



London Annual Business Survey 2006

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Foreword

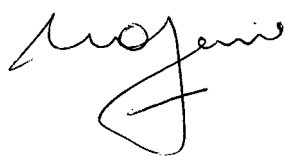
The 2006 London Annual Business Survey (LABS) is the fourth annual survey of private sector businesses in London undertaken by the London Development Agency (LDA).

LABS is based on a robust and representative sample of businesses in London. 5,600 businesses took part in the survey, which was conducted by telephone between October and December 2006. The report outlines the key findings that emerged from the data in 2006 and also assesses how businesses and the environment in which they operate have been changing over time by comparing the data from 2006 with previous years' surveys.

The 2006 survey showed significant improvements in business performance. The balance of businesses reporting increases in employment, turnover and profitability all rose in 2006 from 2005, with the balance of businesses increasing employment higher than in any previous survey.

In terms of the major challenges that businesses in London face, availability of skilled employees continues to be the most serious reported problem, although it has not increased significantly as an issue compared with 2005. Transport within London, particularly over the past year, and availability of affordable housing are also given as serious problems. These problems are, however, not faced equally by all businesses and LABS enables us to identify those businesses that have particular problems.

LABS provides a comprehensive overview of the profile of businesses in London and the nature of the issues that they face. This information enables the LDA to improve the effectiveness of the support that they give to businesses in London and to ensure that London maintains its position as a leading global location for business.



Manny Lewis
Chief Executive
London Development Agency

Introduction

1.1 Objectives of the survey

The 2006 London Annual Business Survey (LABS) is the fourth annual survey of private sector businesses in London undertaken by the London Development Agency (LDA).

The objectives of the annual survey are to:

- collect indicators of the performance of private sector businesses in London, to allow the factors that influence business performance to be analysed, and assist in the development of LDA policies and activities
- analyse the impact of London's physical and social infrastructure on businesses
- identify issues faced by businesses where help and support may be beneficial
- monitor the change in these factors over time

This survey is widely used by organisations in the Greater London Authority (GLA) group to look at issues affecting businesses in London. LABS is also used by the LDA to monitor progress on London's Economic Development Strategy (EDS).

1.2 Methodology

Survey methodology

The survey covers all types of private sector businesses except for the self-employed. The survey is telephone based and aimed at the CEO/MD, other director or senior manager. The fieldwork for the 2006 survey was undertaken between October and December 2006, with 5,600 businesses being interviewed. The survey was undertaken on a quota sample basis. This approach involves over-sampling certain sizes of businesses, sectors and sub-regions in order to obtain statistically robust sample sizes for these categories, and then re-weighting these categories back to the actual population of businesses in London.

The 2006 questionnaire contained 78 questions¹ covering:

1. Business profile (q1–17)
2. Workforce (q19–25)
3. Turnover, profit and productivity (q26–31)
4. Investment and access to finance (q32–41)
5. Sales and purchasing (q42–45)
6. Barriers and enablers (q46–48)
7. Information technology and innovation (q49–52)
8. Research & Development and collaboration (q54–62)
9. Business practice and advice (q63–69)
10. Management competencies (q74–78)

¹ There were no questions 18, 20, 22, 53, 70, 71, 72, 73 and 77 in the final survey

Analysis of results

LABS is a comprehensive survey but care should always be taken in the interpretation of any survey results. We can only say that certain results are likely to be true. We have therefore used formal statistical tests throughout this report to show how confident we are in any results. The tables in this report have been colour coded to show where we are 95% confident that the percentage of businesses in a sub-category giving a particular answer is significantly different from the answers given by other businesses. This gives us a clear guide on what differences we should be concentrating on.

We have also used formal statistical analysis to look at how different factors affect the performance of businesses in terms of the growth in their employment, turnover, productivity and profitability. Many factors affect the performance of businesses and it is important to separate out the influence of these different factors. For example, businesses in the Financial Services sector tend to be larger than business in other sectors but we want to know to what extent their better performance is due to the sector they operate in or their size; and controlling for these differences, what other factors such as their business strategies may affect their performance. The results of this analysis are given at the end of each chapter.

1.3 Report structure

The report divides into three sections:

Section 1 – Economic performance of businesses in London

Section 2 – Structure of businesses in London

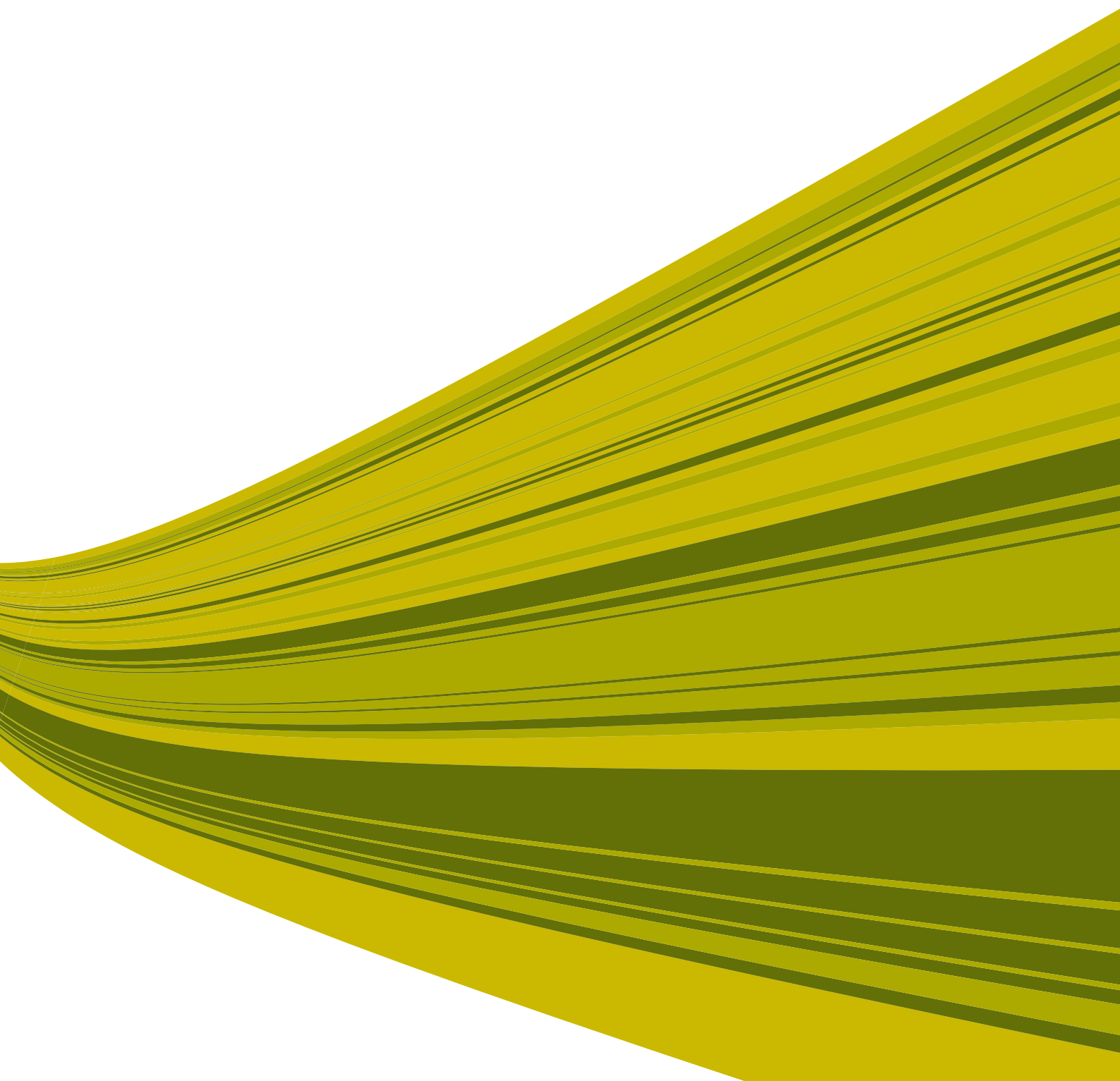
Section 3 – The operation of businesses in London

Section 1

Economic performance of
businesses in London

2 Employment, turnover, productivity and profitability

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Chapter 2

Summary

- The balance of businesses reporting increases in employment, turnover and profitability all rose in 2006 from 2005. The balance of businesses increasing employment was higher than in any previous survey. The balance of businesses stating that turnover had increased nearly reached the peak level reached in 2004; however the balance reporting an increase in profitability rose less strongly. The balance of firms reporting an increase in productivity showed only a small fall from the figures reported in 2004 and 2005.
- Businesses are optimistic about employment, turnover, productivity and profitability over the next year, with more businesses anticipating increases than decreases in these measures. The balance of businesses anticipating increases in turnover and profitability is slightly higher than in 2005, but the balances for employment and productivity is slightly lower. Compared with 2004, the balances for increases in employment and turnover are similar, though those for productivity and profitability are lower. The balances on all measures are much stronger than in 2003.
- The reason most often given by businesses in LABS 2006 for increasing employment was simply to meet higher demand for their products/services. The next most common reason given by businesses was that they required new staff with specific skills, then that they had introduced new products/services and then because of general restructuring of the business. This ranking of reasons given for increasing employment is very similar to that given in LABS 2004 and 2005.
- The main reason given by businesses for decreasing employment was that there had been a fall in demand for their particular product/service. General restructuring of the business, increasing competition and shortage of skilled workers were the next most common reasons given, with a higher percentage of firms citing these reasons in 2006 than in 2005, and with shortage of skilled workers moving above pressures on cash flow/bad debt in the ranking.
- The four main reasons given for achieving productivity gains were an increase in demand, greater IT use, flexible working patterns and installation of technologically advanced equipment. Among these the proportion of businesses citing greater IT use has risen compared with 2005.
- As in 2004 and 2005, a fall in demand for products or services was the main reason that firms gave for falling productivity, followed by government regulations and inability to recruit skilled labour. However there was a sharp drop from 2005 in the proportion of firms citing each of these reasons, particularly for government regulation and recruitment.

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2.2 Employment

2.3 Turnover

2.4 Productivity

2.5 Profitability

Chapter 2

2.1 Introduction

This chapter looks at the economic performance of businesses across London in terms of changes in their employment, turnover, productivity and profitability. LABS asks the businesses surveyed each year how their employment, turnover, productivity and profitability has changed over the previous 12 months and also asks about the reasons for changes in employment and productivity. The survey also asks businesses each year how they expect employment, turnover, productivity and profitability to change over the next 12 months and therefore provides an indication of the likely performance of the London economy in the short term.

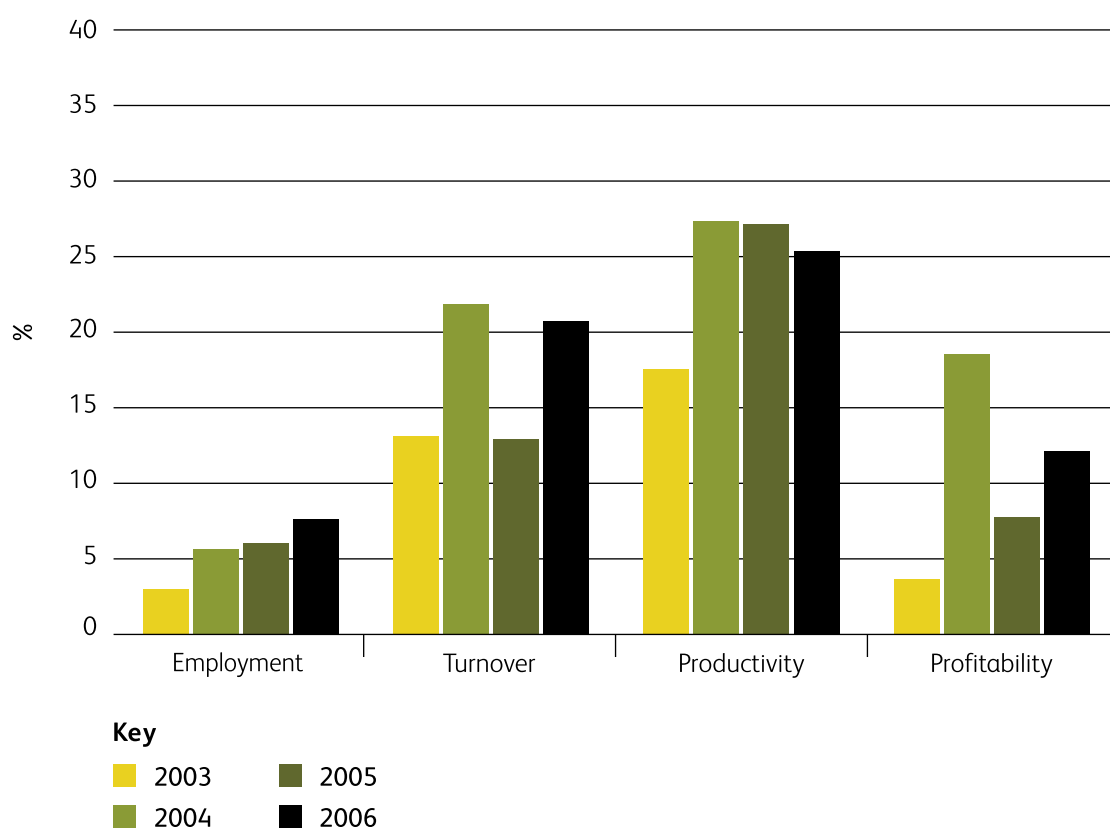
Multivariate analysis has been used to analyse the effect that different factors have on businesses' performance and the results are covered at the end of each relevant chapter. The reasons for productivity and employment changes discussed in this chapter are those reasons given by the businesses themselves.

Table 2.1: The performance of London's businesses

	Decreased				Remained same				Increased				Don't know				Balance of +ve over – ve			
	03	04	05	06	03	04	05	06	03	04	05	06	03	04	05	06	03	04	05	06
	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%
Employment	12.3	10.5	12.7	10.5	71.4	72.3	67.4	70.8	15.3	16.2	18.8	18.2	0.9	1.1	1.1	0.5	3.0	5.7	6.1	7.7
Turnover	19.9	19.4	26.7	22.9	34.3	32.8	28.4	27.2	33.1	41.4	39.7	43.8	12.7	6.4	5.3	5.3	13.2	22.0	13.0	20.9
Productivity	6.4	6.4	7.8	8.3	57.6	54.3	50.9	51.4	24.2	34.0	35.2	34.0	11.8	5.4	6.0	6.0	17.7	27.6	27.4	25.6
Profitability	20.6	19.7	25.3	23.5	38.4	35.3	33.9	38.4	24.3	38.3	33.1	35.7	16.7	6.7	7.7	7.7	3.7	18.7	7.8	12.2

Source: LABS 2003, 2004, 2005, 2006

Graph 2.1: Business performance 2003 – 2006 Difference between percentage of businesses saying increase and those saying decrease



Source: LABS 2003/2004/2005/2006

Table 2.2: The anticipated performance of London's businesses

	To decrease				To remain the same				To increase				Don't know				Balance of +ve over -ve			
	03	04	05	06	03	04	05	06	03	04	05	06	03	04	05	06	03	04	05	06
	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%
Employment	2.5	3.1	4.1	3.9	65.4	59.4	55.9	60.6	27.6	34.0	36.6	34.0	4.5	3.5	3.5	1.5	25.1	30.9	32.5	30.1
Turnover	6.3	6.5	8.7	8.5	34.3	25.5	27.6	24.7	44.1	59.4	57.8	60.2	15.3	8.6	5.9	6.7	37.8	52.9	49.1	51.7
Productivity	2.9	2.9	3.9	4.0	49.5	43.1	49.4	49.5	32.8	47.3	40.6	39.8	14.8	6.7	6.1	6.7	30.0	44.4	36.7	35.8
Profitability	6.8	6.3	10.0	10.1	37.8	27.7	32.2	29.1	37.3	57.9	50.3	53.3	18.1	8.0	7.5	7.5	30.4	51.6	40.3	43.3

Source: LABS 2003, 2004, 2005, 2006

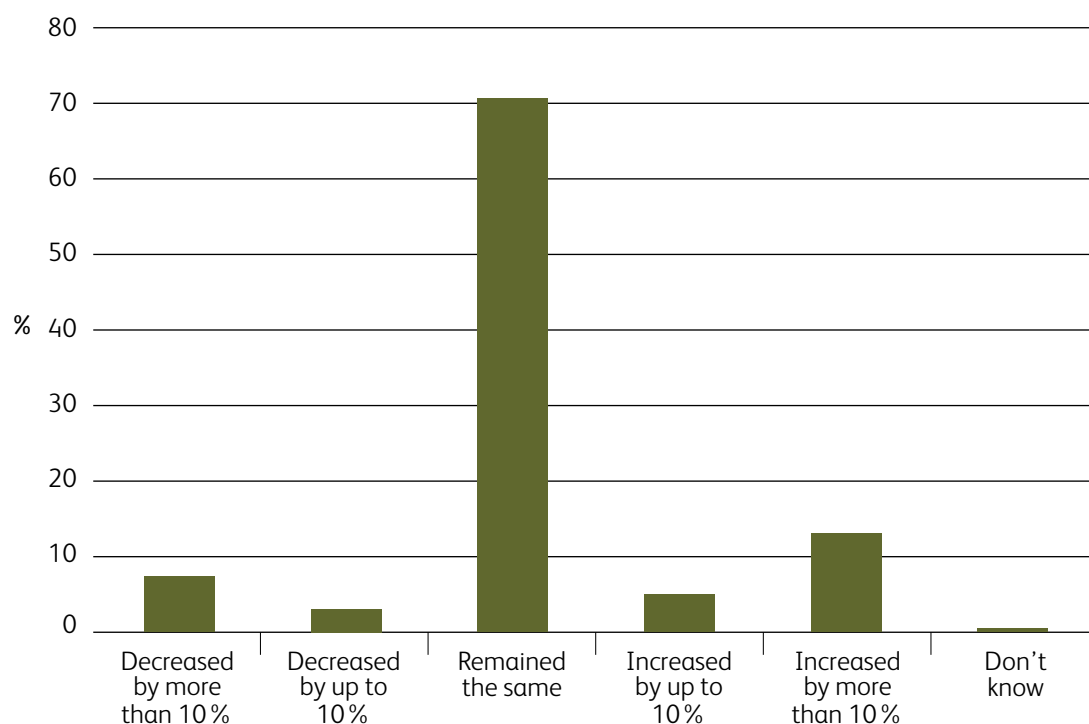
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2.2 Employment

Changes in employment in the previous 12 months

More businesses experienced an increase in employment than a decrease in 2006. 8% more businesses reported an increase in employment over the previous 12 months than reported a decrease. This continues the year-by-year trend since 2003 of higher balances of firms reporting employment increases. In 2003 the balance reporting an increase in employment was 3%, rising to 6% in 2004 and 2005. The higher balance reporting increases in 2006 was largely a result of a decrease in the proportion of firms reporting employment decreases.

Graph 2.2: Percentage businesses reporting increase/decrease/no change in employment in previous 12 months

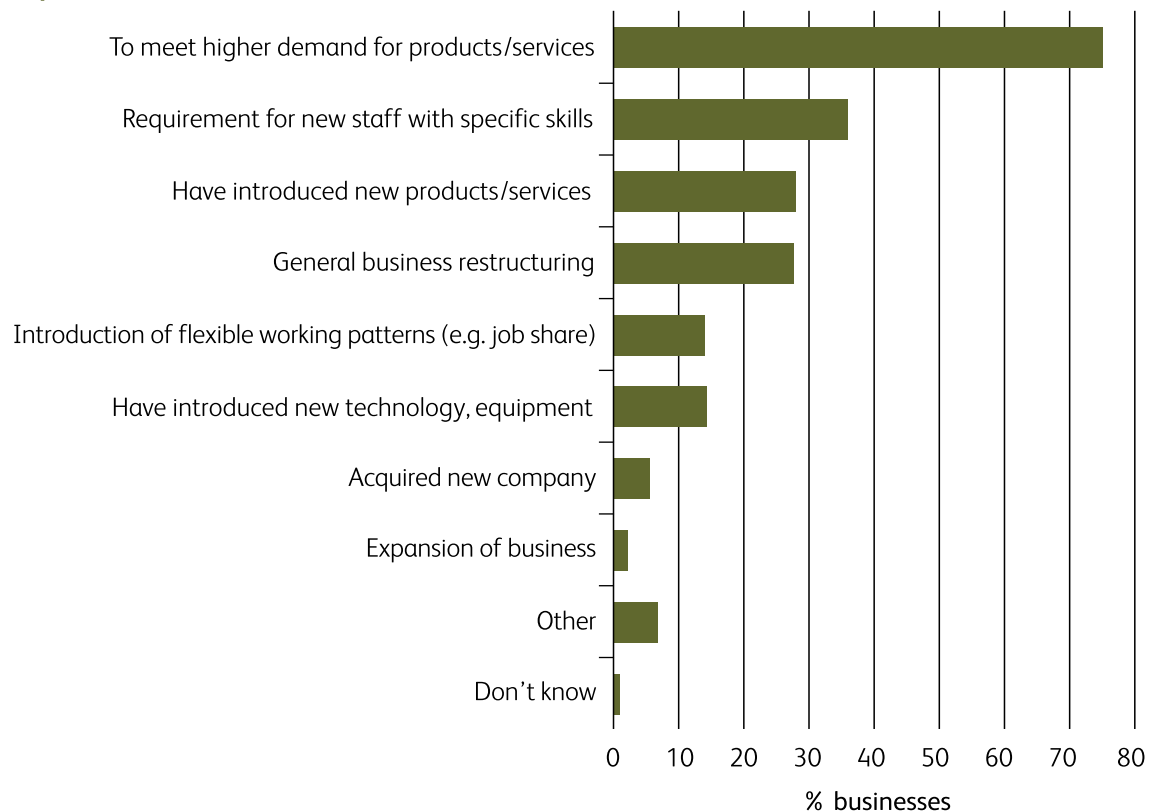


Source: LABS 2006

Reasons given by businesses for changes in employment

The reason most often given by businesses in LABS 2006 for increasing employment was simply to meet higher demand for their products/services. The next most common reason given by businesses was a requirement for new staff with specific skills, followed by the introduction of new products/services and the general restructuring of the business. This ranking of reasons for increasing employment matches that of the 2005 survey, however the proportion of businesses reporting an increase because of general restructuring rose to 28% in 2006 from 22% in 2005.

Graph 2.3: Main reasons given by businesses for increase in employment in previous 12 months

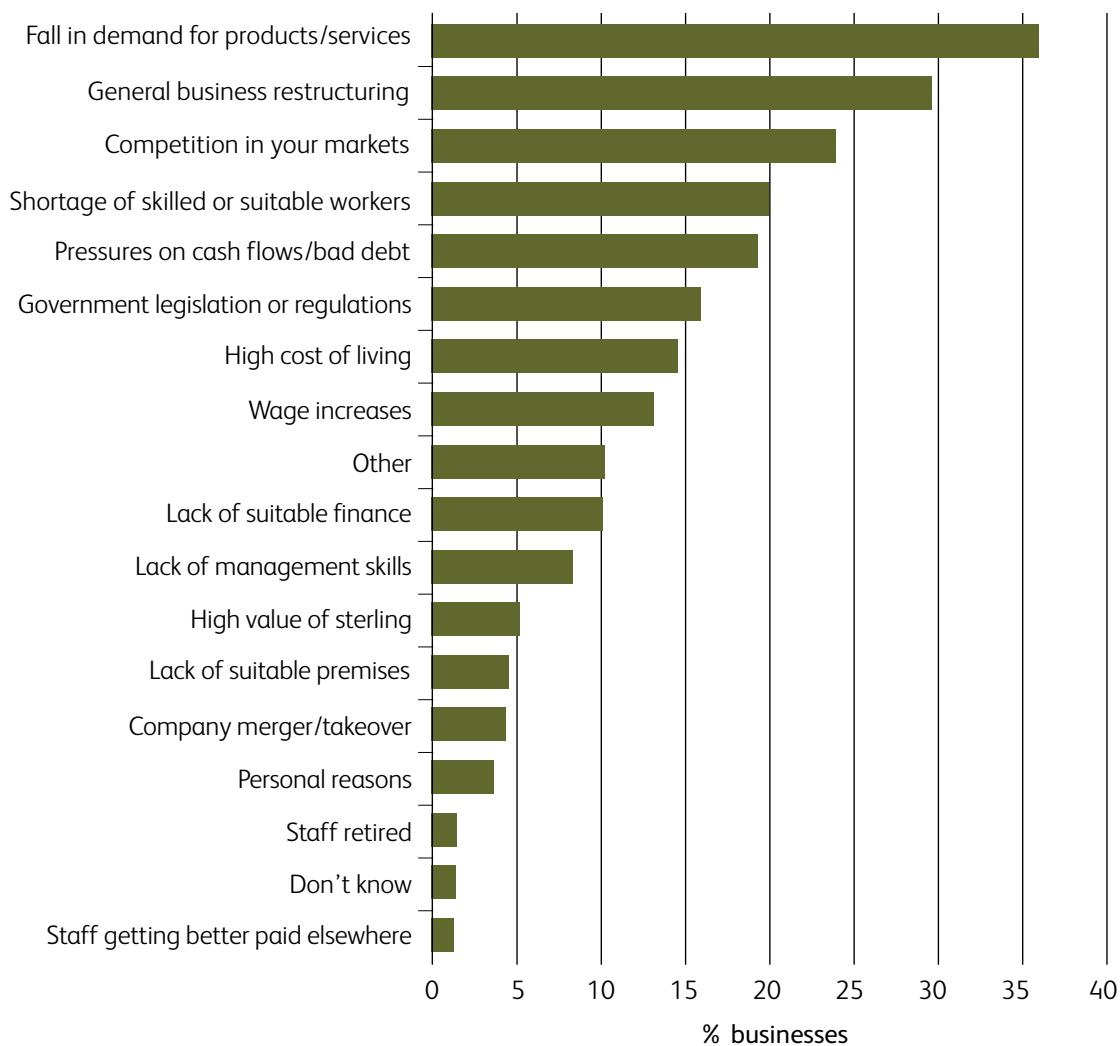


Source: LABS 2006

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The main reason given by businesses for decreasing employment was that there had been a fall in demand for their product or services. General restructuring of business was the next most common reason given, followed by competition, shortage of skilled labour and pressure on cash flow/debts. The pattern of reasons given for decreasing employment has changed slightly since LABS 2005, with general business restructuring, competition, shortage of skilled labour, Government regulation and lack of suitable premises all reported by a substantially larger percentage of businesses experiencing decreasing employment.

