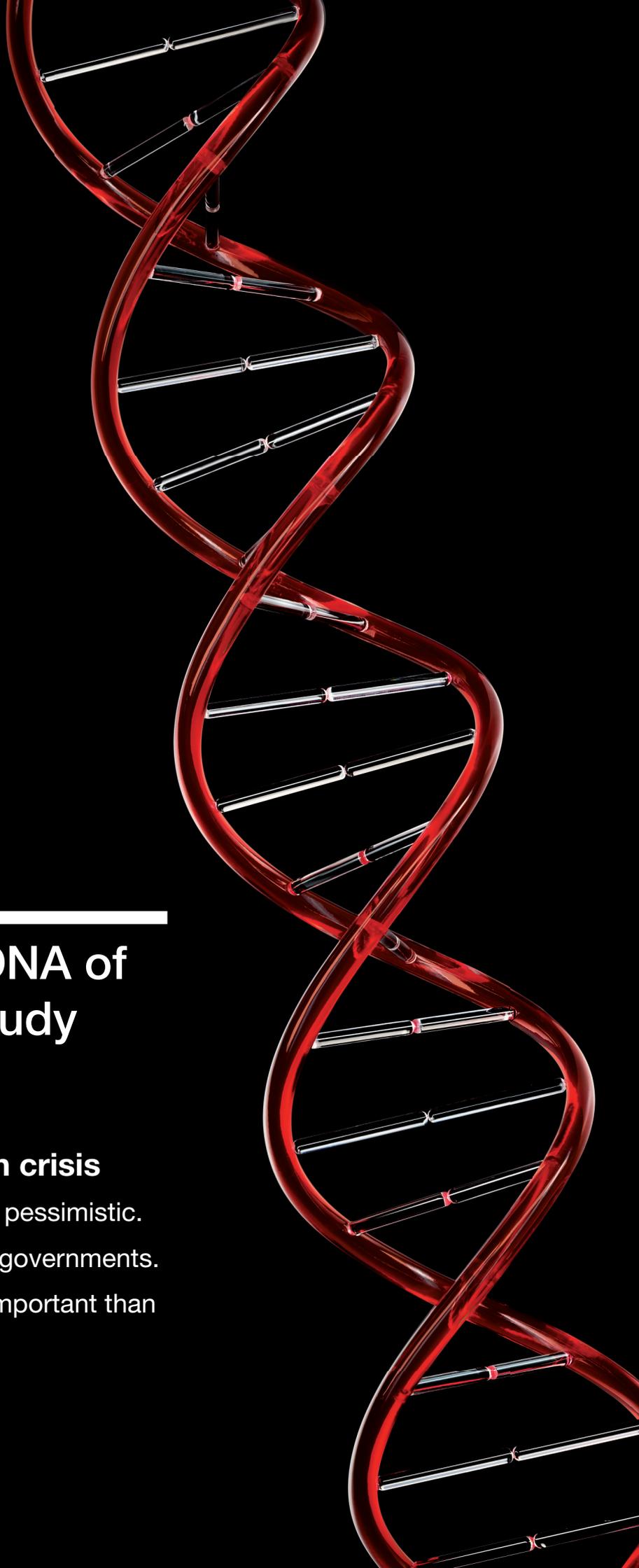


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## The 2011 Hiscox DNA of an entrepreneur study

### **Western SMEs coping with crisis**

- More SMEs are optimistic than pessimistic.
- They have little faith in EU and governments.
- Being their own boss is more important than making money.



## Introduction

The importance of start ups and SMEs to the global economy should not be underestimated – in the UK alone, SMEs account for 59% of private sector employment and 49% of private sector turnover\*. They have an integral role to play in the recovery from the global economic downturn. We commissioned our third international ‘DNA of an entrepreneur’ study to promote greater understanding of the issues SMEs face. Its findings are important to us, since SMEs are a significant part of our customer base. The study looks at the attitudes and opinions of SME owners – the entrepreneurs who inspire and drive their businesses – towards big-picture issues such as the economy and examines their micro-economic environment and lifestyles. Guess which nationality is least likely to skip lunch? And who works the longest hours?

