

**The Hiscox DNA of an
Entrepreneur Report 2014**

Turning the corner

This is the sixth edition of the Hiscox DNA of an Entrepreneur study. The findings of this study are based on responses from 3,500 owners or partners in businesses with fewer than 50 employees.

- 03 A demonstration of true grit
- 04 Turning the corner... but still a way to go
- 06 Recession start-ups thriving
- 08 Lifestyle, values, priorities
- 10 Large numbers contemplating an exit
- 12 Innovation: size matters
- 14 Confronting fears and managing risk
- 16 How can Governments help?
- 18 Country profiles
- 19 Methodology and profile of respondents

A demonstration of true grit



Small businesses matter. Studies in the US and UK have shown that the small business sector is responsible for creating four out of every five new jobs and more than half of all commercial innovations. Their impact on local economies can be doubly important. Gauging the health of small businesses, and understanding the key issues they face, are therefore vital endeavours for policy-makers everywhere.

In this, our sixth international 'DNA of an Entrepreneur' study of small businesses, there are heartening signs that small businesses have weathered the storm of recent years and are looking to the future with increasing confidence. The study spans six countries and the results are far from even. But, overall, there are renewed signs of growth, while optimism levels have rebounded. The resilience and perseverance apparent in previous studies are paying off.

Nowhere is that better demonstrated than in the performance of small businesses set up during the recession. Our study reveals the dogged entrepreneurs behind these businesses are more likely than others to have increased revenues, launched new products or services and hired new staff in the past year. They are also more likely to say the economic environment has made them more determined to succeed. This is true grit.

Our study also reveals some of the extra challenges the very smallest of firms face. It is the bigger firms in our sample – those with £5 million or more turnover – that are the most bullish about their prospects. Perhaps unsurprisingly, they are also finding it much easier to get funding for new products or services. The smallest of firms plainly struggle to get that support. There is an important message here for policy-makers.

As in past years, we sought to tease out information on the lifestyle and attitudes of our respondents. This not only contributes to a fuller understanding of what makes entrepreneurs tick but helps us, as a small business insurer working with over 227,000 small businesses in the six countries featured in this study, identify their needs and serve them better.

Small businesses have had much to contend with but this study suggests there are better times ahead. As in past years, we hope it will serve as a valuable data source for Governments, advisers, academics and others with the task of analysing and interpreting the wellbeing of small businesses and nurturing what is a vital sector of the world economy.

Bronek Masojada
Chief Executive Officer, Hiscox

Turning the corner... but still a way to go

Reasons to be cheerful

Overall, 45% of respondents reported an increase in profit – ending a three-year downward trend (and a low of 35% in the previous year). More than half of businesses (56%) reported growth in new customers. In spite of this, about the same number of firms reported negative or no growth in profit as those that saw growth (46% versus 45%).

Upward trend strongest in parts of Continental Europe

German businesses were most likely to report growth in their order book, workload (58%) or new customers (70%). More than half (59%) also reported revenue growth. By contrast, US and French business owners were least likely to have seen growth in orders (40% and 44% respectively).

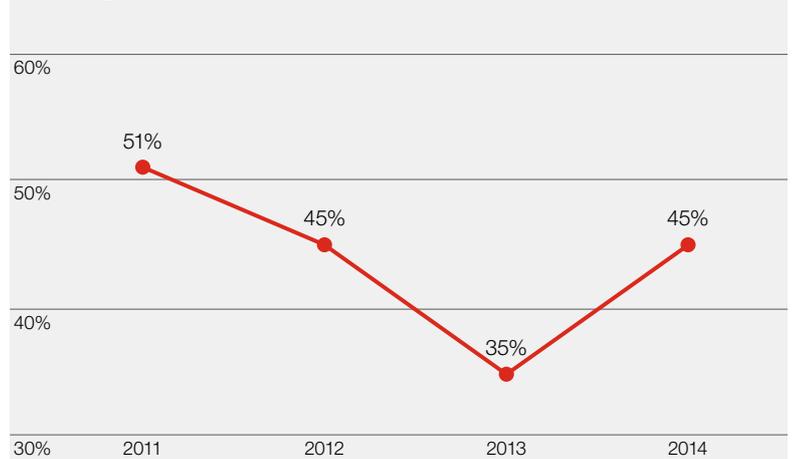
Optimism is on the rise

The study shows an overall increase in optimism, with 45% of respondents positive about the year ahead (up from 38% the previous year). That is still down on 2011 and 2012 levels. There was also real variation between countries. The highest levels of optimism for the future were in Germany (53%), the Netherlands (52%) and the US (51%). Just under half (47%) of UK respondents were optimistic. Optimism levels picked up in Spain (where 42% of businesses were positive about the year ahead compared with 28% the previous year), but barely one in four (27%) French respondents felt optimistic.

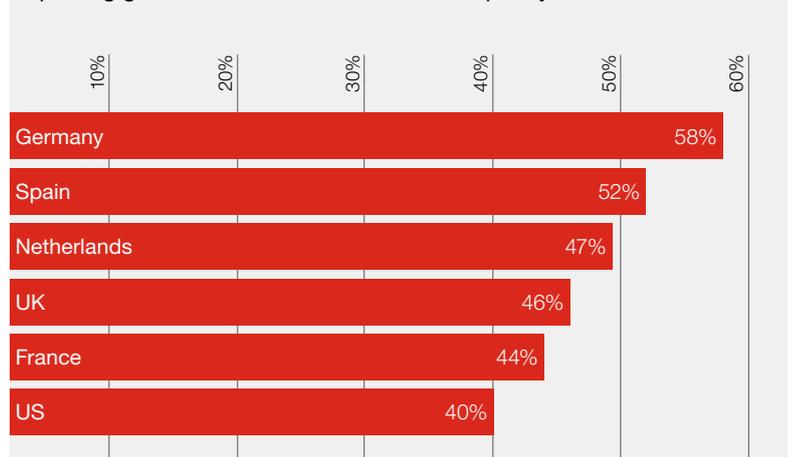
Signs of an increase in employee numbers

While nearly three-quarters of firms (72%) reported either no increase or a fall in employee numbers, one in six (18%) had added staff compared with 11% in the previous year, and 23% of German firms had done so. For the year ahead, 14% of respondents say they will be taking on new staff – up from 10% the previous year.

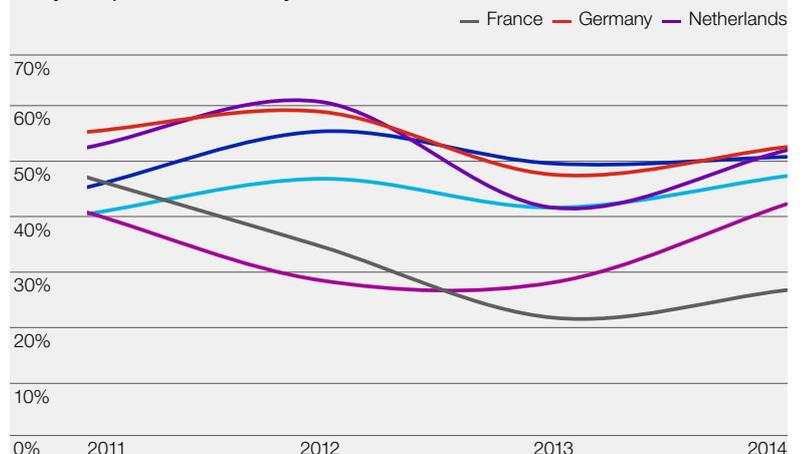
Reporting increased profit in past 12 months



Reporting growth in order book/workload in past year



Are you optimistic for the year ahead?



