
The Hiscox DNA of an Entrepreneur report 2013



A 'new normal': tougher trading and reduced optimism

- Small businesses found it harder to increase revenues last year, and fewer of them are optimistic about the year ahead.
- Only one in ten small businesses plan to take on new staff in the coming year – but nearly two thirds expect to avoid redundancies.
- Small businesses' biggest fear is not being supported by government. Top of their agenda for government is reduced direct taxation, followed by simpler and fewer accounting rules, and more support and stimulation for lending.
- The average working week in small businesses is 41.1 hours. The Germans work longest, on average, but have the most holiday. The British have the shortest working week and the second most days' holiday.
- Nearly one in three small businesses launched a new product or service in the last year – and around two thirds of these plan to launch another one in the next 12 months.

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A. Introduction

During the great depression of the 1930s John Maynard Keynes identified 'animal spirits' as essential to economic recovery – whether there is the will and the drive to act, rather than wait on events. Without question, small businesses are an essential source of those 'animal spirits'.

That is why we have produced our fifth 'DNA of an Entrepreneur' study of small businesses across six countries: the UK, USA, the Netherlands, Germany, Spain and France. Since 2008 we have asked them not only about their business performance and plans, but also about their attitudes and lifestyles. As a small business insurer, we currently work with nearly 200,000 small businesses in the six countries concerned and the insights we gain from this study help us to serve these customers better and seek others.

In past studies, we've emphasised the optimism and resilience of small businesses. These qualities are revealed again this year – but there is a slight decline in optimism. Across the six countries, 38% of respondents said they were optimistic, against 33% who said that they were not. The comparable figures in last year's study were 48% and 27%. The shift since last year was propelled mainly by a decline of 13 percentage points in optimism in France. Since 2011 optimism has increased in the United States by five percentage points, but fallen in the EU countries by 11 percentage points.

However, this year's study confirms the role of small businesses as innovators. Across all six countries, nearly three in ten had launched a new product or service in the

past year – and nearly two thirds of them are planning to launch another one. Strikingly, it was Spain, the country currently seen to be undergoing the toughest economic problems, which had the highest proportion (39%) of respondents who had developed a new product or service.

We hope that this study, like its predecessors, will be an authoritative source for everyone with an interest in small business; governments, regulators, elected representatives, academics, the media and, most importantly, small business owners. Life in a small business can be lonely. Perhaps it may contribute to the 'animal spirits' of this vital sector if small business leaders can discover how their contemporaries are responding to the same challenges as they themselves face.



Bronek Masojada

Bronek Masojada
Chief Executive Officer, Hiscox

About Hiscox

Hiscox is an international specialist insurance and reinsurance company with 1,400 staff in 11 countries. With over 100 years of underwriting expertise, we work with businesses and individuals worldwide to provide cover that is tailored to suit often complex and unusual insurance needs.

We currently work with nearly 200,000 SMEs, professionals and consultants across the UK, Europe and the US. These include a wide range of businesses, from tech start-ups and media agencies to landscape gardeners and interior design consultants, and in 2012 we dealt with over 3,000 small business claims.

For further information, visit www.hiscoxgroup.com.

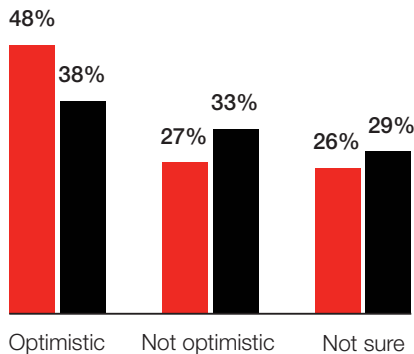
B. Adjusting to 'the new normal'

Reduced optimism

Across all six countries, optimism has fallen back since last year's study: 38% of respondents said they were optimistic about the year ahead compared to 48% in 2012, while 33% said they were not optimistic, and 29% were unsure.

The year ahead: are you optimistic?

Base: all respondents.



Optimism declined in every country except Spain, where it remained unchanged at 28%. Respondents from the Netherlands showed the greatest decline in optimism, with a fall of 19% (61% in 2012 versus 42% in 2013).

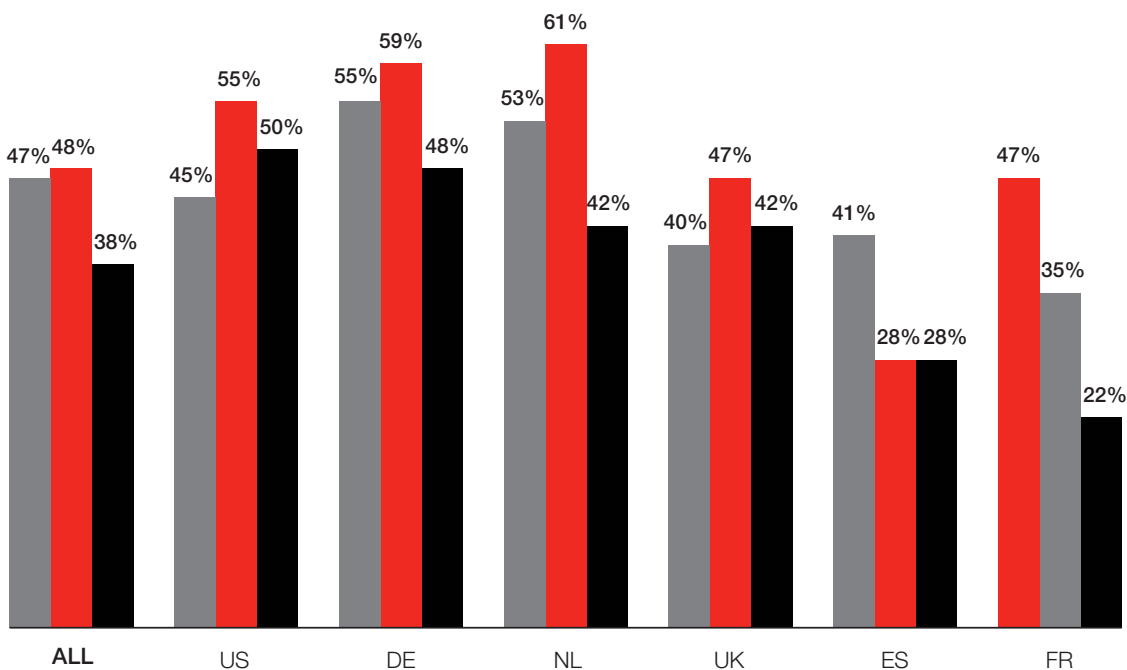
The Hiscox view

"Entrepreneurs, by definition, are optimistic people who believe in themselves and their businesses. The slight fall in optimism might be explained by worsened results. However, it might also support the idea that businesses are adapting to 'the new normal': anticipating tough trading conditions rather than expecting any early return to the boom years of the last decade."

