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# Challenges and Opportunities for Growth Survey

**November 2008**

## The Challenges and Opportunities for Growth: Executive Summary

This first Challenges and Opportunities for Growth (COGS) survey sponsored by HSBC is a first attempt to capture the motivations of entrepreneurs, how their businesses grow, the value they create and the challenges and opportunities they face. We interviewed 1,523 founders of companies between the 20<sup>th</sup> August and the 10<sup>th</sup> October 2008. The founders had set up companies that were older than two years but younger than ten years and had turnovers of between £250,000 and £20m.

It finds that nearly 60% of entrepreneurs will produce a return on investment in the early development phase of their business of more than 1,000%. 73% of them have created up to ten jobs since they started and 10.5% of them have grown to create more than 25 jobs since they started. On average the founder required £120,000 in start up finance and the entrepreneur has put in 72% of this amount. Nearly 40% of the entrepreneurs had set up a business before.

This time period incorporated unprecedented turbulence in the financial markets. While governments across the world were seeking to limit the effects on the real economy, particularly in terms of access to credit facilities for small business and a downturn in demand, a recession seemed inevitable.

Yet entrepreneurs are proverbially positive and this is borne out both by the survey results and the case studies in the report. Although 37% say that managing the macroeconomic climate and 34% say that managing cashflow have been difficult since they started their businesses, 77% of them find it easy or very easy to motivate themselves and they believe their businesses have generally performed well compared to expectations. A quarter said their business had

grown more quickly than they expected and 54% said it had grown at the rate they expected. As one business angel commented during the course of the research, “Entrepreneurs are really sticking at it and there is money to be made out there. A downturn presents huge opportunities!”

## Experience and Motivation

Some 40% of founders had set up a business before. Of these, women were more likely to have sold or merged their business than men while men were significantly more likely to have shut down a business and ceased to trade or put it into administration. Interestingly, though, the experience of previous entrepreneurship did not appear to have any influence over turnover growth but did appear to influence employment growth with those who had set up a business before a third more likely than those who hadn't to be in the high job creation category.

Motivation	% respondents
To follow business idea or dream	72.0
To help others follow through business idea or dream	19.2
Pursue market opportunity	69.3
To re-invest money from sale of another business	11.0
To do something different	60.5
Saw commercial potential from research	3.7
Autonomy over own time	73.0
Create a business with social or environmental impact	49.3
Replacement income after redundancy/early retirement	20.1
Make lots of money	64.5

**Figure 1: Entrepreneurial Motivations**

Entrepreneurs are motivated by many things, not just making money, and one feature of the data is that nearly 50% say that they set up their business to “make a difference” in terms of pursuance of social, environmental or job creation goals. While this is not reflected in the ownership structure of the business (profit motivation and private limited companies are the most common structures), it does suggest a social enterprise or at least a socially responsible orientation of the UK's entrepreneurs.

"If you look in more detail at company goals rather than company structures, you may well find that there are more socially or environmentally oriented enterprises out there."  
*Senior social enterprise adviser*

## Usefulness of Business Support

Entrepreneurs require £120,000 in start up finance and will put in 72% (or £86,400) themselves with no differences by gender. 38% of entrepreneurs will approach their banks to cover the gap between what they need and what they will invest and 33% will go to private investors. Men will also look to accessing private investor finance and other "network" sources of money while women look predominantly to their banks (60%). Business loans and business overdrafts are the most common form of bank finance irrespective of gender.

Source of finance	Total	Men	Women
Family and friends	8.7	9.4	3.0
Other private investors (not f&t)	32.9	36.1	7.7
Bank	37.9	34.0	68.2
Credit card	0.3	0.4	0.0
Formal equity finance/venture capital	0.2	0.2	0.0
Small Firm Loan Guarantee Scheme	3.3	3.5	1.5
Other government/public sector grants	4.0	2.7	13.6
Other partners and directors	15.3	16.5	6.1

**Figure 2: Sources of Finance by Gender**

13% of the founders had tried to access money for their business previously. The reasons for not getting finance were largely to do with preparation: over a quarter failed to get finance because their business plan was not viable and just under a quarter or did not meet eligibility criteria for the type of finance they were accessing. 15% had not been trading for long enough and 10% lacked collateral. 32% failed to get money from government and public sector sources of finance (excluding the Small Firms Loan Guarantee Scheme).

