

Managing the risks of competitive markets

Key findings from an independent programme of research

February 2016



Executive summary

According to the World Economic Forum thinktank¹, Britain is currently the 10th most competitive economy in the world, based on an amalgam of 100 different indicators that range from the quality of infrastructure to the flexibility of labour markets.

The UK has long been regarded, however, as having a poor labour productivity performance: the 'UK productivity puzzle', as it is sometimes referred to, has become a significant source of concern to policy-makers and, more generally, an on-going subject of research, analysis and debate.

In a highly competitive environment, there is a business imperative for decision-makers to explore ways of enhancing the operational efficiency, productivity or competitiveness of their organisations. Perhaps most importantly, though, it is crucial they identify and prioritise the improvements that will make the most difference. There are many different routes that can be explored: some, however, may be more risky in practice than others; and some may be more effective in their impact on the operational performance of the organisation.

QBE has been monitoring business perceptions of risk, and the associated corporate risk management agenda, since the latter part of 2013 and is pleased to share the findings from this, the fifth, wave of its Business Risk Sentiment Survey. Interviews with 375 key 'risk' decision-makers from small, medium sized and larger businesses were conducted in November and December 2015.

As well as continuing to monitor some of the key trends in business risk, which have an important influence on business confidence and investment intentions, the focus of the latest survey has been on exploring the issue of business competitiveness - drawing both on companies' operational performance initiatives as well as on their workforce strategies.

Our survey sought to explore the following issues:

- What specific steps have UK businesses been taking to improve their operational efficiency, labour productivity or competitiveness?
- How effective have these proved in practice? And which types of initiatives appear to have the greatest track record of success?
- What employment strategies have businesses been taking to support the development of their workforce?

The overriding conclusion from the research is that there has been a lot of recent activity by UK businesses to respond to the challenge set by highly competitive markets. Nevertheless, there appear to be relatively few initiatives being undertaken to improve operational efficiency or productivity that are proving 'very effective' in practice. Many companies are indeed achieving a degree of performance improvement through the initiatives they are implementing. However, the key question is whether the improvements being achieved are sufficient given the testing environment in which businesses are competing.

¹ As reported in the Guardian, 30 September 2015

“ In a highly competitive environment, there is a business imperative for decision-makers to explore ways of enhancing the operational efficiency, productivity or competitiveness of their organisations. ”



Key research findings

- Three in ten (30%) businesses perceive that the overall level of risk has increased over the last six months. Moreover, just over three in ten (31%) businesses feel that the overall level of risk is likely to increase over the next six months.
- Perceptions of business risk are currently being driven by heightened perceptions of cyber-crime and data security risk, as well as competitor activity and market pricing risk.
- Nearly all (94%) businesses have taken specific steps to improve their performance over the last 12 months. 64% have taken steps to improve price competitiveness; the same proportion have increased their focus on non-price competitiveness. 85% have taken steps to improve operational efficiency while 70% have taken steps to improve labour productivity.
- Despite the high volume of initiatives being conducted to improve operational efficiency and labour productivity, the survey feedback suggests that only a minority of individual steps taken are considered to have been 'very effective':
- Businesses have also been utilising a number of employment strategies to build and support their current workforce. For example, the use of contract staff has been used by just over one in three (34%) businesses, whilst one in four (23%) have specifically recruited non UK nationals.
- For the 80% of businesses that have taken specific steps to recruit non UK nationals, the recruitment strategy has helped to fill skills gaps or applicant shortages that would otherwise have existed. However, many businesses have seen other benefits such as improved productivity, efficiency or service levels; a boost to innovation; or gaining access to new business connections either in the UK or internationally.
- Looking forward, nearly nine in ten (87%) companies expect to increase their business investment in the next 12 months while 40% plan to specifically increase their investment in risk management systems and processes.

3in10

businesses perceive that the **overall level of risk** has increased over the last 6 months

94%

of businesses have taken specific steps to improve their performance over the last **12 months**

