined their funding choices; as financial alternatives may not be understood equally among SMEs. We expect that eSME to experience cognitive dissonance in relation to inter-ethnic networks, including external fund providers and government support agencies, in particular banking institutions and are less likely to engage with these funding opportunities.

Thirdly, the relational dimension refers to the extent to which members consider the needs and goals of other network members or actors (Feldman and Zoller, 2012). This concept includes member trust, norms, obligations and expectations, and the potential to establish and manage norms so as to enhance trust (Nahapiet and Ghoshal, 1998; Simsek *et al.*, 2003; Inkpen and Tsang, 2005;Tötterman and Sten, 2005; Fang *et al*., 2010). Trust is central to cooperation and exchange of intangible resources such as information and therefore is core to the entrepreneurial ecosystem (Nahapiet and Ghoshal, 1998; Iansiti and Levien, 2004; Tötterman and Sten, 2005). From the perspective of the eSME, the differences in social and cultural norms between their ethnic minority communities and their host country can potentially hamper the development of trust, limiting access to important intangible and tangible resources. Therefore, the development of trust (a reduction in fear) between eSMEs and resource providers, through enhanced cognition of each other"s cultures and expectations can enable stronger formal and informal network relationships. These different dimensions of social capital can scaffold support for resource acquisitions by the eSME. Conversely, any limitations in the cognitive and relational dimensions can weaken the structural dimension of the eSME"s social capital.

In the context of the Irish policy focus on SMEs and the growing importance of the ethnic-minority SMEs to this Irish economy, the objective of this paper is toexplore the funding choices of eSMEs in post-crisis Ireland, employingsocial capital theory to explain the presence of any potential deviations from the POH for funding sources of the Irish-based eSME. While native-born (Irish) entrepreneurs are outside the scope of this research, we endeavour to make comparisons to the wider SME sector by employing the contemporaneous ISME survey statistics on bank lending experiences of the Irish SME sector, to contextualise our findings for these eSMEs within the wider SME sector. We contribute to the existing literature on ethnic-minority entrepreneurship and eSME sources of finance, by focusing on the Irish-based eSMEs in a difficult credit environment post GFC, andexploring their social capital cache as a mediator of access to finance.

Sample and Methodology

The focus of this paper is on how eSMEs finance their businesses in post-crisis Ireland and whether social capital impacts their funding choices. Around the time of the study, the Irish census figures show that approximately 12 per cent of the population is characterised as ethnic minority (CSO, 2012).Within the Irish context, there appears to be similar levels of ethnic-minority entrepreneurship compared to other immigrant countries, with 12.6 per cent of the ethnic-minority population claiming ownership or part ownership of a business (Cooney and Flynn, 2008). This level of ethnic-minority entrepreneurial activity is higher than the general population with one in eleven (9.09 per cent) of the general adult population in Ireland engaged in some form of early stage entrepreneurial activity, according to the Global Report of GEM for 2013 (Amorós and Bosma, 2014).

All the surveyed and interviewed eSMEs for this study operate in the Midlands region of Ireland. By deliberately selecting the Midlands region, we focus on an impoverished region with a strong ethnic-minority presence and higher than normal unemployment. We are motivated to study self-employment as an alternative to unemployment in the Midlands, where there are weaker labour participation figures, especially for the migrant population. Unemployment in the Midlands is 25 per cent higher than the national average (Solas, 2017) and among the migrant population, it is 10 per cent higher than the general Irish population(CSO, 2018). Employment opportunities in this region consistently trailed all other regions in Ireland from 2007 to 2015 (Solas, 2017) and the Midlands had the least number of active enterprises (92.13 per cent of which were micro businesses) in Ireland at the time of this study. There was a gap between the median income for all workers in Ireland and median income for workers in ethnic communities in 2014: ethnic communities earned 14.6 percent less (CSOStatBank, 2017). Also, even among the employed, incomes in this region are the second lowest in Ireland (after the border region) in both 2013 and 2014 (CSO, 2015).

According to the Central Statistics Office, the population in this region consisted of 13per cent non-Irish nationals in 2011, higher than the national average which would have included the large urban areas of Dublin, Cork and Galway (12.2per cent) (CSO, 2012). From 2011 to 2016, the non-Irish population had grown in the Midlands: for example, there was a 9.1per cent increase in Longford County with notable increases in some urban areas Edge worth town(32.3per cent)and Ballymahon (32.1per cent) (CSO, 2017b).