Graph 2.4: Main reasons given by businesses for decrease in employment in previous 12 months

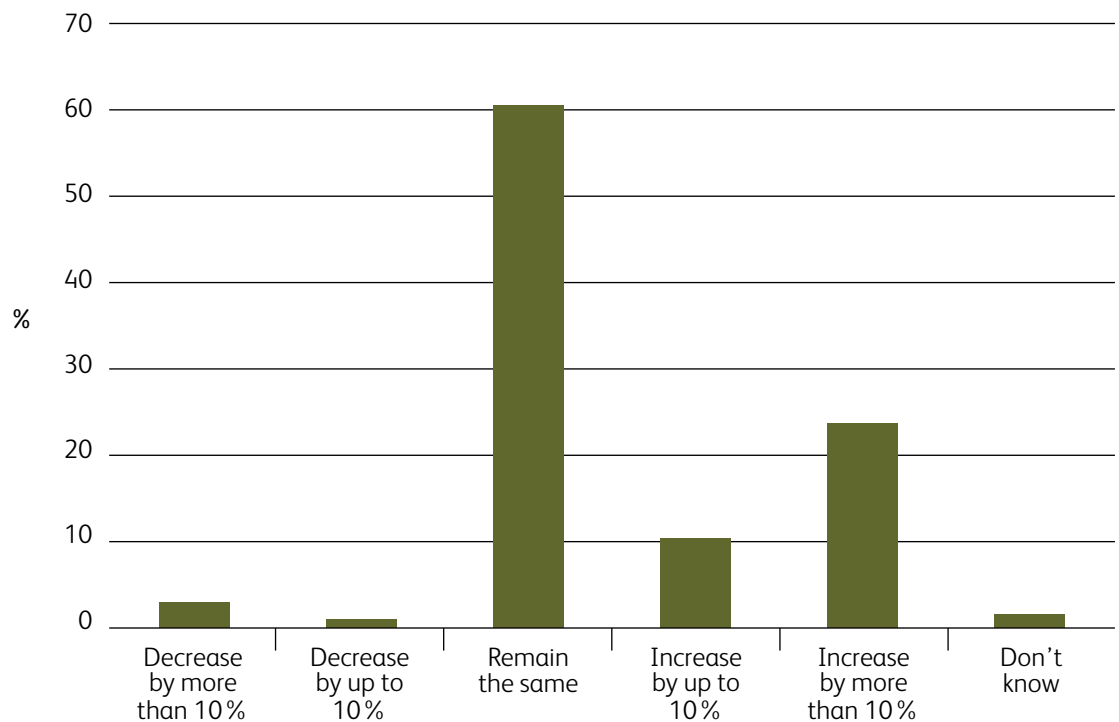


Source: LABS 2006

Anticipated changes in employment over the next 12 months

A majority (61%) of businesses in LABS 2006 expect their employment to remain the same over the next year. Around 34% of businesses expect their employment to rise over the next year, with 24% of businesses expecting increases of over 10%. Very few businesses (4%) expect employment decreases. With 95% of businesses expecting stable or rising employment these results are similar to those reported in 2004 and 2005, but more optimistic than those reported in 2003.

Graph 2.5: Percentage businesses expecting increase/decrease/no change in employment in next 12 months



Source: LABS 2006

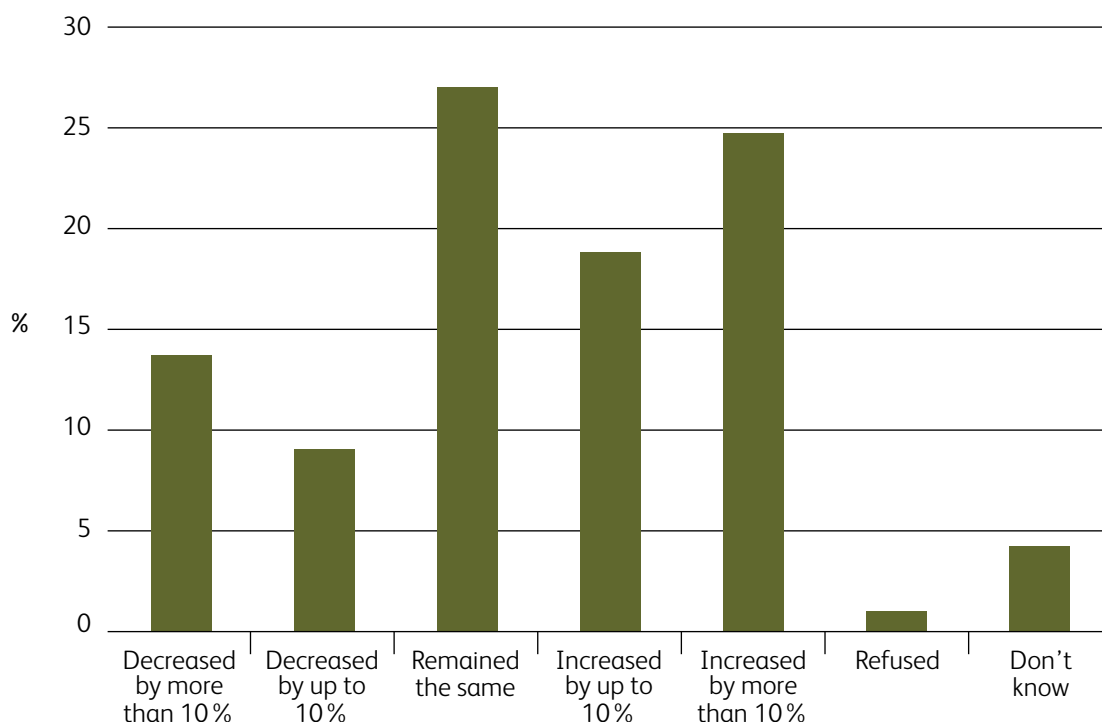
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2.3 Turnover

Changes in turnover in the previous 12 months

A larger proportion of businesses in LABS 2006 reported increases in turnover than decreases. 21% more businesses reported an increase in turnover than reported a decrease. This figure is significantly higher than the balance in 2005 and in 2003, when around 13% on balance reported an increase in turnover, and approximately the same as the balance in 2004.

Graph 2.6: Percentage businesses reporting increase/decrease/no change in turnover in previous 12 months

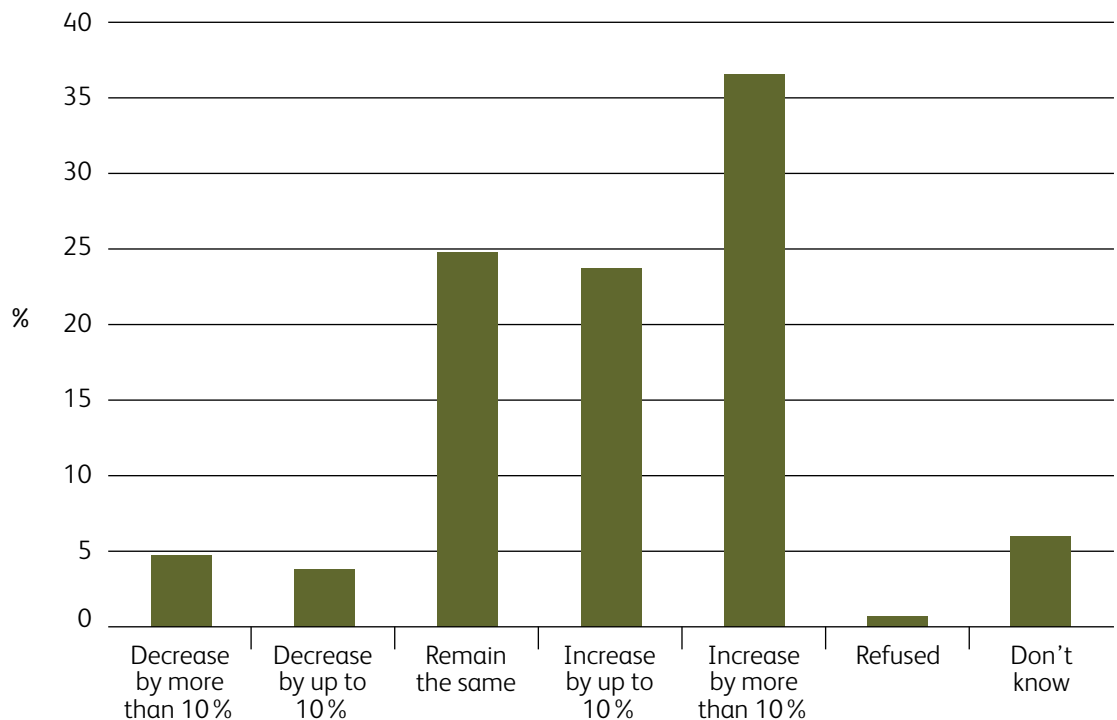


Source: LABS 2006

Anticipated changes in turnover over the next 12 months

Most businesses are optimistic about turnover change in the next 12 months. 60% of businesses expect turnover to increase, with over 36% anticipating growth of over 10%. Of the remaining businesses, most expect turnover to remain the same (25%), whilst around 4% anticipate falls of up to 10% and a further 5% expect falls of greater than 10%. These figures indicate that businesses are marginally more optimistic than they were in 2005, marginally less optimistic than they were in 2004 but significantly more optimistic than in 2003.

Graph 2.7: Percentage businesses expecting increase/decrease/no change in turnover in next 12 months



Source: LABS 2006

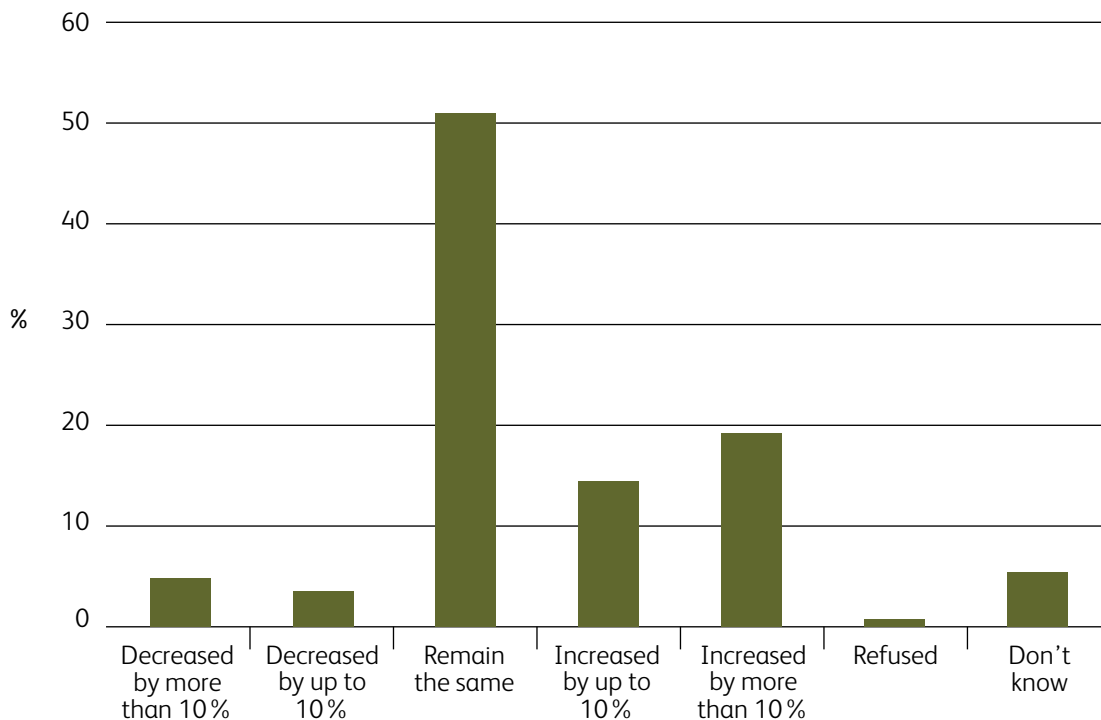
2.4 Productivity

Changes in productivity in the previous 12 months

A substantial number of businesses experienced an increase in productivity in the 12 months prior to the 2006 Survey. 26% more businesses reported an increase in productivity over the previous 12 months than reported a decrease. Overall 34% of all businesses had productivity gains and only 8% saw productivity decline. 15% of businesses achieved increases of up to 10% and 19% experienced increases of over 10%. Just over half of all businesses saw productivity remain the same over the last 12 months. These results are marginally weaker than in 2004 and 2005, when 28% and 27% respectively more businesses reported increases in productivity than decreases, but considerably stronger than 2003, when the balance was only 18%.

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Graph 2.8: Percentage businesses reporting increase/decrease/no change in productivity in previous 12 months

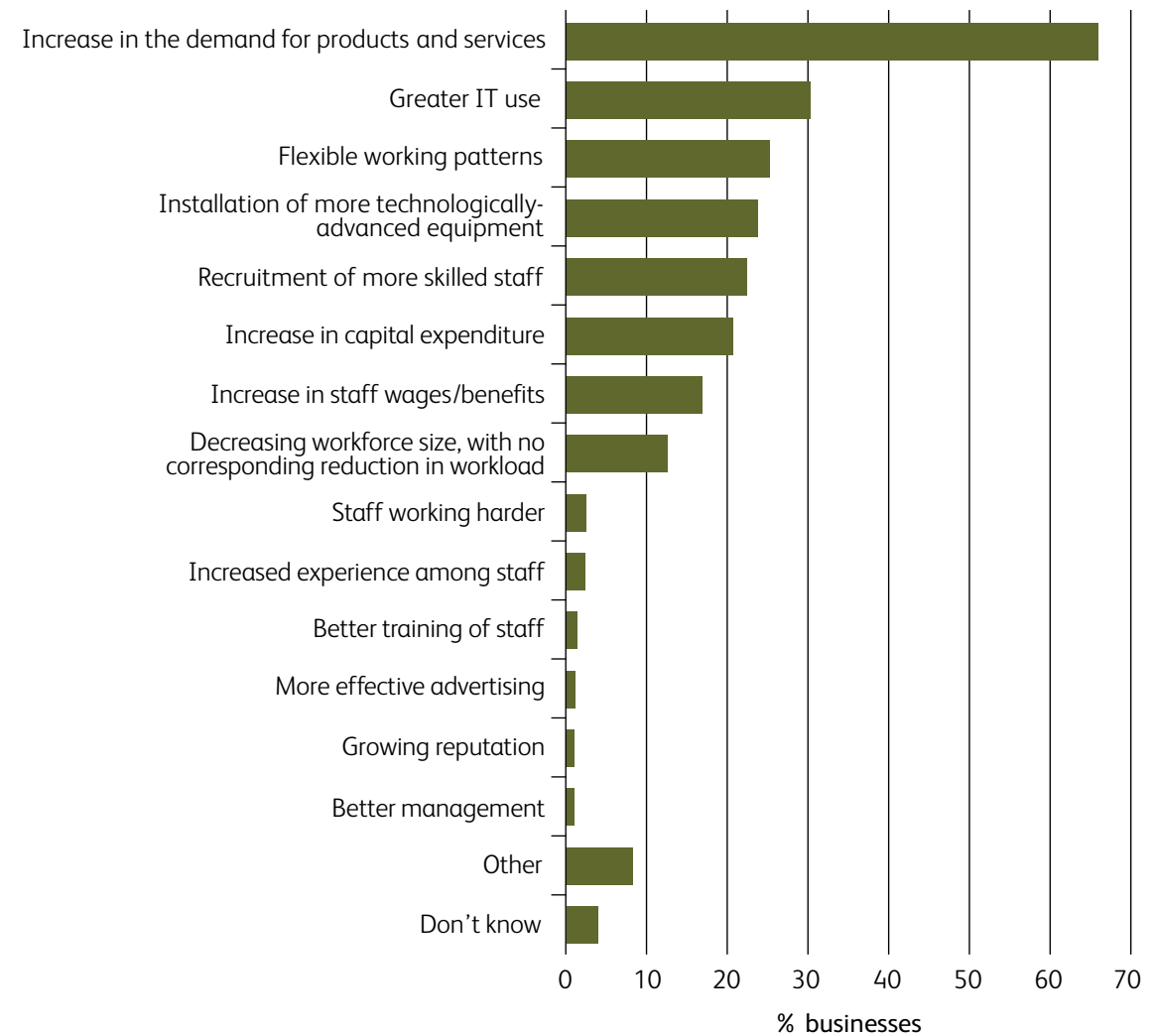


Source: LABS 2006

Reasons given by businesses for changes in productivity

The main three reasons given for achieving productivity gains were increases in demand for products or services, greater IT use and flexible working patterns. The importance of greater IT use and recruitment of more skilled staff as factors that raise productivity have risen from 2005, but the importance of flexible working patterns has fallen.

Graph 2.9: Main reasons given by businesses for increase in productivity in previous 12 months

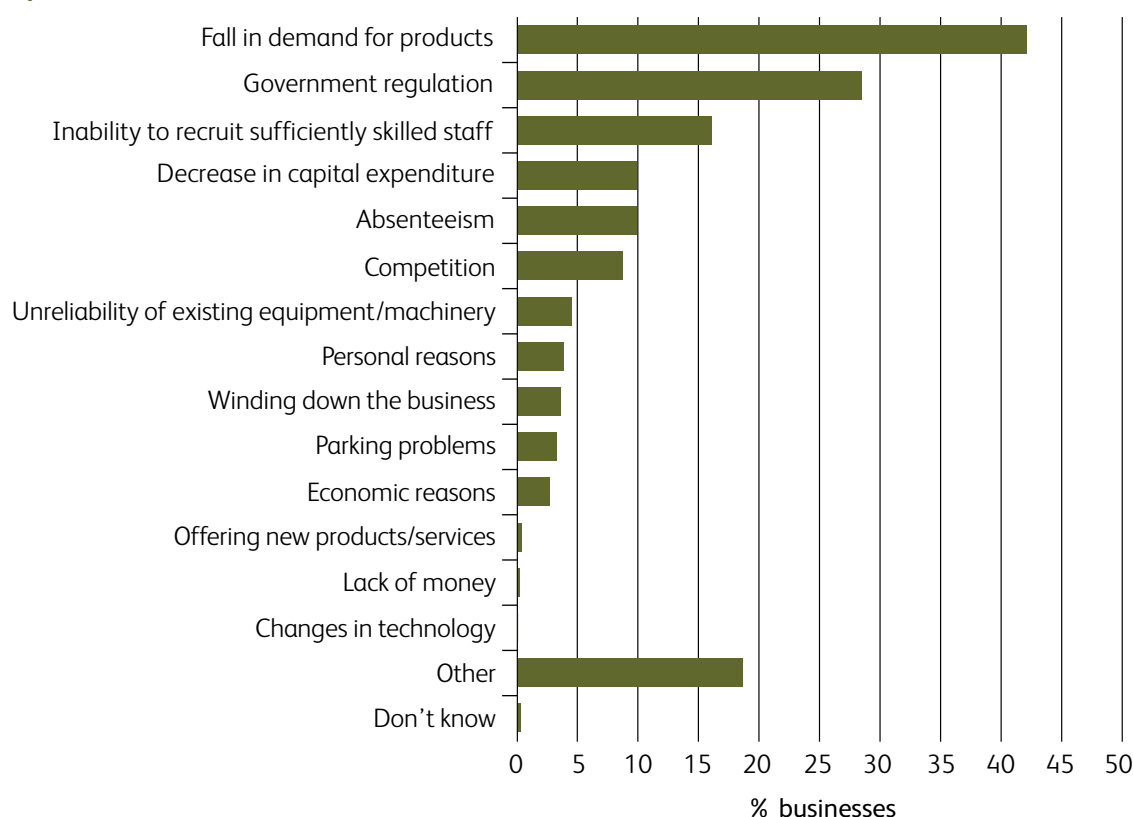


Source: LABS 2006

As in 2005, a fall in demand for products or services was the main reason that firms gave for decreasing productivity, but there was also a marked fall from 2005 in the percentage of firms who suffered a drop in productivity (42%) citing this factor. There were also decreases in the percentage of firms citing government regulations (29%), inability to recruit skilled labour (16%) and a decrease in capital expenditure (10%) as reasons behind falling productivity. However the percentage giving competition as a reason rose (9%).

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Graph 2.10: Main reasons given by businesses for decrease in productivity in previous 12 months

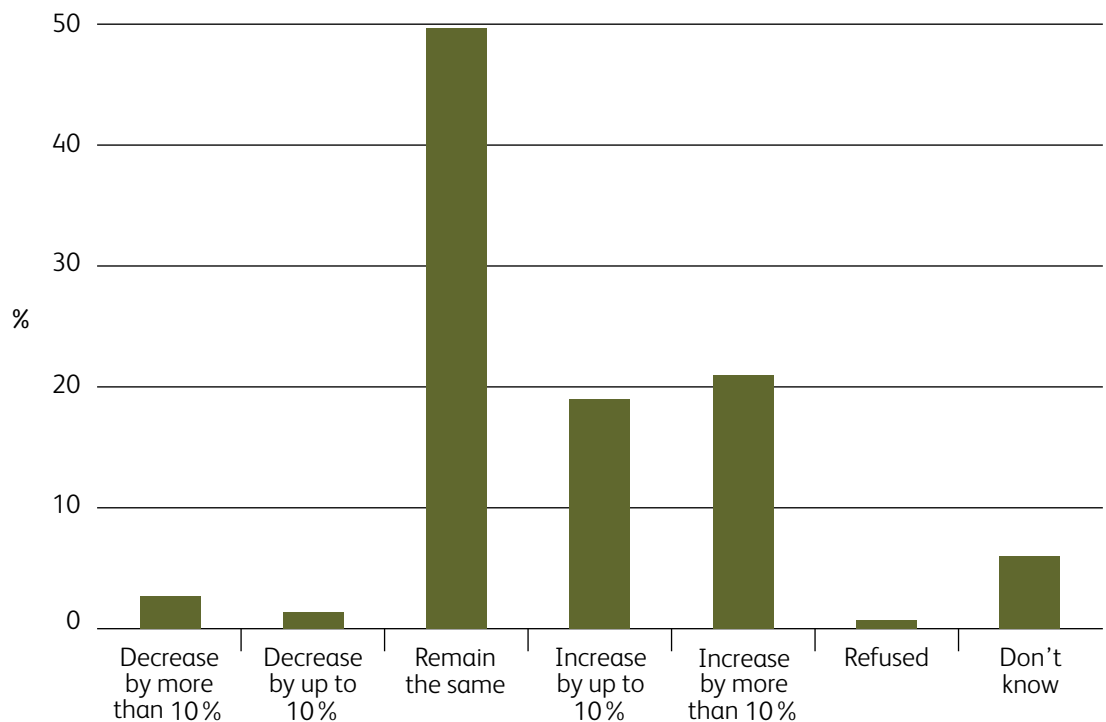


Source: LABS 2006

Anticipated changes in productivity over the next 12 months

A large majority of firms are optimistic about productivity in the next 12 months, with 40% expecting increases, and a marginally larger share of these businesses expecting productivity to increase by more than 10%. 50% of businesses anticipate that productivity will remain the same in the next 12 months, and only 4% of businesses believe that productivity will fall next year, yielding a positive balance of 36% of businesses anticipating an increase in productivity. This positive balance on expectations of productivity increases has changed little from 2005, but remains below the level reached in 2004. However, the balance of expectations about productivity increases has risen significantly from the level in 2003.

Graph 2.11: Percentage businesses expecting increase/decrease/no change in productivity in next 12 months



Source: LABS 2006

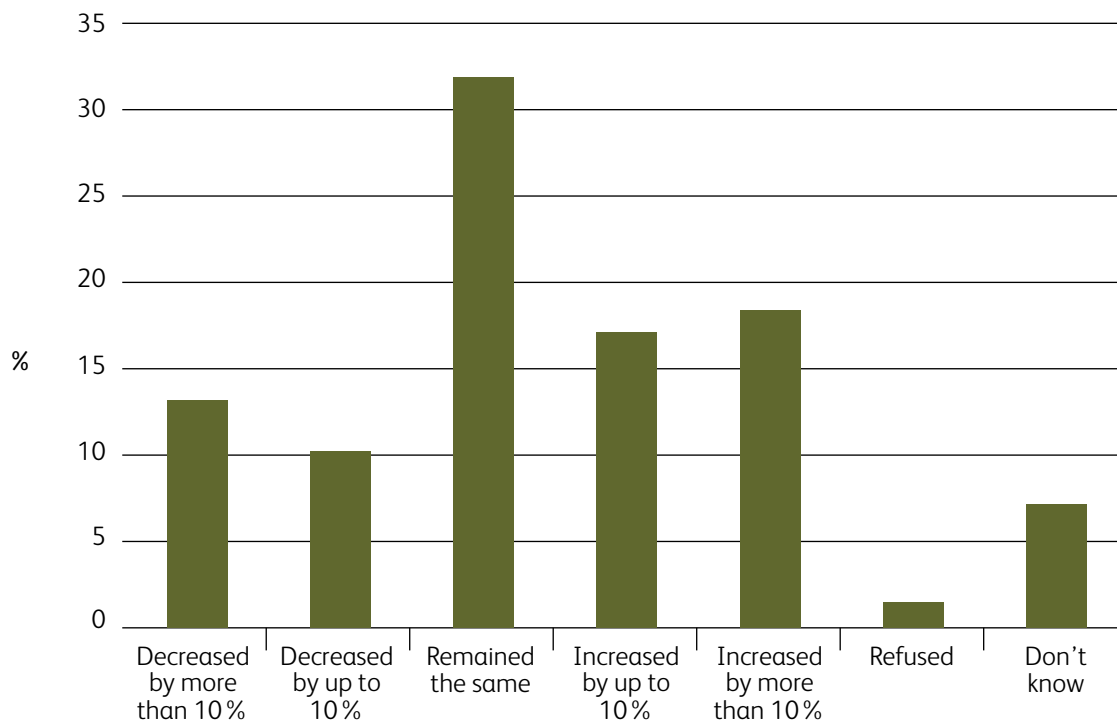
2.5 Profitability

Changes in profitability in the previous 12 months

More businesses enjoyed rising rather than falling profitability in 2006. 12% more businesses in LABS 2006 reported an increase in profitability than reported a decrease. This figure is significantly higher than the balance in 2005, when 8% more businesses reported an increase than reported a decrease, and in 2003 when the balance was 4%, but well below the 2004 figure of 19% more businesses reporting an increase than a decrease.