87%

expect to **INCREASE** their business investment in the next twelve months



23%

of businesses have specifically recruited **non UK nationals.**

Data Breach

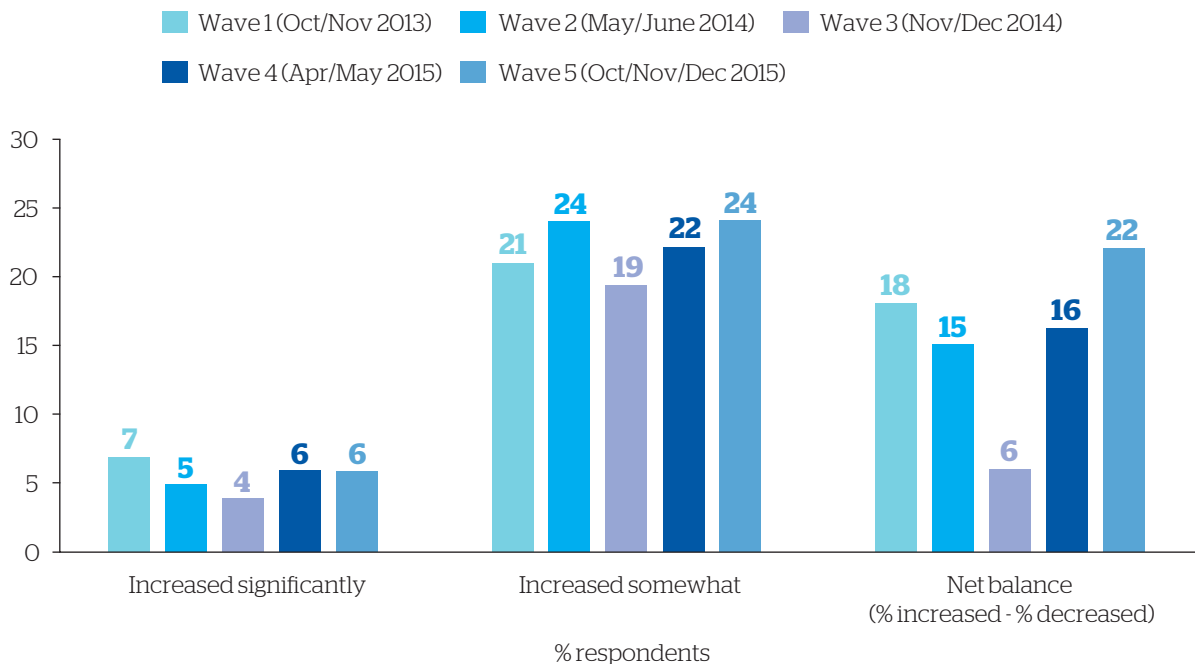
Cyber Attack

The risk environment

Despite a positive return to economic growth over the last two to three years, it is clear from the feedback of those contributing to our survey that UK businesses are continuing to operate in what they consider to be a genuinely 'risky' environment. In the face of global economic headwinds, high profile cyber-attacks and highly competitive markets, risk pressures are actually on the increase.

Three in ten respondents perceive there to have been an increase in overall business risk over the last six months. By contrast, only one in twelve perceive the overall level of risk to have reduced over the period. Accordingly, the net balance of businesses (i.e. those reporting an increase less those reporting a reduction) has risen to 22%, the highest level reported to date.

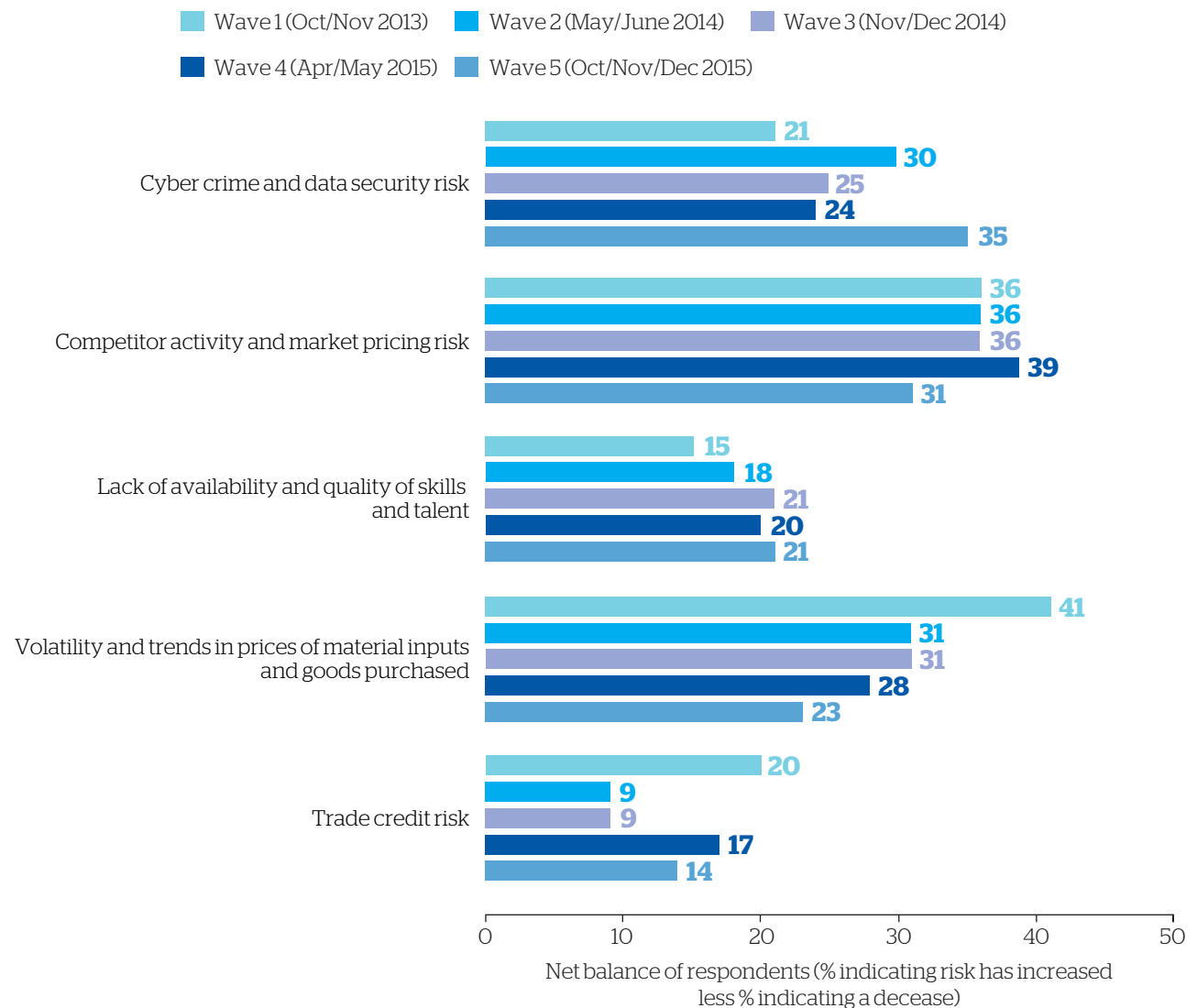
Perceptions of the overall level of business risk (in the last six months)