"I try to be as accessible as possible so that anyone can access finance. I don't charge a commission and I like to think that we help people through the process in a non-intimidating way. But I only get 7% of women through the door. This makes me sad."  
*Business Angel Investor*

Alongside this, entrepreneurs also access business support from a range of different agencies in the public and private sector with a third taking advice from their bank and 45% taking advice from professionals such as lawyers, accountants and consultants. Women are more likely than men to have accessed a variety of sources of advice than men and are also more likely to have found that advice useful. 18% of men said they hadn't sought advice from anybody.

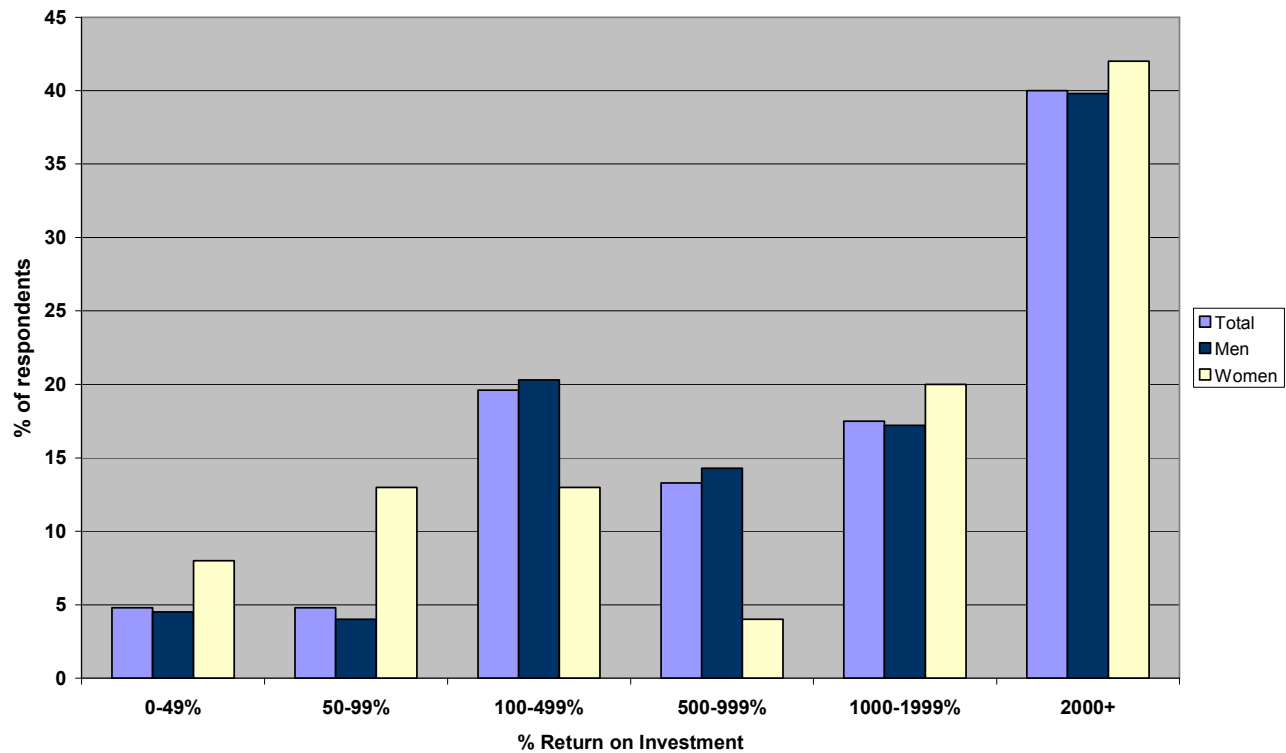
## Growth Paths and Value Creation

There are one or two surprises in terms of actual and expected growth patterns, both for employment and for turnover. First, there are no significant differences in either actual turnover or employment growth by gender or ethnicity. Expected turnover growth is greater for ethnic minorities, but men are more likely than women to expect high turnover growth. The distribution of turnover growth for women was heavily biased towards the lower turnover growth categories but, interestingly, the mean and median actual turnover growth for men and women do not differ significantly. This suggests that there are more very fast growing female founded businesses but that generally the female population has a lower propensity to grow in terms of turnover.

Second, there are regional differences in the average time it takes for fastest growth to happen both in terms of turnover and in terms of employment growth suggesting that there are some regions where growth in the early stages of business development is more rapid than others.