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Graph 2.12: Percentage businesses reporting increase/decrease/no change in profitability in previous 12 months

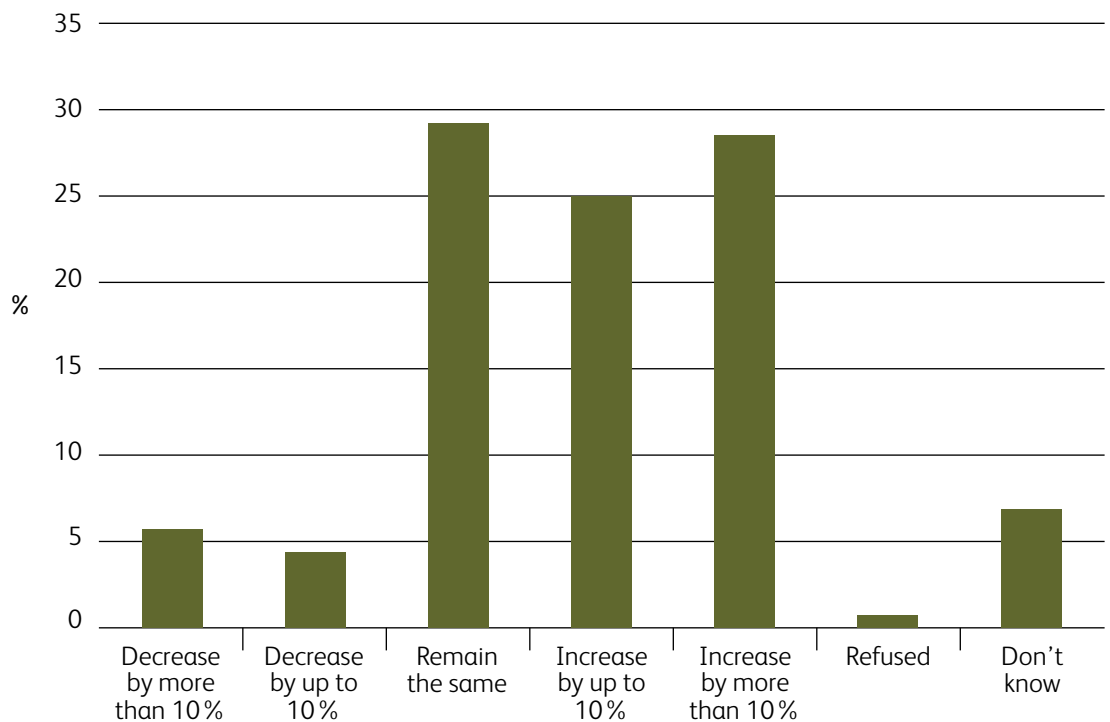


Source: LABS 2006

Anticipated changes in profitability over the next 12 months

A majority of firms anticipate an increase in profitability in the next 12 months. 53% of all firms expect profitability to rise over the coming 12 months, with 28% of businesses anticipating an increase of more than 10%. In 2005, firms were slightly less optimistic about profitability, with 50% of businesses anticipating rises over the next 12 months. In 2004, firms were more optimistic than in 2006, with 58% expecting an increase in profitability. In contrast, in 2003 firms were much less optimistic, with only 30% expecting to enjoy an increase in profitability.

Graph 2.13: Percentage businesses expecting increase/decrease/no change in profitability in next 12 months



Source: LABS 2006

Section 2

Structure of businesses in London

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Chapter 3

Summary

- According to LABS, there were an estimated 349,513 businesses in London in 2006, employing (full-time or part-time) 3,266,117 people.
- Larger employers account for the majority of jobs in London. 60% of business employment is in organisations employing 50 or more people, and only 16% of business employment is in organisations employing four or less people. The tendency for smaller firms to dominate the population of organisations and larger firms to dominate in terms of employment, results in a mean employment size of 9.2.
- Organisation size varies considerably across the different sectors of the London economy. There are proportionately more small businesses (1 – 49 employees) in Construction, Other Community Services, and Business and Professional Services. There are significantly more businesses belonging to larger organisations in the Transport and Communications, Hotels and Restaurants and Banking and Finance, Wholesale and Retail and Manufacturing (excluding Publishing) sectors.
- Total business turnover in London in 2006 is estimated at £600 billion.
- One in 25 of London's organisations reported turnover below £50,000, and so well below the VAT threshold. Over one in 10 organisations enjoyed turnover in excess of £50m.
- Business and Professional Services and Wholesale and Retail, account for more than six out of 10 of London's businesses, with Business and Professional Services alone accounting for over 41% of all businesses in London.
- Banking and Finance only accounts for 3% of all London businesses, but the large average firm size of 23 employees gives an estimated 262,716 jobs in the sector, 8% of all business jobs in London.
- The geographic spread of business is uneven across London. Of the five LSC areas, London Central contains most businesses, 35% of the total, while London South (15%) and London North (11%) have the fewest.
- Half of London's businesses have been opened since 2000, with 6% created in the 12 months prior to the survey. These 22,063 new business openings are estimated to have created 140,068 jobs in London.
- A significantly higher than average percentage of black-owned, other/Chinese-owned and Asian-owned businesses have been established in the 12 months prior to LABS 2006.

Effects on business performance

- Organisation size was an important influence on employment growth in 2006, with organisations employing over 10 people significantly more likely to have experienced employment growth. Organisation size also had an influence on growth in turnover, productivity and profits.
- The age of businesses had a significant impact on business performance. Businesses established in the 2000–2005 period were significantly more likely than average to have experienced growth in employment, turnover and productivity.

Chapter 3

Contents

3.1 Introduction

3.2 Size

3.3 Sector

3.4 Location

3.5 Age of businesses

3.6 Differences in business performance by size, sector, location and age of business

3.1 Introduction

The chapter examines London's businesses in terms of size, sector, location and age. As well as describing the main types of businesses in London, it also explores how the different types of businesses perform.

LABS 2006 surveyed 5,600 private sector businesses in London. Grossing up from this sample it is estimated that there are 349,513 businesses in London in 2006, employing 3,226,117 people (full-time or part-time), including owners, partners and directors.

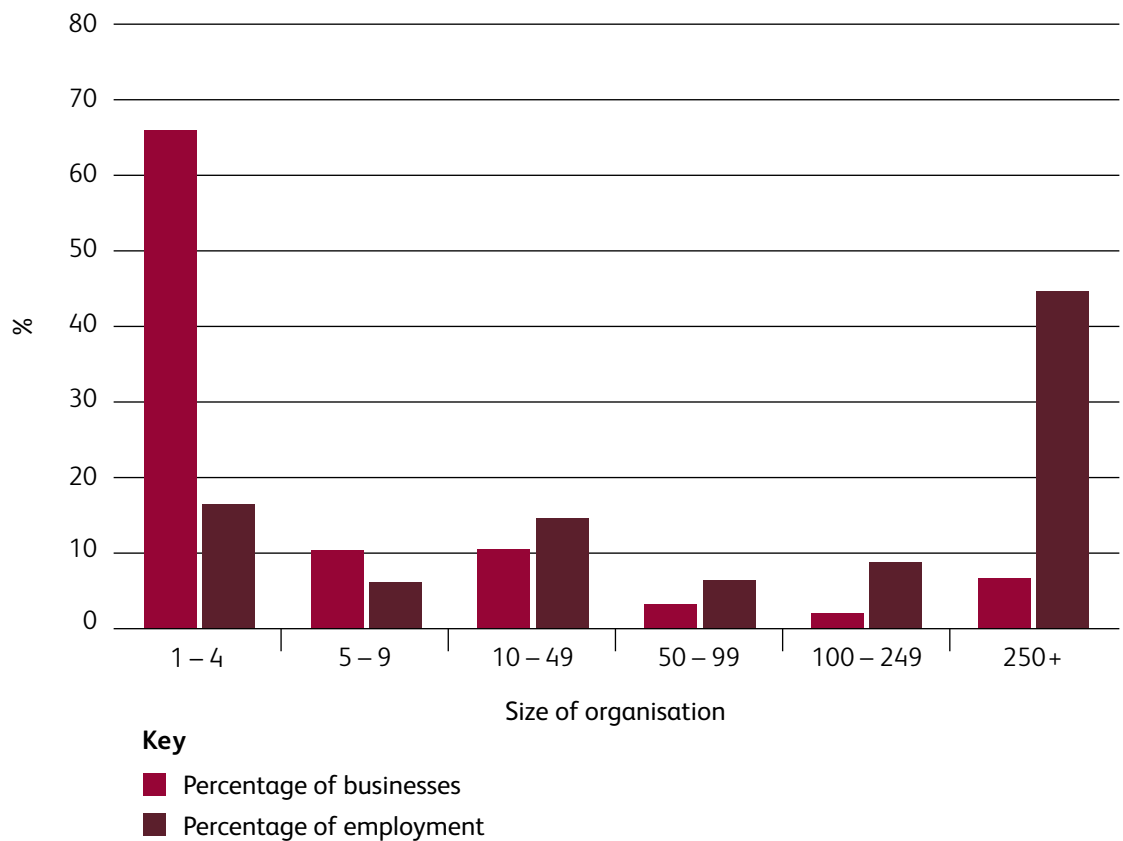
The majority of businesses in London are small single site operations, that is, they are not part of a larger organisation that has a number of individual sites within London and beyond. In a departure from reports on the previous year's LABS, the discussion in this chapter on size of business looks at the size of the organisation as a whole rather than the sizes of individual sites.

3.2 Size

Most businesses in London are small and are part of organisations that employ less than 50 people. 66% of businesses with operations in London are part of organisations that are very small employing less than five people and only 12% are part of organisations that employ 50 or more people (Graph 3.1).

However, larger employers do account for the majority of jobs in London. 60% of business employment is in organisations employing 50 or more people, and only 16% of business employment is in organisations employing four or less people. The tendency for smaller firms to dominate the population of organisations and larger firms to dominate in terms of employment, results in a mean employment size of 9.2.

Graph 3.1: Percentage of businesses and percentage of business employment in London by size



Source: LABS 2006

Total organisation size, taking account of both employment in London and elsewhere, varies considerably across the different sectors of the London economy. There are significantly more very small organisations (1 – 4 employees) in Construction (80%), Other Community Services (83%), and Business and Professional Services (70%). In terms of larger organisations (250+ employees), there are significantly more in Transport and Communications (15%), Hotels and Restaurants (16%), Banking and Finance (15%), Wholesale and Retail (12%) and Manufacturing, excluding Publishing (11%).

Table 3.1a: London's organisation size by sector

Size	All businesses										Other Community Services
	%	%	%	%	%	%	%	%	%	%	%
1 to 4	65.7	66.5	58.4	79.7	63.0	45.3	54.7	45.1	69.5	41.1	82.9
5 to 9	10.3	14.0	11.8	6.5	10.1	12.5	9.2	10.7	10.6	17.5	6.3
10 to 49	10.4	13.2	13.3	10.6	8.0	12.9	13.2	17.3	10.0	21.5	5.5
50 to 99	3.2	1.2	2.4	1.0	3.4	3.0	2.4	4.4	4.2	3.6	0.9
100 to 249	2.0	1.4	2.1	0.8	1.4	5.1	2.1	3.9	1.9	5.4	0.6
250+	6.6	3.7	11.1	0.7	12.0	15.7	15.3	15.0	2.8	6.2	3.3
Don't know	1.8	0.0	1.0	0.9	2.2	5.5	3.1	3.6	1.1	4.6	0.4
Unweighted sample	5,600	161	351	479	1,115	622	434	327	1,280	415	391

Source: LABS 2006

 Significantly above all businesses figure at 95% confidence level

 Significantly below all businesses figure at 95% confidence level

Total organisation size also varies with country of ownership. A much larger percentage (69%) of organisations with less than five employees are UK-owned. Significantly more organisations with more than 100 employees are foreign-owned (42%) or joint UK-foreign-owned (37%).

Table 3.1b: London's organisation size by country of ownership

	All businesses	UK-owned	Foreign-owned	Joint UK-foreign	DK/Refused
	%	%	%	%	%
Size					
1 – 4	65.7	68.6	26.5	7.0	8.7
5 – 9	10.3	10.7	3.5	2.9	3.9
10 – 49	10.4	10.0	17.4	12.1	5.3
50 – 99	3.2	2.9	3.3	32.8	0.5
100 – 249	2.0	1.8	3.6	13.4	0.6
250+	6.6	4.8	38.0	23.2	29.4
Don't know	1.80	1.1	7.8	8.7	51.7
Unweighted sample	5,600	5,020	456	81	43

Source: LABS 2006

Significantly above all businesses figure at 95% confidence level

Significantly below all businesses figure at 95% confidence level

Single and multiple site businesses

Only a quarter of businesses in London have more than one operating site (Table 3.2). On average there are 5.4 people employed at single site businesses in London compared with 9.2 per site for all businesses.

Businesses in Publishing (88%), Construction (85%), Other Community Services (84%) and Manufacturing, excluding Publishing (81%) are significantly more likely to operate from a single site, with Banking and Finance (60%), Hotels and Restaurants (65%), Education, Health and Social Work (66%), Wholesale and Retail (70%) and Transport and Communications (70%) significantly more likely to operate from multiple sites.

Table 3.2: Whether business is single-site or multiple-site organisation by sector

	All businesses	Publishing	Manufacturing excluding Publishing	Construction	Wholesale & Retail	Hotels & Restaurants	Transport & Communications	Banking & Finance	Business & Professional Services	Education, Health & Social Work	Other Community Services
	%	%	%	%	%	%	%	%	%	%	%
Single-site organisation	74.7	88.0	81.1	85.0	69.6	64.7	70.4	59.6	76.2	65.7	84.3
Multiple-site organisation	25.0	12.0	18.7	14.7	30.2	35.3	29.6	40.2	23.8	32.2	14.7
Don't know	0.3	0.0	0.2	0.4	0.2	0.0	0.0	0.2	0.0	2.0	1.1
Unweighted sample	5,600	161	351	479	1,115	622	434	327	1,280	415	391

Table 3.3: Turnover by site by sector

	All businesses	Publishing	Manufacturing excluding Publishing	Construction	Wholesale & Retail	Hotels & Restaurants	Transport & Communications	Banking & Finance	Business & Professional Services	Education, Health & Social Work	Other Community Services
	£	£	£	£	£	£	£	£	£	£	£
Turnover, mean £	1,717,025	1,802,951	1,636,594	850,908	1,509,596	979,129	4,011,244	5,444,016	1,879,523	1,264,533	628,769
Unweighted population	5,600	161	351	479	1,115	622	434	327	1,280	415	391

Table 3.4: Turnover by organisation by sector

	All businesses	Publishing	Manufacturing excluding Publishing	Construction	Wholesale & Retail	Hotels & Restaurants	Transport & Communications	Banking & Finance	Business & Professional Services	Education, Health & Social Work	Other Community Services
	£	£	£	£	£	£	£	£	£	£	£
Turnover, mean £	4,736,273	1,802,949	1,636,594	850,907	1,509,596	979,130	4,011,250	5,444,016	1,879,524	1,264,534	628,769
Unweighted population	5,600	161	351	479	1,115	622	434	327	1,280	415	391

Source: LABS 2006

Significantly above all businesses figure at 95% confidence level

Significantly below all businesses figure at 95% confidence level

Turnover

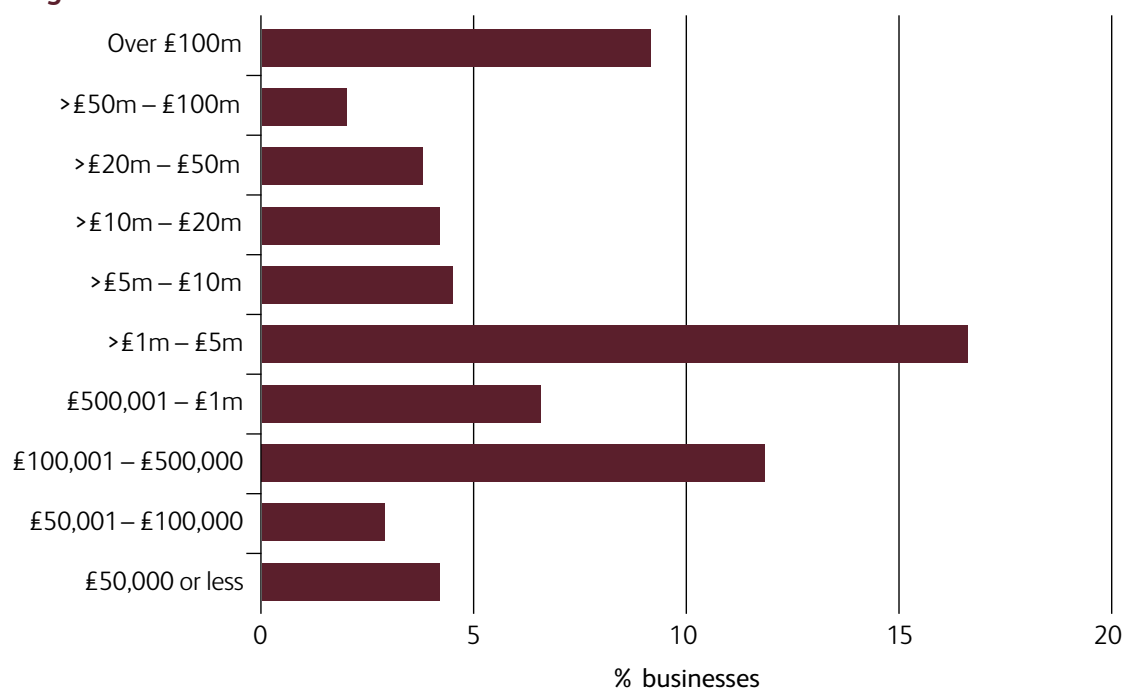
Turnover at site

Total business turnover in London in 2006 is estimated at £600 billion and mean turnover per site was £1.7 million. Mean turnover per site was highest in Banking and Finance (£5.4 million) and Transport and Communications (£4.0 million) and lowest in Other Community Services (£0.6 million) and Construction (£0.9 million).

Turnover by organisation

Around one in 25 (4%) of organisations responding to the questions on turnover, reported turnover levels below £50,000 (Graph 3.2), suggesting that at least 14,600 organisations in London operated below the VAT threshold of £61,000 in 2006. At the opposite extreme, 11% of organisations enjoyed turnover in excess of £50 million in London.

Graph 3.2: Percentage of number of businesses in London by turnover band of organisations as a whole



Source: LABS 2006

Chapter 3

3.3 Sector

Two sectors, Business and Professional Services (41%) and Wholesale and Retail (20%), make up over six out of 10 of London's businesses (see Graph 3.3 and Table 3.5). On average Business and Professional Services firms employ 7.3 people, resulting in an estimate of total employment of 1,063,893 in the sector in 2006, 33% of total business employment. Wholesale and Retail businesses have an average employment size of 8.5 and are estimated by LABS 2006 to employ 582,952 people, or 18% of total business employment. Thus these sectors account for nearly 51% of all London's business jobs.

The Banking and Finance sector only accounts for 3% of all London businesses, but the large average firm size of 22.8 employees per site gives an estimated 262,716 jobs in the sector, 8% of all business jobs in London. Less than one in eight of London's businesses are in industries other than services – with 3% in Manufacturing, excluding Publishing and 6% in Construction. With an average of 12.2 employees per site, Manufacturing, excluding Publishing is estimated to employ 148,266 people, or only 4% of total business employment in London.

Graph 3.3: Percentage of number of businesses and percentage of business employment in London by sector

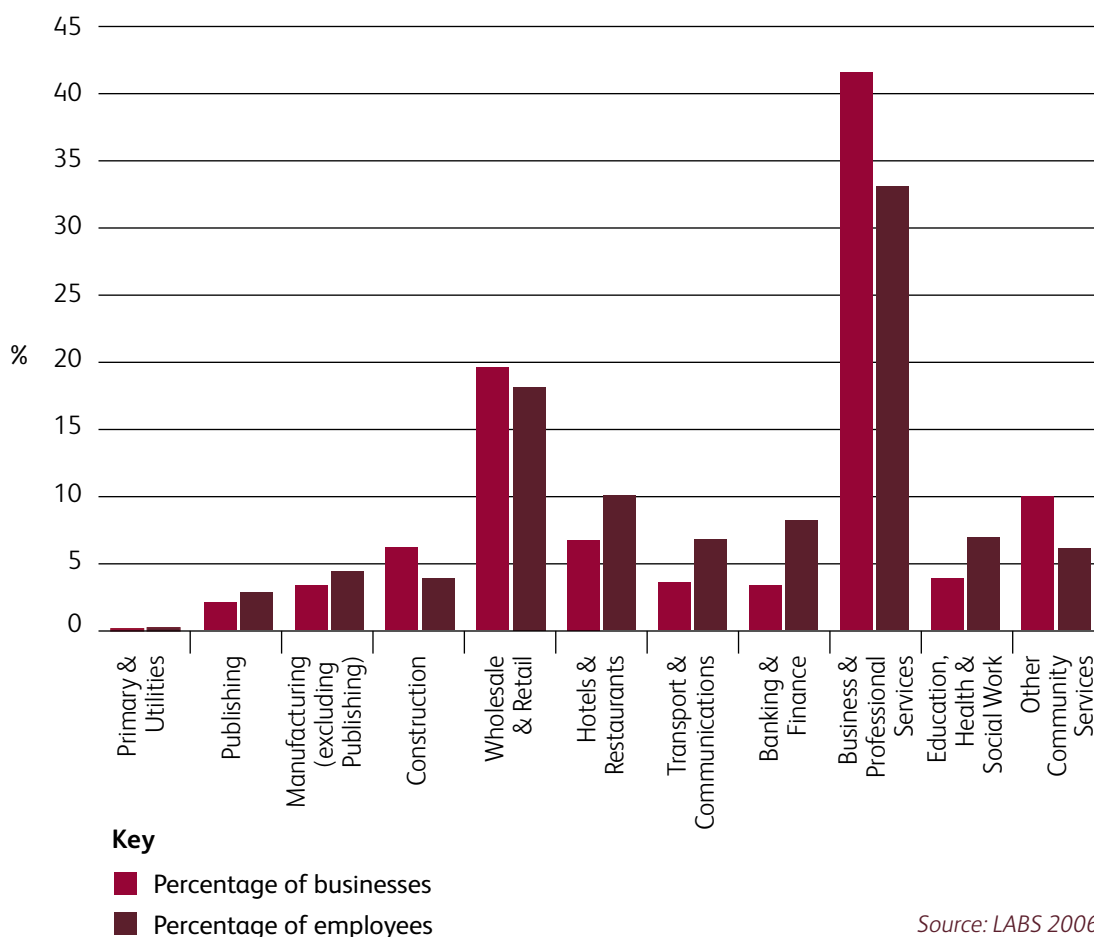


Table 3.5: Organisation size by sector

	All businesses	1 – 4	5 – 9	10 – 49	50 – 99	100 – 249	250 +	Don't know
	%	%	%	%	%	%	%	%
Primary & Utilities	0.2	0.2	0.2	0.3	0.1	0.0	0.1	0.0
Publishing	2.0	2.1	2.8	2.6	0.8	1.5	1.1	0.0
Manufacturing (excluding Publishing)	3.3	3.0	3.8	4.3	2.5	3.6	5.6	1.9
Construction	6.1	7.4	3.8	6.2	1.8	2.3	0.6	3.0
Wholesale & Retail	19.5	18.7	19.3	15.1	20.4	13.3	35.2	23.6
Hotels & Restaurants	6.7	4.6	8.1	8.4	6.2	17.1	15.9	20.5
Transport & Communications	3.6	3.0	3.2	4.5	2.7	3.7	8.2	6.1
Banking & Finance	3.3	2.3	3.4	5.5	4.5	6.5	7.4	6.7
Business & Professional Services	41.5	43.8	42.7	39.9	54.0	38.7	17.3	26.3
Education, Health & Social Work	3.8	2.4	6.5	8.0	4.3	10.4	3.6	9.9
Other Community Services	10.0	12.6	6.1	5.3	2.8	3.0	5.0	2.1
Unweighted population	5,600	1,325	1,016	1,486	310	258	1,026	179

Source: LABS 2006

Significantly above all businesses figure at 95% confidence level

Significantly below all businesses figure at 95% confidence level

3.4 Location

LSC areas

The geographic spread of businesses is uneven across London. Of the five LSC areas, London Central contains most businesses with 35% of the total, while London South (15%) and London North (11%) have the fewest. London East contains 21% of London's businesses and London West 17%.

A significantly higher percentage of London central organisations are in the employment size ranges covering 5 – 249 employees and a significantly higher percentage of businesses in London West employ more than 250 employees.

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Table 3.6: Location of London organisations by employment size

	All businesses	1 – 4	5 – 9	10 – 49	50 – 99	100 – 249	250+	Don't know
	%	%	%	%	%	%	%	%
LSC area								
London Central	34.9	31.3	40.9	41.1	60.7	48.8	30.7	50.7
London North	11.1	12.4	8.7	7.6	5.9	9.9	8.7	14.0
London South	15.1	16.0	14.7	14.0	4.8	8.6	17.2	10.3
London East	21.5	22.7	19.9	18.2	13.4	20.6	23.4	14.7
London West	17.4	17.6	15.7	19.0	15.2	12.1	20.0	10.4
Unweighted population	5,600	1,325	1,016	1,486	310	258	1,026	179

Source: LABS 2006

Significantly above all businesses figure at 95% confidence level

Significantly below all businesses figure at 95% confidence level

Head office location

The majority of multiple site businesses in London (59%) also have London head offices or are the head office. Under one in 10 businesses in London (8%) have head offices outside the UK.