The results from SMEs across the UK, the US, France, Germany, Spain and the Netherlands showed that nearly half (47%) were confident about the year ahead. Within this figure are some intriguing national differences - the Germans showed most optimism, the British least. Despite the troubled times, optimism is the prevalent mood; only 26% were pessimistic and 27% were not sure. The report shows that

the strength and resilience of entrepreneurs continue to shine through, evidenced by an increase of two hours in the average working week and a commitment to the values that encouraged them to start up their businesses in the first place.

Read on and explore how SMEs are coping with the new macro and micro-economic risks they face and explore the attitudes, ambitions and lifestyles of this segment which is critical to the health of the global economy.

*Bronek Masojada*

**Bronek Masojada**  
Chief Executive, Hiscox



\*Department for Business Innovation and Skills – Business Population Estimates 2011.

## Profile of respondents

- 3,000 owners or partners in businesses with fewer than 50 employees, 500 each in the UK, US, Netherlands (NL), Germany (DE), France (FR), Spain (ES).
- Predominantly service-based (84%).
- 87% below £1 million annual turnover, 57% below £100,000.
- 39% one-person businesses, 30% fewer than five employees.
- 58% of respondents were men, 42% women.
- 52% of respondents were aged 40-59, 35% under 40.

The online survey was designed to investigate not only actual performance but also attitudes and opinions. Some questions were repeated from previous years. Changes in methodology and coverage make direct comparisons problematic, but we draw attention to changed responses which might be suggestive. The Spanish fieldwork was carried out a few weeks later than other countries: responses may be influenced by development of national and eurozone economic problems. Some figures may not add up to 100% due to rounding.

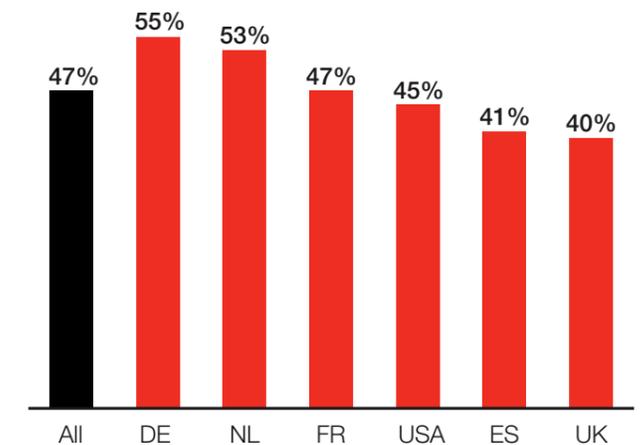
## Coping with a new world of risk

Our survey explored the impact of the new macro-economic environment: do the current hopes and fears of entrepreneurs reflect new perceptions of the scale and nature of the risks they face? Key findings were:

- **Nearly half of all respondents were optimistic about the year ahead for their business.** Optimism was highest in Germany and the Netherlands and lowest in the UK and Spain. In four countries (UK, Germany, Netherlands, France) our latest survey suggests **a decline in optimism (ten percentage points) since February 2010.** But the gloom should not be exaggerated. **Optimism remains the prevalent mood.** The 47% declaring themselves optimistic outnumbered the 26% who said they were not and the 27% who were not sure.
- Forty three percent reported negative or no growth in revenue last year. Over the same period, 42% reported negative/no growth in profit, 47% negative/no growth in margins, 71% negative/no growth in employees.
- It is interesting that, against this gloomy background, lack of support from government has become the most frequently cited fear of SMEs.