Heightened perceptions of business risk are being driven from many directions. For the first time since the survey began in 2013, the lead area of increased risk is cyber-crime and data security. Intense competitive pressures continue, however, whilst a net balance of over one in five (21%) businesses are experiencing an increase in the lack of availability and quality of skills and talent.

Perceptions of changes in risk (in the last six months)

Net balance of respondents (%indicating risk has increased less % indicating a decrease)

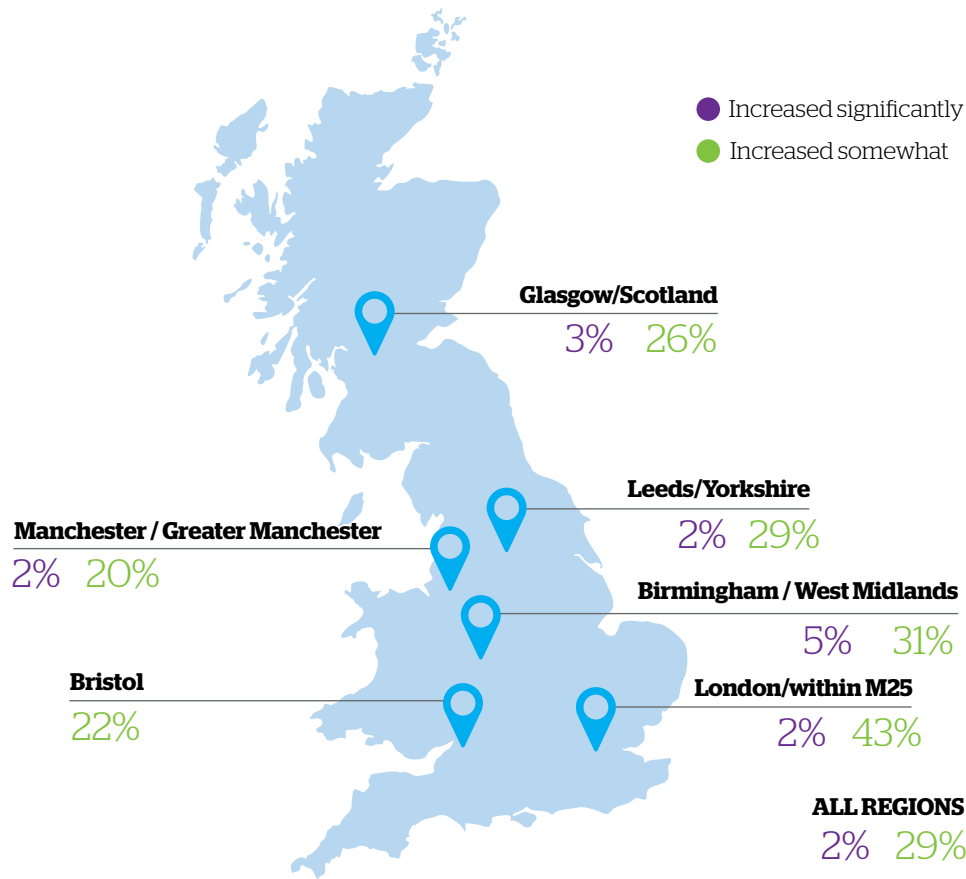


Looking ahead

It is also apparent that there is unlikely to be any early lessening of the risk pressures facing UK businesses. Over three in ten (31%) of businesses expect an increase in overall business risk in the next six months, compared with just one in fourteen (7%) that expect an improvement. The majority (62%) of respondents expect the overall level of business risk to stay at roughly the same level in the next six months.

This somewhat pessimistic view about the immediate outlook for risk is shared by companies of different sizes. However, it is particularly evident in the responses of companies in the Building/Construction sector, as well as those in the London (within the M25) area.

Perceptions of the overall level of business risk (in the next six months)
Analysis by region



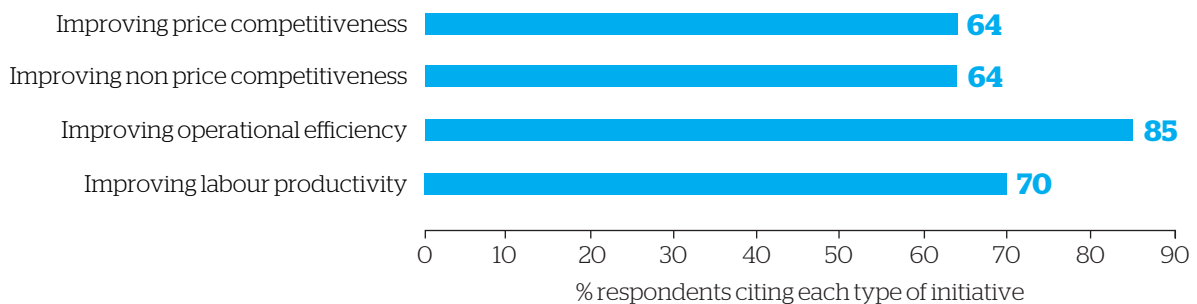
Towards an improvement in operational performance

The survey feedback confirms that businesses have been responding to the challenge presented by the highly competitive market environment by looking at ways in which they can drive through improvements in their operating performance. Unfortunately, however, it is apparent that not all the activity is proving effective.