The focus of this paper on the Midlands is also motivated by previous Irish ethnic minority policy focus on large urban areas (Dublin, Cork and Galway) to the detriment of rural and smaller urban areas. For example, EMERGE (Ethnic Minority Entrepreneurship in a Rapidly Growing Economy)[iii]was a project that endeavoured to assist eSMEs in overcoming business obstacles and to function within the regulatory and cultural environment in large cities in Ireland (Dublin, Cork and Galway). This programme delivered training, mentoring and networking in those urban settings and also contributed to policy development via submissions made to the EU

Green Paper on Entrepreneurship, the Small Business Forum and the consultation process on „Immigration & Residence in Ireland" initiated by the Department of Justice, Equality and Law Reform, Ireland. This policy contribution was based on the experiences of ethnic entrepreneurs in thelarge cities in Ireland, and may not necessarily have captured the experiences of ethnic entrepreneurs in the more rural and smaller urban settings. Given this lack of policy attention, the paucity of employment opportunities and the increased non-Irish national population in this region, this paper aims to shed light on eSMEs" entrepreneurial activity and sources of finance by exploring the experiences of eSMEs in the Midlands.

A final list of 90 ethnic-minority entrepreneurs was drawn up from industry sources, social media, personal contacts, vendor recommendations, which focused on the urban areas of midlands Ireland, who met the sample criteria (definition of eSMEs).

The original smaller sample was then augmented using a snowball on-probability sampling technique, where existing study subjects were used to recruit future subjects from among their acquaintances. This technique is often used in hidden populations that are difficult for researchers to access, like this group of fringe entrepreneurs. These entrepreneurs were written to and then telephoned, to extend an invitation to participate in this that resulted in a final sample of 30 respondents.

Data for this paper was gathered through semi-structured interviews and survey questionnaires administered to 30 eSMEs in the urban midland"s region of Ireland. The questionnaire included 34 questions, with a mixture of open-ended and closed-ended questions with the latter designed to elicit opinions based on a 5-point Likert scale. The questionnaire was divided into 3 sections, (general information, financing information, and opinions on finance and other supports available). The main body of the survey asked the eSME about their sources of finance, their experiences trying to secure bank loans, their awareness of initiatives like microfinance to fund their business and their perceptions of the key barriers of doing business in Ireland. The English-language questionnaire was also designed to gather the viewpoints of eSMEs on the present Irish business environment such as its tax regime and the various Irish government supports and programmes available to them. Each questionnaire took approximately 30 minutes to complete. Furthermore, semi-structured interviews were held to support the interviewees" understanding of the questions in the survey. The content of these semi-structured interviews is captured in the answers to the open-ended questions in the survey, completed in face-to-face sessions with the respondents. Finally, a semi-structured interview with Mr. Garrett Stokes, the Chief Executive Officer of MFI was conducted by telephone to discuss access to microfinance for SMEs in Ireland and in particular, the microfinance application successes of eSMEs in Ireland.

Limitations of the study

One of the challenges of this study was the language barrier between the respondent and the research instrument, where some ethnic owner/managers had very limited knowledge of the English language, making it difficult for them to respond to questions during the completion of the self-administered questionnaires and the interviews. This language barrier was overcome in many cases by the researcher explaining the questions in more depth on the spot (in plainer English, in different ways or sometimes translating the question). Care was taken not to influence or direct the respondents when filling out the questionnaire in these cases. The researchers were also mindful of the cultural differences among eSMEs as these may also create barriers; for example, a handshake with a prominent Islamic female owner-manager was not acceptable. The results of this study may not be wholly transferrable to the wider ethnic-minority community in Ireland as the small sample is restricted ethnic minority SMEs in the midlands of Ireland (a similar restriction is seen in Hussain and Matlay (2007) and Altinay and Altinay (2008)). Finally, the sampling method had the potential to introduce bias by recruiting respondents from within the same social circle of the respondents. By employing a variety of techniques to develop a population list, the sample was broadened, and this reduced this potential bias.

Sample description

Of the 30 respondents, four (13.3 per cent) were female and the rest were male, and they originated from six ethnic-minority groups (Polish, African, Middle Eastern, Serbian, Turkish and Pakistani)within the services sector. When compared to the Global GEM report for 2014, the Irish percentage of male and female Total Early Stage Entrepreneurship[iv] (TEA), in comparison to the adult population, is 8.87 per cent and 4.23 per cent respectively (Singer *et al*., 2015). This suggests that the percentage of male TEA entrepreneurs should roughly be double the percentage of female TEA entrepreneurs. The gender divide in this sample of eSMEs is quite different, with a much higher proportion of male entrepreneurs (7 times more) in comparison to the Irish TEA population. An earlier study (2006) of ethnic minorities by Cooney and Flynn (2008) also highlighted the gender skew towards males, in Ireland.