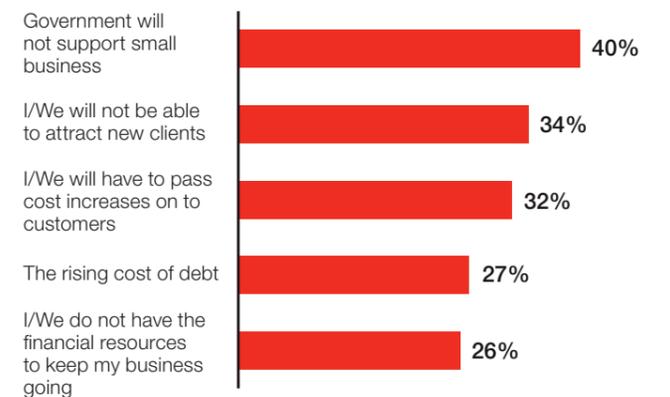
### The year ahead: are you optimistic?

Proportion saying 'Yes'. Base: all SMEs.



### The year ahead: biggest fears

Respondents were offered more than one choice. Base: all SMEs.



## Business philosophy

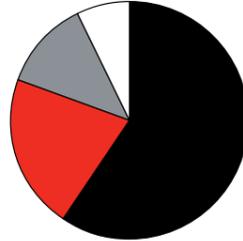
Respondents were asked questions about their motives for starting the business, favourite business advice and personal definition of business success.

- The main motive for starting in business was to be their own boss, rather than the prospect of financial gain.

### Reason for starting their business

Base: all SMEs.

- I wanted to be my own boss 59%
- I thought I could make more money by running my own business than working for somebody else 21%
- I wanted to escape from the traditional corporate world 12%
- I was made redundant 7%



- Sixty two percent defined business success as affording a comfortable lifestyle. A quarter (25%) simply wanted to survive or keep afloat.
- Respondents were asked to name their three best pieces of business advice. The top choices were: “do what you say you would, when you said you would” (cited by 42%); “stay realistic about the potential of your business ideas” (41%); “don’t be too proud to ask for help” (39%).

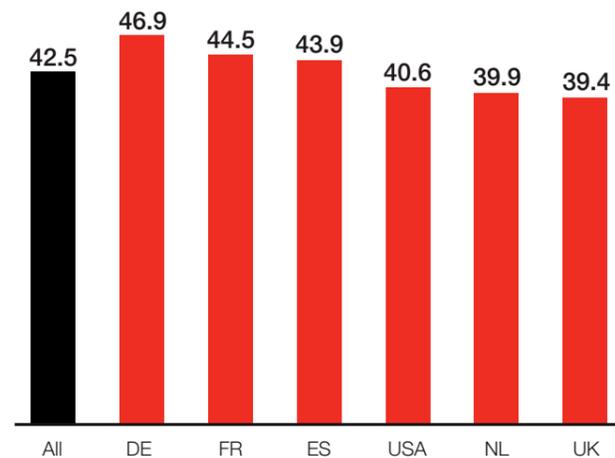
## Business lifestyle

Respondents were asked about the impact of the economy on their lifestyles – and their lunchtimes.

- Forty three percent said that the continuing economic downturn had caused them greater personal stress (60% of Spanish respondents reported this compared to 26% of the Dutch). Twenty nine percent reported sleep problems. **However, other responses suggested the resilience of respondents in tough times.** Twenty eight percent suggested that the downturn had made them stronger and more determined to succeed, and 29% said that it had made them work more efficiently.
- Average weekly working hours were 42.5 hours** (the survey suggests an increase of around two hours since February 2010 in the UK, Germany, France and Netherlands). The Germans had the longest working week and the British the shortest.

### Average hours worked per week

Base: all SMEs.