The drive towards improved performance is well spread across smaller companies (fewer than 50 employees), medium sized businesses (50-249 employees) and larger companies (250+ employees).

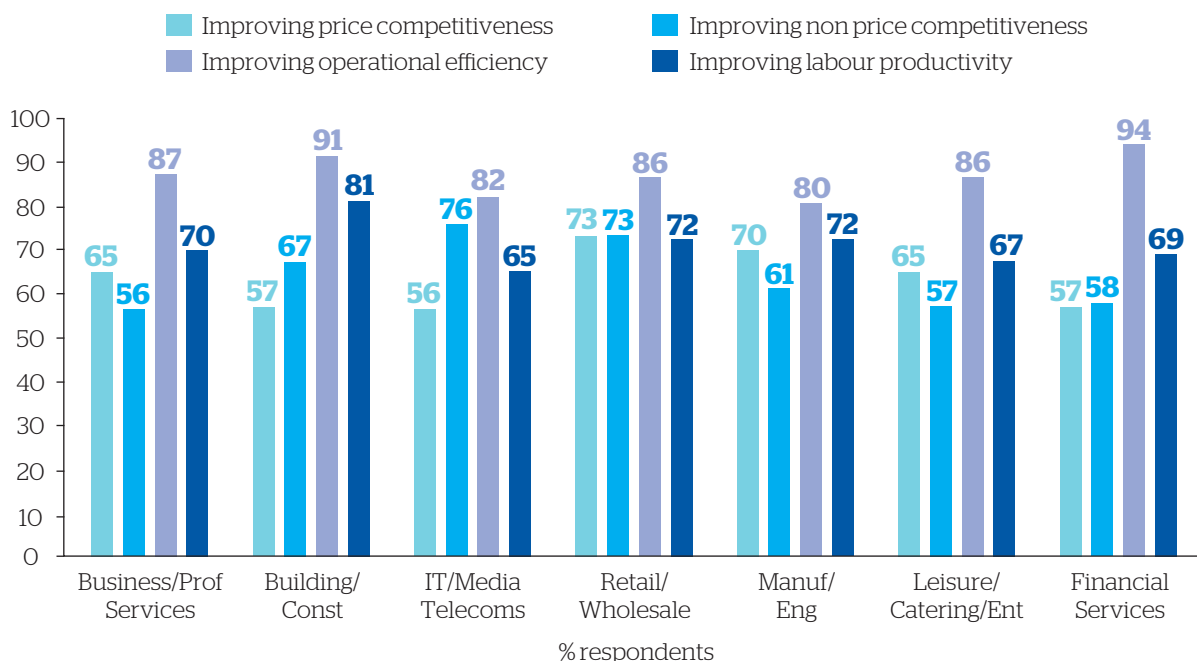
Over the past 12 months, only 6% of businesses report that they have not explored any of the four performance improvement steps covered in our survey research. Nearly six in every seven (85%) have taken steps to improve their operational efficiency, and seven in ten (70%) have sought to improve their labour productivity. Efforts to improve both price and non-price competitiveness have been made by nearly two in every three (64%) businesses.

Steps taken to improve the performance of the business (past 12 months)



Analysis of the findings reveals some differences in emphasis between industry sectors. For example, the Retail/Wholesale and Manufacturing/Engineering sectors have seen the greater focus on improving price competitiveness; and the IT/Media/Telecoms and Retail/Wholesale sectors have seen the greatest focus on non-price competitiveness. The drive towards performance improvement is, however, reflected in all seven of the industry sectors covered by the survey.

Steps taken to improve the performance of the business (past 12 months) Analysis by industry sector