Turning the corner... but still a way to go continued

Optimism increases with size of business

Bigger firms, measured both by number of employees and turnover, were more likely to be optimistic than smaller ones in the study sample. Nearly two-thirds (63%) of firms with between 20 and 50 employees were optimistic for the year ahead. That compared with 38% of one person businesses. There is a similar picture when firms with a turnover in excess of £1 million are compared with the smallest firms in the sample.

Finance still scarce and no pick-up in investment

Nearly three out of every four (71%) respondents said funding for a new business was still difficult to find (down from 78% in the previous year). The problem was seen as particularly acute in Spain (83%). The number of firms investing more in the last 12 months was counter-balanced by the number investing less (13% in each case). German firms were most likely (72%) to have invested in their business and are again in the lead regarding their investment intentions for the coming year (69%).

Fewer late payers provide a welcome business boost

The past year has seen a significant reduction in the proportion of respondents reporting later payment by customers, with a fall from between 50% and 52% in each of the previous three years to 45%. The biggest falls were in the UK (down from 44% three years ago to 32%) and the US (down from 39% three years ago to 26%). However, two-thirds (68%) of Spanish firms and half of Dutch ones (50%) are suffering from customers paying later.

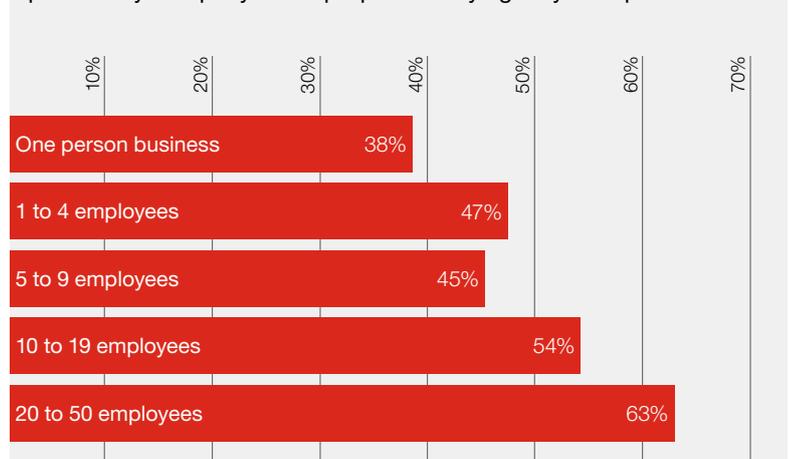
Fears for the year ahead

Not getting enough business or being able to pass on costs was mentioned by 34% and 33% of respondents respectively. This is in contrast to the last three years when lack of Government support was mentioned by most respondents. Despite the generally more optimistic tone of this year's study, more than a quarter of small firms (27%) still say that they fear they might not have the resources to keep going.

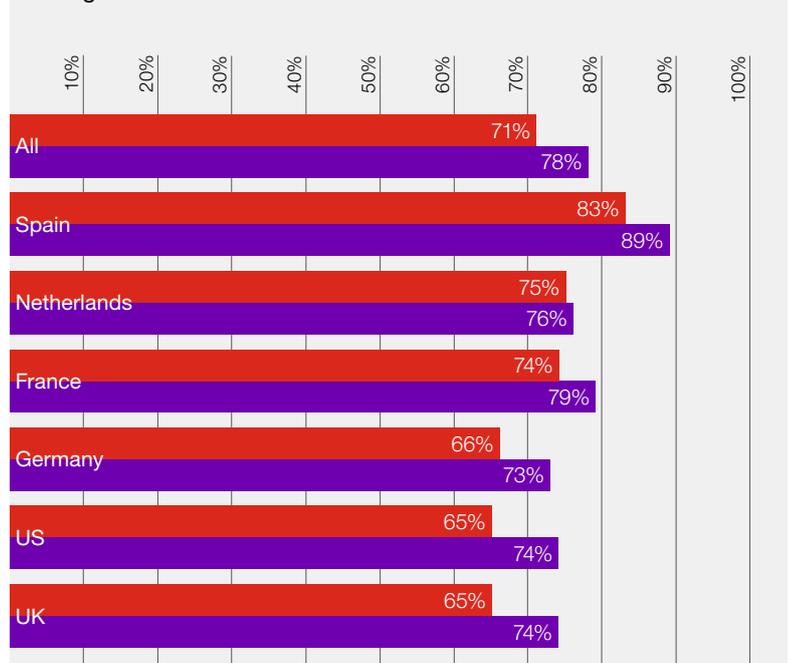
The Hiscox view

There has been a definite change in small business sentiment this year. While life remains challenging for small business owners, there is a renewed sense of optimism in most of the countries surveyed. This is borne out by our own experience, with many of our small business customers reporting substantial increases in turnover compared with a year ago. The key now is to ensure there is a supportive environment that will allow small businesses to build on the recovery.

Optimism by company size – proportion saying they are optimistic



Funding for a new business is difficult to find



Recession start-ups thriving

Creating success out of adversity

Firms founded since the start of the recession in 2007/8 make up 38% of this year's study sample. They are more likely to have seen an increase in profits in the past 12 months (49% versus 42% for older firms). On average, they also increased revenue by more than the older businesses in our survey (53% versus 46%), are more likely to have hired new staff in the past year (21% versus 15%), and more likely to hire in the coming year (17% versus 13%).

Women predominate

Well over half of these recession start-ups (56%) were set up by women. That compares with 44% for older businesses. Recession start-ups that are still trading are run by younger people than the older businesses in the study: some 42% of owners are still under 40, compared with 15% for ongoing businesses. One in eight of all those who started a business in the past six years was previously unemployed.