Much is made of the contribution of entrepreneurs to the economic development and growth of nations. As yet, proving a direct link between entrepreneurship and growth in Gross Domestic Product (GDP) has proved elusive. However, the results of the section on Wealth and Value Creation suggest that both in terms of Return on Investment (RoI) and in terms of turnover per employee (a rough estimate of productivity) the UK's young companies do make a substantial contribution. Median RoI is 1,200% from the time when the company was first set up to now suggesting substantial value creation. While the median RoI does not differ by gender, women are more likely to be represented in the "high RoI" groups of 1,000% - 1,999% and 2,000%+ than men.

Founders between the ages of 31 and 50 create the highest return on investment by age group, but there is no statistically significant difference by ethnicity. Interestingly, postgraduates require more than twice the average amount of start up finance for their business at £258,000 but equally have the highest return on their investment at 3,420%. They put in slightly less of the investment themselves (70%). Returns on Investment are highest in Northern Ireland and London.



**Figure 3: Return on Investment by Gender**

Turnover per employee is a crude indicator of wealth creation, or productivity. Median turnover per employee in the UK is £90,000 and there are no significant differences by gender or education. Founders from Minority Ethnic groups have a higher median turnover per employee (£100,000) than their White counterparts from the British Isles. Again, Northern Ireland and London have the highest turnover per employee at £166,667 and £125,000 respectively.

To complete the value creation picture, we asked entrepreneurs to rate on a scale of 1-5 their own performance in terms of “hard” or “tangible” value creation (such as profitability, cashflow, salaried jobs, market share, market capitalisation and dividend payments) and “soft” or “Intangible” value creation (such as non-salaried or voluntary jobs, environmental impact, employee welfare, social impact, brand and intellectual property protection).

What is most striking about this analysis is that entrepreneurs lean substantially towards being positive about the value they create generally and about the “intangible” value they create in particular. There are no differences in how entrepreneurs rank themselves by age and there are no differences in terms of prior

entrepreneurial experience either. However, gender does make a difference with women more likely to rank themselves highly in terms of both types of value creation. White British Isles entrepreneurs are more likely to rank highly their intangible value creation and there are significant regional differences with entrepreneurs from the North West rating themselves more highly on both indicators than other regional entrepreneurs.

## Management Challenges and Opportunities for Growth

67% of entrepreneurs said that maintaining profitability was the most immediate challenge to growth and 64% said that managing the current economic climate was the most immediate growth challenge. These results have to be seen in the context of the financial and economic climate at the moment and will inevitably change with the economic cycle. Of the 32% who said that accessing finance was an immediate

growth challenge, over a third said this was because of the credit crunch.

Interestingly, the gender differences in responses to these questions about immediate growth challenges were significantly different. Only a half of women, compared to nearly two-thirds of men saw the macroeconomic environment as a challenge and women were also less fazed about access to finance, credit profiles and general difficulties in the sector they were operating in. This may be because of differences in the nature of women's businesses compared to men: although their growth, investment and return on investment profiles are the same as men's, the sectors in which they operate are different and the way in which women approach problems is different.

"Women cope with the same problems in entirely different ways. That means that they will see the immediate economic challenges as something to be dealt with in a more rounded way. Men tend to see it just in terms of the money side of the business."  
*Women's business support adviser*

management factors (such as marketing and sales, team building, cashflow management, motivation and Intellectual Property development) from 1 (very negative impact) to 5 (very positive impact). We also asked them to rank the impact of "external" factors such as the taxation or regulatory environment, access to finance, the macroeconomic environment and so on.

Neutral responses would have produced a mid-point of 3 and the mean responses were on average below that for both internal and external challenges to growth at 2.56 and 2.76 respectively. This suggests that entrepreneurs are less concerned about the macroeconomic and external environment than they are about their capacity to manage their businesses effectively in the next 12 months.

Particularly low responses were in the finance, insurance and real estate sector at 2.3. Although there were significant differences in the "internal" management factors by region, there were no differences in the "external" factors suggesting that these have a similar effect irrespective of location across the UK. Men were more negative than women about the impact of both external and internal factors on how they have grown their business.