The year ahead: are you optimistic?

Proportion saying 'Yes'.

Base: all respondents.

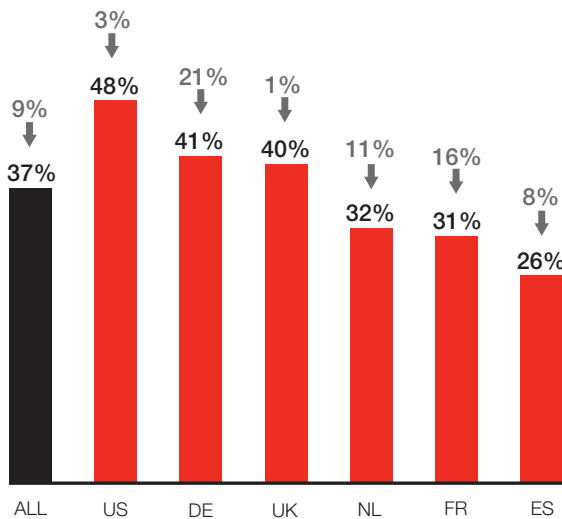


Weakened growth

In terms of revenue growth, the reported performance of respondents has weakened slightly since last year's study, when 46% of respondents reported increased revenue in the past 12 months. In this year's study, that figure fell to 37%.

Reporting increased revenue

Bars show 2012-2013 figures; arrows show change from 2011-2012. Base: all respondents.



Compared to last year, the study shows that small businesses are hiring less, with a modest rise (3%) in respondents reporting no new employees in the past year. In Germany the number failing to add staff rose by 7% and in France by 12%.

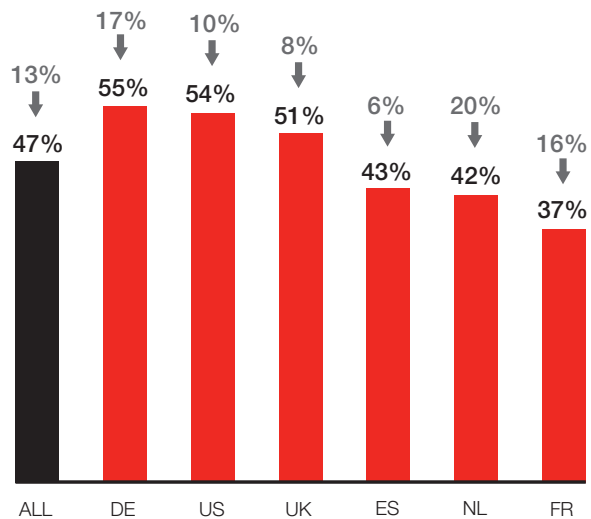
Only one in ten (10%) respondents said they intend to take on any new staff in the next 12 months, compared to 15% last year. The decline was most striking in Germany, where 24% planned to increase headcount in 2012 compared to 11% this year.

However, what is encouraging is that 63% of all respondents expected to avoid redundancies – a slight increase on last year's figure of 60% – suggesting that small businesses are already as taut and lean as they can be in their use of labour.

Looking at customer growth, 47% of all respondents reported customer growth since last year, compared to 60% in 2012. Dutch respondents reported the greatest fall in customer growth – from 62% in 2012 to 42% this year, while the UK and Spain reported less volatility, with customer growth falling by eight and six percentage points respectively.

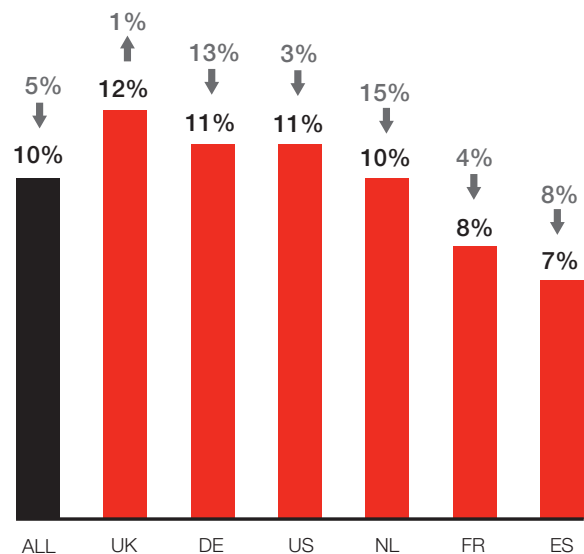
Reporting customer growth

Bars show 2012-2013 figures; arrows show change from 2011-2012. Base: all respondents.



Planning to recruit in the year ahead

Bars show 2013 figures; arrows show change from 2012. Base: all respondents.



C. Confronting fears and managing risk

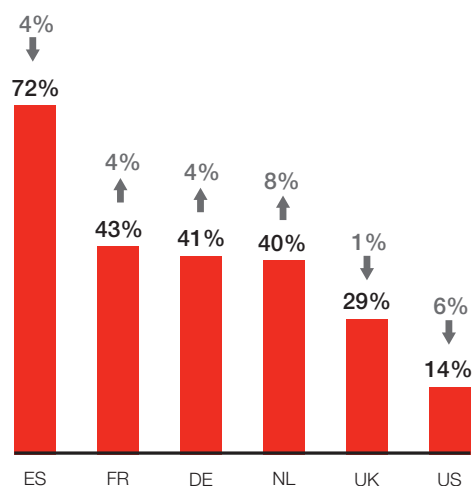
The major worries

Again this year, small businesses were most likely to rate a lack of government support as their greatest fear for the year ahead. In second place was being unable to attract new customers, closely followed by the fear of being forced to pass on cost increases to customers.

Across the six countries, fear of bankruptcy (23%) was almost the same as in our 2012 study. It was cited as being the greatest concern by nearly half (49%) of Spanish respondents.

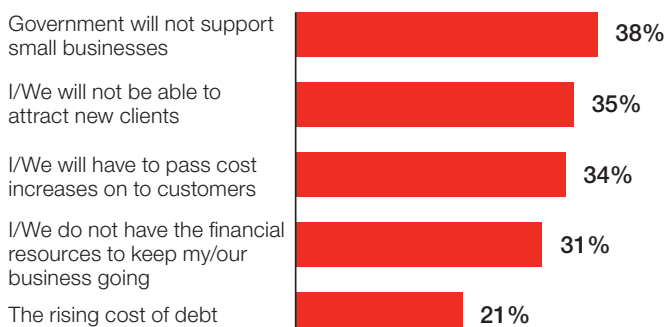
Decision-making: impact of further threats to EU stability

Percentage reporting some plans put on hold or abandoned. Bars show 2013 figures; arrows show change from 2012. Base: all respondents.



The year ahead: biggest fears

Base: all respondents.



The enduring crisis in the Eurozone had less impact in the United States than was reported in last year's study: 14% said that it had affected their business plans compared to 20% the previous year. In the five EU countries, 45% reported some impact from the crisis on their plans, broadly the same as in last year's study.