New firms are more export-oriented

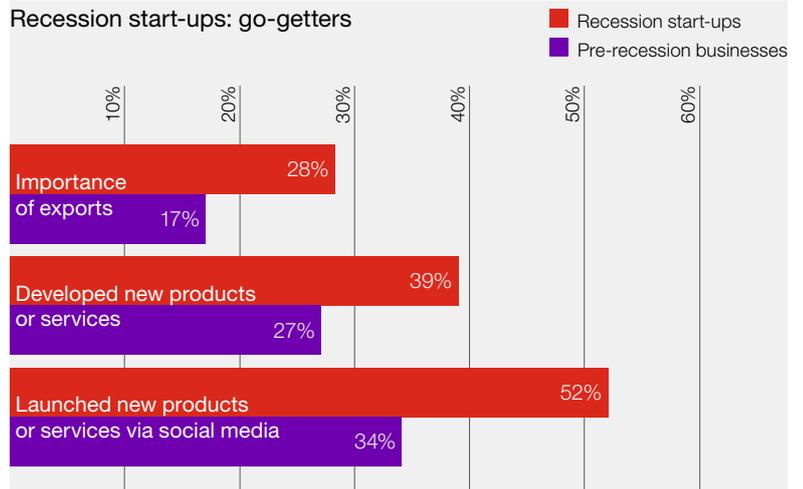
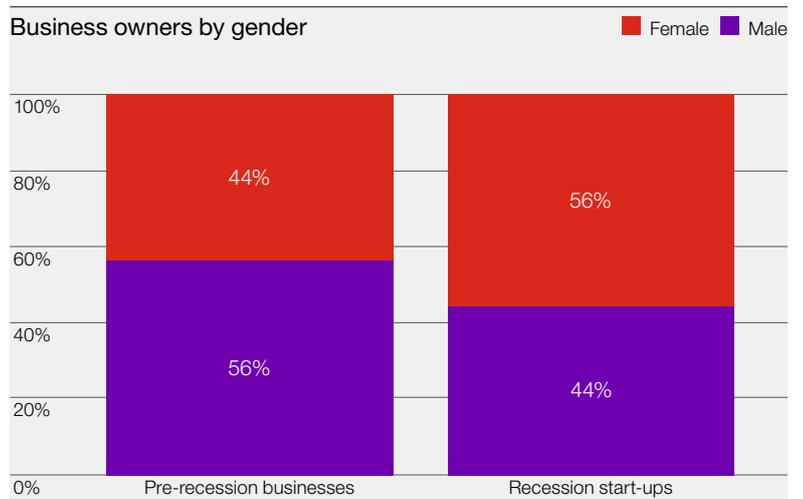
Exports are more likely to play an important part for recession start-ups' business than for older businesses (28% versus 17%). Recession start-ups are also more likely to have developed a new product or service in the past year (39% versus 27%) and more are likely to be using social media (52% versus 34%).

A tough new breed

The owners of recession start-ups are more likely than older businesses to believe the economic climate has made them 'stronger and more determined to succeed' (27% versus 20%) and twice as likely to want to be working more hours (24% versus 12%). However, they are more likely to be concerned that they don't have the financial resources to keep going (30% versus 25%).

The Hiscox view

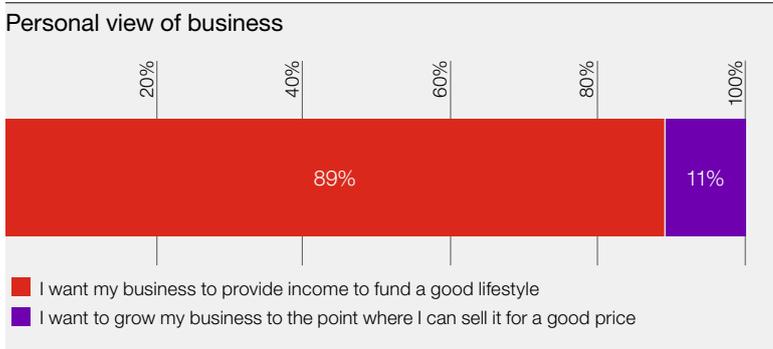
Those who subscribe to the theory of 'creative destruction' as a key element of the business cycle will take heart from this year's study. There is a special vibrancy to many of the small businesses started since the onset of the recession in 2007/8. These are the small and the brave, and their hiring plans suggest they are likely to play an important role in boosting economic growth.



A woman with dark hair tied back, wearing a white knit sweater, stands behind a wooden desk. She is looking directly at the camera with a slight smile. On the desk in front of her is a stack of papers. The background is a plain wall with some papers pinned to it.

| Well over half of recession start-ups were set up by women.

Lifestyle, values, priorities

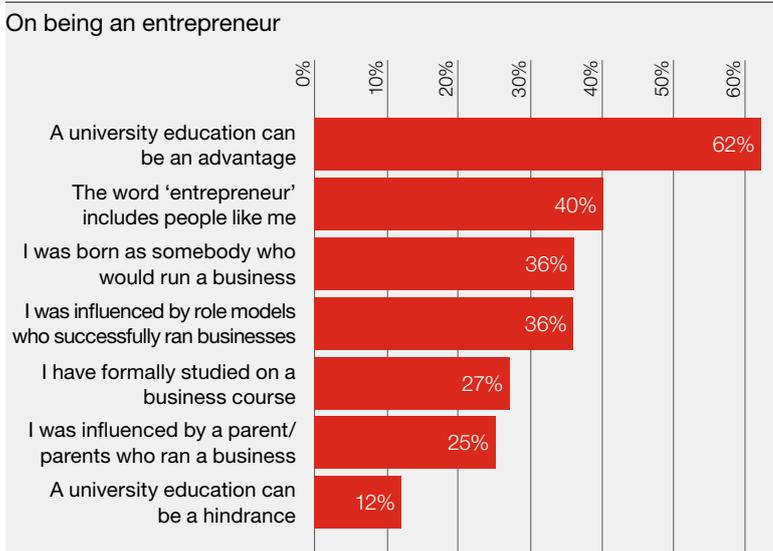


Income seen as being more important than capital

For the first time the study looked at how small business owners viewed their business. Were they looking to grow it to the point where they could sell out for a good price or was it there to provide sufficient income to fund a good lifestyle? The overwhelming majority (89%) regarded their business first and foremost as a source of regular income.

The 'entrepreneur' label

In another first, we asked respondents whether they identified with the label, 'entrepreneur'. Only 40% did so, a finding that may surprise but perhaps chimes with the preference for income over capital revealed above. A clear majority of French and US respondents (59% and 57% respectively) did consider themselves entrepreneurs. German and Dutch small business owners were the least likely to do so (25% and 27% respectively).

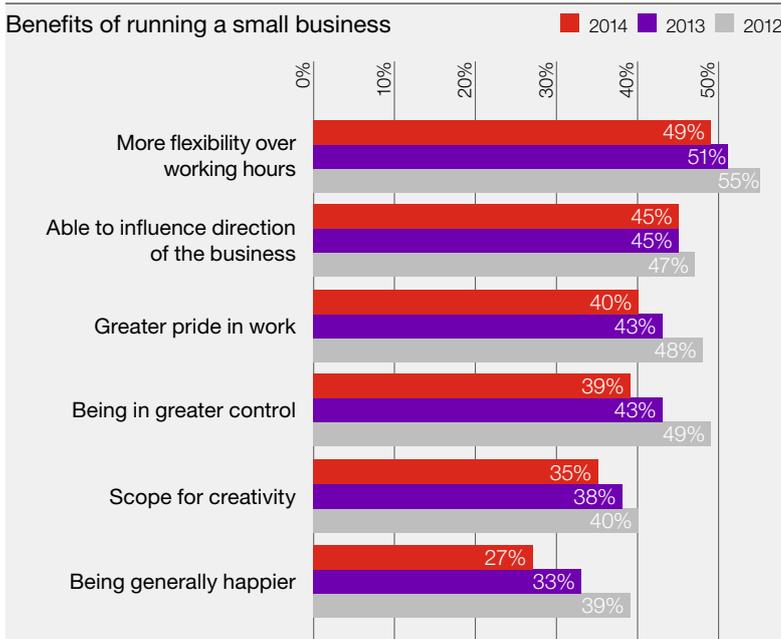


Motivations for running a business differ significantly

Just over a third (36%) of respondents thought that running a business was an intrinsic part of their make-up, while the same proportion said they were inspired by a role model or other success story. A quarter had been influenced by watching their parents run a business. A majority believed a university education could be an advantage in running a business, but only just over a quarter (27%) had undertaken a formal business course.

Not as much fun as it used to be...