Table 3.7: Head office locations for London businesses

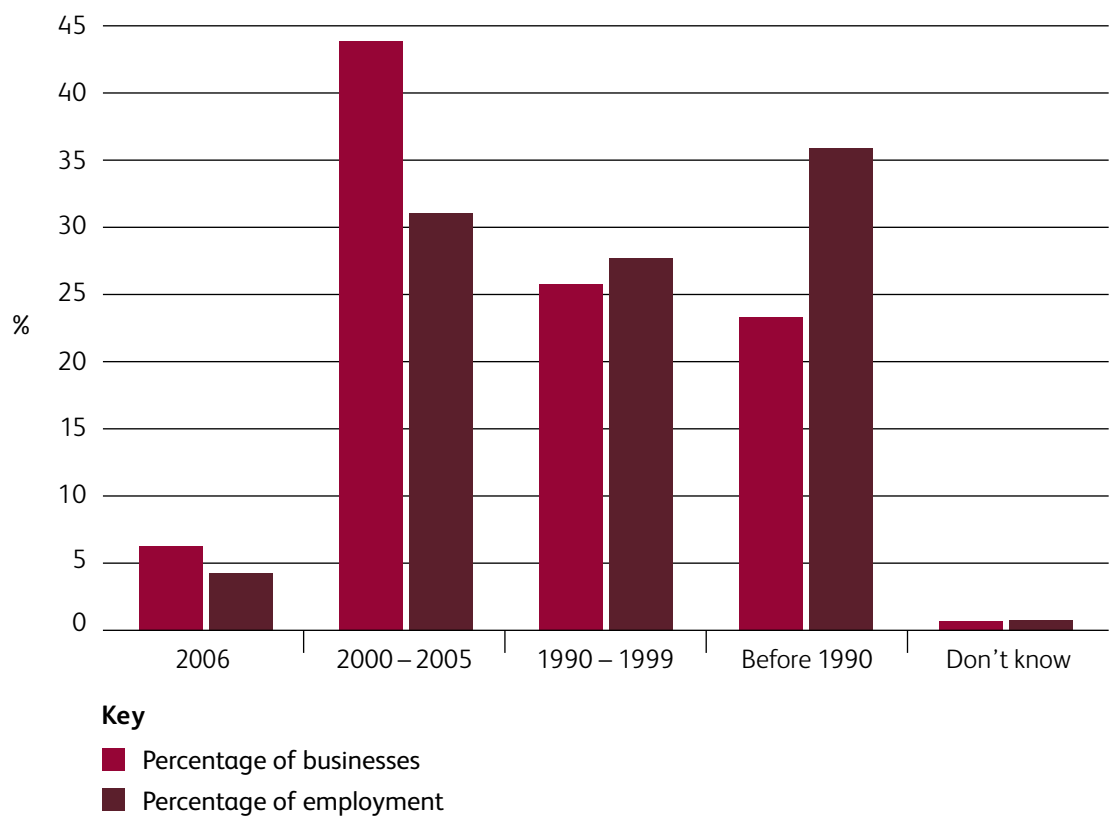
Head office location	%
This is the head office	32.0
Elsewhere in the borough	7.1
Elsewhere in London	20.3
Elsewhere in south east	10.4
Elsewhere in the UK	20.3
Elsewhere in EU	2.7
Elsewhere in Europe	0.6
USA	3.8
Rest of the world	1.2
Don't know	1.6
Unweighted sample	2,110

Source: LABS 2006

3.5 Age of businesses

Half of London's businesses (50%) have been established since 2000 and account for 36% of business jobs. 6% of London's businesses were opened in the 12 months prior to the survey (see Graph 3.4), down from 8% in 2005 and 9% in 2004. The new business openings are estimated to have created 140,068 jobs in London. This is equivalent to 4% of total employment.

Graph 3.4: Percentage of number of businesses and percentage of business employment in London by age of business



Source: LABS 2006

A significantly higher percentage of Hotel and Restaurant businesses (12%) have been established in the 12 months before LABS 2006, but a significantly lower percentage of Wholesale and Retail businesses (4%) have been established in the 12 months before LABS 2006.

Table 3.8a: New London businesses by organisation size (employment)

All businesses		1 – 4	5 – 9	10 – 49	50 – 99	100 – 249	250 +	Don't know
%		%	%	%	%	%	%	%
Opened since 2006	6.3	7.0	4.4	3.6	13.6	7.4	3.2	4.3
Unweighted sample	5,600	1,325	1,016	1,486	310	258	1,026	179

Table 3.8b: New London businesses by sector

All businesses		Publishing	Manufacturing excluding Publishing	Construction	Wholesale & Retail	Hotels & Restaurants	Transport & Communications	Banking & Finance	Business & Professional Services	Education, Health & Social Work	Other Community Services
%		%	%	%	%	%	%	%	%	%	%
Opened since 2006	6.3	2.8	8.0	7.1	4.0	11.6	6.2	7.0	6.6	5.9	5.5
Unweighted sample	5,600	161	351	479	1,115	622	434	327	1,280	415	391

Source: LABS 2006

 Significantly above all businesses figure at 95% confidence level

 Significantly below all businesses figure at 95% confidence level

There are no statistical differences between the percentage of businesses established in the last year when analysed by country of ownership.

Table 3.8c: New London businesses by country of ownership

	All businesses	UK-owned	Foreign-owned	Joint UK-foreign	Don't know/ refused
	%	%	%	%	%
Opened since 1996	6.3	6.4	5.6	2.0	1.8
Unweighted sample	5,600	5,020	456	81	43

Source: LABS 2006

Significantly above all businesses figure at 95% confidence level

Significantly below all businesses figure at 95% confidence level

A significantly higher percentage of majority male-owned businesses were opened in the 12 months before the survey was undertaken, compared with majority female or joint male/female-owned businesses.

Table 3.8d: New London businesses by gender of ownership

	All businesses	Majority female	50:50 male/female	Majority male	Don't know
	%	%	%	%	%
Opened since 2006	6.3	5.1	4.9	7.7	1.8
Unweighted sample	5,600	593	867	3,118	1,022

Source: LABS 2006

Significantly above all businesses figure at 95% confidence level

Significantly below all businesses figure at 95% confidence level

A significantly higher percentage of black-owned (17%), other/Chinese-owned (16%) and Asian-owned businesses (9%) have been established in the 12 months prior to LABS 2006.

Table 3.8e: New London businesses by ethnicity of ownership

	All businesses	White	Black	Asian	Mixed	Other/ Chinese	Don't know/ refused
	%	%	%	%	%	%	%
Opened since 1996	6.3	5.5	17.4	9.5	0.2	15.5	1.9
Unweighted sample	5,600	3,706	236	629	49	115	865

Source: LABS 2006

Significantly above all businesses figure at 95% confidence level

Significantly below all businesses figure at 95% confidence level

3.6 Differences in business performance by size, sector, location and age of business


Organisation size was an important influence on employment growth in 2006 (see Table 3.9), with organisations employing over 10 people significantly more likely to have experienced employment growth. Very small organisations, employing less than five people were significantly less likely to have enjoyed employment growth. Organisation size also had an influence on growth in turnover, productivity and profits. Organisations with over 10 employees were significantly more likely to have experienced growth in turnover and profitability, although only organisations with over 100 employees were significantly more likely to have experienced growth in productivity. However, organisations with less than five employees were significantly less likely to have seen growth in turnover, productivity or profitability.


The age of businesses had a significant impact on business performance. Businesses established in the 2000 – 2005 period were significantly more likely than average to have experienced growth in employment, turnover and productivity.

Table 3.9: Sector, size, location and age of businesses effects on performance

Structural variables	Odds ratio			
	Growth in employment	Growth in turnover	Growth in productivity	Growth in profits
Size of business				
1–4	0.29	0.68	0.55	0.78
5–9 ⁽¹⁾	1.00	1.00	1.00	1.00
10–49	1.80	1.33	1.09	1.29
50–99	1.95	1.43	1.31	1.71
100–249	2.65	1.95	1.47	1.92
250+	2.89	2.69	1.70	2.20
Sector				
Primary & Utilities	0.52	0.51	0.45	0.97
Publishing	0.59	0.62	0.66	0.50
Manufacturing (excluding Publishing)	0.56	0.63	0.60	0.61
Construction	0.90	0.90	0.76	0.77
Wholesale & Retail	0.61	0.56	0.71	0.54
Hotels & Restaurants	0.39	0.60	0.66	0.62
Transport & Communications	0.86	0.66	0.75	0.73
Banking & Finance	1.05	0.93	1.37	1.48
Business & Professional Services ¹	1.00	1.00	1.00	1.00
Education, Health & Social Work	0.65	0.71	0.68	0.71
Other Community	0.61	0.65	0.68	0.75
Age of business				
Established in 2006	2.23	–	–	–
Established in 2000–2005	2.06	2.35	1.69	1.81
Established in 1990–1999 ¹	1.00	1.00	1.00	1.00
Established before 1990	0.79	0.99	0.96	0.87

Source: LABS 2006

 Likelihood that variable significantly affects growth at 10% significance level

 Likelihood that variable significantly detracts from growth at 10% significance level

⁽¹⁾ Denotes reference category

Chapter 4

Summary

- The vast majority of businesses in London are UK-owned, with only 4.6% of London's businesses being foreign-owned and 1% being joint UK/foreign-owned. Larger businesses are more likely to be foreign-owned. Foreign ownership is most common in Banking and Finance and Transport and Communications, and least common in Construction.
- Just over half (51.5%) of London's businesses trade as private limited companies, while four out of 10 (40.6%) trade as either sole proprietorships or partnerships. Only 4% of businesses trade as public limited companies.
- Majority female-owned businesses account for one in six (16.3%) of London's businesses. While majority female-ownership increased from 2003 to 2005, majority female-ownership in 2006 remained comparable to the 2005 figure (16.7%).
- Female-owned businesses are more likely to be smaller than other businesses. 20.7% of organisations with 1 – 4 employees are majority female-owned compared with just 1.2% of organisations with 250+ employees.
- More black-owned businesses are majority-owned by women than average, with over one quarter being majority female-owned (25.6%), versus 16.3% on average and only 10.1% for Asian-owned businesses.
- Almost one in five of London's businesses are majority-owned by minority ethnic communities (19.5%). This compares with almost one in three of London's population (29%) classified as being from minority ethnic communities in the 2001 census.
- 11.9% of businesses were Asian-owned and 4% of businesses were black-owned. Asian ownership is almost identical to the proportion of London's population that is Asian (12%), but black ownership is much less than the proportion of the total population that is black (10.9%).
- Asian-owned businesses make up a significantly higher proportion than average of the Wholesale and Retail (21.8%) and Transport and Communications (21.2%) sectors, while black-owned businesses make up a significantly higher proportion than average of the Banking and Finance sector.
- Ownership by ethnic minorities had decreased slightly between 2003 and 2005. However, in the 2006 survey ethnic minority ownership rose (to 19.5% in 2006 from 16.5% in 2005). The majority of this rise in ethnic minority business ownership was driven by a three percentage point rise in Asian business ownership. The percentage of black-owned businesses had risen between 2003 and 2005 but fell in 2006 (to 4% from 5.2%).

- Very few businesses have disabled owners, with only 1% being majority-owned by people classified as disabled. However, 2.7% of all London businesses had one or more disabled owner.
- People in their thirties set up over one third of businesses (37.9%), with a further fifth (22.6%) of businesses being set up by people in their forties. Less than one in 10 (7.8%) were set up by people under 25 and slightly more than one in 10 (11.1%) were set up by people that were over 50.
- A desire for independence or to be one's own boss was the most commonly cited reason (20.5%) for setting up a business. This was followed by a desire to make money (14.1%) and trying to fill a gap in the market (11.1%).

Influence on performance

- Improved growth in turnover, productivity and profits were all associated with franchise businesses, with growth in productivity also linked to female-owned businesses. Foreign-owned businesses were linked with lower growth in employment and profits. Black-owned businesses were associated with lower growth in turnover.

Chapter 4

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- 4.1 Introduction
 - 4.2 UK/foreign-owned
 - 4.3 Legal status
 - 4.4 Gender of owners
 - 4.5 Ethnicity of owners
 - 4.6 Disability
 - 4.7 Age of owners
 - 4.8 Reasons for setting up businesses
 - 4.9 Differences in business performance by type of ownership
-

4.1 Introduction

Ownership characteristics of businesses vary considerably. Differences in ownership characteristics may be associated with differences in performance and require variation in the approaches adopted by business support organisations.

This chapter examines London's businesses in terms of their ownership characteristics, including the extent to which ownership is in the UK or abroad, the types of legal structures of ownership that are used, and variations in gender, ethnicity, disability and reasons for setting up the business. Differences in business performance by types of ownership are also investigated.

4.2 UK/foreign-owned

The overwhelming majority of businesses in London are UK-owned (93.7%), with around 4.6% being foreign-owned. Larger businesses are more likely to be foreign-owned. Less than 2% of organisations with less than 10 employees are foreign-owned, compared with 26.5% of those with 250 or more employees.

Businesses in the Banking and Finance (18%) and Transport and Communications (9.1%) sectors are more likely to be foreign-owned. Foreign ownership is least common in the Construction sector (0.5%).

Table 4.1: Foreign ownership of London's businesses by size of organisation

All businesses		1 – 4	5 – 9	10 – 49	50 – 99	100 – 249	250 +	Don't know
		%	%	%	%	%	%	%
UK-owned	93.7	97.9	97.9	90.8	85.5	85.1	67.2	56.0
Foreign-owned	4.6	1.9	1.6	7.8	4.7	8.3	26.5	20.2
Joint UK-foreign	1.0	0.1	0.3	1.1	9.7	6.4	3.3	4.6
DK/Refused	0.7	0.1	0.3	0.3	0.1	0.2	3.0	19.2
Unweighted sample	5,600	1,325	1,016	1,486	310	258	1,026	179

Table 4.1b Foreign ownership of London's businesses by sector

All businesses		Publishing	Manufacturing excluding Publishing	Construction	Wholesale & Retail	Hotels & Restaurants	Transport & Communications	Banking & Finance	Business & Professional Services	Education, Health & Social Work	Other Community Services
		%	%	%	%	%	%	%	%	%	%
UK-owned	93.7	95.2	93.7	99.3	94.4	93.5	89.9	77.1	94.2	91.5	95.0
Foreign-owned	4.6	4.3	6.1	0.5	4.0	4.6	9.1	18.0	3.9	5.1	4.7
Joint UK-foreign	1.0	0.5	0.2	0.1	0.9	1.3	0.6	2.5	1.1	2.5	0.1
DK/Refused	0.7	0.0	0.0	0.0	0.7	0.6	0.4	2.4	0.8	0.9	0.2
Unweighted sample	5,600	161	351	479	1,115	622	434	327	1,280	415	391

Source: LABS 2006

 Significantly above all businesses figure at 95% confidence level

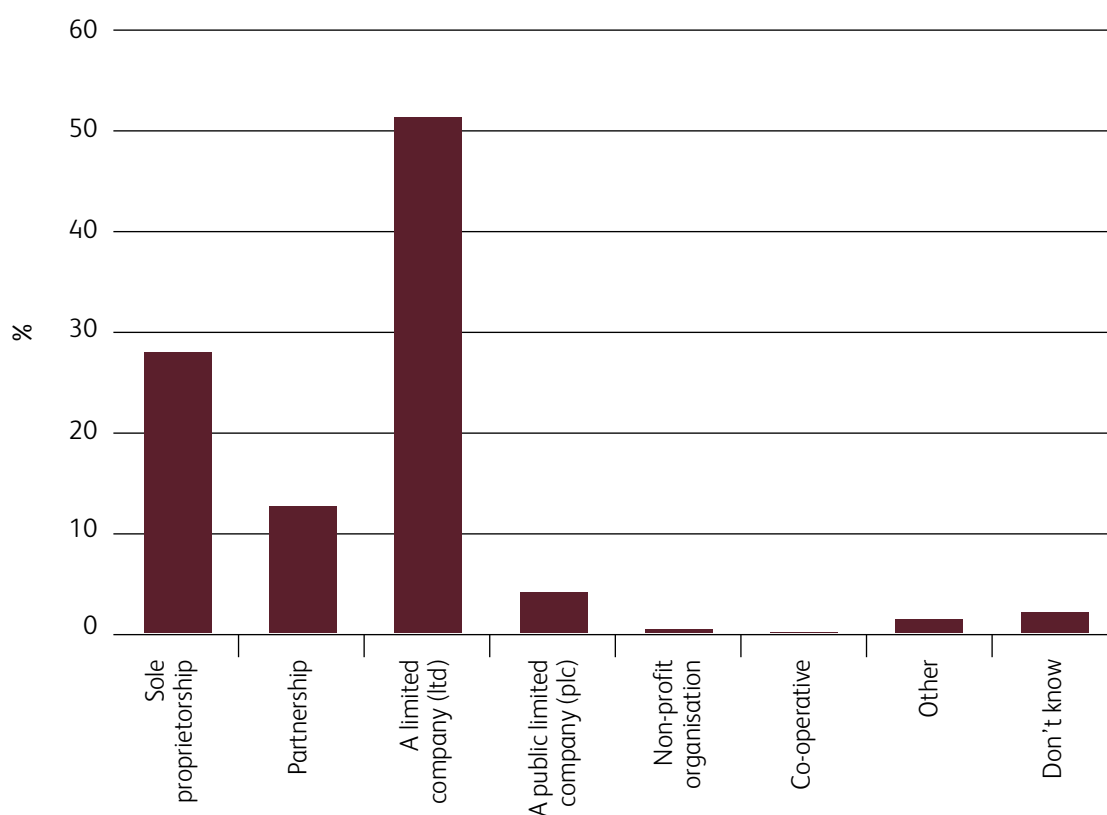
 Significantly below all businesses figure at 95% confidence level

Chapter 4

4.3 Legal status

Just over half of London's businesses (51.5%) trade as private limited companies (Graph 4.1), while 28% are sole proprietorships and a further 12.7% are partnerships. Public limited companies make up 4% of the stock of London businesses.

Graph 4.1: Percentage of number of businesses in London by legal status



Source: LABS 2006

4.4 Gender of owners

16.3% of businesses in London are majority female-owned and 16.8% are 50:50 male-female-owned. Majority female-owned businesses tend to be smaller than average, with 20.7% of organisations with 1–4 employees being majority female-owned compared to 1.2% of organisations with 250+ employees. Not surprisingly, the larger the business the less certain were respondents on the gender profile of the owners, with less than 1% of organisations with 1–4 employees being uncertain compared to 64.9% for those with 250+ employees.

Table 4.2a Gender of business owners by size of organisation (employment)

	All businesses	1 – 4	5 – 9	10 – 49	50 – 99	100 – 249	250+	Don't know
	%	%	%	%	%	%	%	%
Majority male	57.8	60.2	61.9	63.8	59.6	53.4	29.5	20.3
50:50 male-female	16.8	18.2	20.4	17.6	15.6	6.3	4.4	1.8
Majority female	16.3	20.7	13.8	7.6	5.1	4.9	1.2	6.7
DK/Refused	9.1	0.9	3.9	11.0	19.8	35.4	64.9	71.3
Unweighted sample	5,600	1,325	1,016	1,486	310	258	1,026	179

Source: LABS 2006

Significantly above all businesses figure at 95% confidence level

Significantly below all businesses figure at 95% confidence level

There are clear differences in the incidence of majority female-ownership by sector. Majority female-owned businesses made up a lower than average percentage of businesses in Construction (4.6%), Transport and Communications (7.5%), Manufacturing, excluding Publishing (8.9%) and Banking and Finance (7.6%). However, majority female-owned businesses account for a significantly higher percentage of businesses in the Education, Health and Social Work (31.6%), and Other Community Services (27.3%) sectors.

The analysis by country of ownership is affected by the large number of do not know/ refused responses in foreign-owned organisations (41.2%). However, for those businesses that did respond foreign-owned businesses were less likely to be majority-owned by females than other businesses (3.3%).

Table 4.2b Gender of business owners by sector

	All businesses	Publishing	Manufacturing excluding Publishing	Construction	Wholesale & Retail	Hotels & Restaurants	Transport & Communications	Banking & Finance	Business & Professional Services	Education, Health & Social Work	Other Community Services
	%										
Majority male	57.8	57.2	64.4	73.3	56.3	52.1	61.2	52.3	60.0	40.3	51.4
50:50 male-female	16.8	20.0	17.6	20.7	17.3	13.8	16.6	11.9	17.6	17.8	12.7
Majority female	16.3	16.4	8.9	4.6	14.6	18.4	7.5	7.6	16.5	31.6	27.3
DK/Refused	9.1	6.4	9.2	1.4	11.8	15.8	14.7	28.2	6.0	10.3	8.7
Unweighted sample	5,600	161	351	479	1,115	622	434	327	1,280	415	391

Table 4.2c Gender of business owners by country of ownership

	All businesses	UK-owned	Foreign-owned	Joint UK- foreign	Don't know/ Refused
	%	%	%	%	%
Majority male	57.8	58.4	52.5	62.0	6.0
50:50 male-female	16.8	17.7	2.9	5.4	0.3
Majority female	16.3	17.2	3.3	0.2	0.2
DK/Refused	9.1	6.7	41.2	32.4	93.5
Unweighted sample	5,600	5,020	456	81	43

Source: LABS 2006

 Significantly above all businesses figure at 95% confidence level

 Significantly below all businesses figure at 95% confidence level

Black-owned businesses were significantly more likely to be majority female-owned (25.6%) than average. Asian businesses were significantly less likely to be majority female-owned than average (10.1%). The level of 50:50 male-female ownership amongst Asian businesses was also well below average (10.7%).

Table 4.2d Gender of business owners by ethnicity of owners

	All businesses	White	Black	Asian	Mixed	Other/ Chinese	Don't know/ refused
	%	%	%	%	%	%	%
Majority male	57.8	59.3	55.6	77.4	70.2	55.9	19.1
50:50 male-female	16.8	19.1	16.7	10.7	1.1	16.9	8.5
Majority female	16.3	17.8	25.6	10.1	26.6	22.1	4.9
DK/Refused	9.1	3.9	2.1	1.8	2.1	5.0	67.5
Unweighted sample	5,600	3,706	236	629	49	115	865

Source: LABS 2006

 Significantly above all businesses figure at 95% confidence level

 Significantly below all businesses figure at 95% confidence level

The proportion of majority female-owned businesses had increased steadily between the 2003 and 2005 surveys, from 9.7% to 16.7% of businesses. However, in the 2006 survey, the level of majority female ownership stabilised at 16.3%.

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Table 4.3 Evolution of female ownership

	2003	2003 – unweighted estabs
	%	n
Majority female	9.7	275
50:50/majority male	79.0	2,877
Don't know/refused	11.2	921
	2004	2004 – unweighted estabs
Majority female	11.4	347
50:50/majority male	84.1	3,245
Don't know/refused	4.5	416
	2005	2005 – unweighted estabs
Majority female	16.7	376
50:50/majority male	75.6	2,878
Don't know/refused	7.7	748
	2006	2006 – unweighted estabs
Majority female	16.3	593
50:50/majority male	74.6	3,985
Don't know/refused	9.1	1,022

4.5 Ethnicity of owners

In the 2006 survey a total of 19.5% of London businesses were majority-owned by minority ethnic communities. 11.9% of London businesses were Asian-owned which is in line with the proportion of London's population classified as Asian in the 2001 Census of Population (12.1%). Black-owned businesses accounted for 4% of London businesses which is much lower than the proportion of London's population classified as black in the 2001 Census of Population (10.9%).

Black-owned businesses were slightly smaller than Asian-owned businesses. In terms of size of organisation, black-owned organisations were more likely to have 5 – 9 employees than average, while Asian-owned organisations were more likely to have 50 – 99 employees than average.

Asian-owned businesses account for a significantly higher than average proportion of businesses in the Wholesale and Retail (21.8%) and Transport and Communications (21.2%) sectors, and account for a significantly lower than average proportion of businesses in the Construction (4.6%), Banking and Finance (5.9%) and Publishing (6.3%) sectors. Black-owned businesses have a significantly higher than average proportion of businesses in the Banking and Finance sector (7.8%), but are significantly under represented in the Other Community Services (1.4%) and the Wholesale and Retail (2.7%) sectors.

Table 4.4a Ethnicity of business owners by size of organisation (employment)

	All businesses	1–4	5–9	10–49	50–99	100–249	250+	Don't know
	%	%	%	%	%	%	%	%
White	71.8	75.3	73.9	75.9	60.0	57.5	50.3	26.2
Black	4.0	4.3	6.2	3.7	1.6	0.3	1.0	0.6
Asian	11.9	12.3	13.7	9.2	22.6	8.2	4.9	12.0
Mixed	1.1	1.4	0.6	0.4	0.3	0.4	0.6	0.3
Other	2.5	3.0	0.9	1.5	1.0	3.1	2.0	1.6
DK/Refused	8.7	3.6	4.7	9.2	14.5	30.6	41.1	59.4
Unweighted sample	5,600	1,325	1,016	1,486	310	258	1,026	179

Table 4.4b Ethnicity of business owners by sector

	All businesses	Publishing	Manufacturing excluding Publishing	Construction	Wholesale & Retail	Hotels & Restaurants	Transport & Communications	Banking & Finance	Business & Professional Services	Education, Health & Social Work	Other Community Services
	%										
White	71.8	86.7	77.9	88.2	60.8	67.0	58.8	62.6	75.8	72.7	72.2
Black	4.0	1.0	3.5	3.2	2.7	3.1	4.7	7.8	5.2	5.2	1.4
Asian	11.9	6.3	7.5	4.6	21.8	11.8	21.2	5.9	9.2	8.1	10.8
Mixed	1.1	0.1	0.1	0.1	1.0	0.3	1.5	2.2	0.9	1.9	3.1
Other	2.5	0.7	2.6	1.6	1.6	5.4	3.7	5.1	2.4	1.0	3.1
DK/Refused	8.7	5.2	8.4	2.4	12.1	12.4	10.1	16.4	6.5	11.0	9.3
Unweighted sample	5,600	161	351	479	1,115	622	434	327	1,280	415	391

Source: LABS 2006

Significantly above all businesses figure at 95% confidence level

Significantly below all businesses figure at 95% confidence level

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Foreign-owned businesses were more likely to have an ownership profile by ethnicity that was unknown or refused than average. Foreign-owned businesses were also more likely to be other/Chinese majority-owned than average. Foreign-owned businesses were less likely to be white, black and Asian majority-owned than average.