Over three quarters (78%) of all respondents said that finance for a new business was hard to find. However, compared to last year, only the British say that securing finance is easier this year.

In line with last year, a third (33%) of all respondents reported asking to renegotiate terms with a lender. In Spain this figure was the highest at 49%, but represented a decline of seven percentage points since last year. In all countries, 27% of respondents who tried to negotiate reported receiving an outright refusal from their lender, a figure almost unchanged since 2012. German lenders remained the most intransigent: 37% of respondents here failed to secure any variation from their lender, an increase of 20 percentage points since 2011.

In all six countries, just over half (51%) of respondents reported that their customers were paying later. Since 2011, Dutch respondents reporting later payment have risen by 11 percentage points, while American reports of later payment have fallen by six percentage points.

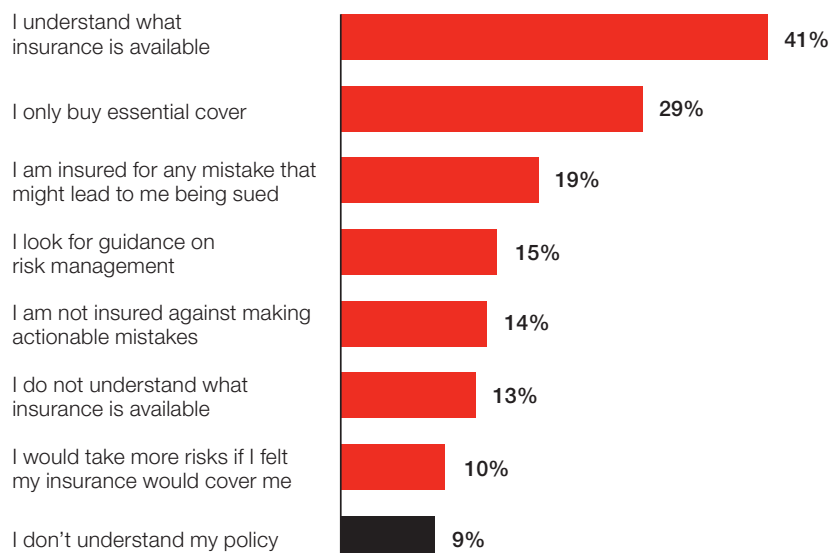
What am I insured for?

This year's study suggested a slight fall in respondents' confidence in their understanding of insurance. Last year, 46% of respondents thought they understood the insurance available to them and the risks they could

cover: this year that figure has fallen to 41%. Only the Germans said they had gained more confidence in their understanding of insurance: their figure increased from 50% to 53%, overtaking the British, whose figure fell from 55% to 45%.

Which statements do you agree with regarding being adequately insured?

Base: all respondents.



Almost three in ten (29%) of all respondents said they bought only essential or legally required cover for their business. Over half had personal accident insurance (54%) or public liability insurance (52%) and just under half (48%) had professional indemnity insurance. Across all six countries, over half (55%) had no insurance in place to guard against not being paid by customers – an increase of nine percentage points since last year. However, those not insured against reputational damage fell from 34% to 28%.

Although many respondents did not understand the insurance cover available for their business, in all countries one in ten (10%) thought that they would take more risks if they felt their insurance would cover them.

Nearly a quarter of respondents (24%) said they were not insured against hacking or cyber crime, in line with last year's study. Fewer than one in five (19%) had data risks insurance, and the most common precautions taken against IT-related threats were a secure firewall and additional internet security, with 71% of all respondents saying they have these in place.

Among all countries, fewer than half of respondents had both on-site and off-site backup (44%), a backed-up password in a secure system (42%), or kept several generations of back-ups (42%).

The Hiscox view

"Small businesses face a wide spectrum of risks. Those at the macro level (such as turmoil within the Eurozone) are beyond their control. But small businesses may not realise how many risks at the micro level can be mitigated, and losses prevented, through insurance cover. There is clear scope for our industry to build more knowledge and confidence on insurance issues in current and potential small business customers."

D. Lifestyles and values

More stress, less sleep... greater efficiency

Our study, as in previous years, asked respondents to assess the personal impact of the economic downturn.

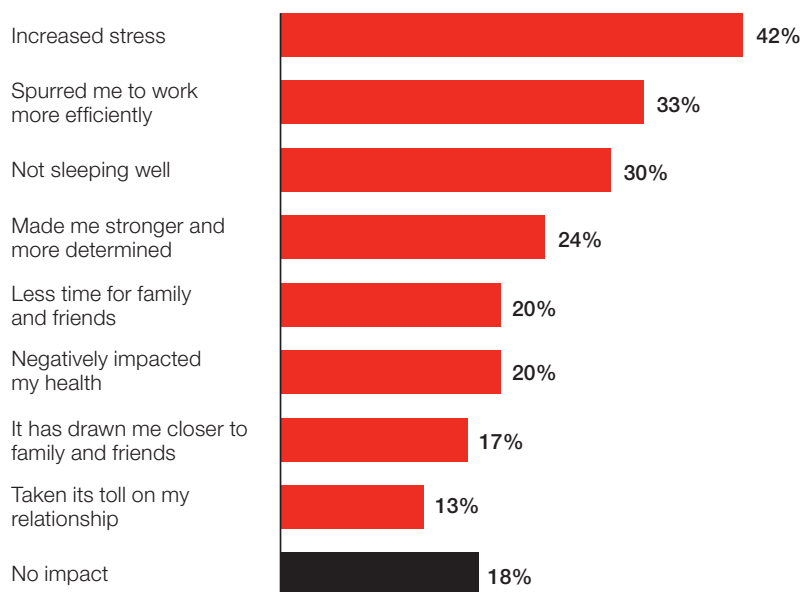
This year, 42% reported increased stress, almost identical to last year's figure of 43%. The figure for Spanish respondents was 56%, and among Dutch respondents it was 30% – a rise of 6% since last year. Among all respondents, 30% reported sleeplessness, 20% reported general health problems and 20% said they had less time for family and friends. 13% said that the downturn had affected their marriage or relationship, although conversely 17% said that it had drawn them closer to their family or friends.

Around a quarter (24%) said that the downturn had made them stronger and more determined to succeed, a fall from last year's figure of 30%. However, one in three (33%) said that it had spurred them to work more efficiently.

Interestingly, nearly one in five (18%) respondents said they had felt no personal impact from the downturn. This was almost unchanged since last year's study, apart from Dutch respondents where the figure fell from 32% in 2012 to 23% this year – putting them level with the UK. Conversely, only 6% of Spanish respondents said they had been unaffected by the downturn, compared to 27% of the Germans.