Flexibility over working hours and the satisfaction of controlling the direction of the business were the two most widely cited benefits of running a small business compared with working for a large company (mentioned by 49% and 45% of respondents respectively). But in several areas respondents appear to be finding less pleasure in running their own show. As the chart (bottom left) shows, several perceived benefits of running a small business have been mentioned less and less over the past two years.



...but fewer hours and less stress

The average number of hours worked by respondents fell this year to 40.6 a week – its lowest level in four years. The longest hours worked were in Germany (42.3) followed closely by France and Spain (42.2 and 42.1 respectively). The British once again ranked bottom in terms of hours worked at 38.7. With shorter hours came less stress. The proportion reporting they had suffered increased stress as a result of the economic climate of the past five years fell to 38%, down from 42% or more in each of the three previous years.

Lifestyle, values, priorities continued

The largest proportion of respondents in all countries except Spain were happy with the number of hours they put in each week, although more than one in three in Germany (38%), Spain (46%) and the UK (36%) said they would prefer to work less. By contrast, one in four French small business owners wanted to be working longer hours. Austerity in Spain appears to be taking its toll. Despite a reduction in hours compared with the last three years, the Spanish are working the third longest hours (averaging 42.1 per week) and almost half (46%) want to cut back. Spanish respondents are also most likely (49%) to have suffered increased stress from the economic downturn – although that figure is down from 60% in 2011.

What constitutes work?

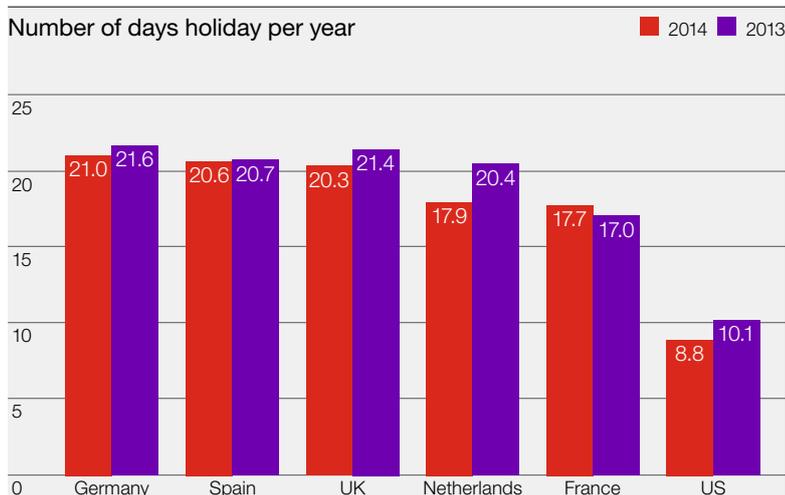
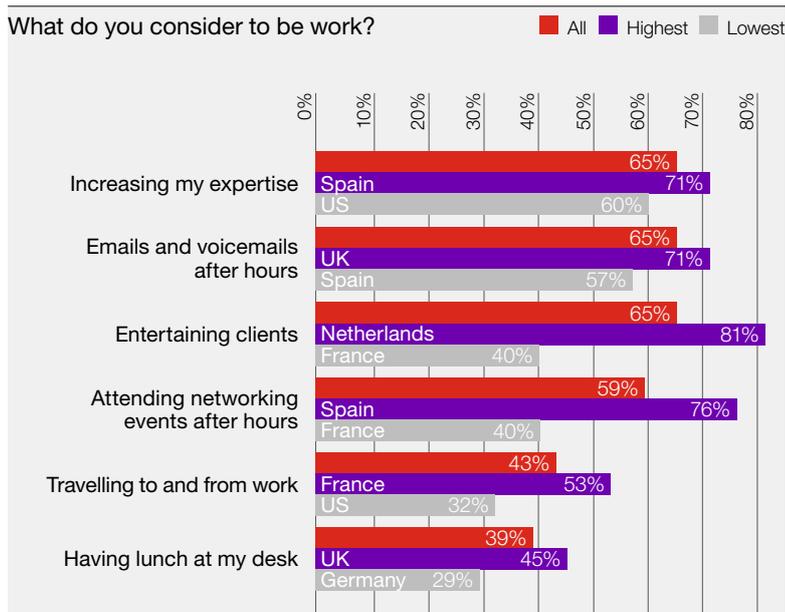
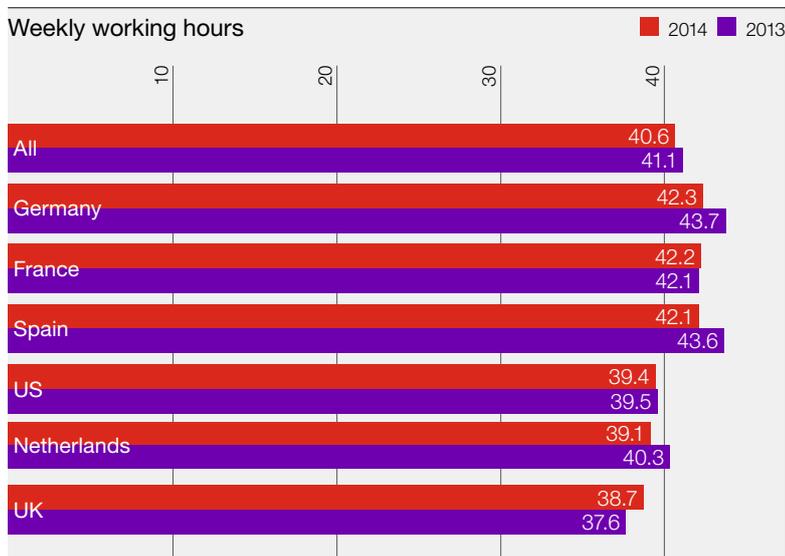
Once again, any analysis of hours worked has to be put in the context of what different nationalities consider 'work'. The British are most likely to count eating lunch at their desk as work, something the Germans are least likely to do. A majority (53%) of French respondents considered their commuting time to be work (compared with 43% on average for the six countries). What constitutes work is a very subjective concept.

Less time for holidays

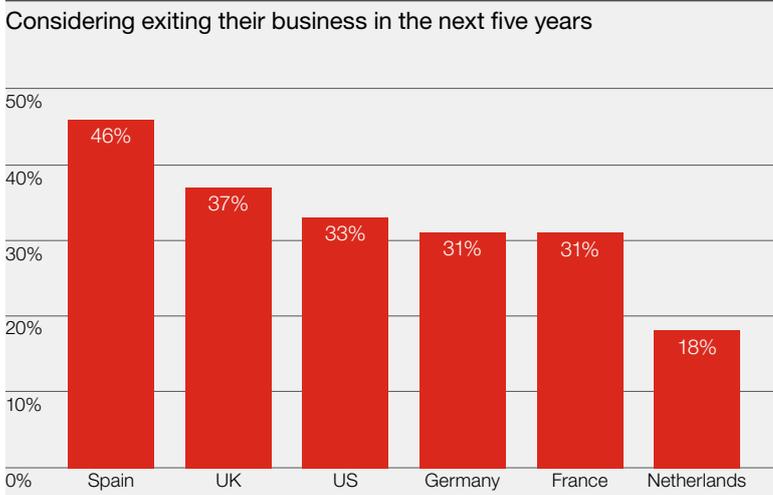
In all countries except France, respondents took shorter holidays this year. Germans again topped the table, taking an average of 21 days holiday a year, down from 21.6 the previous year. US respondents took the fewest days off – just 8.8 a year compared with 10.1 the previous year. In France, there was a small increase to 17.7 days a year but that still left the average small business owner there taking less time off than those in Germany, Spain, the Netherlands or the UK.