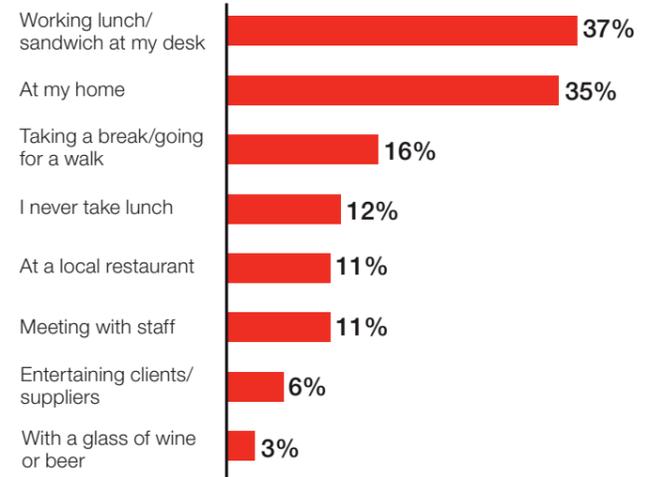


## Out to lunch?

Asked about how they normally spent their lunchtime, **most people tended to see lunch as personal time:** only 11% routinely met staff over lunch, and only 6% routinely entertained clients or suppliers. The Germans were those most likely to skip lunch altogether (20%), the Dutch and the French were the least likely (6% and 7%). The Dutch (16%) and the Germans (18%) had three times more staff meetings at lunchtime than the British and the Americans (both 6%). The French and the Spanish were most likely to go out to a restaurant (17% and 18%), and the British were the least likely (3%).

## How do you normally spend your lunchtime?

Respondents were offered more than one choice. Base: all SMEs.



## The macro-environment for entrepreneurs

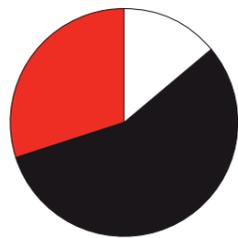
We looked at how the eurozone crisis is shaping the business lives of entrepreneurs and their views of the major national and trans-national institutions:

- Uncertainty over the financial stability of the EU had affected the plans of 44% of businesses in the five EU countries surveyed. This figure might seem striking since only 28% did any significant exporting.
- In every EU country there was a net negative perception of the EU, and the American respondents were negative towards the North American Free Trade Agreement.

### Impact of threatened EU instability

Is the prospect of further problems with the financial stability of the EU affecting your decision-making? Base: SMEs in five EU countries.

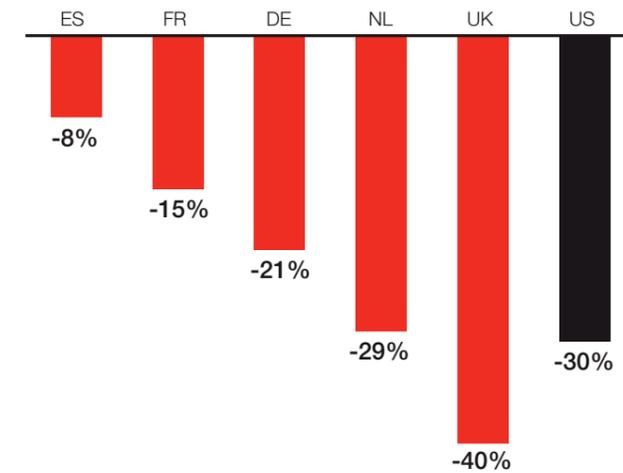
- No, unaffected 56%
- Yes, some plans are on hold 30%
- Yes, some plans have been abandoned 14%



- Only in France did more respondents find government helpful to business than not (central government helpful 41%, not helpful 31%; local government helpful 47%, not helpful 27%). In all countries, respondents found central government more unhelpful to business than local government.
- With some significant national variations, most (67%) respondents were critical of their country's tax system - Spain the most critical (80%), Netherlands the least (53%). The comparable figure for bureaucracy was 68% (Germans most critical: 79%, UK/USA least critical: 59%). "Inflexible" labour laws attracted criticism from 56% (France: 73%, USA: 40%).

### Helpful or not? The EU and NAFTA

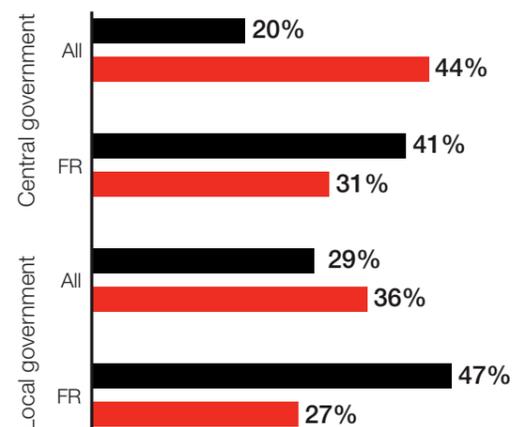
'Helpful' minus 'not helpful' responses (US responses on NAFTA, all others on EU). Base: all SMEs.