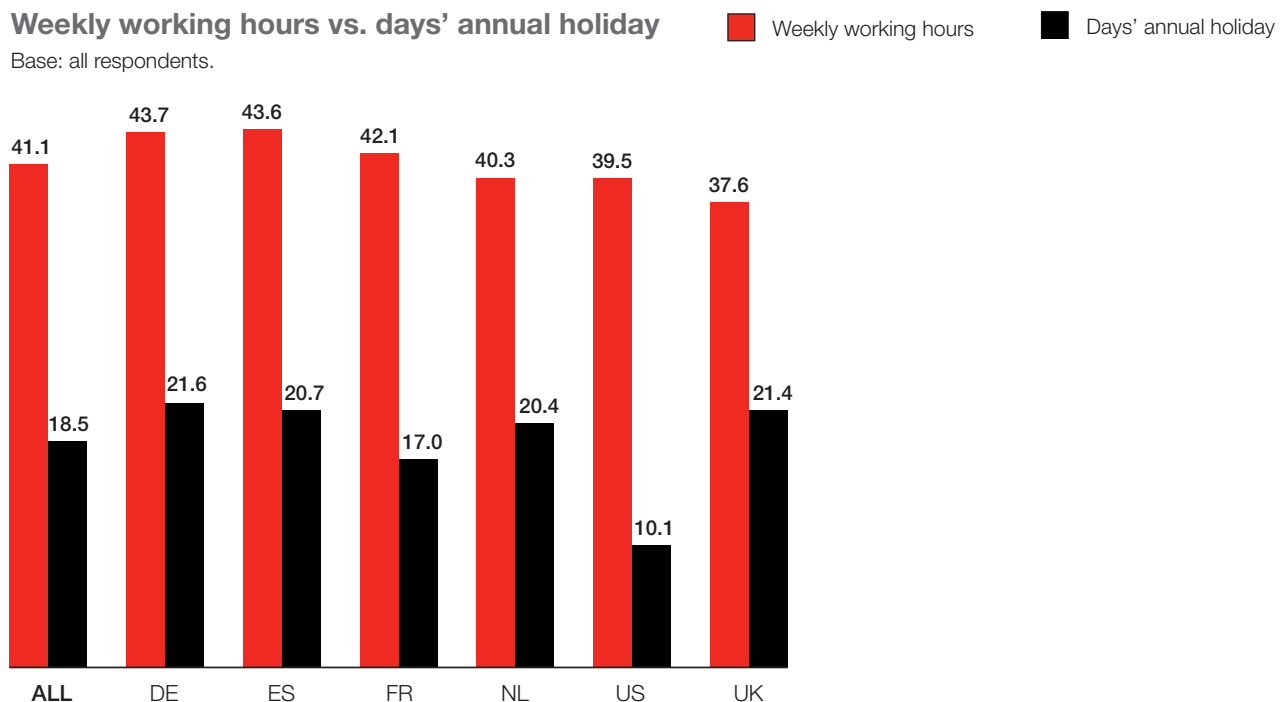
How has the downturn affected you?

Base: all respondents.



Weekly working hours vs. days' annual holiday

Base: all respondents.



Working patterns and defining 'work'

This year's study showed a slight fall in the weekly hours worked by respondents in all countries apart from the USA. The average among all countries was 41.1 hours, compared to 42.8 in last year's study. Germany again reported working the longest hours each week on average (43.7) and the UK the shortest at 37.6. The Americans spent the fewest number of days on holiday (an average of 10.1 days a year), while the Germans and the British took the most holiday at 21.6 days and 21.4 days respectively.

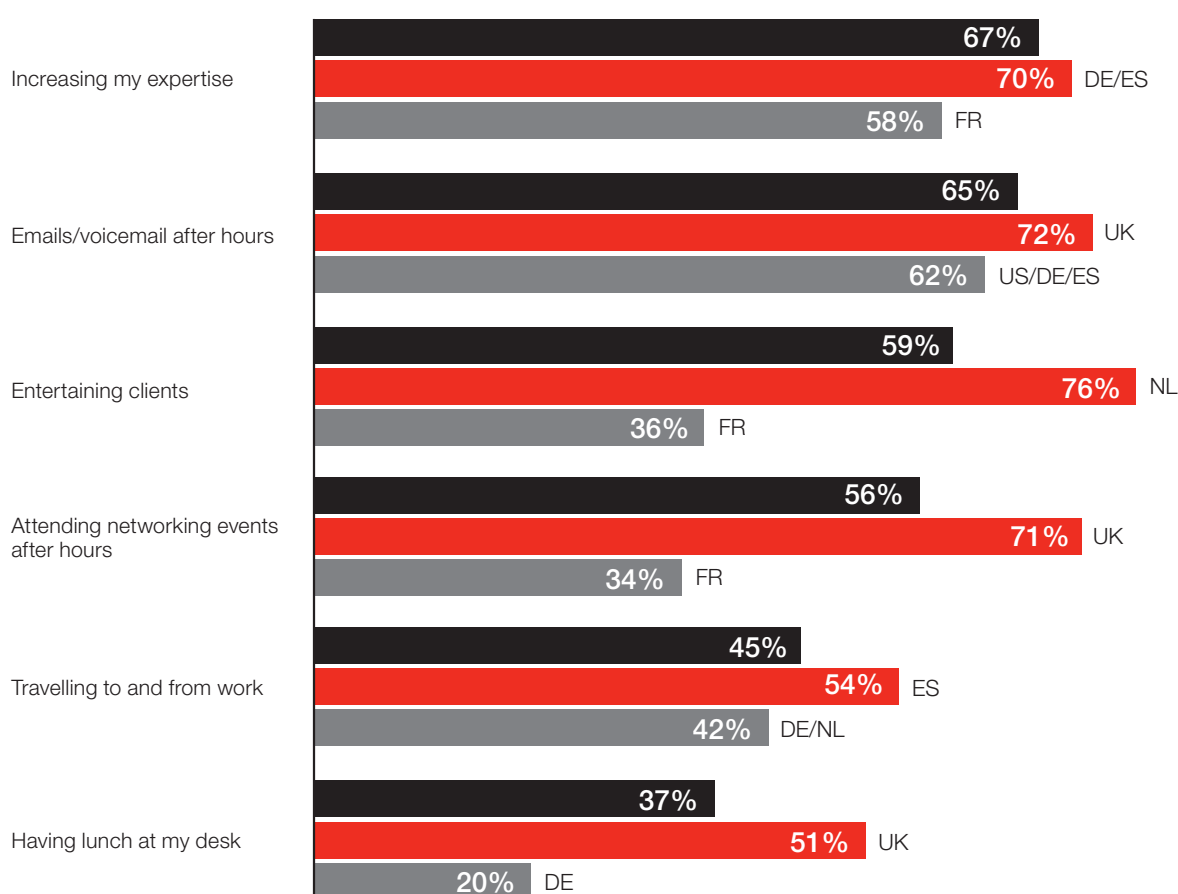
For the first time, our study this year asked respondents what activities they felt constituted 'work'.