The Hiscox view

It is perhaps surprising that so few respondents are planning to grow their business to the point where they can take out a sizeable capital sum. But this may reflect the fact that many small firms, particularly those in the service sector, are dependent on their founder and have relatively little that can be passed on to a third party in the event of the founder's retirement.



Large numbers contemplating an exit

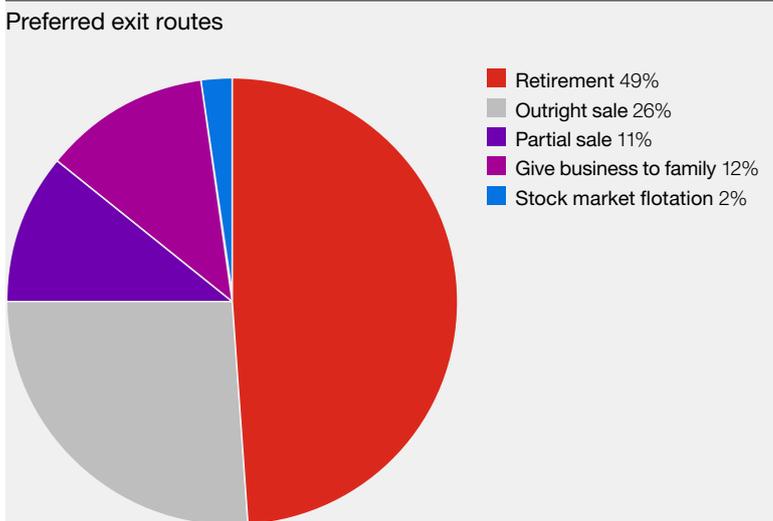


One in three small business owners is considering exiting their business within the next five years

Not surprisingly, those aged 60 and over are most likely to be thinking of calling it a day (44% are considering quitting) but even 37% of those under 40 are considering an exit. What is surprising though is that it makes little difference whether a business has been in existence for three years or 30 years, what sector it is in, or whether it is run by a man or a woman. Nearly half (46%) of small business owners in Spain are interested in an exit, a reflection perhaps of the tough conditions in their home market. In contrast, only 18% of their Dutch counterparts are considering an exit.

Retirement cited as the most likely exit strategy

Almost half (49%) of those considering an exit from their business expect to retire and allow the business to close when they go. This reinforces the finding that the majority of small businesses are run for income rather than capital. This proportion rises with age – more than three-quarters (77%) of those aged 60 and over expect to retire. More of the smallest business owners also anticipate taking this route (59% of businesses with a turnover of £100,000 or less). Over two-thirds (68%) of US respondents expect their business to cease trading when they retire within the next five years. However, a substantial proportion (37%) of those considering an exit are looking for either an outright or partial sale, with the latter option most favoured by younger respondents (29% of those aged up to 30). Overall, only 2% expect to cash in with a stock market flotation – though the proportion rises to 16% for businesses with a turnover of £5 million or more. One in eight respondents (12%) expects to hand the business on to children or other family, with Spanish and French business owners most likely to favour this route (17% and 15% respectively).



A third of small business owners are considering exiting their business within the next five years.



Innovation: size matters

New products and services

A similar number of small businesses launched a new product or service this year compared with last year. Nearly one in three respondents (31%) innovated, up from 29% the previous year. Small firms in France and Spain were most likely to have come up with a new product or service while US and German firms were least likely to have done so. Manufacturing was the most innovative sector (44%).

Larger firms have the edge

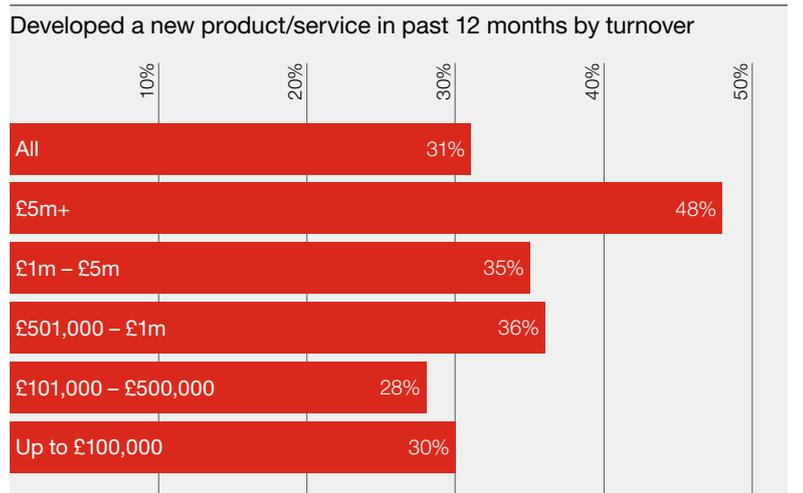
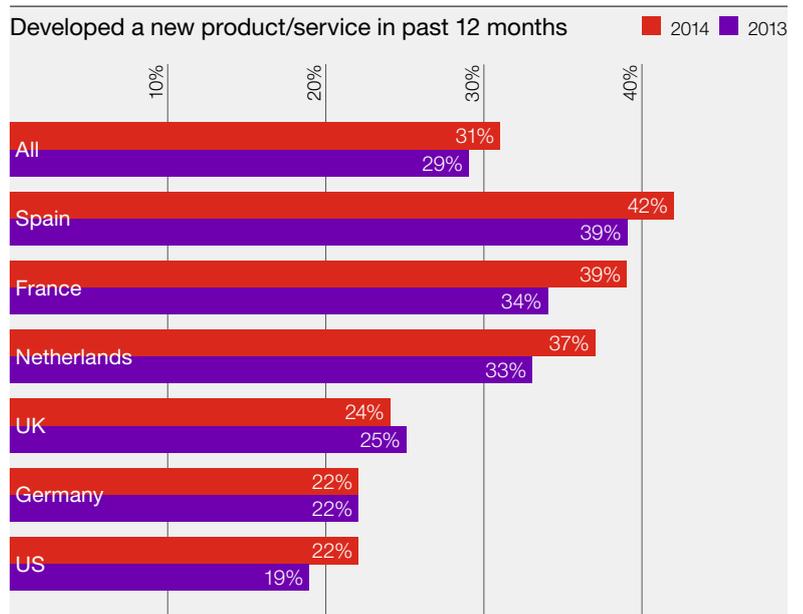
Firms with a turnover of £5 million or more were much more likely to have launched a new product or service – and to have found the funding for it from a lender. Nearly half (48%) of these businesses added to their product range this year. They were much less likely to take issue with the statement ‘the funding necessary to establish the new product or service was available from a lender or lenders’. Only 31% disagreed with that statement, compared with 62% of those with a turnover of £100,000 or less and 54% of those with a turnover of between £101,000 and £1 million. This suggests banks and other lenders are still reluctant to provide smaller businesses with expansion finance.