Findings

When asked about the internal and external sources of finance for their business, the respondents indicated that they secured funding to grow their business from five main sources (see Figure 1), and 10 of the 30 eSMEshad multiple sources. As we predicted, the main source of finance for eSMEs was friends and family, through their informal structural and relational networks in concert with Hussain and Matlay (2007).Some 70 per centof respondents (21 of 30) sourced their capital from friends and family solely or in combination with other sources. Compared to Cooney and Flynn (2008, p.78) with funding of 30 percent from friends and family, this source of finance has become the dominant source in post GFC Ireland in the midst of a credit crunch, among eSMEs.

Surprisingly, only one third of the respondents used their own savings when starting a business; this result contrasts with the findings of the Global Report of GEM that most Irish entrepreneurs use their own funds in conjunction with other sources to start their businesses (Amorós and Bosma, 2014). While 76 percent (23) of the eSMEs approached banks for external funding, only four successfully secured bank loans (13 per cent of respondents). According to Cooney and Flynn (2008,p.78), a comparable 60 percent of their eSME sample approached banks for funding and in the main were successful (78 percent). This result effectively relegates bank finance to a non-choice for Irish eSMEs. The majority that approached the bank for loans (53 per cent) sought external finance mainly for working capital needs like purchasing raw materials and recruiting staff, with one eSME wishing to purchase a franchise. The remaining funding needs (45 per cent) were for capital expenditure. This is contrasted with Cooney and Flynn‟s (2008, p. 79) earlier findings, where eSMEs sought loans for growth rather than operational purposes (to enter new markets and expand their product range).

Finally, the state sponsored microfinance initiative was the second most successful external source of capital. To qualify for microfinance, the eSME must first apply for a bank loan and be refused that loan. Some 11 respondents (37 per cent of the sample) applied for microfinance and of those, 6 respondents secured funding (58per cent). The CEO of Microfinance, Mr. Garrett Stokes confirmed that on average 44 per cent of all microfinance applications from 2012 to 2018 (Microfinance Ireland, 2018) were approved for funding by MFI. That 44 per cent approval rate relates the time period 2012 to 2018(Microfinance Ireland, 2018) and the annual average approval rate for 2014 was 59 per cent, (Microfinance Ireland, 2015, p.7), which is comparable to the 58 per cent approval rate achieved by the respondents in this sample.

Within that 44 per cent approval group, Mr. Stokes states that almost 1 in 5 of all successful applicants (19 per cent) are eSMEs, which is evidence that eSMEs are successfully securing Microfinance in proportion to

the mainstream SME sector (22 per cent eSME and 78 percent Irish SMEs)[v].The findings here indicate that Microfinance
as a policy intervention was very beneficial for the Irish-basedeSME.