### Helpful or not? Central and local government

Base: all SMEs.

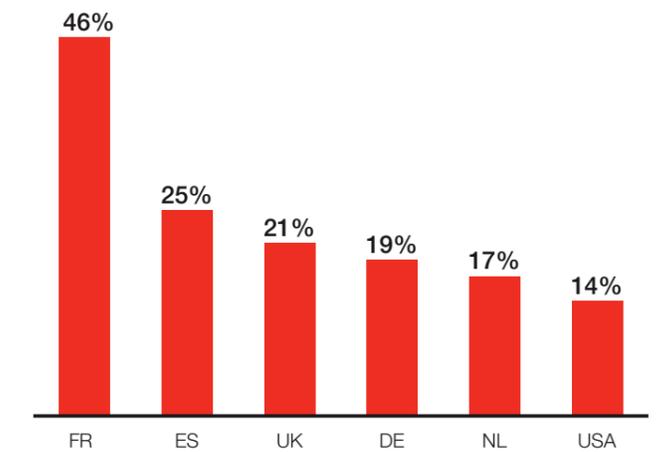
- Helpful
- Not helpful



- A minority in each country found their legal system helpful to business. The French were most enthusiastic, the Americans least.
- Respondents were asked whether their country's education system supported individual dreams and ideas. In the EU countries, just 23% agreed while 52% disagreed. American respondents showed more support for their education system (36% agreed, 42% disagreed).
- Fifty seven per cent of respondents in the EU countries believed that their national culture did not encourage risk-taking, against 22% who disagreed. The Americans showed the opposite response: 23% agreed against 57% who disagreed.

### Helpful or not? The legal system

Quite helpful and very helpful combined responses. Base: all SMEs.



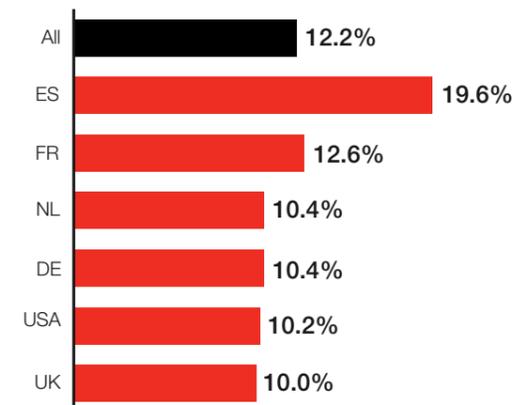
## Financial issues

We asked about everyday financial issues for SMEs, especially their relationships with lenders and customers:

- Few respondents in any country thought it easy to find new sources of finance. Our latest survey suggested that in five countries (UK, Germany, Netherlands, France, US) this number has almost halved since pre-downturn 2008, falling from 21% to 11%. In spite of the pressures on their businesses, Spanish respondents thought finance easier to find than those from other countries.

### Finance is easy to find

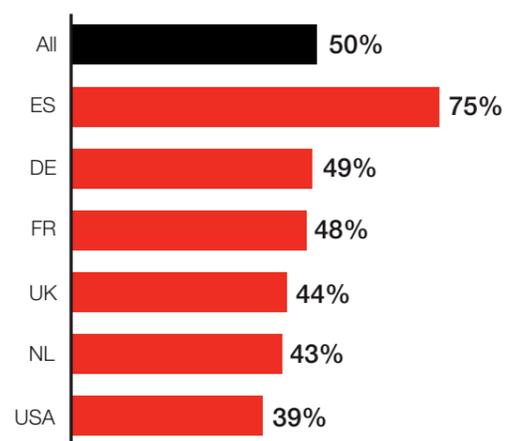
Proportion saying 'Yes'. Base: all SMEs.