Firms embrace online marketing

More than half (52%) of new products or services were launched on a website. Social media was used in 43% of cases and was most often used in Spain (57%). The newspaper industry has reason to thank the finance industry. Financial services firms were more than twice as likely to use newspaper advertising for new products (42% versus 19% on average). They were also more prolific users of direct mail (37% versus 23% on average), websites (67%) and social media (45%).

The Hiscox view

There is a lot here for policy-makers to get their teeth into. When more than half of firms with a turnover of £1 million or less are not finding funding for a new product or service from a lender, there is plainly a case for further measures to stimulate lending to the small business sector. It is of particular concern that the very smallest of firms are coming off worst in this area.



| More than half of new products or services were launched on a website.



Confronting fears and managing risk

Fear of not attracting new clients ranks high

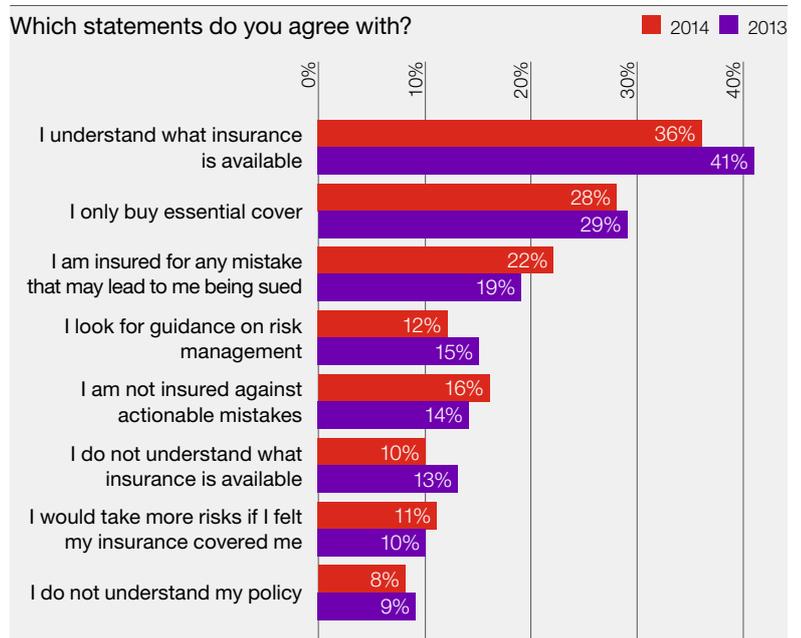
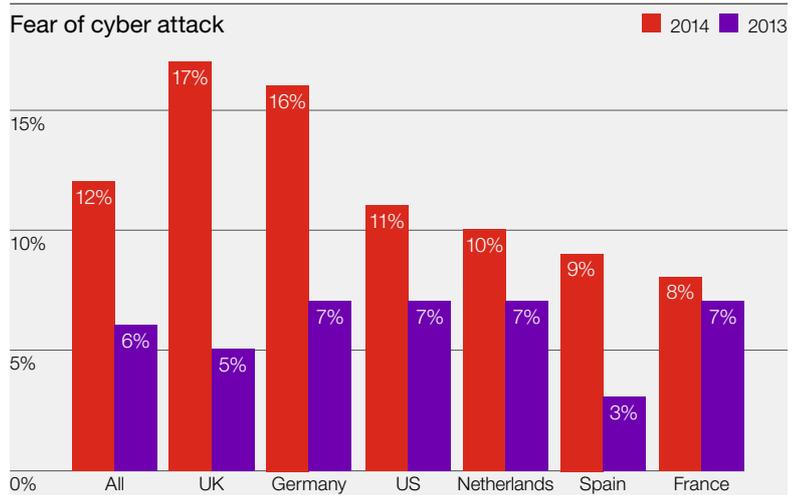
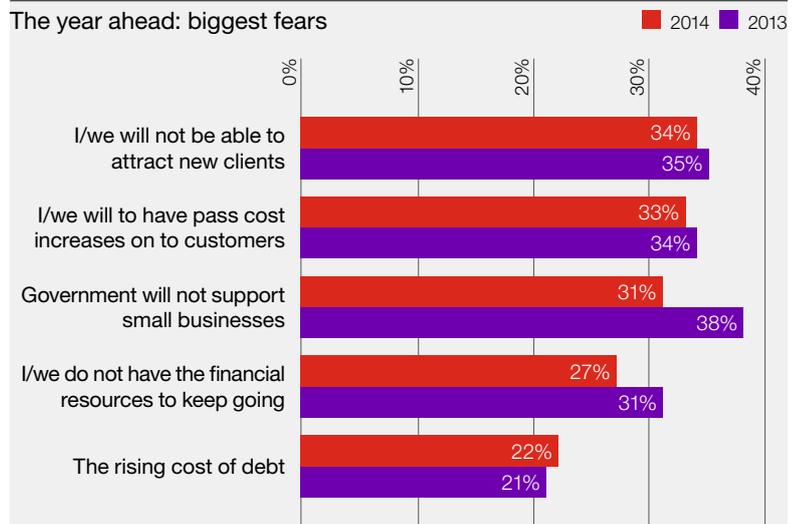
This year, most small business owners report that one of their biggest fears is they will not be able to attract new clients (mentioned by 34% of respondents overall). This is closely followed by the worry that they will have to pass on cost increases to customers (33%) and the concern that Government will not support small businesses (31%). This marks something of a shift compared with the last three years, when the prospect of a lack of Government support was consistently ranked by most respondents as one of their biggest fears. Not surprisingly, there are considerable variations between the different nationalities. The issue still tops the list in Spain (50% down from 65% the previous year), while in Britain the proportion of respondents citing lack of Government support as a concern is now down to barely one in five (22% down from 29% the previous year). More than a quarter (27%) of small business owners are worried they will not have the financial resources to keep going, but that is the lowest proportion in the last three years.

Cyber crime is a mounting concern

Fear of a cyber attack was cited by one in eight respondents (12%) in this year's study. That represents a doubling on the previous year's 6%. The biggest increase was in the UK, where 17% of respondents mentioned cyber crime compared with just 5% the previous year. There were also big increases in Germany (up from 7% to 16%) and Spain (up from 3% to 9%). Small business owners in France were the least likely to be concerned about cyber attacks, with just 8% of respondents there highlighting it as an issue. Hacking/cyber crime was also the second most widely cited major uninsured risk this year, mentioned by 27% of respondents (up from 24% the previous year). Respondents in France and the US were most likely to highlight uninsured exposure to cyber crime, at 31% and 30% respectively.

Confusion over insurance options available

For the second year running, the study shows a decline in the proportion of respondents who said they understood what insurance was available and the risks they could cover (36% compared with 46% two years ago). Small business owners in Germany were the most likely to believe they fully understood the cover and risk options (44%) and those in France least likely to do so (24%). Some 28% said they only bought essential cover – a similar proportion to the previous year. Overall, one in ten small business owners confessed to not understanding their insurance options and 8% admitted they were not sure of their cover and did not understand their policy. Small business owners in France were most likely to admit they did not understand their cover at 17%.



Confronting fears and managing risk continued

Only one in eight holds e-risk cover

Given the mounting concern over cyber crime, it is perhaps surprising to see that just 12% of respondents said they currently held e-risks insurance. The proportion fell to 5% in Germany and 6% in both the US and UK. Spanish and French firms were most likely to hold e-risks insurance (22% in each case).