Surprisingly, as many as 45% of respondents thought travelling to and from work constituted 'work'. Over a third (37%) thought they were working if they ate lunch at their desk and in the UK this figure was as high as 51%. In fact, British respondents had the most elastic definition of work in three categories: lunching, networking, and attending to emails or voicemails out of hours. On increasing expertise, their figure of 69% was edged out by the Germans and the Spanish at 70%.

What do you consider work?

Base: all respondents.

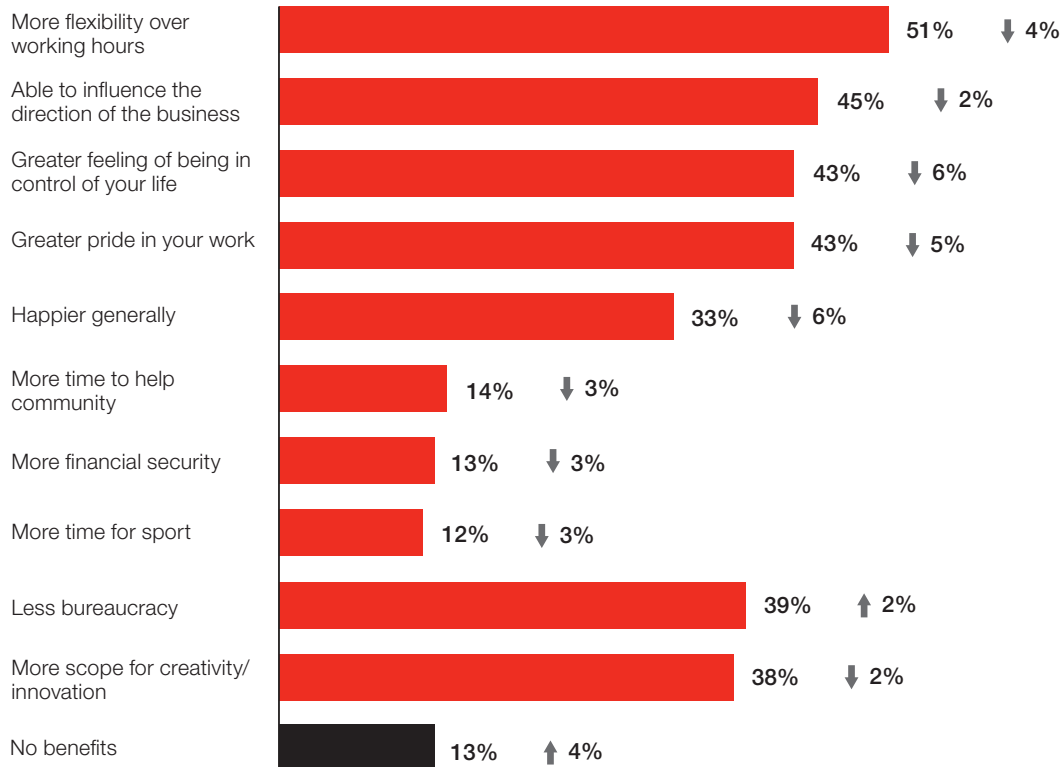
■ All ■ Highest ■ Lowest



Benefits of working in a small business compared to a large company

Bars show 2013 figures; arrows show change from 2012.

Base: all respondents.



We also asked respondents what benefits they saw in life in a small business compared to being an employee of a large one. Only 13% said that there were none (up from 9% last year), and that they could not find work or business elsewhere. The most common benefits were flexibility over working hours (51%), being able to influence the direction of the business (45%), greater pride in work (43%), and a greater feeling of control (43%). At the same time, however, small business owners are less happy this year than last (33% versus 39% in 2012). Only 13% cited more personal financial security – almost the same as those who cited having more scope to help their local community or society in general (14%), or having more time for sport, the gym and leisure interests (12%).

When asked about general attitudes to their business, more than half (54%) said they enjoy running their own ship more than being an employee. Around one in five (19%) enjoyed achieving growth in their business, while earning more money was cited by only 9%.

The Hiscox view

“People set up small businesses for many reasons other than money. They value the freedom, autonomy and lifestyle changes that running their own business can bring. Policy makers need to understand how small businesses constantly juggle personal priorities, a task which gets harder as tough times endure.”

E. Innovating through products and training

The innovators and their experience

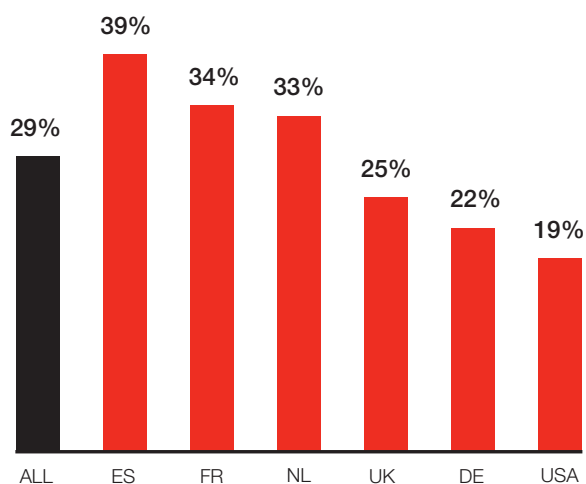
The study asked for the first time about respondents' experience of innovation, training and development.

Nearly one in three (29%) of all respondents had developed some new product or service in the last 12 months – with the American response the lowest at 19% and the Spanish the highest at 39%.

Of those who did launch a new product or service, just over half (51%) said that their sales expectations had been fulfilled while nearly two thirds (64%) said that they were planning further innovations during the coming year. Only 12% of all respondents said that funding to support their innovations was easy to find and only 10% had looked at the possibilities of crowdsourcing or sites such as Somolend, which connects local businesses with local investors.

Innovation: developed a new product or service in the last 12 months

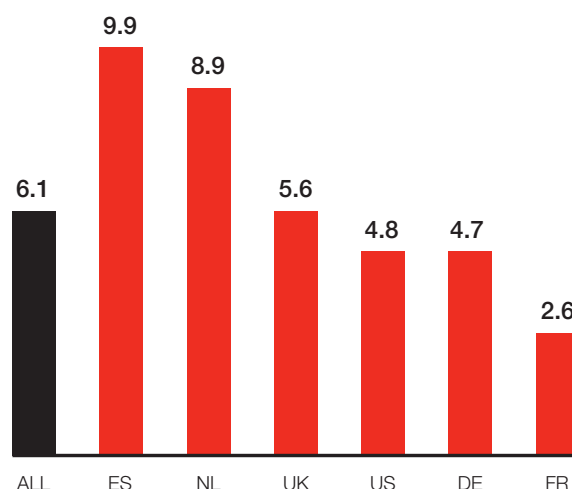
Base: all respondents.