Table 4.4c Ethnicity of business owners by country of ownership

	All businesses	UK-owned	Foreign-owned	Joint UK-foreign	Don't know/ refused
	%	%	%	%	%
White	71.8	73.5	54.5	43.9	7.2
Black	4.0	4.2	1.6	0.5	0.3
Asian	11.9	11.9	8.2	34.7	1.8
Mixed	1.1	0.9	6.5	0.0	0.0
Other	2.49	2.4	5.7	0.3	0.0
DK/Refused	8.69	7.3	23.5	20.6	90.8
Unweighted sample	5,600	5,020	456	81	43

Source: LABS 2006

Significantly above all businesses figure at 95% confidence level

Significantly below all businesses figure at 95% confidence level

There was increase in the proportion of London businesses that were owned by minority ethnic communities in the 2006 survey from 16.5% in 2005 to 19.5% in 2006. This was due to an increase in the proportion of Asian-owned businesses from 8.9% in 2005 to 11% in the 2006 survey. There was a reduction in the proportion of London businesses that were black-owned from 5.2% in 2005 to 4% in 2006.

Table 4.5 Evolution of ownership by ethnicity

	2003 – %	2003 – Unweighted Estabs
White	67.0%	2,494
Black	3.0%	72
Asian	11.9%	319
Mixed	5.0%	224
Other / Chinese	1.7%	83
Refused / Don't know	11.4%	881
	2004 – %	2004 – Unweighted Estabs
White	71.6%	2,687
Black	4.9%	139
Asian	10.7%	374
Mixed	4.1%	242
Other / Chinese	2.8%	98
Refused / Don't know	5.9%	468
	2005 – %	2005 – Unweighted Estabs
White	77.1%	2,882
Black	5.2%	140
Asian	8.9%	287
Mixed	0.3%	11
Other / Chinese	2.1%	106
Refused / Don't know	6.4%	576
	2006 – %	2006 – Unweighted Estabs
White	71.8%	3706
Black	4.0%	236
Asian	11.9%	629
Mixed	1.1%	49
Other / Chinese	2.5%	115
Refused / Don't know	8.7%	865

4.6 Disability

According to the 2006 survey, 1% of London businesses are majority-owned by people classified as disabled and 2.7% of London businesses have one or more disabled owner¹.

Medium sized businesses employing 50 – 99 people were significantly more likely to have at least one disabled owner (4.7%) than average. Businesses with at least one disabled owner were significantly more likely to be in the Other Community Services (6.6%), Education, Health and Social Work (4.8%) and Wholesale and Retail (4.2%) sectors than average. Businesses with at least one disabled owner were significantly less likely to be in the Banking and Finance (0.5%), Transport and Communications (0.8%) and Business and Professional Services (1.7%) sectors.

¹ The term disabled owner is used to cover disabled owners, or partners in a business

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Table 4.6 Disabled business ownership

	Businesses with one or more disabled owners	Unweighted sample
	%	n
All businesses	2.7	5,600
Size		
1 – 4	3.2	1,325
5 – 9	2.4	1,016
10 – 49	1.1	1,486
50 – 99	4.7	310
100 – 249	0.3	258
250+	0.3	1,026
Sector		
Publishing	1.6	161
Manufacturing (excluding Publishing)	1.9	351
Construction	1.9	479
Wholesale & Retail	4.2	1,115
Hotels & Restaurants	1.7	622
Transport & Communications	0.8	434
Banking & Finance	0.5	327
Business & Professional Services	1.7	1,280
Education, Health & Social Work	4.8	415
Other Community Services	6.6	391

Source: LABS 2006

- Significantly above all businesses figure at 95% confidence level
- Significantly below all businesses figure at 95% confidence level

4.7 Age of owners

Two out of five (37.9%) of those involved in setting up a business were in their thirties at the time of establishment, with a further one fifth (22.6%) in their forties and another fifth in their late twenties (19.6%). Less than one in 10 were under 25 (7.8%) and slightly over one in 10 were over 50 (11.1%) at the time of establishing the business.

Organisations with 50 – 99 employees were significantly more likely to have been established by owners in their thirties than average. Organisations with 100 – 249 employees were significantly more likely to have been established by owners in their late twenties than average. Organisations with 250+ employees were significantly more likely to have been established by owners in their forties than average.

Table 4.7a Age at establishment of business by size of organisation (employment)

	All businesses	1 – 4	5 – 9	10 – 49	50 – 99	100 – 249	250+	Don't know
	%	%	%	%	%	%	%	%
Under 25	7.8	7.7	9.7	6.3	9.0	4.8	6.0	13.1
25 – 29	19.6	19.8	19.3	20.8	12.7	32.1	9.5	7.6
30 – 39	37.9	37.1	39.1	39.7	69.8	40.9	18.0	69.9
40 – 49	22.6	22.6	22.7	22.5	5.8	13.3	59.1	1.6
50 – 64	10.8	11.6	8.4	7.4	2.2	8.9	6.5	2.9
65+	0.4	0.4	0.5	0.1	0.0	0.0	0.0	0.0
Refused	0.2	0.2	0.2	0.5	0.5	0.0	0.7	0.0
Don't know	0.7	0.6	0.0	2.8	0.0	0.0	0.2	4.8
Unweighted sample	2,644	1,075	643	692	79	54	82	19

Source: LABS 2006

 Significantly above all businesses figure at 95% confidence level

 Significantly below all businesses figure at 95% confidence level

Businesses set up by people in their early twenties were more likely than average to be in the Wholesale and Retail sector. Those in their thirties who started a business (the largest age group of business owners) were significantly more likely than average to have established a company operating in the Business and Professional Services sector. Those in their forties who set up a business were significantly more likely to have done so in the Banking and Finance, Hotels and Restaurants and Construction sectors. Businesses set up by those over 40 were also more likely to be in the Banking and Finance sector than average.

Table 4.7b Age at establishment of business by sector

	All businesses		Publishing		Manufacturing excluding Publishing		Construction		Wholesale & Retail		Hotels & Restaurants		Transport & Communications		Banking & Finance		Business & Professional Services		Education, Health & Social Work		Other Community Services	
	%		%		%		%		%		%		%		%		%		%		%	
Under 25	7.8		2.3		10.8		9.8		15.3		9.7		10.5		7.4		4.7		1.8		7.9	
25 – 29	19.6		29.8		14.0		16.6		21.2		21.4		11.3		5.0		22.3		17.6		12.3	
30 – 39	37.9		36.1		36.4		34.0		31.2		26.5		32.5		37.2		44.5		38.7		32.7	
40 – 49	22.6		22.2		25.9		28.1		20.1		29.0		27.3		31.7		20.4		28.5		22.4	
50 – 64	10.8		9.2		12.5		10.4		10.5		12.8		15.3		18.7		6.5		12.1		24.7	
65+	0.4		0.5		0.0		0.9		1.2		0.0		1.3		0.0		0.1		1.1		0.0	
Refused	0.25		0.0		0.4		0.2		0.5		0		1		0		0		0		0	
Don't know	0.71		0.0		0.0		0.0		0.0		0.6		0.8		0.0		1.5		0.1		0.0	
Unweighted sample	2,644		84		191		318		409		247		201		128		699		173		176	

Source: LABS 2006

 Significantly above all businesses figure at 95% confidence level

 Significantly below all businesses figure at 95% confidence level

Foreign-owned companies were significantly more likely to have been started by someone aged 50 – 64 and significantly less likely to have been started by someone aged 30 – 39.

Table 4.7c Age at establishment of business by country of ownership

	All businesses	UK-owned	Foreign-owned	Joint UK-foreign	DK/Refused
	%	%	%	%	%
Under 25	7.8	7.9	8.5	0.8	0.0
25 – 29	19.6	19.3	29.4	29.7	0.9
30 – 39	37.9	38.1	4.8	65.3	99.0
40 – 49	22.6	23.0	16.3	2.6	0.0
50 – 64	10.76	10.4	32.7	1.6	0.0
65+	0.39	0.4	0.0	0.0	0.0
Refused	0.25	0.2	0.3	0.0	0.0
Don't know	0.71	0.5	8.0	0.0	0.0
Unweighted sample	2,644	2,564	56	21	3

Source: LABS 2006

Significantly above all businesses figure at 95% confidence level

Significantly below all businesses figure at 95% confidence level

Majority female-owned businesses were significantly more likely to be started by people in their thirties (43.3%) or by those aged between 50 and 64 (16.3%). Majority female-owned businesses were less likely to be started by people in their late twenties than average.

Table 4.7d Age at establishment of business by gender of owners

	All businesses	Majority female	50:50 male/female	Majority male	Don't know
	%	%	%	%	%
Under 25	7.8	8.5	7.2	7.9	2.3
25 – 29	19.6	10.5	20.2	22.6	10.7
30 – 39	37.9	43.3	37.2	36.0	55.2
40 – 49	22.6	20.7	25.7	22.2	23.7
50 – 64	10.76	16.3	9.1	9.6	3.9
65+	0.39	0.1	0.3	0.5	0.0
Refused	0.25	0.6	0.3	0.1	0.7
Don't know	0.71	0.0	0.0	1.1	3.5
Unweighted sample	2644	397	572	1621	54

Source: LABS 2006

Significantly above all businesses figure at 95% confidence level

Significantly below all businesses figure at 95% confidence level

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Majority black-owned businesses were significantly more likely to be established by people in their thirties than average, while businesses with other/Chinese majority ownership were significantly more likely to be established by those aged below 30.

Table 4.7e Age at establishment of business by ethnicity of owners

	All businesses	White	Black	Asian	Mixed	Other/ Chinese	Refused/ don't know
	%	%	%	%	%	%	%
Under 25	7.8	8.0	1.8	9.2	15.7	8.8	3.0
25–29	19.6	19.2	19.3	22.5	8.6	42.0	2.9
30–39	37.9	37.8	47.7	37.7	6.5	22.3	53.7
40–49	22.6	21.7	25.6	23.2	36.5	20.5	33.1
50–64	10.76	11.8	3.8	7.4	32.8	6.4	3.6
65+	0.39	0.4	1.1	0.0	0.0	0.0	0.0
Refused	0.25	0.2	0.0	0.0	0.0	0.0	2.6
Don't know	0.71	0.9	0.6	0.0	0.0	0.0	1.1
Unweighted sample	2,644	1,897	169	378	25	63	112

Source: LABS 2006

Significantly above all businesses figure at 95% confidence level

Significantly below all businesses figure at 95% confidence level

4.8 Reasons for setting up businesses

As shown in Table 4.9 the most common reasons for setting up in business were a desire for independence (20.5% of respondents) and to make money (14.1%). Other frequently cited reasons were the opportunity to meet a gap in the market, build on past experience, a desire to start own business, and redundancy and difficulty finding other work. The order of the top eight responses was the same as in the 2005 survey.

Table 4.8 Motivation behind business start-up

Reasons for starting up in business	%
Be my own boss / independent / tired of working for other people	20.5
To have an income / make money	14.1
Business opportunity / gap in the market	11.1
Experience of this type of work / has been in this business (inc. natural progression)	8.5
Wanted to start own business / it is what I want to do	9.2
Made redundant	6.1
Found it difficult to find work / needed to work / unemployed	6.3
Wanted a change of job / new challenge (inc. boredom)	4.4
Interest in subject / field	3.2
Freedom / flexible working / like to work from home	3.1
An ambition / for personal achievement	2.3
Family-based decision inc. family business / friend	2.1
Wanted to serve the community / help people	1.9
Think that the business could be run better / provide a better service	1.9
Provide a required service / asked to do it	1.7
Old business / company folded or went into liquidation	1.5
Have expertise in the field	1.4
Dissatisfaction with last job	1.3
The business / resource was offered by someone else (inc. partner)	1.1
Thought it was a good idea at the time	1.1
Branching out from / split with other / previous business	0.9
To expand existing business	0.8
Enjoyment of doing this type of job	0.8
Took over from previous owner	0.8
Other	4.7
Don't know	2.0

Source: LABS 2006

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4.9 Differences in business performance by type of ownership


The main characteristic associated with improved business performance is the business being a franchise operation. These businesses have significantly above average growth in turnover, productivity and profits. Majority female-owned businesses also have significantly higher levels of growth in productivity and those that are global operations have significantly higher levels of growth in profits.


The only characteristic that was associated with detracting from the growth of more than one of the measures of performance was being foreign-owned, which was linked to detracting from growth in both employment and profits. Detraction from growth in turnover was also associated with majority black-owned businesses.

Table 4.9 Ownership influences on performance

Structural variables	Odds ratio			
	Growth in employment	Growth in turnover	Growth in productivity	Growth in profits
Foreign-owned	0.60	0.99	1.04	0.67
Global operation	1.08	1.10	1.06	1.39
HQ in London	2.03	2.99	0.51	1.41
HQ elsewhere in the south east	1.84	2.07	0.57	1.23
HQ elsewhere in the UK	1.01	2.15	0.57	1.53
HQ elsewhere in the EU	2.49	2.49	0.44	1.61
HQ in the USA	0.66	1.32	0.44	0.90
HQ elsewhere in RoW	0.37	0.82	0.14	1.00
White-owned	1.00	1.00	1.00	1.00
Black-owned	0.74	0.61	1.06	0.75
Asian-owned	0.85	0.91	0.92	0.84
Mixed-owned	0.67	0.76	0.87	0.96
Other-owned	1.31	0.77	0.87	1.09
Female-owned	1.03	1.16	1.27	1.02
Franchise	0.89	1.77	1.82	1.51
Social business	1.04	0.90	1.05	0.89
Single site operation	2.12	2.67	0.48	1.13

Source: LABS 2006

 Likelihood that variable significantly affects growth at 10% significance level

 Likelihood that variable significantly detracts from growth at 10% significance level

Chapter 5

Workforce

Summary

- On the basis of LABS 2006, it is estimated that there are 3,226,117 jobs in private sector businesses in London, including owners and partners.
- There are more males in the workforce of London's private businesses. Males make up 64% of the workforce compared with 36% for females. More jobs are full-time (79%) than part-time (21%), but more females work in part-time jobs, 12%, than males (9%).
- The mix of male and female workers tends to vary by organisation size, with the proportion of female employees highest in organisations with 50 – 99 employees.
- The proportion of women in the workforce differs across sectors, with the Education, Health and Social Work and Hotels and Restaurants sectors reporting the highest incidence of women in the workforce. Construction, Manufacturing (excluding Publishing) and Transport and Communications are the sectors with the highest percentage of male workers.
- Majority female-owned and joint male-female-owned businesses have a significantly higher than average percentage of females in their workforce.
- In terms of ethnicity, Asian-owned businesses report the lowest percentage share of female employees. Other ethnic-owned businesses have a higher percentage of female workers than other businesses.
- The incidence of full-time working is below average in organisations with more than 250 employees.
- The highest incidence of full-time employment is found in Construction, Publishing, Banking and Finance, and Transport and Communications. The lowest is in Hotels and Restaurants, Other Community Services and Education, Health and Social Work.
- In terms of gender of ownership, the incidence of full-time working is most common in majority male-owned businesses and least prevalent in majority female-owned businesses.
- In Asian-owned businesses full-time male employment is significantly above average and full-time female employment is significantly below average. The incidence of part-time female working is significantly below average in black-owned business, but part-time male working is above average in these businesses.

Effect on business performance

- After controlling for other influences on business performance, the multivariate analysis suggests that a higher proportion of part-time female workers is negatively related to growth in profits.

Chapter 5

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5.1 Introduction

5.2 Gender

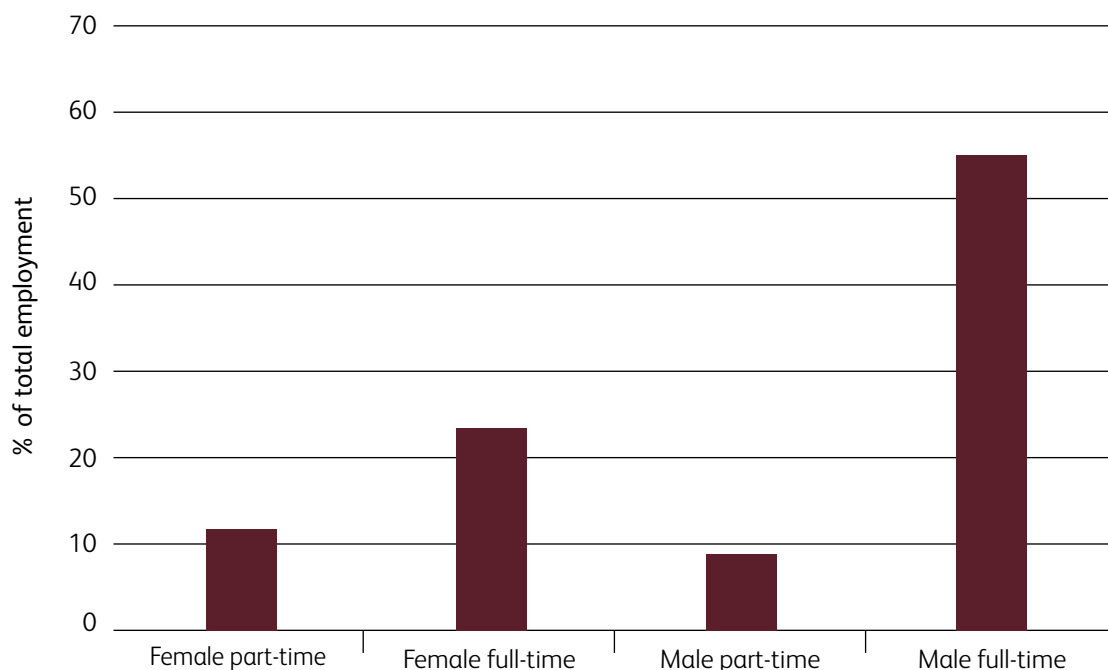
5.3 Full-time/Part-time

5.4 Workforce effects on business performance

5.1 Introduction

The focus of this chapter is to analyse the profile of London's workforce, particularly its characteristics in terms of full-time (more than 30 hours per week) and part-time working and in terms of the split of jobs between males and females. On the basis of LABS 2006, it is estimated that there are 3,226,117 jobs in private sector businesses in London, including owners and partners.

Graph 5.1: Employment in London's private sector businesses by gender and full-time/part-time working



Source: LABS 2006

Table 5.1a: Workforce characteristics – by organisation size (employment)

All businesses		1 – 4	5 – 9	10 – 49	50 – 99	100 – 249	250 +	Don't know
%		%	%	%	%	%	%	%
Full-time male	55.5	58.8	48.2	52.4	49.0	51.1	45.4	48.3
Full-time female	23.7	19.9	30.0	29.1	43.0	34.8	29.1	28.4
Part-time male	8.9	9.3	9.2	8.2	2.8	4.4	10.2	9.8
Part-time female	11.9	12.1	12.5	10.4	5.1	9.7	15.2	13.5
Unweighted sample	5,600	1,325	1,016	1,486	310	258	1,026	179

Source: LABS 2006

■ Denotes significant difference above all businesses total at 95% significance level

■ Denotes significant difference below all businesses total at 95% significance level

Table 5.1b: Workforce characteristics – by sector

All businesses		Publishing	Manufacturing excluding Publishing	Construction	Wholesale & Retail	Hotels & Restaurants	Transport & Communications	Banking & Finance	Business & Professional Services	Education, Health & Social Work	Other Community Services
%		%	%	%	%	%	%	%	%	%	%
Full-time male	55.5	66.9	60.9	74.1	53.3	40.5	64.6	58.9	58.5	29.9	47.4
Full-time female	23.7	19.1	18.1	12.8	20.0	26.8	20.7	27.1	25.7	40.9	22.9
Part-time male	8.9	5.2	14.0	6.0	10.4	15.9	7.3	3.4	7.1	8.4	12.4
Part-time female	11.9	8.8	7.1	7.1	16.3	16.8	7.6	10.7	8.7	20.7	17.3
Unweighted sample	5,600	161	351	479	1,115	622	434	327	1,280	415	391

Source: LABS 2006

■ Significantly above all businesses figure at 95% confidence level

■ Significantly below all businesses figure at 95% confidence level

Chapter 5

5.2 Gender

There is a higher proportion of males (64% of total) than females (36%) in the workforce. The mix of male and female workers varies by organisation size, with the proportion of female employees highest (48%) in organisations employing 50–99 people. Female workers make up 32% of total employment in very small (one – four employees) organisations, but 44% of employment in the largest organisations (those with 100 – 249 and more than 250 employees).

The proportion of male and female workers varies by sector. Males account for more than seven out of 10 of the workforce in Construction (80%), Manufacturing (excluding Publishing) (75%), Publishing (72%) and Transport and Communications (72%), and only in Education, Health and Social Work (62%), Hotels and Restaurants (44%) and Other Community Services (40%) do females make up 40% or more of the workforce.

In regard to country of ownership, there is only slight variation in the mix of male and female employees, with females accounting for a slightly larger proportion of the workforce in foreign-owned and joint UK/foreign-owned businesses.

Table 5.1c: Workforce characteristics – by country of ownership

	All businesses	UK-owned	Foreign-owned	Joint UK-foreign	DK/Refused
	%	%	%	%	%
Full-time male	55.5	55.9	45.7	55.5	67.1
Full-time female	23.7	23.3	29.0	31.0	20.9
Part-time male	8.9	8.5	18.3	6.9	3.0
Part-time female	11.9	12.2	7.0	6.7	8.9
Unweighted sample	5,600	5,020	456	81	43

Source: LABS 2006

Significantly above all businesses figure at 95% confidence level

Significantly below all businesses figure at 95% confidence level

Majority female-owned businesses (62%) and joint male-female-owned businesses (47%) have a significantly larger than average percentage of females in their workforce.

Table 5.1d: Workforce characteristics – by gender of ownership

	All businesses	Majority female	50:50 male/female	Majority male	Don't know
	%	%	%	%	%
Full-time male	55.5	29.8	45.9	67.5	40.7
Full-time female	23.7	42.2	29.5	15.2	34.8
Part-time male	8.9	7.8	7.3	9.4	11.6
Part-time female	11.9	20.2	17.4	7.9	12.9
Unweighted sample	5,600	593	867	3,118	1,022

Source: LABS 2006

 Significantly above all businesses figure at 95% confidence level

 Significantly below all businesses figure at 95% confidence level

In regard to ethnicity, Asian-owned businesses (29%) report the lowest percentage of female employees. Other ethnicity-owned businesses (45%) have a higher percentage of female workers than other businesses.

Table 5.1e: Workforce characteristics – by ethnicity of ownership

	All businesses	White	Black	Asian	Mixed	Other/ Chinese	Refused/ don't know
	%	%	%	%	%	%	%
Full-time male	55.5	56.7	48.9	61.6	47.6	43.1	44.8
Full-time female	23.7	23.6	29.3	15.5	19.6	31.9	30.6
Part-time male	8.9	7.8	14.8	9.6	29.8	11.7	11.2
Part-time female	11.9	11.9	6.9	13.3	3.0	13.3	13.3
Unweighted sample	5,600	3,706	236	629	49	115	865

Source: LABS 2006

 Significantly above all businesses figure at 95% confidence level

 Significantly below all businesses figure at 95% confidence level

Chapter 5

5.3 Full-time/Part-time

Full-time workers dominate the labour force. 79% of employees in London work full-time (defined as more than 30 hours per week). However the incidence of full-time/part-time working does vary across businesses and by gender. Even though females account for a smaller proportion of the workforce than males, more females are in part-time jobs than males. Females in full-time employment account for 23.7% of the workforce compared with 55.5% for males, whereas females in part-time jobs account for 12% of employment compared with 9% for males.

The incidence of full-time working is below average in businesses with more than 250 employees (74%). The incidence of female full-time working varies considerably by organisation size and is lowest (20%) in very small firms, employing 1–4 people and highest (43%) in firms employing 50–99 employees. A significantly higher proportion of the workforce in businesses with 50+ employees are also part-time female workers.

Graph 5.2: Percentage of female employees by size of organisation



The highest incidence of full-time employment is found in Construction (87%), Publishing (86%), Banking and Finance (86%) and Transport and Communications (85%). The lowest is in Hotels and Restaurants (67%), Other Community Services (70%) and Education, Health and Social Work (71%). Full-time females make up 41% of the workforce in Education, Health and Social Work and 27% of the workforce in Banking and Finance, but only 13% of the workforce in the Construction sector. Male part-time working is most common in Hotels and Restaurants (16%) and Manufacturing, excluding Publishing (14%) and least common in Banking and Finance (3%) and Publishing (5%). Female part-time working is most common in Education, Health and Social Work (21%) and Other Community Services (17%) and least common in Manufacturing, excluding Publishing (7%) and Construction (7%).

The incidence of full-time working is lower than average in foreign-owned businesses (75%) but higher in joint UK-foreign-owned businesses (86%). Full-time female working is however significantly above average in both foreign-owned businesses (29%) and joint UK-foreign-owned businesses (31%).