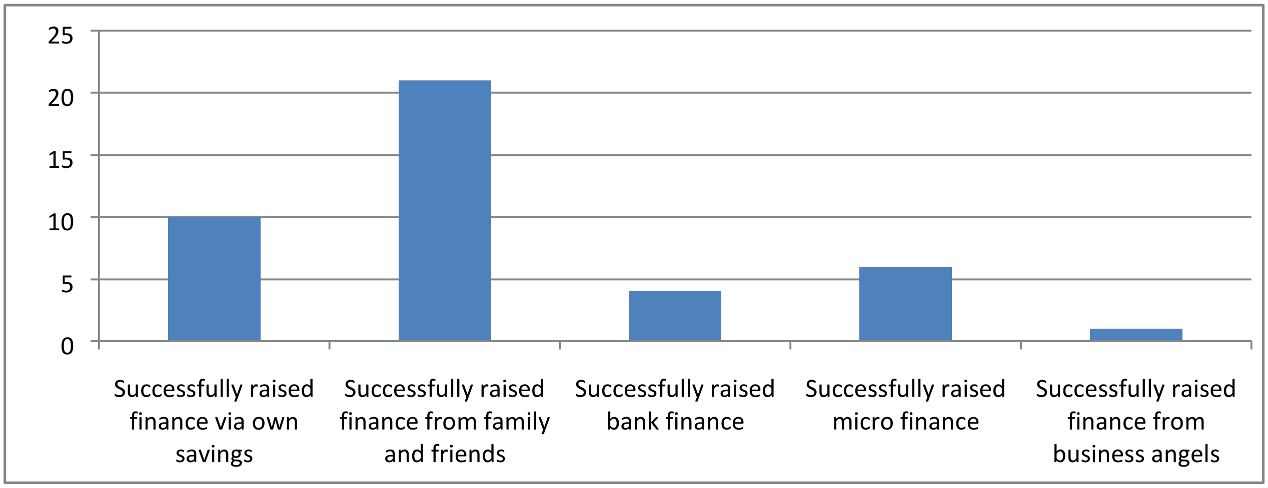

Figure 1.eSMEsSources of Finance 2013-2014

A comparison of the bank loan experiences of eSME and SME post GFC

Focusing on bank finance as a source of capital, we next examine whether the lending pattern to eSME was significantly different to the general lending pattern in the SME sector, at that time, post GFC. The results above suggest that 23 approached banks for finance and only 4 succeeded. This suggests that while the eSME had a need and appetite for external debt funding, debt as a funding choice was not readily accessible. Nineteen eSMEs (82.6 per centof the 23 that applied) indicated that they failed to secure a bank loan. This eSME bank loan refusal rate of 82.6 per cent in 2014 is double the reported contemporaneous average of a 42 per cent refusal rate of Irish SMEs (ISME, 2014c). Table 1 provides a statistical comparison of the results of the ISME Quarterly Bank Watch Survey and the results from this ethnic-minority sample. It is notable that the contemporaneous loan refusal rate trend for the general Irish SME population fell steadily for the previous five quarters, albeit marginally[vi]. This general trend is statistically significantly different from theeSME refusal rate of 82.6 per cent and it paints a bleak picture for the funding opportunities for eSMEs.

While banks were refusing loans to small businesses across Ireland, this high refusal rate suggests there are major gaps in the eSME"s social capital that prevent him/her securing external debt finance – a significant structural chasm (Burt, 2004) between the eSME and their potential external debt providers, indicative of structural, cognitive and relational social capital divergences (Granovetter, 1973).This high refusal rate is not related to a higher frequency[vii]
of bank loan applications from eSMEs as can be seen in Table 1, where the frequency of bank applications/approaches is like the main SME sector.This suggests that while the POH can be theoretically useful to explain funding choices, it is limited as it presupposes the universal capacity to choose and equal capability to access debt funding.

Table 1: Statistical comparisons (t tests) of Irish SMEs and Irish based eSMEs (2013-2014)

ISME BANKWATCH SURVEYS	ISMElast contemporaneous quarter[a]	ISMEAverage over 5previous quarters [a]	Ethnic Sample Average	Contemporaneous last Quarter Comparison		Previous 5 Quarters Comparison	
				t	*Sig.*	*t*	*Sig.*
Refused a bank loan in the entire sample	42%	51%	**67%**	2.818	**0.009*****	1.79	**0.084***
Refused a bank loan for all those that applied for a loan	42%	51%	**82.6%**	-3.045	**.006*****	-4.159	**.000*****
Approached bank	88%	88%	86.7%	-.211	.834	-.211	.834
Agree that banks making more difficult to access finance	64%	63%	70%	.705	.486	0.823	0.417
Aware of the Credit Review Office	72%	70%	73 % [b]	.162	.872	.406	.688
Aware of Micro Finance Scheme	40%	38%	37 % [b]	-.372	.712	-.149	.883

[a]*Sources: ISME (2013a), ISME (2013b), ISME (2014a), ISME (2014b), and ISME (2014c).*
[b]Note awareness of the Credit Review Office and of Micro Finance Scheme is proxied by opinions offered on the Credit Review Office and definite applications to the Micro Finance Schemes made by the respondents, respectively. ***Significant at the 1% level, ** Significant at the 5% level, *Significant at the 10% level

In Table 1, the perceptions of the difficulty experienced by eSMEs when accessing finance from banks is statistically comparable to the wider SME sector in Ireland. The majority (52 per cent)of eSMEs, who agreed that banks are making it more difficult to access finance, were applying for loans of less than €10,000 for working capital funding needs. The funding requests for eSMEs ranged from €1,500 to €30,000, with 12 of the 30 respondents looking for less than €10,000 amounts and 18respondents were trying to secure funding of less than €20,000. Only one eSME successfully secured a bank loan for an amount under €10,000, with 11 eSMEsin that range being refused loans, which translates into a success rate of just 9.1 per cent in that investment range, the lowest success rate for all investment ranges. This suggests that eSMEs that require funding for relatively small amounts, typically to serve working capital needs, are more than likely refused credit. This outcome supports the claim that Irish banks were rationing capital to SMEs in general, rather than the banking sector claim that demand had decreased (Lawless and McCann, 2012).Drilling down further into the responses here, the respondents that applied for loans for less than €10,000 expressed the greatest difficulty in relation to their experience when applying for bank credit, which suggests weaker structural social capital for this group. This indicates that the eSME sector and the banking sector are both failing in their efforts to bridge this structural gap in eSME social capital.

The eSMEs have a comparable awareness of the Credit Review Office (CRO) to the general SME sector (see Table 1). While their awareness is similar, this does not translate to loan appeal applications to the CRO. Only one ethnic minority respondent appealed their bank loan refusal to the CRO. At that time, the CRO reported that it upheld 56 per cent of all appeals in favour of borrowers, or at least with a commitment to reassess the lending (Trethowan, 2014b). This eSME stark figure indicates that the ethnic community perhaps does not have the requisite knowledge base to appeal a bank‟s negative loan decision, a weakness we suggest originates from their cognitive social capital.