Small businesses exposed to unnecessary risks

When asked what types of insurance they currently had, less than half of respondents (46%) said they held public liability insurance. Similar proportions held personal accident insurance and professional indemnity (46% and 45% respectively). Only around one in three had employer's liability (34%) or office insurance (31%).

Fear of bad debts

Not being paid by customers remains the major risk that small business owners are most likely not to have insured against, but the proportion of respondents citing this risk fell this year from 55% to 49%, a reflection perhaps of the improving business environment. Spanish respondents were again the most likely to cite bad debts as a major uninsured risk (55%). They were also most likely to regard fire and theft (25% and 22% respectively) as major risks for which they held no insurance cover. The risks of cyber crime and reputational damage were the second and third most mentioned. In Germany, 38% of small business owners regarded data loss or loss of intellectual capital as a major uninsured risk.

The issue of IT security

Given the increasing awareness of the cyber crime threat, how seriously do small business owners take IT security? According to this study, the answer is well enough on some measures but less well on others. Two-thirds (67%) said they used a firewall and additional internet security measures but that compares with 71% the previous year. Just over half (53%) practised a systematic back-up regime. French and Spanish firms were least likely to be protected from internet threats, with 25% and 22% respectively not having a firewall or other additional internet security. However they were also most likely to have both on-site and off-site back-ups (49% and 51% respectively). German firms were least likely to have a systematic back-up procedure (28%) or practise both on-site and off-site backing up (31%).

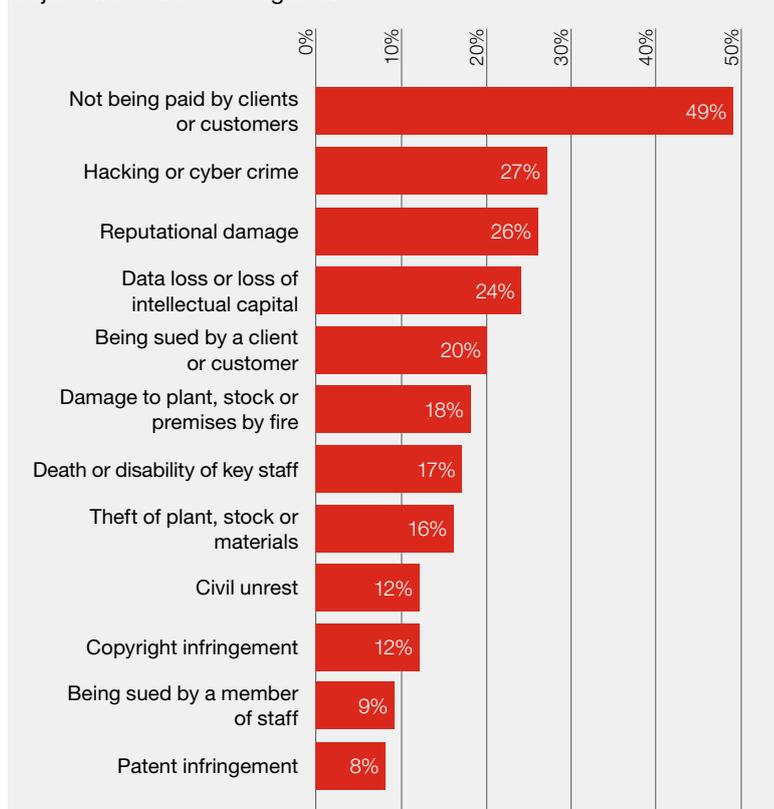
Big improvement seen in the area of password policy

The proportion of firms saying passwords were always changed when a member of staff leaves rose from 31% to 38%. At the same time, 35% of firms required staff to change access passwords on a regular basis compared with 27% the previous year. Fewer than one in five (18%) small business owners held data risks insurance cover. Those in Spain (24%), the UK and France (each 20%) led the way.

The Hiscox view

Small firms have more to do if they're to get a handle on their risk management. Understanding of the role insurance can play in managing key exposures – such as cyber crime – remains patchy while substantial numbers still only buy what they deem 'essential cover'. Our own experience is that negligence features among the three most common claims made by small businesses, along with theft and accidental damage, yet large numbers of small businesses are failing to insure themselves in this area.

Major risks not insured against



How can Governments help?

As in previous years, respondents were asked to rank a series of Government measures according to their importance in cultivating a successful small business sector.

Reduced taxation

This topped the list (ranked 7.5 out of 10). It was followed by simpler and fewer accounting rules and stimulation of new lending by banks (both ranked 7.3 out of 10). There were however significant variations between countries. Not surprisingly, perhaps, stimulation of new lending topped the list among Spain's small business community (8.2 out of 10). In Germany and the Netherlands the number one demand was for simpler accounting rules (the rankings were 7.3 out of 10 and 7.2 out of 10 respectively), something that received increased cause for concern in the US (7.2 out of 10) and France (7.7 out of 10) too. The introduction of subsidised rents on starter premises and business parks also increased in popularity, with UK (7.4 out of 10) and Spanish respondents keenest on the idea (7.5 out of 10).

Red tape remains a key issue...

More than two-thirds of respondents (70%) across the six countries said that bureaucracy remained a major barrier to setting up a business. This was the same as the previous year's figure. On average, small firms spent just over 100 minutes a week filling forms and the like, about the same as in 2013. Within that average, Dutch and French firms reported the greatest jumps in time they spent dealing with Government affairs this year, up from 98.1 to 104 minutes and 99.0 to 108.5 respectively.

...but there is some progress

This year's study offers encouraging news from Germany, Spain and the US. In all three countries, respondents reported a material reduction in the time they devoted to dealing with bureaucracy. Over two years, the average German small business owner has been able to win back 55 minutes of productive time a week through less red tape. In Spain, the equivalent figure is 46 minutes and in the US 22 minutes. The average UK small business is now spending 91 minutes a week on red tape compared with 96 minutes two years ago.

Inflexible labour laws

These were again mentioned as a hurdle to business by a majority (52%) of respondents. The overall figure has trended gently lower over the past three years (from 56% in 2011) but picked up in the Netherlands this year (from 48% to 53%). French small business owners are by some margin the most concerned about their country's employment laws at 65%.

Minutes each week spent dealing with Government regulation



More than two thirds said that red tape remained a major barrier to setting up a business.



Country profiles

A snapshot of some of the defining characteristics of small business owners in each country.

 UK
The British are least likely to say that lack of Government support is a concern.
They are most likely to have had a request for funding agreed by a bank or other lender in the past five years.
The British are most likely to be concerned about the threat of cyber crime (17%).
They work the shortest hours (38.7 hours a week) and one in three (36%) wants to work less.
Nearly half (45%) count eating lunch at their desk as work.
Number one demand from Government: reduced taxation.

 US
The majority of US small business owners think of themselves as entrepreneurs (57%).
They take by far the shortest holidays (8.8 days a year) but are most likely to appreciate flexible working hours.
Americans estimate they spend the least time dealing with Government red tape (88 minutes a week).
They are least likely (20%) to agree with the statement that as a nation 'we're not inclined to take risks'.
51% are optimistic about the year ahead but only 8% are planning any new hires – the lowest proportion of all six countries.
Number one demand from Government: reduced taxation.