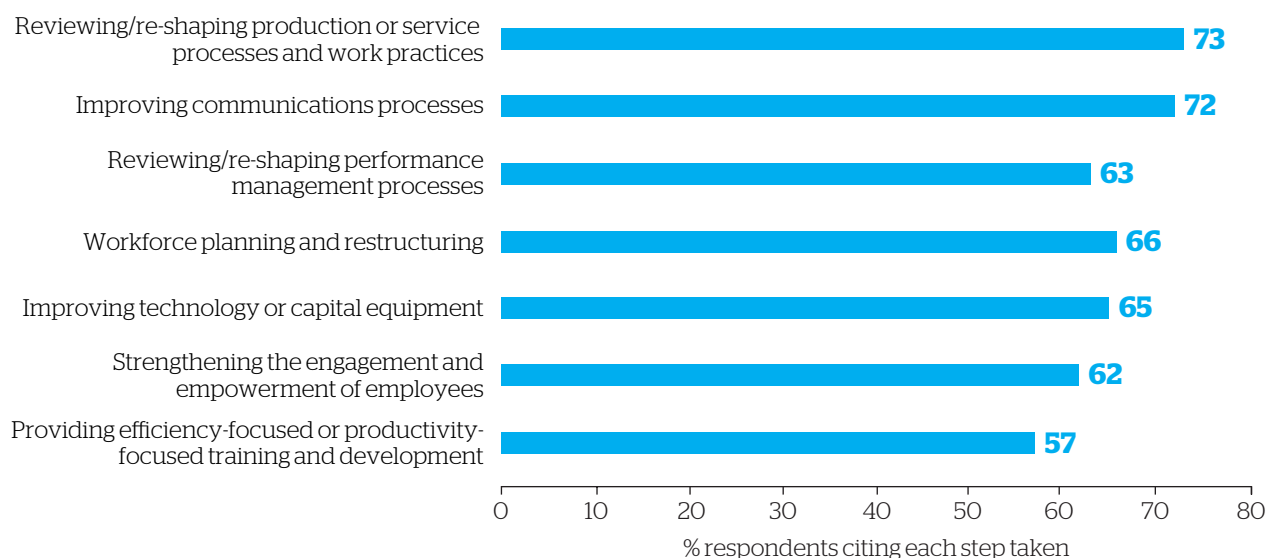
The training and development 'gap'

In the research we also drilled down (for those businesses that indicated they had undertaken initiatives to improve operational efficiency or labour productivity) into the specific areas of focus and the perceived effectiveness of the individual steps taken.

Of those businesses that have taken steps to improve their operational efficiency and/or labour productivity in the last 12 months (which constitute 88% of the overall survey sample), over seven in ten (73%) have sought to review or reshape production or service processes and work practices; a similar proportion (72%) have sought to improve communication processes.

A wide range of other types of initiative have also received a relatively high level of emphasis. What is perhaps surprising though is that the initiatives taken have been backed with efficiency or productivity focused training and development in less than six in ten (57%) businesses.

Specific steps taken to improve operational efficiency/productivity

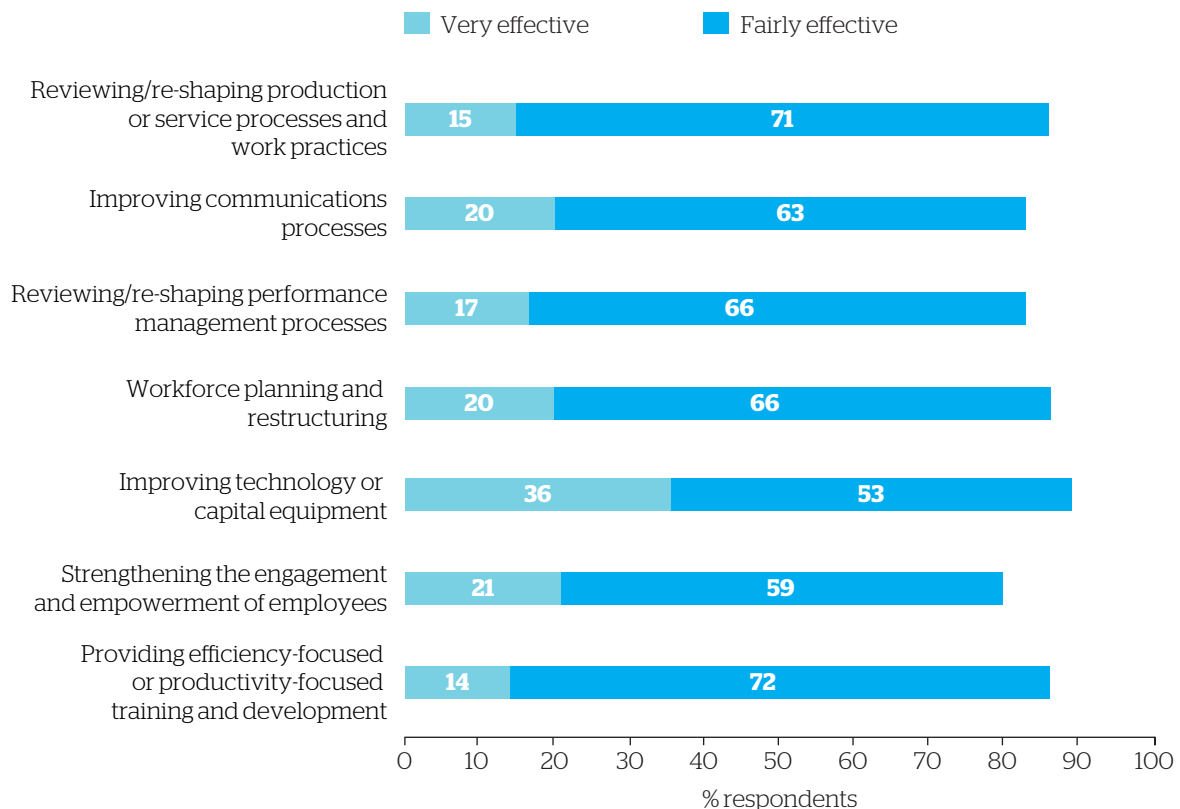


Making a difference

Whilst the survey feedback presents a picture of fairly considerable activity, a key question is whether the initiatives undertaken have, in practice, proved effective in terms of their impact on levels of labour productivity or operational efficiency.