On a positive note, the eSME success rate for securing microfinance is higher than bank finance, with 11 respondents applying for microfinance and more than half securing it (six respondents). This result suggests that the high loan refusal rate experienced by the eSME is somewhat offset by the availability of the government sponsored microfinance initiative. 11 of the 30 (37 per cent) respondents were aware of microfinance (see Table 1). This is statistically comparable to the contemporaneous reports of 40 per cent of SME sector being aware of the availability of microfinance, as reported by ISME (ISME 2014c). It also supports the notion that the difference in accessibility of external debt previously noted between eSMEs and native-born entrepreneurs, has been sidestepped by the necessary public provision of entrepreneurial capital, due to the private banking market failure in relation to eSME finance.

As keenly aware of microfinance as their native-born counterparts, eSMEs are successfully securing this source of finance. Microfinance offers eSMEs a funding alternative that does not overly penalise the eSMEs weaker financial and social capital positions. Indeed, Mr. Garrett Stokes, the Chief Executive Officer of MFI, confirmed in an interview that eSMEs are well represented amongst the small businesses applying for microfinance. According to Mr. Stokes, eSMEs account for 19 per cent of all SME loans approved by the Microfinance Ireland. Mr. Stokes also discussed the success of the outreach policy of MFI, whereby this not-for-profit organisation regularly meets ethnic minority groups and businesses to present and disseminate the Microfinance business funding model message. This approach to developing the relationship between SME sector and MFI has had a positive effect on the inter-ethnic networks between MFI and ethnic communities and businesses.

Barriers to funding post GFC for the Irish-based eSME

As noted above in Table 1, eSMEs perceive (in tandem with the wider SME community) that the banks in Ireland are increasing the difficulty in accessing finance. When asked through survey and semi-structured interviews about the difficulties associated with securing a bank loan, eSMEs highlighted a number of factors that impede access to bank finance. They include prohibitive interest rates (in an era of historically low interest rates), fees and commissions, the bureaucratic process involved, the burden of the terms and conditions and the necessity for collateral to secure a loan (see Table 2). In this section, we discuss these issues as identified by eSMEs and interpret them in light of three social capital dimensions that enable access to essential resources: structural, relational and cognitive.

Table 2: Tabulated eSMEs perceptions of barriers to securing bank finance (2013-2014)

	Perspectives on Barriers					
	Biggest barrier	**Somewhat a barrier**	**No opinion**	**Not really a barrier**	**Not a barrier**	**Total N**
Interest Rate Structure	9	8	6	4	3	30
	30.0%	26.7%	20.0%	13.3%	10.0%	100.0%
Process Involved	8	5	10	5	2	30
	26.7%	16.7%	33.3%	16.7%	6.7%	100.0%
Fees and Commissions	6	7	9	8	-	30
	20.0%	23.3%	30.0%	26.7%	-	100.0%
General Terms and Conditions attached	5	10	4	5	6	30
	16.7%	33.3%	13.3%	16.7%	20.0%	100.0%
Collateral	2	-	1	8	19	30
	6.7%	-	3.3%	26.7%	63.3%	100.0%

In Table 2, the obstacle identified as the most problematic for eSMEs, was the interest rate charged by banks to the eSME, with 17 (56.7 per cent) of the respondents indicating it was a barrier, to varying degrees[viii]. In fact, three respondents, who perceived that interest rate charges were a major barrier, cited that this was the reason they did not seek bank loans (discouraged from applying for a loan, in concert with findings by Casey and O"Toole, 2014).Post the GFC given that the European Central Bank has kept interest rates at historically low levels (Jobst and Lin,2016), the presence of prohibitive rates indicates that banks are charging higher premiums to the SME sector, especially to the eSMEs to compensate for the perceived higher lending risk associated with eSMEs and the general collapse of collateral values post the GFC.

These prohibitive rates reflect an asymmetric information gap between banks and eSMEs, and suggest that banks opt to charge more rather than invest in narrowing that gap by further developing relationship lending (enriching their social capital inter-ethnic networks with eSMEs), echoing Behr and Güttler (2007) and Seghers *et al.*, (2012). Equally, the findings suggest that eSMEs in this study have accepted the status quo and have not taken measures to bridge that gap with their lenders. The bureaucracy of the application process was the second biggest barrier identified by the eSME (Table 2). The formal means of communicating and applying for bank finance is a key stumbling block for the eSME. This represents a significant barrier for eSMEs approaching banks for loans and suggests that external bank finance is less accessible for this minority group, as overly-complicated loan application rules, precedents, and procedures as operationalised by banks intimidate eSMEs and emphasise their weak structural social capital.