Training days taken during the past year

Number of training days by organisation.

Base: all respondents.



Trends in training

Among all respondents, 55% said they or their colleagues had done some training or professional development in the last 12 months: the French had the lowest response (40%), the Dutch the highest (67%). Across all six countries, the average time spent on training or professional development was 6.1 days in the past year: the French spent the shortest time (2.6 days) and the Spanish the longest (9.9 days).

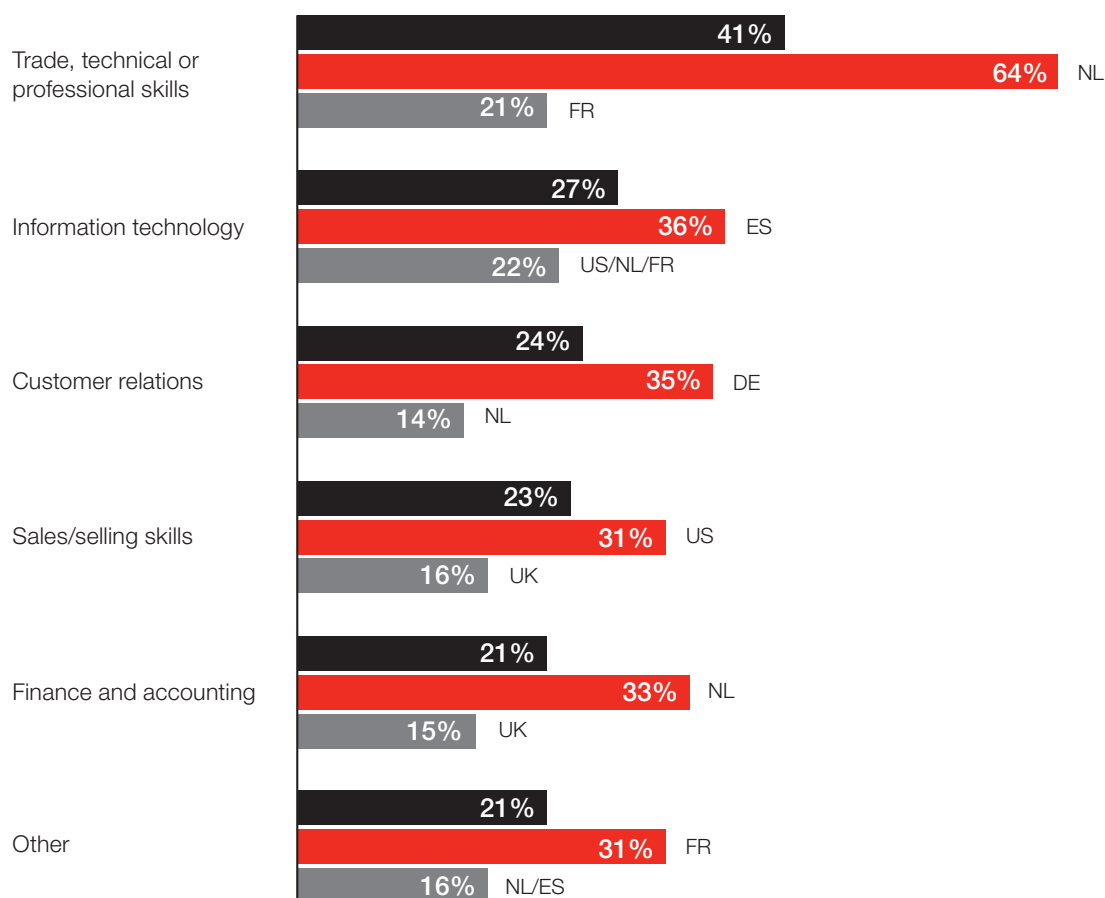
The Hiscox view

"In tough times, there is no greater expression, in any country, of 'animal spirits' in small businesses than undertaking the costs and risks of innovation, and investing in improved skills."

Types of training

Base: the 1,645 respondents who undertook training.

■ All ■ Highest ■ Lowest



Trade, technical or professional skills were the main areas: they were chosen by 41% of all those who undertook any training at all (the French 21%, the Dutch 64%). This was followed by IT (27% of all respondents who undertook training), customer relations (24%), sales and selling skills (23%), finance and accounting (21%) and 'other' (21%).

F. Small business and the state

As before, our study asked respondents a series of questions about their attitudes to national institutions and values. This year's responses were broadly in line with those of previous years but revealed some significant national variations.

Taxation, bureaucracy, labour laws: obstacles to entrepreneurs?

In all countries, 68% agreed that their country's tax system did not favour people wanting to set up their own business. The Spanish showed the highest level of agreement (87%), the British the lowest (58%).

Government bureaucracy was also viewed as a barrier to business creation by 70% of all respondents. Again the Spanish were the most ready to agree (86%) and the British the least (54%).

In all countries, 53% viewed labour laws as inflexible. Once again, the Spanish and the French were most critical (63%), while American respondents (43%) and the British (42%) showed the lowest level of agreement.

Education and national culture: do they help entrepreneurs dream and dare?

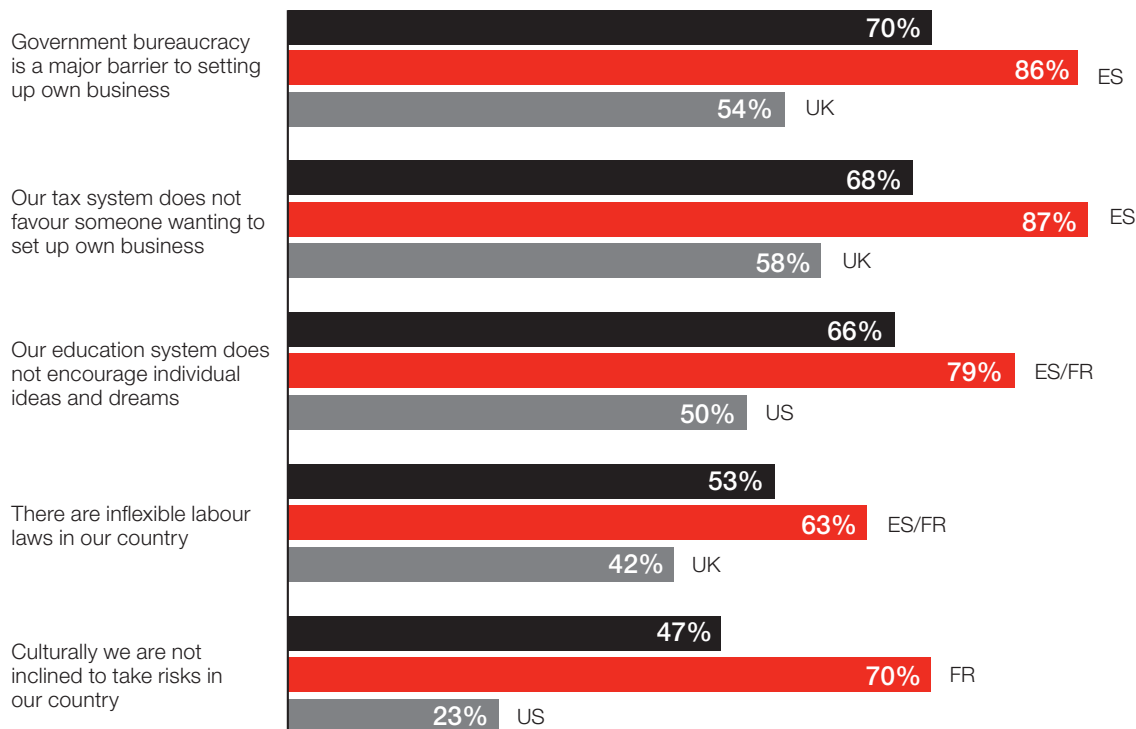
Two thirds (66%) of all respondents agreed that their national education system did not encourage individual ideas and dreams. The Spanish and the French were those who agreed most strongly (79% each), followed by the Germans (74%). The Americans (50% agreed) were those least critical of their national education system.