Clearly from the feedback, some types of initiatives more frequently prove 'effective' than others. Improving technology or capital equipment, for example, is deemed 'very effective' in just over one in three cases, not itself a particularly high return. By contrast though, reviewing/reshaping production or service processes and work practices is deemed 'very effective' by less than half that number (15%); similarly, providing efficiency-focused or productivity-focused training and development is cited 'very effective' by just one in seven of the businesses that have taken that step.

Effectiveness of steps taken to improve operational efficiency/productivity (Businesses taking each step)

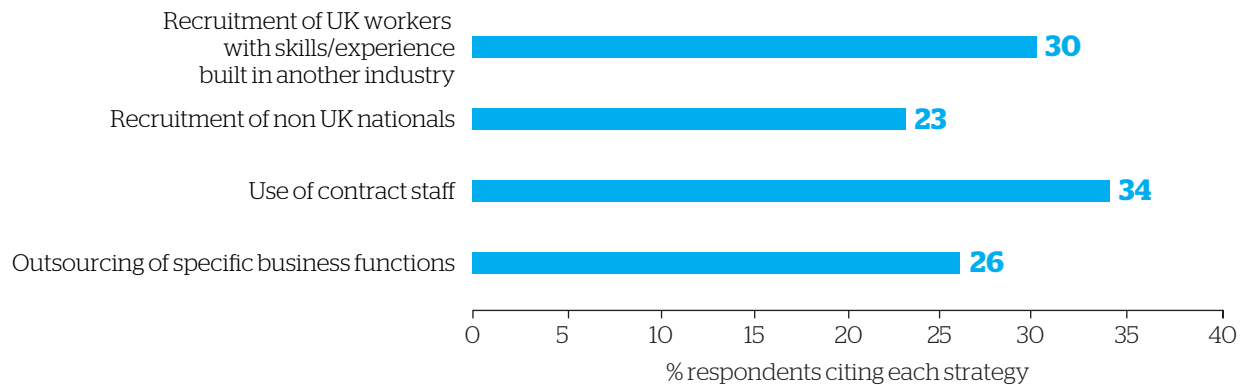


The research therefore suggests a new 'productivity puzzle' for UK businesses. On the one hand, the degree to which steps to enhance operational efficiency and labour productivity are backed by specific training and development appears relatively weak. And yet, when training and development programmes are put in place, it is too often the case that they are only partially effective in helping to secure the improvements in efficiency and productivity that are needed by UK businesses. For the UK truly to solve the 'productivity puzzle', it seems that improving the effectiveness of training and development needs to become more centre-stage.

Workforce strategies

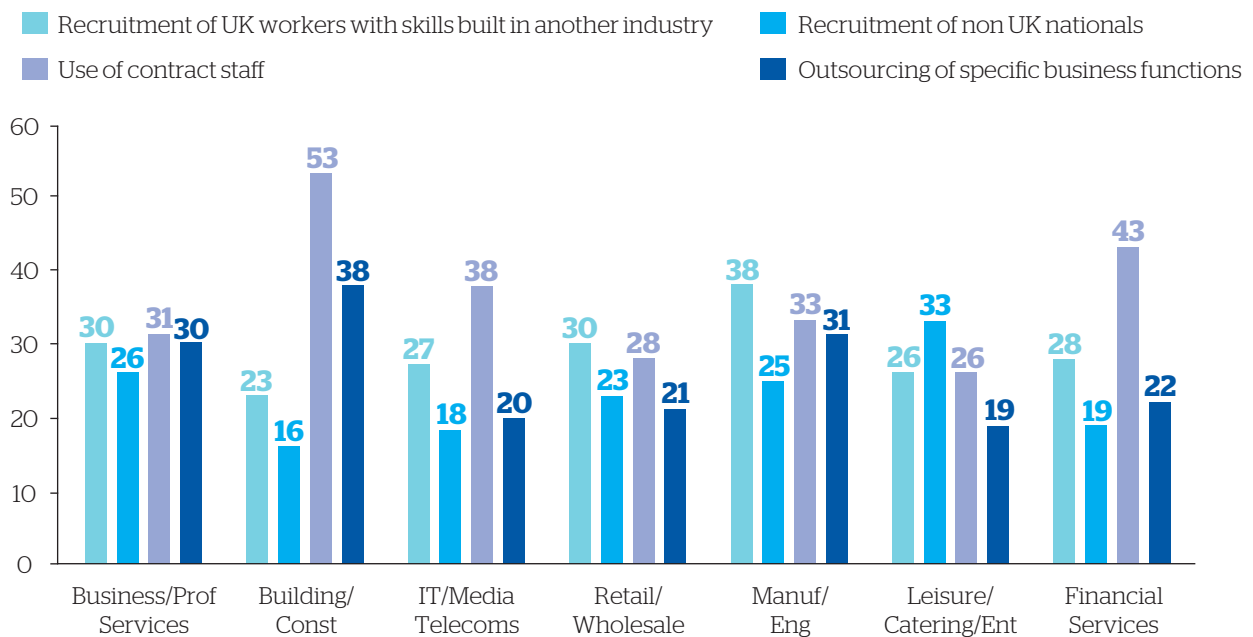
Businesses have also been utilising a number of strategies to build and support their current workforce. The use of contract staff has been a strategy employed by just over one in three businesses, whilst three in ten have recruited UK workers with skills/experience built in another industry. In addition, over a quarter have outsourced specific business functions; and almost that number again have pursued a strategy of recruiting non UK nationals.