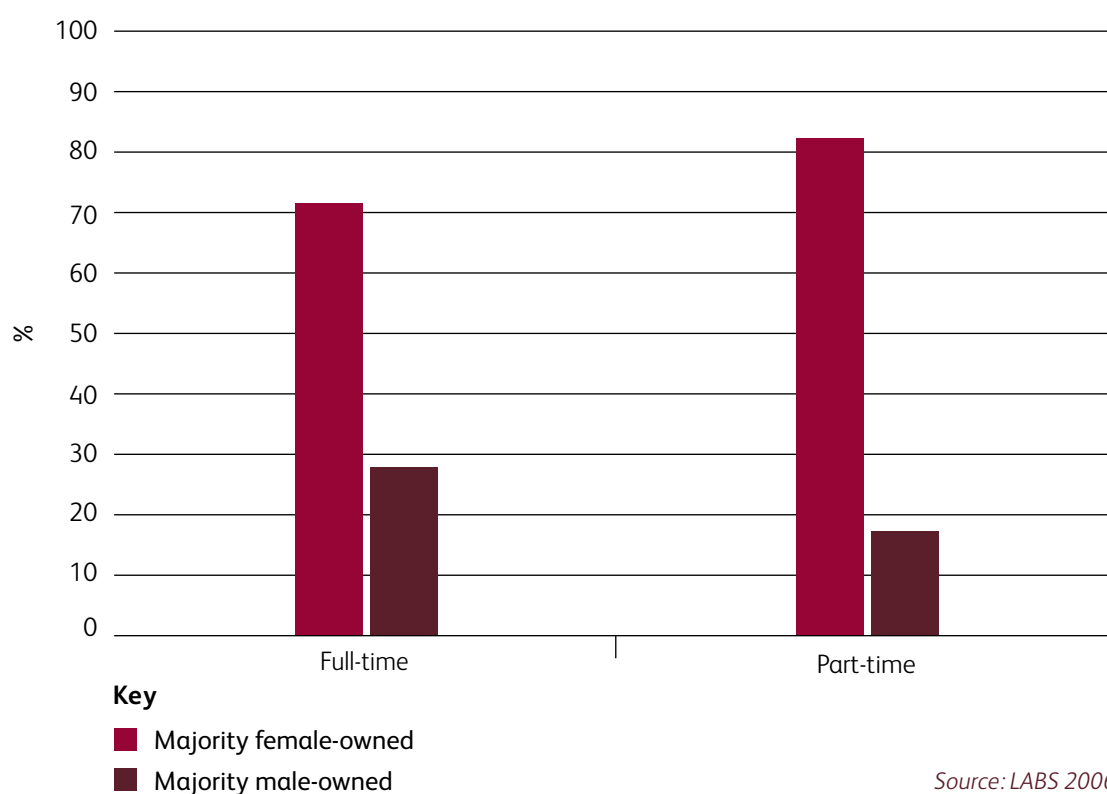
In terms of gender of ownership, the incidence of full-time working is most common in majority male-owned businesses (83%) and lower in majority female-owned businesses (72%), where a fifth of employees (20%) are part-time female workers. Part-time female working (17%) is also significantly above average in joint male/female-owned businesses.

In Asian-owned businesses full-time male working (62%) is significantly above average and full-time female working significantly below average (16%). The incidence of part-time female working is significantly below average in black-owned business (7%), but part-time male working is above average (15%).

Chapter 5

Workforce

Graph 5.3: Percentage of female employees by gender of ownership



5.4 Workforce effects on business performance

After controlling for other influences on business performance, the multivariate analysis suggests that a larger than average part-time female workforce is negatively related to growth in profits.

Table 5.2: Workforce influences on performance

Structural variables	Odds ratio			
	Growth in employment	Growth in turnover	Growth in productivity	Growth in profits
Workforce				
% female full-time	0.97	0.95	0.86	1.06
% female part-time	0.85	1.00	1.28	0.63

Source: LABS 2006

- Likelihood that variable significantly affects growth at 10% significance level
- Likelihood that variable significantly detracts from growth at 10% significance level

Section 3

The operation of businesses in London

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Chapter 6

Summary

- According to London businesses, availability of appropriately skilled labour is the highest rated problem to successfully running their businesses, followed by transport within London, and then availability of affordable housing, which increased significantly over its rating in previous years. The shortage of skilled labour in London businesses is the main problem despite unemployment being higher than in other regions.

- The other highly rated problems were transport in and out of London, crime and the cost of current premises.

- The Construction industry reported the highest level of problems to being successful. However, transport both within (mean score 3.3) and in and out of London (3.0) replaced last year's availability and cost of labour as the most significant problems in the Construction sector.

- The availability of appropriately skilled labour and crime have remained two of the most significant problems facing businesses over the past four years. Over the last two years, when transport issues have been split between within and in and out of London in the survey, transport within London appears to have been a more important problem than crime.

Effect on business performance

- Taking into account all other factors, problems in accessing finance were associated with higher growth in employment and in turnover, while businesses reporting that crime was a problem were significantly less likely to enjoy growth in profits.
-

Contents

6.1 Introduction

6.2 The level of problems associated with different factors

6.3 The effect of the business environment on performance

6.1 Introduction

This chapter looks at the key external factors that affect successful running of a business and what are considered to be current problems. This chapter also looks at how these issues differ according to the characteristics of businesses. In deciding the most appropriate policies to support businesses in London it is important to understand what are perceived as the greatest external barriers to growth. The rating system was on a scale of 1 = not a problem at all to 5 = very significant problem and the mean score is calculated by averaging the scores, excluding the “don’t know” responses. The Primary and Utilities sector does not appear in the tables presenting the findings by sector this year because no statistically valid conclusions may be drawn due to the low number of responses received.

6.2 The level of problems associated with different factors

As in 2004 and 2005, the two biggest problems that businesses currently face in London are the availability of appropriately skilled labour (mean score 2.7) and transport within London (mean score 2.6). However, the continued rise in house prices has resulted in the availability of affordable housing moving up to third place (mean score 2.5). The shortage of skilled labour in London businesses is the main problem despite unemployment being higher than in other regions.

At the other end of the scale, proximity to suppliers was rated the least serious problem by far (mean score 1.7). Physical proximity to customers is also not considered a particularly serious problem (mean score 2.0).

In Table 6.1, the percentage of responses for each rating (1 to 5) is also presented. When looking at the proportion of respondents rating a problem as significant or very significant (a rating of 4 or 5), transport within London had the highest proportion, with 32.3%, and the affordability of housing had the second highest proportion, at 30.2%. The change in the order of problems according to this measure is due to a certain number of businesses seeing these problems as significant or very significant even though they are not generally seen as a problem among businesses.

Chapter 6

Table 6.1: Current problems for business

	Not very significant				Very significant	Don't know	Mean score
	1	2	3	4	5		
	%	%	%	%	%	%	n
Availability of appropriately skilled employees	31.9	13.3	22.3	15.2	14.1	3.2	2.7
Transport within London	36.6	14.0	16.1	13.5	18.8	1.0	2.6
Crime	43.1	16.8	15.9	11.7	11.7	0.8	2.3
Cost of labour	35.0	16.9	25.3	11.7	7.9	3.3	2.4
Transport in and out London	40.2	15.1	16.1	12.1	14.6	1.9	2.4
Cost of current premises	41.2	15.4	17.6	10.1	12.2	3.4	2.3
Size of current premises	49.3	14.5	16.4	9.3	9.1	1.3	2.1
Proximity of customers or clients	50.5	16.5	17.5	7.3	6.9	1.3	2.0
Availability of affordable housing	45.1	9.5	11.3	9.6	20.6	3.9	2.5
Access to finance	49.4	15.2	15.6	7.3	9.2	3.2	2.1
Proximity to other companies in the same sector	50.6	14.6	16.8	9.1	7.1	1.8	2.1
Proximity to suppliers	60.8	17.5	11.6	3.8	4.0	2.2	1.7
Unweighted population							5,600

Source: LABS 2006

Note: Mean scores exclude 'Don't know'

As in previous years, very small businesses (1 – 4 employees) report less significant issues with all types of problems. This is particularly true for the availability of appropriately skilled employees, which was rated well below the overall average. The problems which are significantly less of a problem for larger businesses (greater than 100 employees) are: access to finance, transport within London, and transport in and out of London.

Table 6.2a: Mean scores for the current problems of London businesses – by size of organisation (employment)

All businesses	1 – 4		5 – 9		10 – 49		50 – 99		100 – 249		250 +		Don't know	
	%	%	%	%	%	%	%	%	%	%	%	%	%	%
Availability of appropriately skilled employees	2.7	2.4	3.0	3.2	3.2	3.0	3.0					3.0		2.6
Transport within London	2.6	2.6	2.8	2.7	2.6	2.3	2.3					2.4	2.0	
Crime	2.3	2.2	2.5	2.2	2.5	2.2	2.2					2.7	2.8	
Cost of labour	2.4	2.3	2.7	2.8	2.4	2.6	2.6					2.5	2.2	
Transport in and out of London	2.4	2.4	2.6	2.7	2.7	2.1	2.1					2.3	1.8	
Cost of current premises	2.3	2.3	2.6	2.6	2.5	2.3	2.3					2.3	2.7	
Availability of affordable housing	2.5	2.4	2.5	2.7	2.5	2.2	2.2					2.8	2.0	
Size of current premises	2.1	2.0	2.3	2.4	2.2	2.2	2.2					2.3	2.0	
Proximity to customers or clients	2.0	2.0	2.3	2.4	2.2	2.2	2.2					2.3	2.0	
Access to finance	2.1	2.1	2.3	2.2	1.9	1.7	1.7					1.8	1.9	
Proximity to suppliers	1.7	1.6	1.9	1.7	1.8	1.7	1.7					1.9	2.1	
Proximity of other companies in the same sector	2.1	2.0	2.2	1.9	2.4	2.0	2.0					2.4	2.4	
Unweighted population														5,600

Source: LABS 2006

Significantly above all businesses figure at 95% confidence level

Significantly below all businesses figure at 95% confidence level

Table 6.2b: Mean scores for the current problems of London's businesses – by sector

	All businesses		Publishing		Manufacturing excluding Publishing		Construction		Wholesale & Retail		Hotels & Restaurants		Transport & Communications		Banking & Finance		Business & Professional Services		Education, Health & Social Work		Other Community Services	
	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%
Availability of appropriately skilled employees	2.7	2.2	2.8	2.9	2.8	2.7	2.5	2.8	2.7	2.8	2.7	2.7	2.7	2.6	2.7	2.7	2.6	2.6	2.6	2.3	2.3	2.3
Transport within London	2.6	2.3	2.8	3.3	2.8	2.7	3.3	2.8	2.7	2.5	2.5	2.6	2.6	2.6	2.5	2.5	2.6	2.6	2.4	2.4	2.5	2.5
Crime	2.3	1.6	2.4	2.6	2.4	2.8	2.6	2.8	2.8	2.7	2.7	2.4	2.4	2.4	2.0	2.0	2.0	2.0	2.0	2.0	2.3	2.3
Cost of labour	2.4	2.2	2.6	2.6	2.6	2.5	2.6	2.5	2.5	2.7	2.7	2.4	2.4	2.4	2.1	2.1	2.3	2.3	2.4	2.4	2.2	2.2
Transport in and out of London	2.4	2.0	2.6	3.0	2.6	2.4	3.0	2.4	2.4	2.2	2.2	2.7	2.7	2.7	2.6	2.6	2.4	2.4	2.3	2.3	2.2	2.2
Cost of current premises	2.3	2.4	2.5	1.9	2.5	2.8	1.9	2.8	2.8	2.9	2.9	2.3	2.3	2.3	2.1	2.1	2.1	2.1	2.3	2.3	2.3	2.3
Availability of affordable housing	2.5	2.3	2.7	2.9	2.7	2.6	2.9	2.6	2.6	3.0	3.0	2.5	2.5	2.5	2.2	2.2	2.4	2.4	2.4	2.4	2.2	2.2
Size of current premises	2.1	2.3	2.4	1.8	2.4	2.4	1.8	2.4	2.4	2.4	2.4	2.0	2.0	2.0	2.0	2.0	1.9	1.9	2.2	2.2	2.4	2.4
Proximity to customers or clients	2.0	1.7	1.9	2.3	1.9	2.0	2.3	2.0	2.0	2.1	2.1	1.9	1.9	1.9	1.8	1.8	2.0	2.0	2.3	2.3	2.1	2.1
Access to finance	2.1	1.6	2.2	2.0	2.2	2.0	2.0	2.0	2.0	2.6	2.6	2.1	2.1	2.1	1.6	1.6	2.0	2.0	2.3	2.3	2.3	2.3
Proximity to suppliers	1.7	1.4	1.7	1.9	1.7	1.9	1.9	1.9	1.9	2.0	2.0	1.6	1.6	1.6	1.5	1.5	1.6	1.6	1.6	1.6	1.7	1.7
Proximity of other companies in the same sector	2.1	1.4	1.9	2.2	1.9	2.4	2.2	2.4	2.4	2.8	2.8	2.0	2.0	2.0	1.8	1.8	1.8	1.8	2.2	2.2	2.1	2.1
Unweighted population																						5,600

Source: LABS 2006

 Significantly above all businesses figure at 95% confidence level



 Significantly below all businesses figure at 95% confidence level

When looking at whether a business is foreign or UK owned, then jointly-owned companies face more significant problems than either solely foreign-owned or UK-owned businesses. In fact, these types of companies rate nine of the 12 issues as significantly above average, with availability of appropriately skilled employees the highest rated (mean score 3.5). Wholly foreign-owned companies report availability of appropriately skilled employees, availability of affordable housing, transport within London and crime as significantly more of a problem than the overall average. However, they also report significantly lower problems with access to finance and proximity of other companies in the same sector.

Table 6.2c: Mean scores for the current problems of London's businesses – by country of ownership

	All businesses	UK-owned	Foreign-owned	Joint UK-foreign	DK/Refused
	%	%	%	%	%
Availability of appropriately skilled employees	2.7	2.6	2.9	3.5	3.1
Transport within London	2.6	2.6	2.8	3.1	1.3
Crime	2.3	2.3	2.5	2.8	2.6
Cost of labour	2.4	2.4	2.4	3.0	1.4
Transport in and out of London	2.4	2.4	2.5	2.9	1.4
Cost of current premises	2.3	2.3	2.3	2.7	3.1
Availability of affordable housing	2.5	2.5	2.8	2.6	1.3
Size of current premises	2.1	2.1	2.1	2.0	2.0
Proximity to customers or clients	2.0	2.0	2.0	2.6	2.4
Access to finance	2.1	2.1	1.9	2.4	1.8
Proximity to suppliers	1.7	1.7	1.6	3.0	2.1
Proximity of other companies in the same sector	2.1	2.1	1.9	3.1	2.7
Unweighted population					5,600

Source: LABS 2006

 Significantly above all businesses figure at 95% confidence level
 Significantly below all businesses figure at 95% confidence level

When analysed by gender of ownership, there is little overall difference. Majority male-owned businesses did rate most issues slightly higher than majority female-owned businesses and 50:50-owned businesses rated half of the issues significantly below average. However, majority female-owned businesses did rate access to finance (mean score 2.3) as a significantly above average problem.

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Table 6.2d: Mean scores for the current problems of London's businesses – by gender of ownership

	All businesses	Majority female	50:50 male/female	Majority male	Don't know
	%	%	%	%	%
Availability of appropriately skilled employees	2.7	2.6	2.6	2.7	2.8
Transport within London	2.6	2.6	2.7	2.7	2.3
Crime	2.3	2.2	2.2	2.4	2.4
Cost of labour	2.4	2.3	2.5	2.4	2.3
Transport in and out of London	2.4	2.4	2.5	2.5	2.1
Cost of current premises	2.3	2.3	2.3	2.4	2.2
Availability of affordable housing	2.5	2.4	2.4	2.6	2.5
Size of current premises	2.1	2.0	2.0	2.2	2.2
Proximity to customers or clients	2.0	2.1	1.7	2.1	1.9
Access to finance	2.1	2.3	1.9	2.1	1.8
Proximity to suppliers	1.7	1.6	1.6	1.7	1.7
Proximity of other companies in the same sector	2.1	2.0	1.9	2.1	2.2
Unweighted population					5,600

Source: LABS 2006

Significantly above all businesses figure at 95% confidence level

Significantly below all businesses figure at 95% confidence level

As in previous years, when differences by ethnicity of ownership are considered, minority owners report facing significantly more problems than white owners. Black and Asian-owned businesses have a higher average score for many problems compared to white-owned businesses. Black-owned businesses find access to finance (mean score 3.3) their biggest problem, but also find all three proximity issues and cost of labour significantly more of a problem than the average. For Asian-owned businesses availability of appropriately skilled employees (mean score 2.9) was the highest rated problem.

Table 6.2e: Mean scores for the current problems of London's businesses – by ethnicity of ownership

	All businesses	White	Black	Asian	Mixed	Other/ Chinese	Don't know/ refused
	%	%	%	%	%	%	%
Availability of appropriately skilled employees	2.7	2.6	2.8	2.9	3.7	2.4	2.8
Transport within London	2.6	2.7	2.8	2.5	3.0	3.1	2.3
Crime	2.3	2.3	2.1	2.7	1.5	2.6	2.3
Cost of labour	2.4	2.3	2.7	2.7	2.4	2.8	2.2
Transport in and out of London	2.4	2.5	2.3	2.4	2.5	3.0	2.2
Cost of current premises	2.3	2.3	2.2	2.8	1.7	2.6	2.2
Availability of affordable housing	2.5	2.4	2.5	2.7	3.0	2.7	2.5
Size of current premises	2.1	2.1	2.3	2.3	2.4	2.3	2.2
Proximity to customers or clients	2.0	2.0	2.7	2.3	1.6	2.1	1.9
Access to finance	2.1	2.0	3.3	2.3	2.3	2.6	2.0
Proximity to suppliers	1.7	1.6	2.2	1.9	1.5	1.9	1.7
Proximity of other companies in the same sector	2.1	1.9	2.6	2.4	1.4	2.5	2.1
Unweighted population							5,600

Source: LABS 2006

Significantly above all businesses figure at 95% confidence level

Significantly below all businesses figure at 95% confidence level

Table 6.3 compares the mean ratings given by businesses over the last four years for the various problem issues that they were asked about. The availability of appropriately skilled labour is one area that remains at or near the top in every year of the survey. Crime was rated lower in 2006 but also remains a persistent problem. However, transport issues, both when asked as one question in 2003 and 2004 and when asked as separate questions on transport within London and transport in and out of London in 2005 and 2006, have increased as an issue over time, with transport within London in particular being highly rated as a problem (mean score of 2.6) in both 2005 and 2006. The third highest rated problem in 2006, availability of affordable housing, was one of only two issues that saw their overall rating rise in 2006 compared to 2005, helping account for its relative rise from a middle ranking to a higher ranking problem. Proximity to other companies in the same sector was the other factor that was seen as more of a problem in 2006 than 2005.

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Table 6.3: Current problems for the business (2003 – 2006)

Factor	Mean score 2003	Mean score 2004	Mean score 2005	Mean score 2006
	%	%	%	%
Availability of appropriately skilled employees	2.1	2.2	2.8	2.7
Transport within London	Not asked	Not asked	2.6	2.6
Crime	Not asked	2.3	2.6	2.3
Cost of labour	2.0	2.1	2.6	2.4
Transport	1.9	2.2	Not asked	Not asked
Transport in and out of London	Not asked	Not asked	2.5	2.4
Cost of current premises	2.1	2.0	2.3	2.3
Size of current premises	2.0	2.0	2.2	2.1
Proximity to customers or clients	1.8	1.8	2.2	2.0
Availability of affordable housing	1.9	1.9	2.2	2.5
Access to finance	Not asked	2.1	2.2	2.1
Proximity of other companies in the same sector	1.7	1.9	1.9	2.1
Proximity to suppliers	1.6	1.7	1.8	1.7
Unweighted population	4,073	4,008	4,002	5,600

Source: LABS 2006

Note: Mean scores exclude 'Don't know'


6.3 The effect of the business environment on performance


Taking into account all other factors, problems in accessing finance were associated with higher growth in employment and in turnover, while businesses reporting that crime was a problem were significantly less likely to enjoy growth in profits.

Table 6.4: The effect of the business environment on performance

	Odds ratio			
	Growth in employment	Growth in turnover	Growth in productivity	Growth in profits
Factors affecting growth				
Cost of premises a problem	0.88	1.00	1.01	0.86
Size of premises a problem	1.05	0.98	0.97	1.15
Labour costs a problem	0.95	0.88	0.88	1.06
Availability of appropriately skilled labour a problem	1.04	1.03	0.97	0.98
Transport within London a problem	1.03	0.93	0.91	1.13
Transport in and out of London a problem	0.89	0.97	1.17	0.93
Availability of affordable housing a problem	1.00	1.03	1.15	1.12
Proximity to customers or clients a problem	1.01	0.84	1.02	1.00
Proximity to suppliers a problem	0.92	1.18	0.98	1.02
Proximity to competitors a problem	0.94	0.97	1.11	1.08
Access to finance a problem	1.20	1.29	1.00	1.16
Crime a problem	0.94	1.11	0.96	0.83

Source: LABS 2006

 Likelihood that variable significantly affects growth at 10% significance level

 Likelihood that variable significantly detracts from growth at 10% significance level

Chapter 7

Summary

- In the 2006 survey, businesses in London stated that the quality of the product or service (mean score 4.7), customer relations (mean score 4.6), the reliability of the product or service and established reputation (both mean score 4.5) were the four highest priorities for determining their competitiveness.
- The ranking of the top priorities has remained the same as in both 2004 and 2005, with low prices continuing to be rated as the lowest priority (mean score 3.2).
- In general the Publishing and Business and Professional Services sectors were the ones with the lowest ratings of business priorities.
- The Manufacturing, excluding Publishing, Construction and Hotels and Restaurants sectors all tended to have higher than average ratings for business priorities than other sectors.
- The breakdown by ethnicity of owners shows that black-owned businesses rated the majority (10 of the 12 priorities) significantly above average.

Effect on business performance

- Businesses that prioritise marketing are significantly more likely to have seen growth in both productivity and profits. Those businesses that prioritised customer relations or knowledgeable and experienced staff were significantly more likely to have experienced growth in employment.

Contents

7.1 Introduction

7.2 Priorities of businesses

7.3 The effects of businesses' priorities on performance

7.1 Introduction

The focus of this chapter is to understand where the priorities for businesses in London lie in ensuring that their businesses are competitive in the market place. Businesses were asked to rate various factors on a scale of 1 = very low priority to 5 = very high priority and the mean score was calculated by averaging the scores, excluding the "don't know" responses.

7.2 Priorities of businesses

In the 2006 survey, businesses in London stated that the quality of the product or service (mean score 4.7), customer relations (mean score 4.6), the reliability of the product or service and established reputation (both mean score 4.5) were the four highest priorities for determining their competitiveness. The ranking of the top priorities has remained the same as they were in both 2004 and 2005, with low prices continuing to be rated as the lowest priority (mean score 3.2).

Chapter 7

Table 7.1: Business priorities

	Very low priority				Very high priority	Don't know	Mean score
	1	2	3	4	5		
Multiple response	%	%	%	%	%	%	n
Quality of product or service	0.9	1.0	4.9	16.3	76.3	0.7	4.7
Customer relations	1.4	1.7	7.2	16.0	73.3	0.4	4.6
Reliability of product or service	1.9	1.2	7.1	19.3	69.7	0.8	4.5
Established reputation	2.1	1.6	7.0	17.9	71.0	0.4	4.5
Knowledgeable staff	4.0	2.4	8.4	20.0	62.9	2.2	4.4
Speed of delivery	8.1	5.4	16.4	25.2	41.9	3.1	3.9
Unique product or service	7.3	6.9	18.8	24.9	40.4	1.6	3.9
Product or service range	7.5	8.8	23.1	26.0	32.0	2.7	3.7
Design*	10.6	9.0	20.5	24.7	31.7	3.5	3.6
Low cost base	8.0	10.1	28.8	21.5	28.9	2.7	3.5
Marketing	13.0	14.4	23.0	22.5	25.7	1.5	3.3
Low prices	11.7	17.5	31.8	17.0	19.4	2.6	3.2
Unweighted population							5,600

Source: LABS 2006 *Full description – improving innovation and the technical performance of products and services

Note: Mean scores exclude 'Don't know'

When analysed by size of organisation, a noticeable difference was that the largest businesses (250+ employees) had the highest or joint highest average rating for eight out of the 12 priorities. In particular, they rated product or service range (mean score 4.0) and marketing (mean score 3.7) significantly higher than other businesses.

The next largest size of company (100 – 249 employees) had the lowest or joint lowest average rating for seven of the 12 priorities, with customer relations (mean score 4.3), established reputation (mean score 4.2), knowledgeable staff (mean score 4.1) and low prices (mean score 3.0) in particular, rated significantly lower than other businesses.

Table 7.2a: Business priorities by size of organisation as a whole (employment)

	All businesses	1–4	5–9	10–49	50–99	100–249	250+	Don't know
	%	%	%	%	%	%	%	%
Quality of product or service	4.7	4.7	4.7	4.6	4.8	4.7	4.7	4.7
Customer relations	4.6	4.6	4.6	4.6	4.6	4.3	4.7	4.3
Reliability of product or service	4.5	4.6	4.5	4.4	4.4	4.4	4.5	4.5
Established reputation	4.5	4.6	4.6	4.5	4.4	4.2	4.6	4.6
Knowledgeable staff	4.4	4.4	4.5	4.4	4.2	4.1	4.6	4.2
Speed of delivery	3.9	3.9	3.9	3.7	4.1	3.9	4.1	4.0
Unique product or service	3.9	3.8	3.9	3.9	4.2	3.8	3.9	3.8
Product or service range	3.7	3.6	3.8	3.6	3.9	3.7	4.0	3.9
Design*	3.6	3.6	3.6	3.6	3.9	3.5	3.6	3.6
Low cost base	3.5	3.5	3.7	3.6	3.1	3.3	3.7	3.4
Marketing	3.3	3.2	3.6	3.4	3.5	3.3	3.7	3.5
Low prices	3.2	3.1	3.4	3.2	3.1	3.0	3.4	3.3
Unweighted population								5,600

Source: LABS 2006 *Full description – improving innovation and the technical performance of products and services

Significantly above all businesses figure at 95% confidence level

Significantly below all businesses figure at 95% confidence level


When looked at by sector, in general the Publishing and Business and Professional Services sectors were the ones with the lowest ratings of business priorities, with Publishing rating only speed of delivery (mean score 4.2) significantly above average while Business and Professional Services only rated marketing (mean score 3.4) significantly above average.


Manufacturing, excluding Publishing, Construction and Hotels and Restaurants all tended to have higher average ratings than other sectors. Manufacturing, excluding Publishing, rated eight of the 12 priorities significantly above average and none significantly below. Construction businesses also rated eight of the 12 priorities significantly above average, but also rated unique product or service (mean score 3.6) and marketing (mean score 3.2) significantly below.