In all countries, 47% agreed that their national culture was risk-averse. The French (70%) agreed most strongly. As in previous years, the Americans were most likely to disagree: only 23% agreed.

Views of their country

Proportion agreeing.
Base: all respondents.

■ All ■ Highest ■ Lowest



Less time but more criticism for bureaucrats

Since 2011, respondents in four out of the six countries have become more hostile to their bureaucracy (led by the Spanish, where hostility has increased by ten percentage points). This is despite the fact that respondents say they now spend less time dealing with bureaucracy. This year's study showed an average reported time of 102 minutes each week spent on government regulation, compared to 125 minutes last year. Apart from the United Kingdom (which, as before, gave least time to bureaucratic demands), the average time spent on bureaucracy fell in every country.

Respondents in five out of six countries have become more ready to agree that their tax system did not favour new business creation (led by the Spanish, up seven percentage points).

However, four out of six countries have become less critical of their labour laws (led by the French, down 10 percentage points) and four countries had also become less critical of their national culture (led by the Spanish, down 12 percentage points).

The British alone soften all their criticisms of their state

The UK was unique in exhibiting reduced criticism since 2011 under every heading. British critics of their bureaucracy fell by four percentage points, of their national culture by seven percentage points, and of their labour laws by nine percentage points. British respondents who believed their tax system was a deterrent or obstacle to new business creation also fell, by 12 percentage points since 2011.

Approached the following people in past year for help on a business issue

Base: all respondents.



Looking for help

Our study this year asked respondents how easily they found help for their business, and if they had sought it from their national business advice services or elected representatives. Just over half (53%) of all respondents thought it difficult to get the kinds of help they needed and this figure was highest in Spain, at 76%.

Very few respondents had looked for help from official sources. Just 7% had approached a representative from a business association, 7% had turned to a member of a state, regional or devolved legislature, and 6% had sought out a mayor or member of a local authority. Only 4% had raised a business issue with a member of their national parliament, and (in the five EU countries) only 2% had approached an MEP.

The small business agenda for government

For the first time, our study asked respondents to score out of ten a list of policies which might help small businesses.

Although few of them had approached their political representatives for help, respondents had a clear policy agenda for their governments.

The top choice was reduced direct taxation of businesses and their owners, with an average rating of 7.5 from all respondents. It was the policy most favoured in every country except Germany and Spain. Next were financial underpinning and stimulation of lending for small business (the top choice in Spain), and simpler and fewer accounting rules (the top choice in Germany and the Netherlands). Each of these had an average rating of 7.1 across all six countries. The lowest-rated were relaxing planning restrictions (6.1), increased infrastructure spending (5.8) and reduced health and safety laws (5.5).

Overall, the scores might suggest that small businesses still believe in the possibility of beneficial policies from their governments, and have not abandoned hope of their delivery.

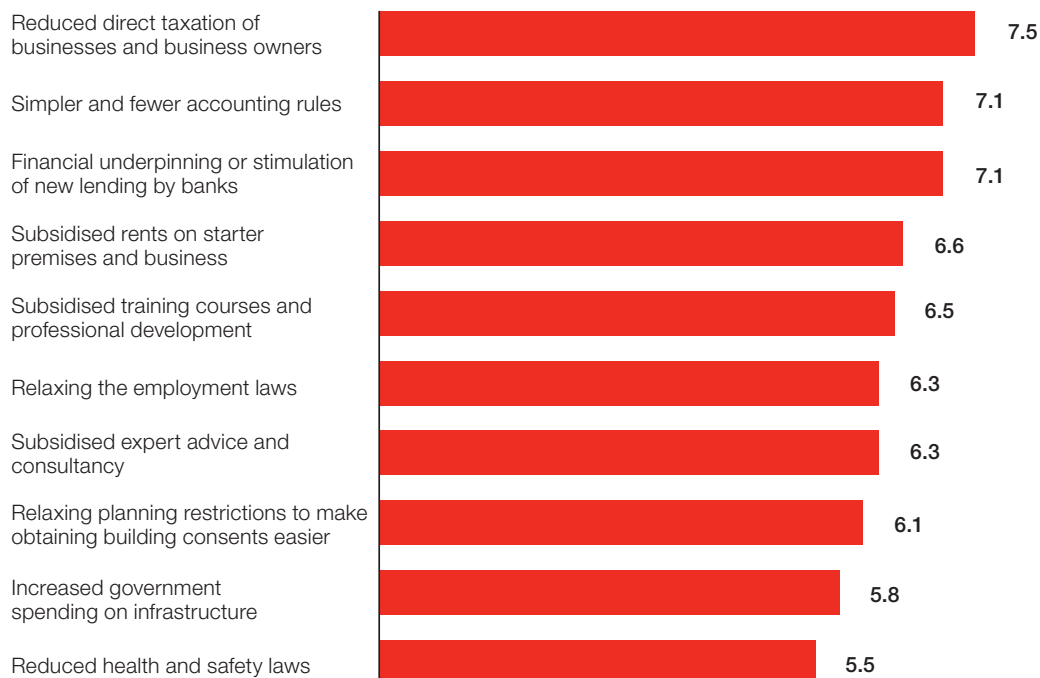
The Hiscox view

“Our study this year has much for policy makers to reflect on as it gives a clear indication of what small businesses would most like to see from them. It also suggests that national institutions and representative bodies should consider how they can become more accessible to this vital sector of the global economy.”



Which policies might help


Ranked out of ten.


Base: all respondents.