Strategies utilised by companies to build/support their current workforce



Within the overall results, there are some clear differences in emphasis between individual business sectors. The use of contract staff, for example, emerges as central to the ongoing operation of the Building/Construction sector; whilst Leisure/Catering/Entertainment has the highest level of focus on the recruitment on non UK nationals. Manufacturing/Engineering is the sector most likely to recruit UK workers with skills/experience built in another industry.

Strategies utilised by companies to build/support their current workforce Analysis by industry sector



For eight in ten (80%) of those businesses that have taken specific steps to recruit non UK nationals, the recruitment strategy has helped to fill skills gaps or applicant shortages that would otherwise have existed.

Businesses have experienced a number of additional benefits too:

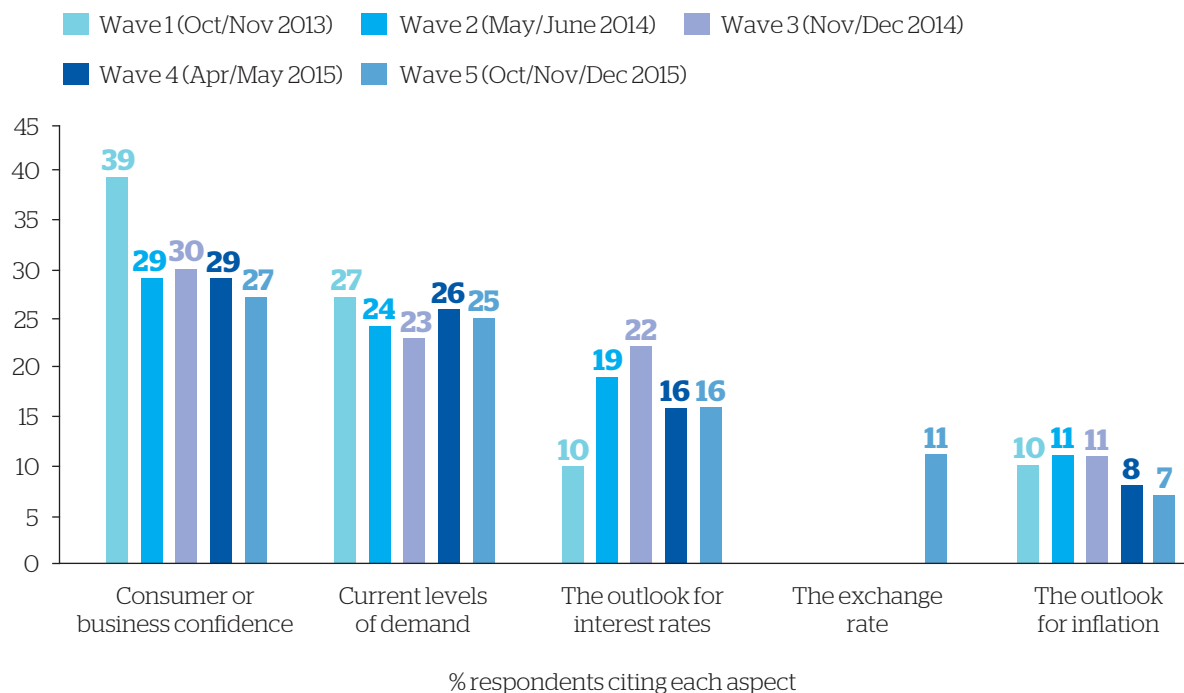
- For over half (58%), the strategy has provided a boost to company productivity, service levels or operational efficiency.
- For one in four businesses, there has been a boost to innovation.
- Similarly, for just under one in four (24%) the recruitment of non UK nationals has provided the company with access to new business connections, either in the UK or internationally.



Investing for future business performance

A perceived lack of confidence is still the aspect of the UK economic environment that is of most concern to businesses – just ahead of concern about current levels of demand. The proportion of businesses citing interest rates is unchanged over the last six months.