The lack of collateral was not considered a barrier or not really a barrier for 27 of the 30 respondents (90 per cent). This is a surprising opinion on behalf of the eSME as Irish banks traditionally preferred collateral-backed loans, a practice which gave rise to severely weakened bank balance sheets because of the property market crash (EU Commission, 2012).Given the high refusal rate of bank finance experienced by the eSME, the lack of collateral may be a contributing factor to that high rejection rate. The fact that eSMEs fail to recognize collateral as a significant limiting factor when securing a loan, suggests a certain lack of knowledge or naivety on their part – a definite gap in their understanding, manifestly evidence of weak cognitive social capital.

Despite the high bank loan refusal rate and loan difficulties, eSMEs still have ambitions to secure bank funding in the future. When asked whether they intend to grow their business and where they intend to raise any future finance needs, bank finance featured prominently in the responses from the eSMEs. Indeed, 24 of those 26 who wish to grow their business, believe that bank finance will feature as a future source of finance, with microfinance as the second most popular future choice of funding. We conclude that the introduction of the government-sponsored microfinance fund as a direct result of the private sector financial and banking crises, has provided a much-needed source of finance to the eSME, bridging their structural and cognitive social capital gap in the private funding market.

Barriers to other supports for growing Irish-based eSME businesses

In Table 2, the responses from the sample are tabulated, indicating their opinions about the accessibility of entrepreneurial supports for eSMEs. Many respondents (56.7 per cent) were familiar with the various government finance and training supports available and those accessed included Local Enterprise Offices, Credit Review Office, MFI and Enterprise Ireland. However, 13 of the 30 respondents had no interaction with Irish government supports at all. Indeed, eSMEs perceived that there were problems accessing these supports (24 out of 29 responses), with the fear of being rejected and distrusting official channels (signalling weak relational social capital) featuring in equal measure with lack of information (a cognitive social capital gap) when talking about these supports.

Most of the respondents (16 of 20)[ix] who experienced barriers to attaining their business goals indicated that their difficulties stemmed from the perceived complexity of compliance/regulations and tax issues (these obstacles can be parsed as structural and cognitive social capital deficiencies). This finding is potentially linked to the weaknesses in the inter-ethnic and intra-ethnic networks and ties that fail to fully support the tax and regulatory compliance of ethnic business communities. These issues are most frequently cited as difficulties experienced when running an ethnic-minority business in Ireland.

Only two of 30 respondents mentioned that the lack of host community acceptance negatively affects their business outlook, suggesting that there is limited evidence of an inter-ethnic relational social capital gap between communities. Despite the obstacles that eSMEs encounter when operating a business in Ireland, most are optimistic about the future of their business and have plans to develop and grow it in the future. Intriguingly, the high bank loan refusal rate does not dampen their enthusiasm for bank finance. We conclude thatthe eSME in general finds that the host community in Ireland is accepting of the ethnic entrepreneur‟s business/community and the relational social capital gap the eSME experiences is confined to „*official Ireland'*.

Overall, the findings in relation to the sources of finance sought by eSMEsand their opinions about the barriers to business development, point to several issues that have inhibited growth in their businesses, most importantly the lack of access to external finance with a high refusal rate of bank loan applications, reflecting the dearth of the eSME‟s structural and cognitive social capital. These findings in the context of the POH and the level of social capital associated with the various sources of finance, are summarised and presented in Table 3.

For example, all three aspects of social capital were noted to be strongly related to the first source of capital in the POH –family and friends. Most funding was provided informally via a network of family membersand friends,and funding from within the entrepreneurs own ethnic community, based on trust and norms emanating from those relationships. The study concluded that bank finance as a source of capital in the POH is generally unattainable for the eSME due to the high refusal rate and the difficulties expressed with the bureaucratic nature of the banks. In relation to cognitive and relational social capital there was weaker inter-ethnic understanding on both sides, as high bank loan interest rates are charged to cover the perceived „risk" of ethnic businesses and the weak understanding displayed by eSMEsof collateral as a commonly used basis for bank lending.