Entrepreneurs can see immediate challenges to growth. We asked respondents to rank the impact of "internal"

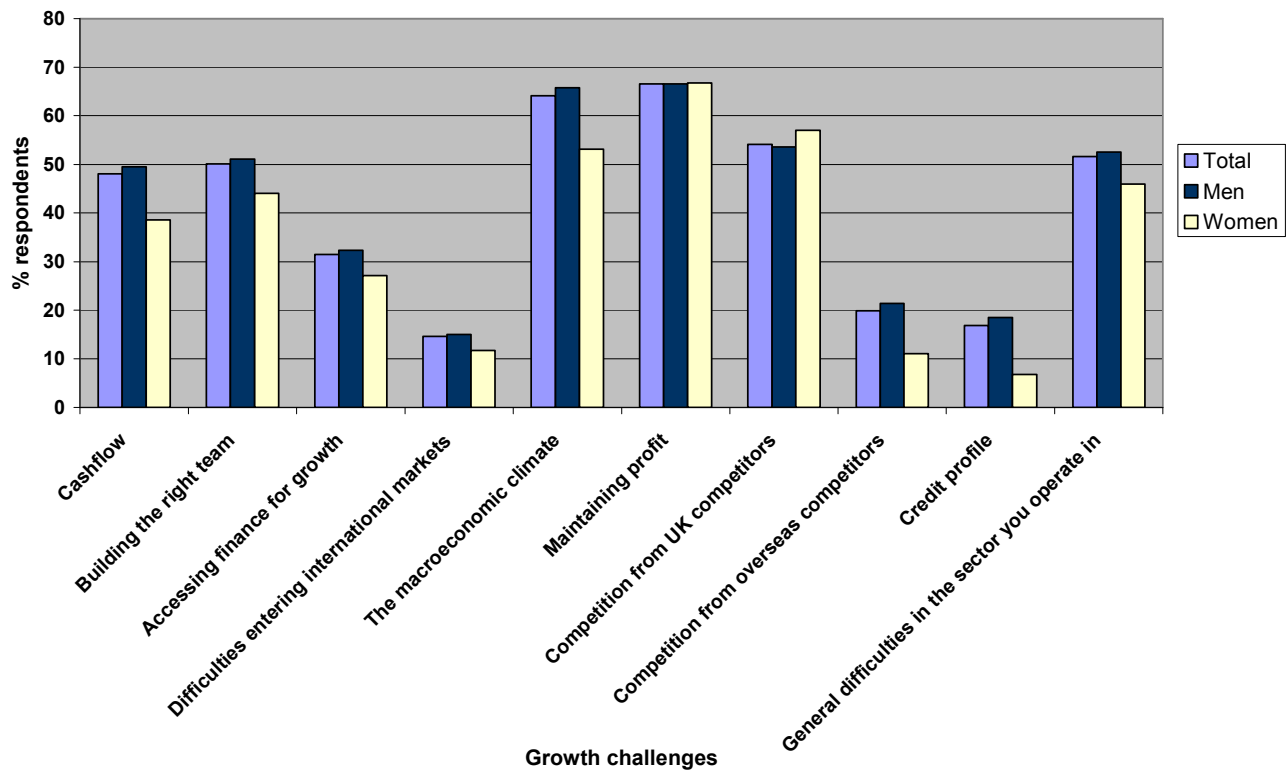


Figure 4: Immediate Challenges to Growth

## Reflections

This first COGS survey has addressed some of the key assumptions that are often made in business support, both in policy and in the private sector. For example, it is often assumed that women will invest less than men in their business and have lower actual growth and growth expectations. It is also assumed that women have problems with accessing finance from banks. We have found no evidence of any of this from the data presented here, although women were significantly less likely to access business angel finance compared to men.

Similarly, there do appear to be some regional differences in terms of return on investment at a regional level, but no differences in turnover per employee. This is important as the result simply reflects the fact that entrepreneurs invest different amounts and produce returns differently, to a large extent based on the sectoral and demographic mix of a region as much as any intrinsic regional differences. While there are published regional differences in Gross Value Added, on the basis of this preliminary analysis, these would not appear to emanate from the productivity of the entrepreneurial base (as estimated by turnover per employee) as this does not differ regionally. There are regional differences in how entrepreneurs assess their tangible and intangible value creation but these could emanate as much from differences in the impact of internal management factors (such as the capacity to build teams or manage cashflow). Given that the effects of the external business and economic environment are the same in every region, this would seem a sensible interpretation.

Finally, it is the entrepreneurs themselves that were the focus of this first COGS survey. They are motivated by a variety of factors, not just money; those who have set up businesses before do not differ substantially to those who have not except in actual job creation and as the case studies and the results demonstrate, the confidence of entrepreneurs to grow their business in spite of the current economic and financial climate remains. Even so, there are challenges ahead and entrepreneurs themselves recognise this. While we might be impressed by their determination, it is the responsibility of the support sector to ensure that the responses to the questions on the usefulness of business advice and support remain positive!

### Acknowledgements:

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