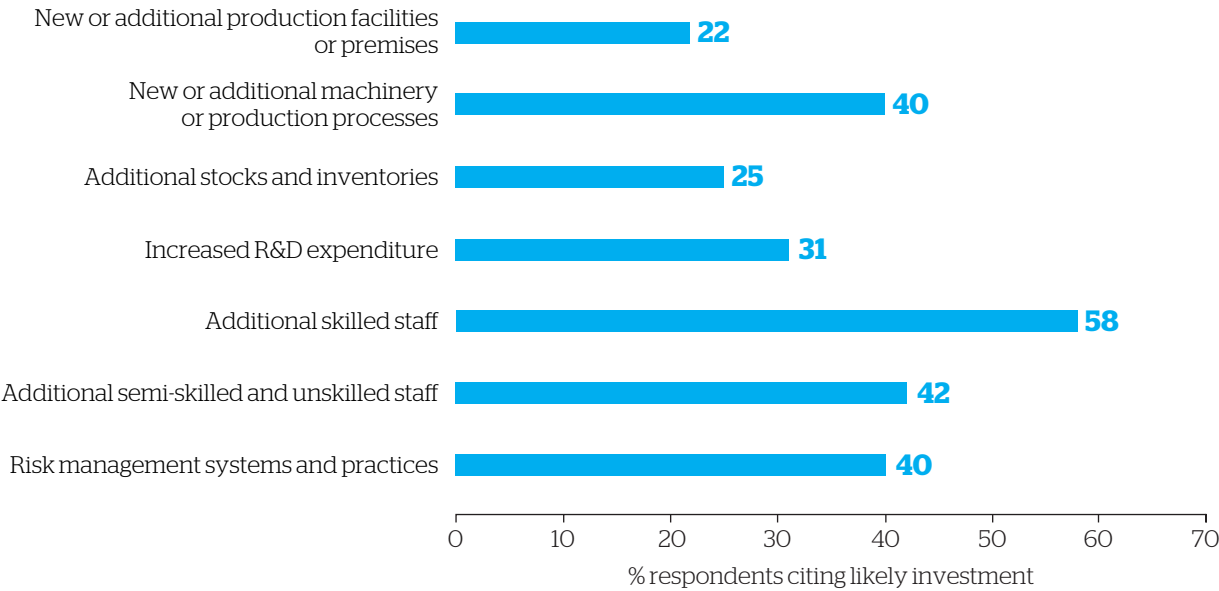
Aspects of concern about the UK economic outlook



Note: the exchange rate was not explicitly covered in previous waves of the survey, although it was spontaneously mentioned by a number of respondents.

Despite the heightened perceptions of business risk, and the continuing concerns about confidence and current levels of demand, investment expectations remain relatively robust. Indeed, only one in eight survey respondents were not able to signpost future investment in any of the eight areas specified – an improvement on the readings of investment prospects reported in the previous two surveys.

Expected areas of business investment (in the next 12 months)



The most frequently cited area of expected business investment continues to be 'additional skilled staff', an objective that may prove difficult to achieve given the lack of availability of skills and talent flagged by survey respondents. However, in view of the trend in overall business risk, one of the most encouraging results is the expected increase in investment by businesses in risk management systems and processes. Four in ten (40%) respondents in our survey expect to increase their investment in risk management systems and processes, the highest reading on this indicator since the survey started.





How the research is conducted

The interviews for the Business Risk Sentiment Survey are conducted and analysed for QBE by an independent research agency.

The job title of individual respondents contributing to the survey varies from organisation to organisation, but each of our contributors confirms that he or she is personally involved in decision-making about managing risk.

The research is focused on 7 key industry sectors (defined by SIC codes) and 6 specific UK regions (defined by post code).

INDUSTRY SECTORS COVERED	REGIONS COVERED
Business/Professional Services	Birmingham/West Midlands
Building/Construction	Bristol
IT/Telecoms/Media	Glasgow/Scotland
Retail/Wholesale	Leeds/Yorkshire
Manufacturing/Engineering	London (within M25)
Leisure/Catering/Entertainment	Manchester/Greater Manchester
Financial Services	

Companies targeted for interview have a minimum of 5 employees and a maximum of 1,000 employees. Within these parameters, interviews are spread across three company size categories: 5-49 employees; 50-249 employees; 250+ employees.

The results for the majority of questions are presented on an unweighted basis. However, for reasons of comparability of the results from wave to wave, the results for the questions focusing on the overall level of risk are weighted to an equal spread by company size.

For Wave 5 of the survey, 375 interviews were conducted. Interviewing began in the latter part of October and ran through to the early part of December 2015.

About QBE

QBE is a business insurer. We understand the risks businesses face and support organisations from a diverse range of sectors in managing and mitigating their risk enabling them to realise their objectives.

An A+ rated insurer, we have the appetite and capacity to provide cover for businesses of all sizes.

Our extensive product range includes:

Accident and health (inc commercial PA and business travel)	Pharmaceutical and medical
After the event insurance	Political risk and terrorism
Commercial crime	Product guarantee and recall
Commercial combined	Product protection
Contractor all risks/EAR	Property
Energy, offshore and onshore	Reinsurance
Entertainment and leisure industry	Scheme underwriting facility
Environmental impairment liability	Specie
Financial and professional liability (Cyber Liability, Director's & Officer's, Professional Indemnity)	Surety/bonds
General liability (Employer's Liability, Public Liability, Tradesman)	Trade credit
Marine	Warranty and GAP
Motor Commercial (inc fleet, haulage, bus and coach, motor trade)	

Risk management

Effective risk management is a feature of all successful organisations – and it's one of our key underwriting considerations. We work closely with businesses to improve their systems and processes; minimising their exposure to risk and helping to reduce the frequency and severity of any losses.

We stand by our claims

Inevitably, claims do occur. That's when businesses really discover the value their insurance company delivers. We pride ourselves on our positive attitude and proactive approach to claims management. Our claims teams have a deserved reputation for the professional, efficient and sympathetic way they work with brokers and clients when losses are incurred.

Local knowledge

UK underwriting offices: London, Belfast, Birmingham, Bristol, Chelmsford, Glasgow, Leeds, Manchester and Stafford.

To find out more

For more information about QBE and how we can help your business, please visit our website **www.QBEurope.com**

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