Table 3: Pecking order of eSME funding sources, as explained via their social capital strengths and weaknesses

Sources of Finance	**Social Capital**		
	Weak	*Medium*	*Strong*
Family, Friends, Fools	-	-	Structural, Cognitive, Relational *Intra-ethnic understanding (within own communities)*
Micro Finance	-	Relational Cognitive *Inter-ethnic understanding. (between own communities and wider financial community)*	Structural, *Inter-ethnic understanding. (between own communities and wider financial community)*
Bank Finance	Cognitive, Relational *Inter-ethnic understanding (between own communities and wider financial community)*	Structural *Inter-ethnic understanding. (between own communities and wider financial community)*	-
External Equity (i.e. Business Angels, Venture Capitalists)	Structural, Cognitive, Relational *Inter-ethnic understanding. (between own communities and*	-	-

	wider financial community)		

Note:

Structural Social Capital: Configuration, stability and durability of established relationships
Cognitive Social Capital: Common goals, shared culture, languages and codes, Relational Social Capital: Member trust, norms, obligations and expectations

Stemming from the high bank refusal rate, an alternative source to bank finance for the eSME emerged in the form of microfinance. There were strengths in relation to structural capital for the eSMEs as they applied for and were successful in gaining microfinance on comparable acceptance rates to native-born entrepreneurs. There is evidence of relatively weaker cognitive social capital as the awareness of this fund is not universal among eSMEs. Relational social capital was also rated as medium due to the presence of fear (of rejection and of the bureaucracy involved), which is the antithesis of trust.

The final choice as per the POH – external equity – was not a viable choice for the eSMEs. eSMEs had very limited exposure to external equity providers due to poor networks and eSMEs did not consider it as a form of future finance. To summarise, eSMEs have a reduced set of funding opportunities in comparison to their native-born counterparts, and we suggest that this phenomenon is explained by gaps in their structural, cognitive and relational social capital.

Conclusions

This research has identified firstly, the sources of finance accessed by eSMEs, secondly, some of the constraints faced by eSMEs in accessing business financing from banks and thirdly, their perceptions of government financial supports and microfinance in particular. Banking finance was successfully secured by just 13 per cent of eSME respondents despite, as research findings indicated, their desire and efforts to access such a formal financing stream being like the general SME population. This outcome allied to findings indicating their lack of recourse to the credit refusal review options available to them (in the form of the credit review office) further constrain formal finance access opportunities. As findings indicated, this lack of recourse was not due to lack of awareness of the credit review office as the level of eSME awareness reflected the general SME population.

We contend that these findings are symptomatic of eSME‟s underdeveloped relational and cognitive dimensions of social capital, which consequently weaken their capacity to exploit their formal structural social capital in their entrepreneurial eco-system. Therefore, explaining their funding choices through the lens of the POH is somewhat redundant, as their funding preferences are curtailed by accessibility and availability of bank finance and their lack of recourse to the review other options available. In fact, the evidence suggests that eSME‟s weaker social capital base has hampered their ability to accessbank finance, as theorised by the POH.

Given formal funding access constraints, the main funding source for eSMEs were accessed through informal networks in the form of friends and family solely or in combination with other sources, with microfinance the next popular external source. A key and surprising conclusion was that only one third of the respondents used their own savings when starting a business. The higher bank loan refusal rate experienced by eSMEs suggests that they have been disproportionately disadvantaged by bank credit rationing in post-crisis Ireland. However, without such a financial crisis, there may not have been the impetus to provide alterative SME financing for those who were refused bank finance; the introduction of microfinance was a welcome boon for eSMEs in a bleak financing landscape. MFI confirmed that on average, eSMEs account for 1 in 5 of all loans approved. Indeed, in this study MFI was found to be the exception for eSMEs, by being a relatively easy governmental support agency to access by eSMEs. These research findings echoed Cooney and Flynn (2008), who found that eSMEs are less likely to engage with mainstream business support agencies, relying on self-help and informal sources of assistance instead. Based on the MFI model of outreach communication and education, we suggest that more targeted information about government entrepreneurial supports may reduce the fears of eSMEs in relation to accessing government entrepreneurial supports as articulated in our survey findings and boost the accessibility of those supports for eSMEs via their increased cognitive social capital. This outreach communication and education is especially important for eSMEs that are not based in the large urban settings.

We contend that our research outcomes assert that this reluctance to engage with available,formal supports stems from weaknesses in their own and their community‟s social capital, as supported by their entrepreneurial ecosystem. Not all the responsibility of social capital development should fall on the shoulders of the eSMEs and his/her ethnic networks. The wider community and its agents have a duty of care to nurture the relational and cognitive dimensions of social capital between their agencies and the eSMEsand within the ethnic-minority entrepreneurial ecosystem. There is evidence that the outreach programme offered by MFI to ethnic communities successfully disseminates their message and reduces the fears of eSMEs. These research conclusions from the Irish eSME experience enable the identification of key implications and recommendations for national policy, which we also assert, may have supranational relevance.

Recommendations

The first key research conclusion was a clear social capital gap between SMEs and eSMEs with respect to higher than normal refusal rates of loans from financial institutions and the failure of eSMEs to avail of recourse options to appeal these refusals, despite evident awareness of these recourse options. These conclusions prompt critical recommendations as to how financial institutions, policymakers and supporting government agencies can best support this group in the future and close this identified social capital gap.