Table 7.2b: Business priorities by sector

	All businesses		Publishing	Manufacturing excluding Publishing	Construction	Wholesale & Retail	Hotels & Restaurants	Transport & Communications	Banking & Finance	Business & Professional Services	Education, Health & Social Work	Other Community Services
	%	%	%	%	%	%	%	%	%	%	%	%
Quality of product or service	4.7	4.4	4.7	4.8	4.6	4.7	4.7	4.7	4.6	4.7	4.8	4.8
Customer relations	4.6	4.5	4.6	4.7	4.6	4.6	4.6	4.5	4.7	4.5	4.7	4.5
Reliability of product or service	4.5	4.5	4.7	4.7	4.5	4.6	4.6	4.5	4.5	4.6	4.6	4.4
Established reputation	4.5	4.4	4.7	4.7	4.6	4.6	4.6	4.5	4.5	4.5	4.6	4.5
Knowledgeable staff	4.4	4.2	4.5	4.5	4.3	4.3	4.3	4.2	4.6	4.4	4.5	4.4
Speed of delivery	3.9	4.2	4.1	4.1	3.9	4.2	4.2	4.2	4.2	3.8	3.6	3.6
Unique product or service	3.9	3.6	4.2	3.6	4.0	3.9	3.9	3.8	3.8	3.7	3.9	4.2
Product or service range	3.7	3.3	3.8	3.6	4.0	4.0	4.0	3.7	3.8	3.5	3.6	3.7
Design*	3.6	3.4	4.0	3.6	3.4	3.6	3.6	3.6	3.6	3.6	3.6	3.9
Low cost base	3.5	3.7	3.5	3.8	3.7	3.8	3.8	3.6	3.4	3.5	3.4	3.3
Marketing	3.3	2.9	3.4	3.2	3.1	3.4	3.4	3.4	3.2	3.4	3.7	3.4
Low prices	3.2	3.2	3.4	3.5	3.5	3.4	3.4	3.4	3.0	2.9	3.0	3.3
Unweighted population												5,600

Source: LABS 2006 * Full description – improving innovation and the technical performance of products and services

 Significantly above all businesses figure at 95% confidence level

 Significantly below all businesses figure at 95% confidence level

In terms of country of ownership, foreign-owned companies rated improving innovation and the technical performance of products and services (mean score 3.9) and marketing (mean score 3.6) significantly higher than average but rated low prices (mean score 2.8), low cost base (mean score 3.2) and knowledgeable staff (mean score 4.2) significantly lower than average.

Joint UK-foreign-owned companies appear more product or service driven than other businesses. They rated speed of delivery (mean score 4.3), unique product or service (mean score 4.3), product or service range (mean score 4.2) and marketing (mean score 3.5) as significantly higher than average.

Table 7.2c: Business priorities by country of ownership

	All businesses	UK-owned	Foreign-owned	Joint UK-foreign	DK/Refused
	%	%	%	%	%
Quality of product or service	4.7	4.7	4.6	4.8	5.0
Customer relations	4.6	4.6	4.6	4.7	3.9
Reliability of product or service	4.5	4.5	4.5	4.7	4.8
Established reputation	4.5	4.5	4.6	4.7	4.9
Knowledgeable staff	4.4	4.4	4.2	4.5	4.2
Speed of delivery	3.9	3.9	3.9	4.3	3.7
Unique product or service	3.9	3.9	3.9	4.3	3.2
Product or service range	3.7	3.7	3.6	4.2	3.4
Design*	3.6	3.6	3.9	3.3	3.0
Low cost base	3.5	3.6	3.2	2.6	3.4
Marketing	3.3	3.3	3.6	3.5	3.0
Low prices	3.2	3.2	2.8	2.5	3.4
Unweighted population					5,600

Source: LABS 2006 *Full description – improving innovation and the technical performance of products and services

Significantly above all businesses figure at 95% confidence level

Significantly below all businesses figure at 95% confidence level

On a gender basis, majority female-owned businesses seem to be more product or service driven, with reliability of product or service (mean score 4.6), established reputation (mean score 4.7) and unique product or service (mean score 4.0) all rated significantly higher than average, although they also rated quality of product or service (mean score 4.7) significantly below average. Majority male-owned businesses rated quality of product or service (mean score 4.6), established reputation (mean score 4.5) and knowledgeable staff (mean score 4.3) significantly below average.

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Table 7.2d: Business priorities by gender of ownership

	All businesses	Majority female	50:50 male/female	Majority male	Don't know
	%	%	%	%	%
Quality of product or service	4.7	4.7	4.7	4.6	4.7
Customer relations	4.6	4.6	4.6	4.6	4.5
Reliability of product or service	4.5	4.6	4.6	4.5	4.4
Established reputation	4.5	4.7	4.6	4.5	4.5
Knowledgeable staff	4.4	4.4	4.5	4.3	4.5
Speed of delivery	3.9	4.0	3.9	3.9	3.8
Unique product or service	3.9	4.0	3.9	3.8	3.8
Product or service range	3.7	3.6	3.8	3.6	3.9
Design*	3.6	3.5	3.6	3.6	3.6
Low cost base	3.5	3.5	3.5	3.6	3.5
Marketing	3.3	3.4	3.1	3.4	3.5
Low prices	3.2	3.1	3.2	3.1	3.3
Unweighted population					5,600

Source: LABS 2006 *Full description – improving innovation and the technical performance of products and services

Significantly above all businesses figure at 95% confidence level

Significantly below all businesses figure at 95% confidence level

The breakdown by ethnicity of owners shows that black-owned businesses rated the majority (10 of the 12 priorities) significantly above average. Asian-owned businesses rated six of the 12 priorities significantly above average, but also quality of service (mean score 4.6), established reputation (mean score 4.5) and knowledgeable staff (mean score 4.2) significantly below average.

Table 7.2e: Business priorities by ethnicity of owners

	All businesses	White	Black	Asian	Mixed	Other/ Chinese	Don't know/ refused
	%	%	%	%	%	%	%
Quality of product or service	4.7	4.7	4.7	4.6	4.9	4.8	4.6
Customer relations	4.6	4.6	4.8	4.7	5.0	4.6	4.4
Reliability of product or service	4.5	4.6	4.7	4.5	4.9	4.5	4.4
Established reputation	4.5	4.6	4.7	4.5	4.9	4.4	4.5
Knowledgeable staff	4.4	4.4	4.3	4.2	3.9	4.4	4.4
Speed of delivery	3.9	3.8	4.3	4.1	4.6	4.3	3.8
Unique product or service	3.9	3.8	4.2	4.0	4.5	4.0	3.7
Product or service range	3.7	3.6	4.0	3.9	3.9	3.9	3.8
Design*	3.6	3.5	4.1	3.9	4.7	3.8	3.5
Low cost base	3.5	3.5	4.0	3.6	4.2	3.9	3.4
Marketing	3.3	3.2	4.3	3.7	4.2	3.7	3.3
Low prices	3.2	3.0	3.4	3.6	2.9	4.1	3.2
Unweighted population							5,600

Source: LABS 2006 *Full description – improving innovation and the technical performance of products and services

Significantly above all businesses figure at 95% confidence level

Significantly below all businesses figure at 95% confidence level

7.3 The effects of business priorities on performance

Businesses that prioritise marketing are significantly more likely to have seen growth in both productivity and profits. Those businesses that prioritised customer relations or knowledgeable and experienced staff were significantly more likely to have experienced growth in employment.

On the other hand, those businesses that had prioritised their product or service range or the reliability of their product or service were significantly less likely to have experienced growth in employment.

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Table 7.3: The effects of strategies adopted by businesses on performance

Structural variables	Odds ratio			
	Growth in employment	Growth in turnover	Growth in productivity	Growth in profits
Business priorities (past 12 months)				
Low prices	0.98	1.04	0.98	1.00
Unique product or service	1.09	1.03	1.03	0.89
Quality of product or service	0.94	0.94	0.85	1.02
Improving innovation and the technical performance of products & services	0.89	1.05	0.92	0.92
Speed of delivery	1.12	1.03	1.06	0.99
Product or service range/portfolio	0.86	0.96	1.14	0.99
Marketing	1.06	0.92	1.17	1.15
Customer relations	1.51	0.87	0.95	0.97
Knowledgeable/experienced staff	1.41	1.08	1.22	1.16
Reliability of product or service	0.72	1.00	0.68	0.93
Established reputation	0.87	1.29	0.99	0.97
Low cost base	0.95	1.01	0.95	1.14

Source: LABS 2006

- Likelihood that variable significantly affects growth at 10% significance level
- Likelihood that variable significantly detracts from growth at 10% significance level

Chapter 8

Geographical markets

Summary

- On average, businesses in London generate nearly two thirds (62.9%) of their sales from within London and 19.8% from the rest of the UK, with the remaining 17.3% coming from abroad.
- The proportion of overseas sales also grew at the expense of sales to the rest of the UK, with most of the increase in the share of overseas sales coming from sales to elsewhere in the EU, while the share of sales to the rest of the south east accounted for most of the decline in sales to the rest of the UK.
- Banking and Finance was the sector that generated the largest share of sales overseas (34.9%). The proportion of sales generated overseas by this sector doubled compared with 2005, with the largest increase coming from sales to elsewhere in the EU.
- Just over half of all purchases (52.2%) made by businesses located in London are made from within London. A further 34.5% are made from elsewhere in the UK, with the remaining 13.3% coming from abroad.
- The pattern of purchases for different types of businesses was broadly similar to the pattern of sales although foreign-owned businesses did have a somewhat different pattern of purchases from sales, making more purchases from overseas and the rest of the UK but less from London.
- London businesses could be considered net exporters abroad in 2006 with 13.3% of purchases coming from abroad compared to 17.3% of sales being made abroad. This marks a change from London being a net importer in both 2004 and 2005, although it did appear to be a net exporter in 2003.
- In regard to London's trade with the rest of the UK, it was a large net importer, as the rest of the UK accounted for 19.9% of sales but 34.5% of purchases.

Influence on performance

- Growth in employment was significantly greater for businesses that had their largest customer base elsewhere in the world (outside the UK, the rest of Europe, and the USA), in the UK (outside London and the south east) and in the borough where the business was located. Growth in turnover was significantly higher for those businesses which had their main customer base in the rest of the EU.

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8.1 Introduction

The focus of this chapter is to understand the sales and purchasing patterns of businesses located in London.

8.2 Sales

Businesses in London generated 62.9% of their sales from within London, with the share from within their own borough being 35.9%. Overseas sales accounted for 17.3% of total sales. The share of London sales was the same as in 2005, but the share from within their own borough increased to 35.9% from 33.7% in 2005. The proportion of overseas sales also grew at the expense of sales to the rest of the UK, with most of the increase in the share of overseas sales coming from sales to elsewhere in the EU, while the share of sales to the rest of the south east accounted for most of the decline in sales to the rest of the UK.

Table 8.1a: Destination of sales by market area
and size of organisation (employment)

Scaled by turnover

	All businesses	1–4	5–9	10–49	50–99	100–249	250+
	%	%	%	%	%	%	%
Borough	35.9	52.2	33.0	27.1	28.2	23.0	27.1
Elsewhere in London	26.9	20.6	31.0	32.3	38.0	23.8	29.4
London	62.9	72.8	64.0	59.4	66.2	46.7	56.5
Elsewhere in the south east	8.2	5.7	9.1	11.9	12.0	10.9	6.4
Elsewhere in the UK	11.7	3.7	10.1	18.2	10.8	14.1	18.1
SE + elsewhere in the UK	19.9	9.4	19.1	30.1	22.8	25.0	24.4
Elsewhere in the EU	9.2	12.8	4.0	5.9	5.0	10.1	9.1
Elsewhere in Europe	1.1	0.2	1.6	0.5	1.1	4.3	1.1
USA	2.1	2.3	1.3	1.0	1.6	2.8	2.9
RoW	4.9	2.6	10.2	3.0	3.1	11.0	5.9
Total overseas	17.3	17.9	17.1	10.4	10.8	28.1	19.1

Source: LABS 2006

Construction (75%) was the sector that was most reliant on London for sales, followed by Hotels and Restaurants (74.4%) and Education, Health and Social Work (72.2%). As in 2005, Manufacturing (excluding Publishing) remained the sector with the lowest (38.5%) proportion of their sales generated from within London. Manufacturing (excluding Publishing) was also the sector with the highest level of sales generated from elsewhere in the UK outside London (41.9%).

Banking and Finance was the sector that generated the largest share of sales overseas (34.9%). The proportion of sales generated overseas by this sector doubled compared with 2005, with the largest increase coming from sales to elsewhere in the EU, up to 16.5% from 3.4% in 2005. There was also a large change in 2006 in the proportion of overseas sales generated by the Other Community Services and the Education, Health and Social Work sectors. Other Community Services (which includes theatres and other leisure services) saw almost a doubling in overseas sales from 14.1% in 2005 to 24.9% in 2006, while Education, Health and Social Work saw a threefold increase from 3.1% to 10.2%.

Table 8.1b: Destination of sales by market area and sector

Table 8.1b: Destination of sales by market area and sector																	
	All businesses										Scaled by turnover						
	%	%	%	%	%	%	%	%	%	%	Wholesale & Retail	Hotels & Restaurants	Transport & Communications	Banking & Finance	Business & Professional Services	Education, Health & Social Work	Other Community Services
Borough	35.9	21.5	8.5	22.3	41.6	51.2	24.8	25.1	39.7	46.9	28.0						
Elsewhere in London	26.9	29.9	30.0	52.8	22.6	23.2	43.4	15.8	26.1	25.3	28.5						
London	62.9	51.4	38.5	75.0	64.2	74.4	68.3	41.0	65.8	72.2	56.4						
Elsewhere in the south east	8.2	15.5	13.9	19.7	10.5	4.3	4.0	5.5	7.8	3.8	5.4						
Elsewhere in the UK	11.7	26.0	28.0	4.0	9.3	9.2	7.6	18.6	10.5	14.1	13.2						
SE + elsewhere in the UK	19.9	41.5	41.9	23.7	19.9	13.5	11.7	24.2	18.3	17.9	18.6						
Elsewhere in the EU	9.2	3.2	8.9	0.6	5.4	4.6	10.8	16.5	10.4	2.1	11.1						
Elsewhere in Europe	1.1	1.2	2.4	0.0	1.6	1.1	0.6	3.2	0.3	2.0	3.0						
USA	2.1	1.5	1.2	0.0	0.9	3.3	4.1	3.7	2.1	0.1	4.2						
RoW	4.9	1.2	7.2	0.4	8.1	3.4	4.7	11.5	2.9	5.9	6.7						
Total overseas	17.3	7.1	19.8	1.1	15.9	12.4	20.1	34.9	15.8	10.2	24.9						

Source: LABS 2006

UK-owned businesses sold 64.5% of their goods and services within London. London's share of foreign-owned businesses sales was only 38.2% and their sales abroad were only 30.6%. Foreign-owned businesses also had the highest share of sales to the rest of the UK at 31.2%.

In terms of foreign-owned businesses, sales to London fell by more than eight percentage points and sales abroad fell by more than 10 percentage points, as sales to the rest of the UK jumped from 18.4% to 31.2% in the latest survey.

Table 8.1c: Destination of sales by market area and country of ownership

Scaled by turnover

	All businesses	UK-owned	Foreign-owned	Joint UK-foreign	DK/Refused
	%	%	%	%	%
Borough	35.9	30.0	16.6	67.2	69.0
Elsewhere in London	26.9	34.4	21.6	10.7	15.6
London	62.9	64.5	38.2	77.8	84.6
Elsewhere in the south east	8.2	9.7	10.3	2.6	3.2
Elsewhere in the UK	11.7	12.9	20.9	0.7	5.6
SE + elsewhere in the UK	19.9	22.6	31.2	3.3	8.8
Elsewhere in the EU	9.2	5.0	13.5	17.5	1.6
Elsewhere in Europe	1.1	0.9	2.5	0.2	0.3
USA	2.1	1.8	6.0	0.1	0.5
RoW	4.9	5.3	8.5	1.0	4.2
Total overseas	17.3	13.0	30.6	18.8	6.6

Source: LABS 2006

Majority female-owned businesses generated a slightly higher than average proportion of sales from elsewhere in London but a markedly lower than average share of sales from within the borough, leaving overall London sales below average (54.3%). Majority female-owned businesses had a share of sales overseas (5.3%) that was less than one third of the average, but a proportion of sales to elsewhere in the south east and the UK (40.4%) that was over twice the average.

Majority female-owned businesses saw a sharp fall in the proportion of sales made within London compared to 2005 and saw the proportion of sales made to the rest of the UK rise. Majority male and 50:50 male/female-owned businesses saw a rise in the proportion of sales generated within London and a fall in the proportion of sales made to the rest of the UK.

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Table 8.1d: Destination of sales by market area and gender of owners

Scaled by turnover

	All businesses	Majority male	50:50 male/female	Majority female	Don't know/ refused
	%	%	%	%	%
Borough	35.9	41.3	29.7	24.2	28.0
Elsewhere in London	26.9	24.0	39.1	30.2	30.1
London	62.9	65.3	68.8	54.3	58.1
Elsewhere in the south east	8.2	7.6	9.7	16.1	7.6
Elsewhere in the UK	11.7	8.6	12.5	24.3	15.2
SE + elsewhere in the UK	19.9	16.2	22.2	40.4	22.7
Elsewhere in the EU	9.2	10.3	5.6	2.6	8.8
Elsewhere in Europe	1.1	0.6	0.5	0.3	2.3
USA	2.1	2.7	1.0	0.4	1.5
RoW	4.9	4.7	2.0	2.0	6.4
Total overseas	17.3	18.3	9.2	5.3	19.0

Source: LABS 2006

In regard to ethnicity of ownership, black and Asian-owned businesses reported the highest proportion of sales in London, 77.9% for black-owned businesses and 74.8% for Asian-owned businesses compared to 59.8% for white-owned businesses. However, the percentage of sales by these two groups to the rest of the UK were below average. Black-owned businesses also reported a lower than average percentage of their sales overseas, although the reported percentage of overseas sales was slightly higher than average for Asian-owned businesses.

Table 8.1e: Destination of sales by market area and ethnicity of owners

Scaled by turnover

	All businesses	White	Black	Asian	Mixed	Other/ Chinese	Don't know/ refused
	%	%	%	%	%	%	%
Borough	35.9	27.3	43.1	62.4	38.9	26.2	26.8
Elsewhere in London	26.9	32.5	34.7	12.4	31.4	27.7	30.0
London	62.9	59.8	77.9	74.8	70.3	54.0	56.8
Elsewhere in the south east	8.2	11.5	5.7	3.2	9.6	17.5	6.2
Elsewhere in the UK	11.7	14.1	7.3	2.5	13.7	20.5	15.3
SE + elsewhere in the UK	19.9	25.6	13.0	5.6	23.3	38.0	21.5
Elsewhere in the EU	9.2	6.3	3.6	15.6	3.9	1.7	9.2
Elsewhere in Europe	1.1	0.7	0.0	0.2	2.0	2.0	2.6
USA	2.1	3.1	0.1	0.1	0.2	1.0	2.3
RoW	4.9	4.6	5.5	3.3	0.4	3.2	7.2
Total overseas	17.3	14.7	9.2	19.2	6.4	8.0	21.4

Source: LABS 2006

8.3 Purchases

The proportion of purchases from within London in the 2006 survey was 52.2%, with the share from within the borough accounting for almost half of this at 22.3%. The share of purchases made from elsewhere in the UK was 34.5% in 2006, while the share of purchases made from overseas was only 13.3% in the latest survey.

The pattern of purchases for different types of businesses was broadly similar to the pattern of sales although foreign-owned businesses did have a somewhat different pattern of purchases from sales.

There has been an increase in the proportion of purchases from within London, which have increased by almost ten percentage points from 42.6% in 2005. The main source of increased purchases in the capital came from an increase in purchases from within the borough, which rose from 13.2% in 2005 to 22.3% in 2006. The share of purchases made from elsewhere in the UK fell only marginally from 36% in the 2005 survey to 34.5% in 2006, with the share of purchases from overseas falling substantially from 21.4% to 13.3%.

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In general, the larger the organisation, the lower the share of purchases from London, mainly due to the share of purchases within the borough being lower. Companies with 1 – 4 employees make by far the highest share of purchases within the borough (36.8%), with larger organisations making progressively lower shares (down to organisations with 250+ employees making the lowest proportion at 12.9%). There is a slight tendency for the share of purchases from the rest of the south east and the UK to be higher the larger the organisation. In terms of overseas purchases, there is a general trend for smaller organisations to have higher levels of overseas purchases, with organisations with 1 – 4 employees having the highest proportion of purchases from elsewhere in the EU (11.2%) and organisations with 5 – 9 employees having the highest share of purchases from the rest of the world (9.8%).

Table 8.2a: Geographical source of purchases
by size of organisation (employment)

Scaled by turnover

	All businesses	1–4	5–9	10–49	50–99	100–249	250+
	%	%	%	%	%	%	%
Borough	22.3	36.8	17.4	14.3	18.3	13.4	12.9
Elsewhere in London	29.9	29.3	31.2	27.4	30.5	35.3	32.2
London	52.2	66.1	48.7	41.7	48.8	48.7	45.2
Elsewhere in the south east	14.7	11.2	11.7	15.2	20.4	19.7	14.7
Elsewhere in the UK	19.8	9.6	21.2	27.4	18.7	23.4	31.6
SE + elsewhere in the UK	34.5	20.9	32.9	42.6	39.1	43.1	46.3
Elsewhere in the EU	8.2	11.2	5.9	6.9	7.6	4.7	4.5
Elsewhere in Europe	0.2	0.1	0.8	0.2	0.3	0.2	0.4
USA	1.1	0.2	1.8	0.8	0.4	2.0	0.8
RoW	3.7	1.7	9.8	7.7	3.7	1.2	2.9
Total overseas	13.3	13.3	18.3	15.7	12.0	8.1	8.5

Source: LABS 2006

Hotels and Restaurants (67.2%) was the sector with the highest share of purchases from London, followed by Education, Health and Social Work (64.4%). Publishing is the sector that stands out in relation to purchases from the south east and the rest of the UK, as it has a share of 61.6% of purchases versus an overall average of 34.5%. Wholesale and Retail (46.7%) and Manufacturing, excluding Publishing (41%) were the sectors with the second and third highest share of purchases from the south east and rest of UK. Wholesale and Retail (30.1%) and Manufacturing, excluding Publishing (34.1%) are also the sectors with the highest share of overseas purchases by far, with the rest of the EU and rest of the world the top sources.

Table 8.2b: Geographical source of purchases by sector

Table 8.2b: Geographical source of purchases by sector																			
	All businesses										Scaled by turnover								
	%	%	%	%	%	%	%	%	%	%	Manufacturing excluding Publishing	Construction	Wholesale & Retail	Hotels & Restaurants	Transport & Communications	Banking & Finance	Business & Professional Services	Education, Health & Social Work	Other Community Services
Borough	22.3	8.8	10.3	23.3	6.5	15.2	12.4	18.9	31.4	29.3									13.7
Elsewhere in London	29.9	22.3	14.3	36.1	16.7	52.0	39.6	38.6	30.1	35.1									33.2
London	52.2	31.1	24.6	59.4	23.2	67.2	52.1	57.5	61.5	64.4									46.9
Elsewhere in the south east	14.7	35.8	16.7	24.5	19.1	12.6	5.6	21.3	11.6	20.3									14.4
Elsewhere in the UK	19.8	25.8	24.3	14.6	27.7	16.1	26.1	18.7	16.8	12.5									24.7
SE + elsewhere in the UK	34.5	61.6	41.0	39.1	46.7	28.7	31.8	40.0	28.4	32.8									39.1
Elsewhere in the EU	8.2	4.8	15.6	0.8	13.6	3.6	13.1	0.3	8.3	0.8									4.4
Elsewhere in Europe	0.2	0.2	0.1	0.1	0.5	0.1	0.2	0.3	0.1	0.0									0.9
USA	1.1	0.4	4.8	0.0	1.3	0.0	0.5	0.4	1.1	0.7									2.9
RoW	3.7	1.9	13.5	0.3	14.7	0.5	2.3	1.4	0.5	1.1									5.9
Total overseas	13.3	7.3	34.1	1.1	30.1	4.2	16.0	2.5	10.1	2.7									14.2

Source: LABS 2006

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Foreign-owned companies make an above average proportion of purchases from overseas (20%), make a substantially below average proportion of purchases from London (39.3%), and make a slightly above average proportion of purchases from the rest of the UK (40.6%). Joint UK-foreign-owned businesses make a slightly above average proportion of purchases from overseas (14.5%) and make a substantially above average proportion of purchases from London but make a well below average proportion of purchases from the rest of the UK.

Table 8.2c: Geographical source of purchases
by country of ownership

Scaled by turnover

	All businesses	UK-owned	Foreign-owned	Joint UK-foreign	DK/Refused
	%	%	%	%	%
Borough	22.3	15.5	11.1	48.0	18.2
Elsewhere in London	29.9	34.0	28.2	20.5	19.8
London	52.2	49.4	39.3	68.5	38.0
Elsewhere in the south east	14.7	15.3	17.8	11.2	17.9
Elsewhere in the UK	19.8	24.4	22.8	5.5	32.8
SE + elsewhere in the UK	34.5	39.7	40.6	16.6	50.7
Elsewhere in the EU	8.2	5.4	9.8	14.2	1.0
Elsewhere in Europe	0.2	0.2	0.5	0.0	0.0
USA	1.1	1.4	1.8	0.1	3.8
RoW	3.7	3.9	7.9	0.2	6.6
Total overseas	13.3	10.9	20.0	14.5	11.3

Source: LABS 2006

Majority female-owned businesses made a below average proportion of purchases from the same borough (14.3%) and an above average proportion of purchases from elsewhere in London (37.1%). Majority female-owned businesses also made a substantially above average proportion of purchases from elsewhere in the UK (34.6%) but a below average proportion of purchases from elsewhere in the south east (9.7%). However, overseas purchases by majority female-owned businesses were below average (4.1%).

Table 8.2d: Geographical source of purchases
by gender of owners

Scaled by turnover

	All businesses	Majority male	50:50 male/female	Majority female	Don't know/ refused
	%	%	%	%	%
Borough	22.3	27.9	21.7	14.3	10.9
Elsewhere in London	29.9	29.4	33.5	37.1	28.6
London	52.2	57.3	55.2	51.5	39.5
Elsewhere in the south east	14.7	13.1	15.0	9.7	19.8
Elsewhere in the UK	19.8	15.6	15.4	34.6	27.7
SE + elsewhere in the UK	34.5	28.8	30.3	44.3	47.5
Elsewhere in the EU	8.2	8.0	7.5	2.6	10.2
Elsewhere in Europe	0.2	0.2	0.4	0.1	0.3
USA	1.1	1.2	0.8	0.2	1.3
RoW	3.7	4.6	5.9	1.2	1.6
Total overseas	13.3	14.0	14.6	4.1	13.4

Source: LABS 2006

Majority ethnic minority-owned businesses tended to buy more from London (black 65.7%, Asian 62.9% and other 57.5%) than average. These businesses tended to make a below average proportion of purchases from the south east and rest of the UK, but varied on their level of overseas purchases (black below average on 11.4%, but Asian 16.4% and other 23.5% above average).