G. Country profiles

 France	2013	2012
Average working week	42.1 hours	44.3 hours
Agree that work includes:		
– lunch at desk	37%	–
– entertaining clients	36%	–
– travelling to and from work	45%	–
– networking events	34%	–
– increasing expertise	58%	–
– out-of-hours emails/voicemails	63%	–
Weekly time spent on government regulation	99 minutes	115 minutes
Total annual holiday (average)	17.0 days	–
Reporting increased profit last year	31%	44%
Optimistic about year ahead	22%	35%
Planning to employ more people	8%	12%
Reporting increased stress	47%	44%
Fear of personal bankruptcy	21%	18%
Happier in own business than being employee of large organisation	34%	37%
 Germany	2013	2012
Average working week	43.7 hours	47.1 hours
Agree that work includes:		
– lunch at desk	20%	–
– entertaining clients	51%	–
– travelling to and from work	42%	–
– networking events	44%	–
– increasing expertise	70%	–
– out-of-hours emails/voicemails	62%	–
Weekly time spent on government regulation	102 minutes	160 minutes
Total annual holiday (average)	21.6 days	–
Reporting increased profit last year	35%	58%
Optimistic about year ahead	48%	59%
Planning to employ more people	11%	24%
Reporting increased stress	37%	42%
Fear of personal bankruptcy	13%	14%
Happier in own business than being employee of large organisation	27%	39%

 Netherlands	2013	2012
Average working week	40.3 hours	42.5 hours
Agree that work includes:		
– lunch at desk	34%	–
– entertaining clients	76%	–
– travelling to and from work	42%	–
– networking events	63%	–
– increasing expertise	66%	–
– out-of-hours emails/voicemails	67%	–
Weekly time spent on government regulation	98 minutes	115 minutes
Total annual holiday (average)	20.4 days	–
Reporting increased profit last year	31%	45%
Optimistic about year ahead	42%	61%
Planning to employ more people	10%	15%
Reporting increased stress	30%	24%
Fear of personal bankruptcy	16%	16%
Happier in own business than being employee of large organisation	25%	27%

 Spain	2013	2012
Average working week	43.6 hours	45.2 hours
Agree that work includes:		
– lunch at desk	43%	–
– entertaining clients	67%	–
– travelling to and from work	54%	–
– networking events	65%	–
– increasing expertise	70%	–
– out-of-hours emails/voicemails	62%	–
Weekly time spent on government regulation	122 minutes	154 minutes
Total annual holiday (average)	20.7 days	
Reporting increased profit last year	24%	33%
Optimistic about year ahead	28%	28%
Planning to employ more people	7%	15%
Reporting increased stress	56%	54%
Fear of personal bankruptcy	49%	53%
Happier in own business than being employee of large organisation	24%	27%

**United Kingdom****2013****2012**

Average working week	37.6 hours	38.5 hours
Agree that work includes:		
– lunch at desk	51%	–
– entertaining clients	69%	–
– travelling to and from work	43%	–
– networking events	71%	–
– increasing expertise	69%	–
– out-of-hours emails/voicemails	72%	–
Weekly time spent on government regulation	97 minutes	96 minutes
Total annual holiday (average)	21.4 days	–
Reporting increased profit last year	42%	41%
Optimistic about year ahead	42%	47%
Planning to employ more people	12%	11%
Reporting increased stress	39%	42%
Fear of personal bankruptcy	17%	20%
Happier in own business than being employee of large organisation	38%	54%

**USA****2013****2012**

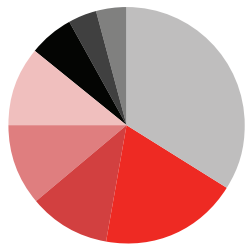
Average working week	39.5 hours	39.4 hours
Agree that work includes:		
– lunch at desk	40%	–
– entertaining clients	54%	–
– travelling to and from work	44%	–
– networking events	57%	–
– increasing expertise	67%	–
– out-of-hours emails/voicemails	62%	–
Weekly time spent on government regulation	95 minutes	110 minutes
Total annual holiday (average)	10.1 days	–
Reporting increased profit last year	48%	50%
Optimistic about year ahead	50%	55%
Planning to employ more people	11%	14%
Reporting increased stress	41%	49%
Fear of personal bankruptcy	20%	21%
Happier in own business than being employee of large organisation	48%	52%

H. Profile of respondents

The findings of this study are based on responses from 3,000 owners or partners in businesses with fewer than 50 employees (500 respondents from each of the following countries: the UK, US, Netherlands, Germany, France and Spain).

Sectors

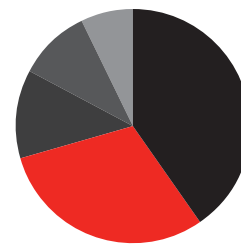
(All countries)



- Business services, professional services (34%)
- Retail, distribution (19%)
- Building/construction (11%)
- IT, media, telecoms, printing (11%)
- Leisure, catering (11%)
- Manufacturing/engineering (6%)
- Motor vehicles, garage services (4%)
- Financial services (4%)

Size of company

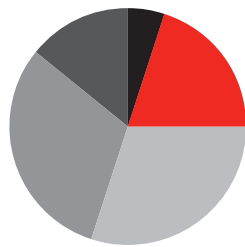
(All countries)



- No employees, just myself (40%)
- 1–4 employees (30%)
- 5–9 employees (12%)
- 10–19 employees (10%)
- 20–49 employees (7%)

Age

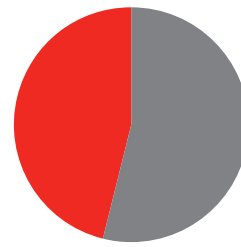
(All countries)



- Up to 30 (5%)
- 30 to 39 (20%)
- 40 to 49 (30%)
- 50 to 59 (31%)
- 60 and over (14%)

Gender

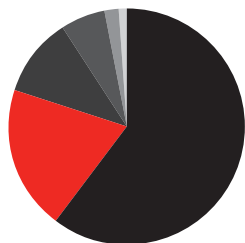
(All countries)



- Male (54%)
- Female (46%)

Turnover

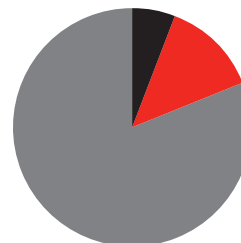
(All countries)



- Up to £100,000 (61%)
- £100,000 - £500,000 (20%)
- £500,000 - £1m (11%)
- £1m - £5m (6%)
- £5m - £10m (2%)
- £10m - £20m (1%)

Importance of exports

(All countries)



- Vital (6%)
- Quite important (13%)
- Not important (81%)

I. Methodology

This study was conducted for Hiscox by The Survey Shop. The sample was drawn from online panels contacted between 22nd May and 2nd June 2013. Statistical accuracy: +/- 1% to +/-1.5% for the whole sample of 3,000 and +/- 2% to +/-4% for each country's sample of 500. Some figures may not add up to 100% due to rounding.

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