- Despite economic challenges, only 38% of all respondents had tried to renegotiate terms or sought greater funding from lenders; of these 34% had had their request met in full and another 48% in part. Seventy three percent of respondents reported no change in their relationship with their banks and 10% had a better relationship.

### Customers are paying later

Proportion saying 'Yes'. Base: all SMEs.



- Half (50%) of all respondents reported greater problems with late payments. Private individuals (reported by 37%) and small private companies (34%) led the list of late payers, but 30% also reported problems with large private companies, 26% problems with government, 25% with other public sector bodies. In Spain, three quarters (75%) had experienced greater problems with late payers, and, in contrast with other countries, government and other public sector bodies were their worst payers (reported by 35% and 42%).
- The survey asked respondents about their experience and understanding of **insurance**. Forty three percent of all respondents thought they were fully aware of their insurance options, but 16% said that they did not know what insurance was available. Fifty five percent listed not being paid by customers as a major risk they don't insure against and 26% listed being sued by a customer for any reason. Eighteen percent believed themselves insured against mistakes which might be a cause of legal action against them.

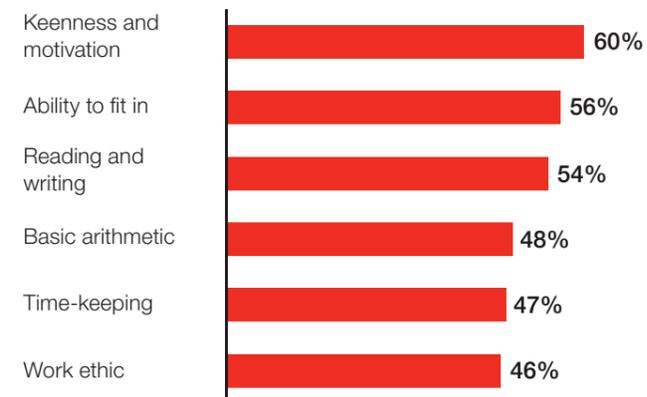
## Labour force issues

We looked at topical labour force issues, including the quality of those new to the job market, and the use of foreign labour and outsourcing. Highlights were:

- A minority (23%) reported that they had increased their number of employees last year (36% Germany, 13% USA). In total, 15% intended to recruit more staff next year (36% Germany, 10% USA). **Despite the difficult times, 54% of the total thought they would avoid redundancies next year**, compared to 8% who expected to make redundancies.
- Forty five percent of respondents had taken on school or university leavers last year. The survey asked their views on these recruits, under six headings. These respondents expressed more confidence in leavers' keenness and their ability to fit in than in their basic skills.

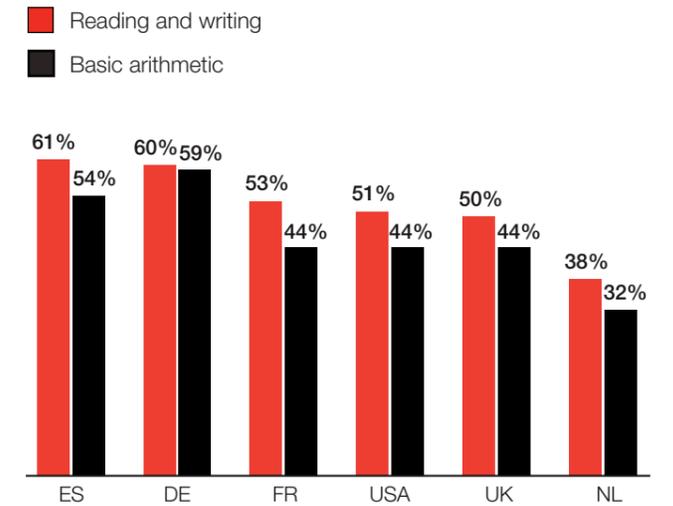
### Views of school and university leavers

The chart shows the percentages all countries rated good or excellent. Base: all SMEs which recruited leavers (1,360).



### The 'three Rs' of leavers

The chart shows the percentage of school and university leavers rated good or excellent in each country. Base: all SMEs which recruited leavers (1,360).