For lending institutions, we would recommend that they take specific measures to lower the barriers of entry for eSMEs. Given the increasingly more risk regulated global banking environment, it may not be feasible for such institutions to offer more targeted financial support. Thus increasing the degree of interaction and by extension the degree of social capital between eSMEs and such institutions is recommended. Lending institutions in many instances have created community banking teams who work specifically with ethnic communities, but this needs to be extended from retail banking to emphasising more the potential business start-up and development supports they provide. Although the institutional reasons for loan rejection were not considered as part of this research, demystifying and deconstructing the loan application process may mitigate against preventable administrative and information asymmetry errors that are a likely feature of eSME applications. The MFI outreach programme could be emulated as a model here for other fund providers.

The drive to address such asymmetry cannot be the sole responsibility of the institutions and the ethnic communities themselves could utilise existing relational and social capital to further disseminate a greater understanding of the lending requirements and credit products available to ethnic entrepreneurs, thereby scaffolding all three dimensions of their social capital and consequently increasing their funding opportunities. It follows that by developing the cognitive dimension of eSMEs networks, in order to reduce the gap between the intra and inter-ethnic networks, eSMEs can potentially expand funding and business opportunities.

Although we believe this initial recommendation to be important, we are also aware that pushing eSMEs towards more formal funding providers could paradoxically negatively impact on a funding success story, namely microfinance. This research did not explore motivations for eSMEs to gravitate towards particular funding sources, but a clear research conclusion was that in the Irish experience, eSMEs have greatly availed of this funding option. This finding somewhat contradicts the previous evidence that eSMEs are less likely to engage with mainstream business support agencies, relying on self-help and informal sources of assistance instead (Cooney and Flynn, 2008). Thus, to build on this success, we recommend that funding firms should actively target ethnic-minority businesses similar to the approach of MFI, to leverage this propensity to engage with mainstream financing modes; fostering inter-ethnic social capital as previously discussed. As indicated, incentivising increased eSME interaction with government microfinance sources may lead to less eSME engagement with formal private sector financial institutions. This outcome may become problematic, particularly if microfinance availability is constrained due to national and European economic circumstances.

From a national policy perspective, we recommend that the Irish government should focus more of their policy efforts on the eSME to support general economic recovery by increasing employment in an often disadvantaged and marginalised socio-economic group. To further support eSMEs, the Irish government could initiate a formal forum for eSMEs to engage with the government and its agencies and through the adoption of a mentoring programme to incentivise intra-ethnic social capital. Such forums and approaches have been utilised in other countries, albeit often not centrally funded and typically organised at the regional level, i.e. the Minority Ethnic Business Forum of Advantage West Midlands in the UK (Regional Competitiveness and Employment Objective 2007 – 2013, 2012).

The research findings reaffirm that eSMEs are concentrated in the traded services sectors and are found on the margins of the mainstream economic environment (Cooney and Flynn 2008; Birdthistle, 2012). As Birdthistle (2012) identified, there are worrying results in relation to participating on the training programmes offered by government agencies. Therefore, we recommend that targeted training programmes for eSMEs, at all stages of the entrepreneurship lifecycle, need to be provided and advertised in multiple languages, to augment their cognitive social capital. Additionally, it is recommended that further research needs to be conducted to understand the contribution of eSMEs to innovation and high-growth firms in an Irish context and if/how inter-ethnic social capital is fostered and managed.

Furthermore, it is recommended that the national government undertake additional targeted public information campaigns on the various existing governmental support programmes, to highlight their availability and suitability to ethnic entrepreneurs. It is likely that eSMEs would require more general additional support to assist them to overcome certain barriers and challenges (such as the language barrier) to access and use these supports and programmes. Moreover, issues around accessing governmental supports, as this research indicated in the case of the credit review office, may not be attributable to a lack of awareness of the support being available but may be more related to reluctance to engage with the support, possibly due to cultural and/or language and/or procedural barriers.

Undertaking more nuanced public information campaigns, whereby the ease of the supports procedures is emphasised as much as their availability, would be recommended as this would mitigate against information asymmetry and opportunity cost concerns that may exist. In addition, the wider adoption of the ethnic-minorities languages on application forms or more standby interpreters to carry out enterprise business functions on behalf of the Government would assist. In reflecting on the research conclusions, there are policy and institutional actions that can be taken to address some of the prevailing deficiencies in relational and cognitive social capital at an inter-ethnic level to cultivate a more resilient social capital base for the ethnic entrepreneur. This would not only enhance the economic status of eSMEs but would also have wider positive effects for a national economy.

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