 France
French small business owners most likely (one in four) to want to work longer hours and took the fewest days holiday last year of the five European countries (17.7 days).
They are the most likely to consider themselves entrepreneurs (59%).
Most likely to agree that risk-taking is not part of the nation's culture (68%).
They are by far the least optimistic for the year ahead (27%).
Over half (53%) count their commuting time as work.
Number one demand from Government: reduced taxation.

 Germany
More than half (59%) of German small businesses saw revenue growth in the last year.
Most likely to have invested in their business (72%) last year and are the most optimistic about the year ahead (53%).
They are the most likely to recruit new staff in the coming year (20%).
German small business owners take the longest holidays (21 days a year) and put in the longest working week (42.3 hours).
They are the least likely to want to exit their business through retirement.
Number one demand from Government: simpler accounting rules.

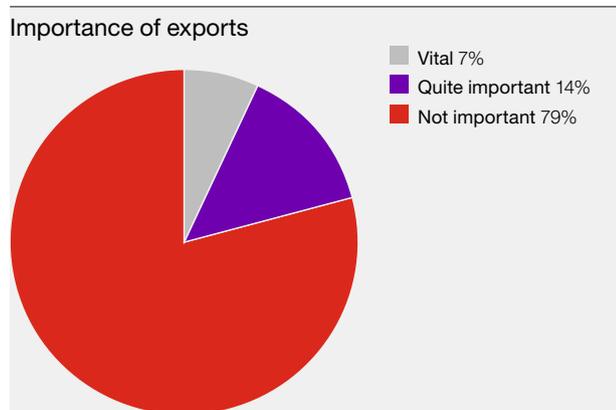
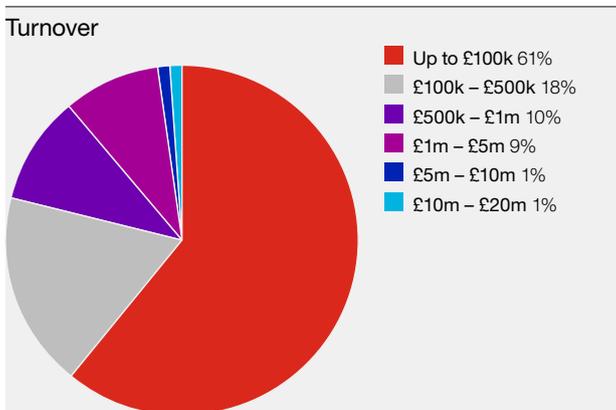
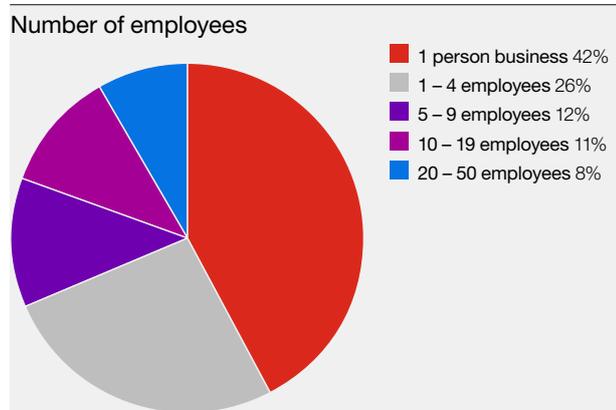
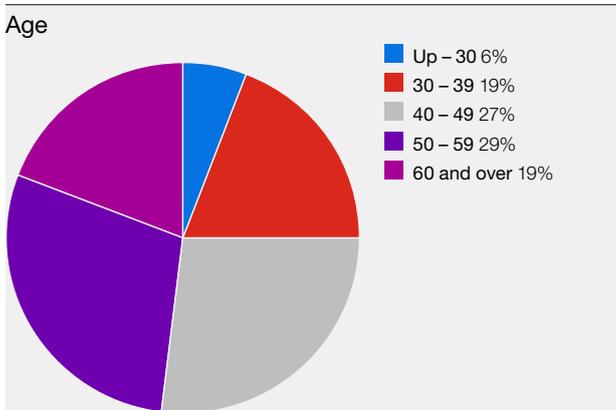
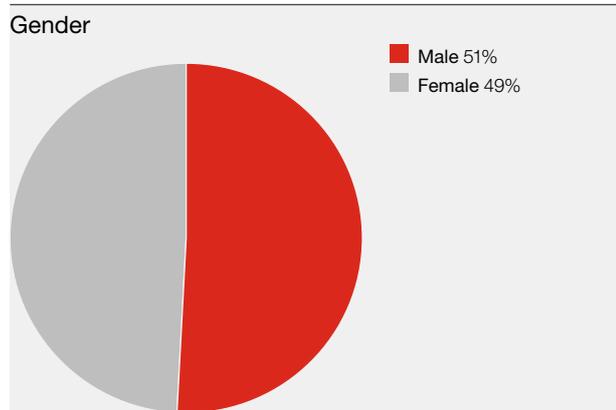
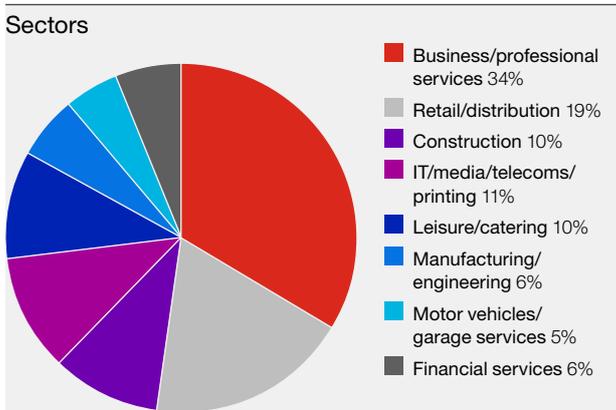
 Netherlands
Only around a quarter (27%) think of themselves as entrepreneurs.
They are the most likely to want to sell out for a good price (14%).
Dutch small business owners are least likely to have increased investment in their business in the past year.
More than half (52%) are optimistic for the year ahead.
They are most likely to be content with the number of hours they work and least likely to have experienced stress as a result of the economic conditions of the past five years.
Number one demand from Government: simpler accounting rules.

 Spain
Small business owners in Spain are the most likely (83%) to agree that finding funding for a start-up is difficult.
Almost half (47%) have started out in business since the downturn.
They put in the third longest week (42.1 hours), although they are the most likely to count attending networking events and increasing their expertise as work.
Almost half would like to work less.
They are the most likely to be considering exiting their business.
Number one demand from Government: stimulation of lending.

Methodology and profile of respondents

This study was conducted for specialist insurer Hiscox by The Survey Shop. The sample was drawn from online panels contacted between 28th May and 6th June 2014. There is statistical accuracy of +/- 1% to +/- 2% for the whole sample of 3,500 and +/- 2% to +/- 4% for each country's sample except the UK which is +/- 1% to +/- 3%.

Some figures may not add up to 100% due to rounding. The findings are based on responses from 3,500 owners or partners in businesses with fewer than 50 employees (1,000 respondents from the UK and 500 from each of the following countries: France, Germany, the Netherlands, Spain and the US).



Hiscox is an international specialist insurance and reinsurance company with over 1,600 staff in 14 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 over 227,000 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. In 2013 we dealt with over 3,000 small business claims.

For more information please contact Lucy Hensher (Group Communications) at lucy.hensher@hiscox.com or visit www.hiscoxdnareport.com.

Published: September 2014.