- The Germans gave their leavers the highest ratings for arithmetic, the Spanish the highest for reading and writing. The Dutch gave the lowest for both reading and writing and arithmetic.
- Few SMEs in the survey (10%) employed foreign staff although this was slightly higher in Germany and Spain (each 18%). One in seven (14%) Spanish respondents made use of outsourcing. Flexibility was the most frequently-cited motive for using foreign staff or outsourcing (all respondents 24%, Germany 23%, Spain 30%). In the Netherlands this figure was 38% but 31% of Dutch users also cited helping to meet temporary shortages. Only 11% of American users mentioned flexibility, compared to 22% who cited foreign or outsourced labour being cheaper.

## Some national characteristics

The survey suggested some interesting national characteristics of entrepreneurs.

### 1 Germany

- Most successful reported recent performance.
- Most optimistic.
- Longest working week.
- Keenest on being own boss.
- Most likely to measure success as achieving comfortable lifestyle.
- Most fearful that government would not support small business.

### 2 UK

- Shortest working week.
- Fewest optimists.
- Lowest overall confidence in EU.
- Highest belief in their understanding of insurance.
- Most solitary lunchers.
- Gave most poor ratings to school and university leavers for keenness/motivation and for work ethic.

### 3 USA

- Only country with more women respondents than men.
- Reported least successful recent performance.
- Lowest helpful ratings for legal system.
- Highest belief that their education system supports dreams/ambitions.
- Highest belief that national culture encourages risk-taking.
- Most favoured lunchtime: sandwich/working lunch at desk.



### 4 Netherlands

- Least likely to complain of greater stress from downturn.
- Gave fewest helpful ratings to EU.
- Fewest positive opinions of current school and university leavers.
- Fewest complaints about tax system.
- Most favoured lunchtime: sandwich/working lunch at desk.
- With Spanish, least likely to drink at lunchtime.

### 5 France

- Only country which gave more helpful than unhelpful ratings to central and local government.
- Most complaints against inflexible labour laws.
- Highest helpful rating for legal system.
- Highest complaints of sleeplessness.
- Gave keenest ratings to their school and university leavers.
- Most favoured lunchtime: at home (but also most likely, with Spanish, to go to a restaurant).

### 6 Spain

- Youngest profile of entrepreneur respondents.
- Highest proportion who started business to make money (lowest proportion who wanted to be own boss).
- Most complaints against national tax system.
- Lowest belief that national culture encourages risk taking.
- Most problems with late payers, including big businesses, public sector and government.
- Most stressed by downturn.

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## Methodology

The research was conducted for Hiscox by The Survey Shop. The sample was drawn from online panels. Participants were qualified as owners or partners of businesses with up to 49 employees. 3,000 SME owners/partners took part between 5th-11th September (five countries) and 3rd-9th October 2011 (Spain). Statistical accuracy: +/- 1% to +/-1.5% for the whole sample of 3,000, and +/- 2% to +/-4% for each country's sample of 500.

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## About Hiscox

Hiscox is an international specialist insurer, covering over 150,000 small and medium sized businesses across the UK and Europe and has recently launched small business insurance in the USA. The company specialises in providing professional liability, errors and omissions and commercial office insurance to a range of office-based professions including IT, management consultancy and marketing.

Hiscox, the international specialist insurer, is headquartered in Bermuda and listed on the London Stock Exchange (LSE:HSX). There are three main underwriting parts of the Group - Hiscox London Market, Hiscox UK and Europe and Hiscox International. Hiscox London Market underwrites internationally traded business in the London Market - generally large or complex business which needs to be shared with other insurers or needs the international licences of Lloyd's. Hiscox UK and Hiscox Europe offer a range of specialist insurance for professionals and business customers, as well as high net worth individuals. Hiscox International includes operations in Bermuda, Guernsey and USA. Hiscox Insurance Company Limited, Hiscox Underwriting Limited, Hiscox Europe Underwriting Limited and Hiscox Syndicates Limited are authorised and regulated by the Financial Services Authority.



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