Table 8.2e: Geographical source of purchases
by ethnicity of owners

Scaled by turnover

	All businesses	White	Black	Asian	Mixed	Other/ Chinese	Don't know/ refused
	%	%	%	%	%	%	%
Borough	22.3	16.8	21.9	41.6	7.5	24.4	9.7
Elsewhere in London	29.9	34.7	43.9	21.3	26.0	33.1	29.2
London	52.2	51.5	65.7	62.9	33.5	57.5	38.9
Elsewhere in the south east	14.7	14.4	10.2	11.5	47.8	9.7	19.6
Elsewhere in the UK	19.8	22.0	12.7	8.9	17.3	9.2	30.2
SE + elsewhere in the UK	34.5	36.3	22.9	20.5	65.2	18.9	49.8
Elsewhere in the EU	8.2	5.6	2.6	13.1	0.0	10.1	7.8
Elsewhere in Europe	0.2	0.3	0.8	0.1	0.4	0.1	0.2
USA	1.1	1.7	0.7	0.2	0.0	0.0	1.3
RoW	3.7	4.4	7.4	3.1	0.9	13.3	2.0
Total overseas	13.3	12.1	11.4	16.4	1.3	23.5	11.4

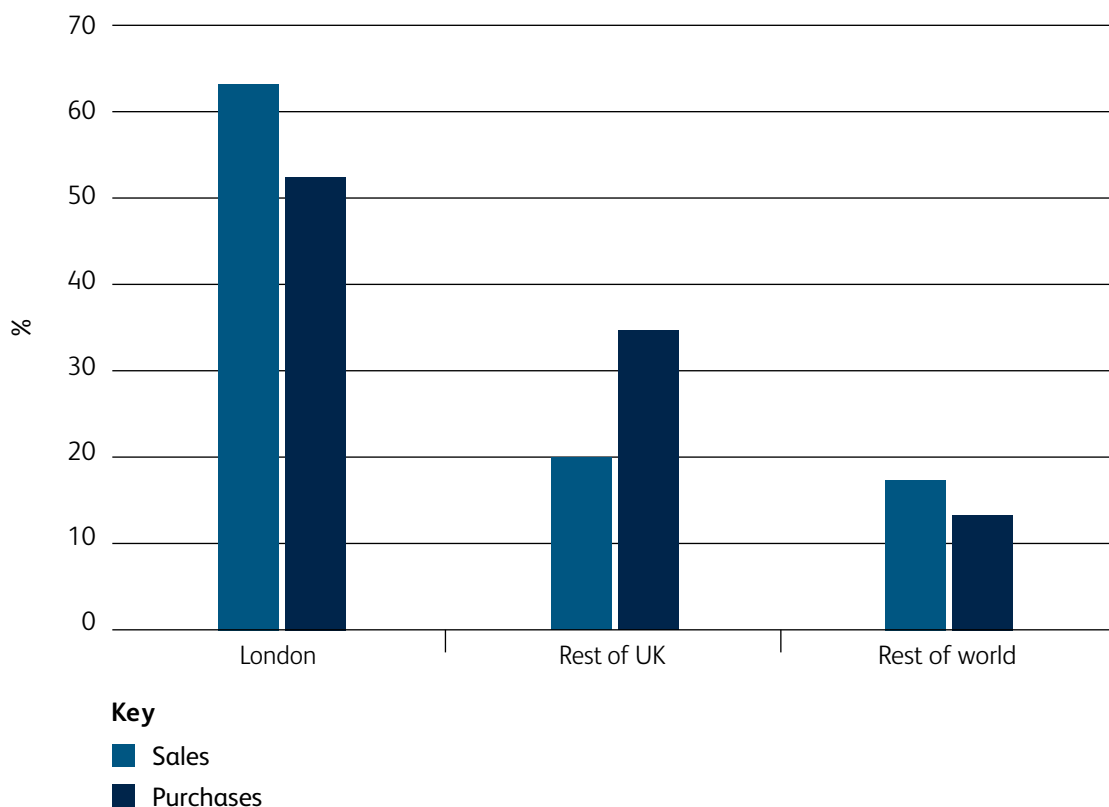
Source: LABS 2006

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8.4 Export-imports

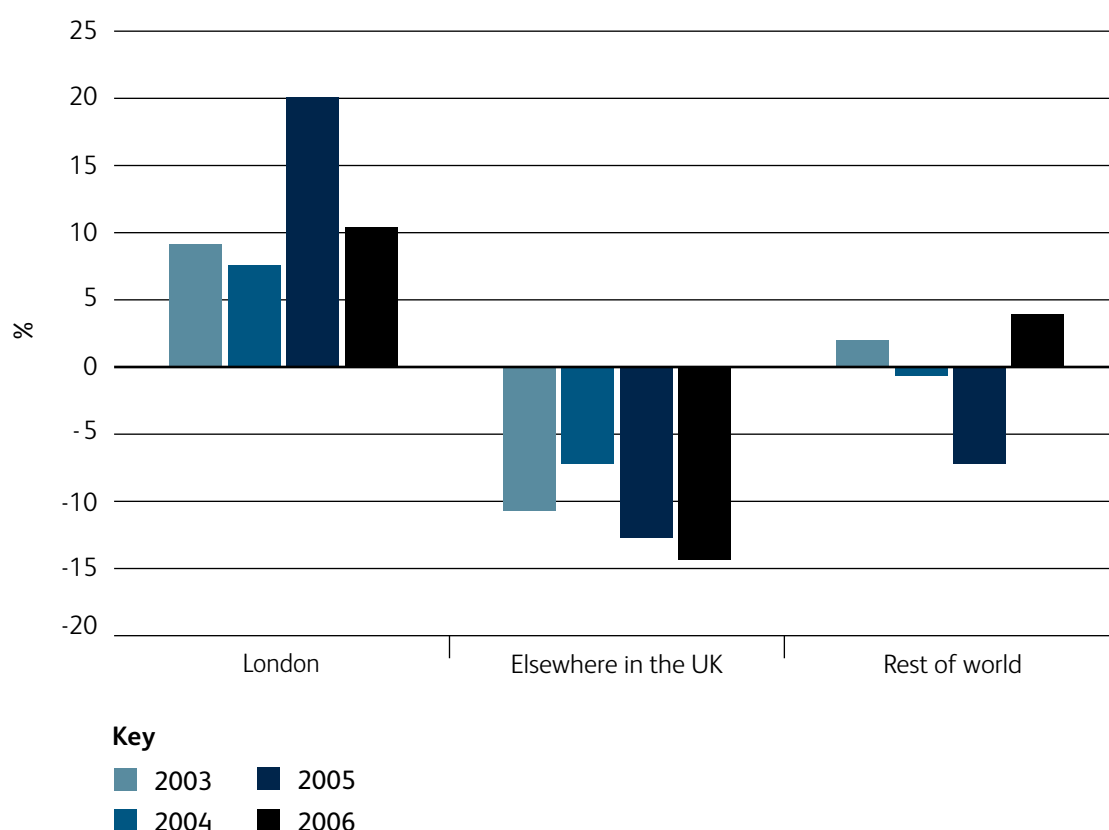
Sales and purchasing patterns on a geographical basis can be used as a guide as to whether London was a net importer or exporter. Graph 8.1 presents this data for 2006 and shows that London was a net exporter to the rest of the world and a net importer from the rest of the UK. Graph 8.2 shows London's balance of imports/exports with the different geographical areas over time. London has been increasing its net imports from the rest of the UK since 2004. It has also been increasing its net imports from the rest of the world from 2003 through to 2005 but again became a net exporter to the rest of the world in 2006.

Graph 8.1: Sales and purchases of the London economy



Source: LABS 2006

Graph 8.2: Location of sales/purchases – net sales 2003 – 2006



Source: LABS 2003/4/5/6

8.5 The effects of geographical markets on business performance

When controlled for all other factors, growth in employment was significantly greater for businesses that had their largest customer base elsewhere in the world (outside the UK, the rest of Europe, and the USA), in the UK (outside London and the south east) and in the borough. Growth in turnover was significantly higher for those businesses which had their main customer base in the rest of the EU. As in previous years, those businesses that undertook any exports in 2006 were significantly more likely to have lower growth in turnover. Growth in productivity was also likely to be significantly reduced in businesses with their main customer base outside of Europe.

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Table 8.3: The effects of geographical markets on business performance

Structural variables	Odds ratio			
	Growth in employment	Growth in turnover	Growth in productivity	Growth in profits
Market orientation (location of largest customer base)				
In the USA	1.51	2.10	0.61	0.54
Elsewhere in the world	1.88	1.54	0.49	1.16
Elsewhere in the UK	1.67	1.16	0.82	0.86
Business exports	1.15	0.81	0.88	1.05
In this borough	1.81	1.18	0.89	0.80
Elsewhere in Greater London	1.42	1.20	0.89	0.83
Elsewhere in the south east	1.45	1.15	0.98	0.70
Elsewhere in the EU	1.17	2.10	0.85	0.68
Elsewhere in Europe (outside the EU)	1.05	1.68	2.00	0.52

Source: LABS 2006

- Likelihood that variable significantly affects growth at 10% significance level
- Likelihood that variable significantly detracts from growth at 10% significance level

Chapter 9

Investment and access to finance

Summary

- The majority of businesses reported that investment and other (non-investment) expenditure on most items had stayed the same over the last 12 months.
- The exception to this was investment expenditure on IT and spending on marketing and salaries. Nearly 40% of businesses reported increasing investment expenditure on IT during the last year. Similarly around two out of five businesses reported increasing expenditure on marketing and salaries.
- Very small organisations (with less than five employees) were the least likely to have increased spending over the last year. For example, on balance 30% of very small organisations (employing 1 – 4 people) had increased spending on IT, compared with around 40% of organisations employing over five people. A similar picture emerges for other business expenditures. For example, a balance of just 16% of very small organisations had increased spending on training/re-training compared to a balance of 49% for organisations employing over 250 people.
- Few businesses expect to decrease expenditure over the next 12 months, with 36% reporting spending on IT will rise and 53% stating that spending on average salary per worker would also rise.
- The balances of businesses expecting to increase spending on IT, equipment (excluding IT), average salary per worker, marketing, and training/re-training are higher in LABS 2006 than they were in 2005. Only the balances of businesses expecting to increase spending on premises and product/service development have declined when compared with the LABS 2005 results.
- The largest organisations, those employing more than 250 people, on average invested around £2,900 in capital for every worker. In contrast very small organisations (1 – 4 employees) on average invested just over £33,100 per worker.
- Over 40% of businesses reported that they had not been able to invest as much in capital over the last 12 months as they would have liked to. For these businesses the key constraints on investment were market conditions/demand (44%), a decrease in profitability (35%) and problems accessing external finance (33%).
- Just over a quarter of all businesses reported that they had approached external sources for funding in the last 12 months, with nearly two-thirds of these businesses approaching banks.

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- Two-thirds of all businesses seeking external finance were successful in their applications to banks. There are, however, some noticeable differences across ethnic groups. Nearly three-quarters of white-owned businesses were successful in obtaining bank finance. This compares with under three out of 10 black-owned businesses and under three out of five Asian-owned businesses.
- The three most common problems experienced by businesses that were unable to access external finance were lack of collateral (45%), not being able to obtain a large enough loan (42%) and the lender not understanding the applicant's business needs (40%). Lack of advice about options/sources available was much less of a problem in 2006 than in 2005.

Effects of investment and access to finance on business performance

- After controlling for all other business characteristics, the multivariate analysis shows that spending on IT is significantly related to growth in turnover, while spending on equipment excluding IT is significantly related to growth in profits. Use of an equity partner/venture capital is associated with significantly below average employment growth, while use of a factoring institution is associated with below average growth in employment and productivity.

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9.2 Investment spending

9.3 Access to external finance

9.4 The effects of investment and access to finance on business performance

9.1 Introduction

The focus of this chapter is to understand investment spending and other forms of expenditure undertaken by London businesses, in both the last 12 months and the expected expenditure in these categories for 2007. The chapter also examines the sources of external finance that businesses in London have sought and how successful they were in obtaining funds. It also examines the constraints on investment that businesses face and the problems that they have encountered in accessing finance.

9.2 Investment spending

Businesses were asked about changes in investment expenditure over the last 12 months. The majority of businesses reported that spending had remained the same across most categories of investment spending. The exception to this was that nearly 40% of businesses reported increasing spending on IT (Table 9.1), while around one quarter increased spending on other equipment (excluding IT) (27%) and premises (24%). Looking at the percentage of businesses saying different categories of spending have increased over those saying they have decreased during the past year, this pattern corresponds very closely to the results from the 2005 survey (Graph 9.1).

In terms of other (non-investment) expenditure, around two out of five businesses reported increasing expenditure on marketing (38%) and salaries (40%). These figures are again similar to the 2004 and 2005 findings.

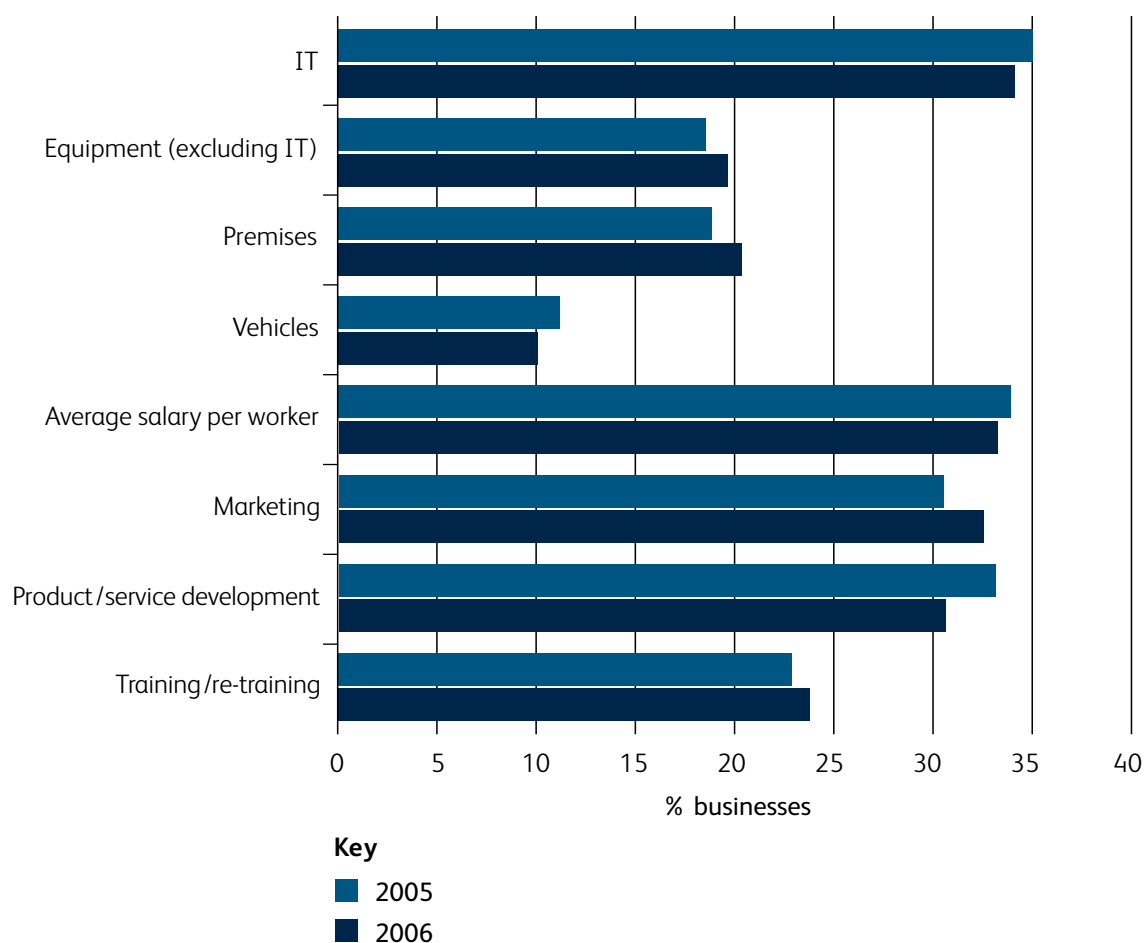
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Table 9.1: Change in investment expenditure by category on-site during previous 12 months

Expenditure category	Increased	Remained the same	Decreased	Don't know	Decisions made elsewhere	Not applicable/continued to be zero expenditure	Balance of +ve over -ve
	%	%	%	%	%	%	%
Investment spending							
IT	39.1	42.0	5.1	1.1	1.1	11.6	33.9
Equipment (excl IT)	26.7	52.5	7.2	1.5	0.8	11.3	19.5
Premises	24.4	61.3	4.1	1.4	0.8	7.9	20.2
Vehicles	14.4	39.2	4.4	0.8	0.7	40.5	10.0
Other spending							
Product/service development	32.4	46.2	2.0	2.2	0.9	16.2	30.4
Training/re-training	25.3	42.6	1.7	1.0	0.7	28.6	23.6
Marketing	37.6	39.7	5.3	1.1	1.2	15.0	32.3
Average salary per worker	40.0	42.0	7.0	3.3	0.8	6.8	33.0

Source: LABS 2006

Graph 9.1: Balance percentage of businesses saying different categories of spending have increased over those saying they have decreased over previous year (LABS 2006 and LABS 2005)



Source: LABS 2006

Very small (one to four employees) organisations were the least likely to have increased spending over the last year. For example, on balance 30% of very small organisations had increased spending on IT, compared with around 40% of organisations employing over five people. A similar picture emerges for other business expenditures. For example, a balance of just 16% of very small organisations had increased spending on training/re-training compared with a balance of 49% for organisations employing over 250 people.

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Table 9.2a: Balance percentage of businesses saying categories of investment spending have increased over those saying they have decreased over the past year – by size of organisation (employment)

Balance of +ve versus -ve	All businesses	1–4	5–9	10–49	50–99	100–249	250+	Don't know
	%	%	%	%	%	%	%	%
Investment spending								
IT	33.9	30.4	40.6	42.7	40.2	40.3	38.1	39.9
Equipment (excluding IT)	19.5	15.8	26.1	28.3	39.3	20.3	24.0	13.5
Premises	20.2	18.7	25.1	23.6	17.8	19.3	25.4	17.6
Vehicles	10.0	9.2	10.9	12.8	16.3	7.9	10.2	9.3
Other spending								
Product/service development	30.4	25.6	40.0	40.4	28.8	39.7	45.9	28.8
Training/re-training	23.6	16.3	30.3	37.8	31.1	35.1	48.9	47.1
Marketing	32.3	28.9	41.5	38.9	37.9	43.2	38.7	21.3
Average salary per worker	33.0	20.5	49.2	65.3	47.2	57.6	64.7	42.0

Source: LABS 2006

Significantly above all businesses figure at 95% confidence level

Significantly below all businesses figure at 95% confidence level

There are considerable differences in the pattern of increases in investment spending and other spending between sectors. The Education, Health and Social Work and Hotels and Restaurants sectors showed a tendency towards above average increases on balance, while the Manufacturing excluding Publishing sector showed a tendency towards below average increases on balance.

Sectors which had above average increases on balance of spending on IT were Education, Health and Social Work (43%), Banking and Finance (43%), Publishing (41%), and Business and Professional Services (40%). A number of sectors had significantly lower than average increases on balance of spending on IT; Manufacturing, excluding Publishing (29%), Wholesale and Retail (27%), Hotels and Restaurants (23%) and Other Community Services (26%).

The balance of businesses reporting increases in spending on training/retraining was significantly above average in the Education, Health and Social Work (43%), Banking and Finance (35%) and Hotels and Restaurants (32%) sectors, but significantly below average in the Wholesale and Retail (17%), Construction (21%) and Manufacturing, excluding Publishing (23%) sectors. Sectors with the highest increases on balance in terms of average salaries per worker were Hotels and Restaurants (45%), Education, Health and Social Work (40%), Wholesale and Retail (40%), and Banking and Finance (39%).

Foreign-owned businesses reported a significantly lower than average balance of businesses increasing spending on IT, equipment (excluding IT), vehicles and marketing, but a significantly higher than average balance of businesses increasing spending on product/service development, training/retraining and average salary per worker.

Table 9.2b: Balance percentage of businesses saying categories of investment spending have increased over those saying they have decreased over the past year – by sector

Balance of +ve versus -ve	All businesses	Publishing	Manufacturing excluding Publishing	Construction	Wholesale & Retail	Hotels & Restaurants	Transport & Communications	Banking & Finance	Business & Professional Services	Education, Health & Social Work	Other Community Services
	%	%	%	%	%	%	%	%	%	%	%
Investment spending											
IT	33.9	41.1	28.6	26.1	27.0	23.4	39.6	42.7	40.0	42.9	26.0
Equipment (excluding IT)	19.5	20.7	16.6	25.5	11.0	36.1	23.1	13.2	18.7	30.0	21.9
Premises	20.2	26.1	17.7	12.3	25.8	29.1	25.0	21.0	16.0	28.8	20.6
Vehicles	10.0	20.5	11.8	26.3	5.1	6.8	23.5	3.9	9.8	3.7	9.6
Other spending											
Product/service development	30.4	19.8	32.0	26.7	29.7	35.5	24.9	28.2	30.6	44.7	29.0
Training/re-training	23.6	18.5	22.6	20.7	17.1	31.8	22.6	35.5	23.9	43.2	21.4
Marketing	32.3	20.2	31.2	33.4	26.4	35.5	31.4	28.0	33.3	43.2	37.6
Average salary per worker	33.0	25.9	32.3	21.5	40.0	44.6	33.3	37.5	34.0	40.5	11.5

Source: LABS 2006

Significantly above all businesses figure at 95% confidence level

Significantly below all businesses figure at 95% confidence level

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Table 9.2c: Balance percentage of businesses saying categories of investment spending have increased over those saying they have decreased over the past year – by country of ownership

Balance of + ve versus - ve	All businesses	UK-owned	Foreign-owned	Joint UK-foreign	DK/Refused
	%	%	%	%	%
Investment spending					
IT	33.9	33.9	29.9	42.1	59.7
Equipment (excluding IT)	19.5	19.7	14.0	38.9	6.0
Premises	20.2	20.4	22.0	7.4	8.6
Vehicles	10.0	10.3	8.1	1.9	0.0
Other spending					
Product/service development	30.4	29.9	41.8	32.9	18.3
Training/re-training	23.6	22.7	35.2	29.3	62.5
Marketing	32.3	32.4	31.6	32.9	24.9
Average salary per worker	33.0	31.8	54.5	51.8	27.3

Source: LABS 2006

Significantly above all businesses figure at 95% confidence level

Significantly below all businesses figure at 95% confidence level

Table 9.2d: Balance percentage of businesses saying categories of investment spending have increased over those saying they have decreased over the past year – by gender of ownership

Balance of + ve versus - ve	All businesses	Majority female	50:50 male/female	Majority male	Don't know/ refused
	%	%	%	%	%
Investment spending					
IT	33.9	30.6	41.8	33.4	28.3
Equipment (excluding IT)	19.5	20.0	20.3	19.8	15.0
Premises	20.2	24.3	16.2	20.6	17.7
Vehicles	10.0	4.0	10.2	12.7	2.7
Other spending					
Product/service development	30.4	28.8	32.6	30.0	32.2
Training/re-training	23.6	18.8	27.3	20.9	44.1
Marketing	32.3	33.7	30.0	32.5	33.1
Average salary per worker	33.0	34.3	33.5	30.1	49.7

Source: LABS 2006

Significantly above all businesses figure at 95% confidence level

Significantly below all businesses figure at 95% confidence level

The balance of majority female-owned businesses reporting increases in IT investment and in spending on product/service development and training/retraining was significantly below average. Majority male-owned businesses reported below average increases in spending on balance on training/retraining and average salary per worker.

Black-owned and Asian-owned businesses reported above average increases on balance of spending on product/service development and on marketing. Black-owned businesses also reported significantly above average increases on balance of spending on training/re-training. However, a lower than average balance of both black-owned and Asian-owned businesses reported increases in spending on average salary per worker.

Table 9.2e: Balance percentage of businesses saying categories of investment spending have increased over those saying they have decreased over the past year – by ethnicity of ownership

	All businesses	White	Black	Asian	Mixed	Other/ Chinese	Don't know/ refused
	%	%	%	%	%	%	%
Investment spending							
IT	33.9	34.6	37.4	33.8	7.1	36.6	29.6
Equipment (excluding IT)	19.5	20.6	23.8	14.6	-13.9	34.9	14.6
Premises	20.2	18.9	20.7	25.6	46.6	19.9	20.4
Vehicles	10.0	11.0	13.5	4.7	10.5	24.1	3.9
Other spending							
Product/service development	30.4	29.1	33.9	36.1	37.5	30.9	31.6
Training/re-training	23.6	22.4	36.8	22.0	5.3	23.9	31.8
Marketing	32.3	33.1	36.2	40.3	9.2	23.3	18.6
Average salary per worker	33.0	34.1	11.3	31.0	-11.5	24.2	44.8

Source: LABS 2006

Significantly above all businesses figure at 95% confidence level

Significantly below all businesses figure at 95% confidence level

Chapter 9

Anticipated changes in investment and other spending over the next 12 months

Businesses were asked about anticipated changes in investment and other expenditure over the next year. Few businesses expect to decrease expenditure over the next 12 months. Within investment spending, IT is the area that businesses (36%) are most likely to expect to increase their spending in next year, followed by other (non-IT) equipment (32%). In terms of other (non-investment) spending, over half (53%) of all businesses anticipate increasing their average salary per worker, while around four out of 10 businesses expect to increase their spending on marketing (44%) and product/service development (36%) over the next year. Over a third of businesses expect to increase their spending on training (34%).

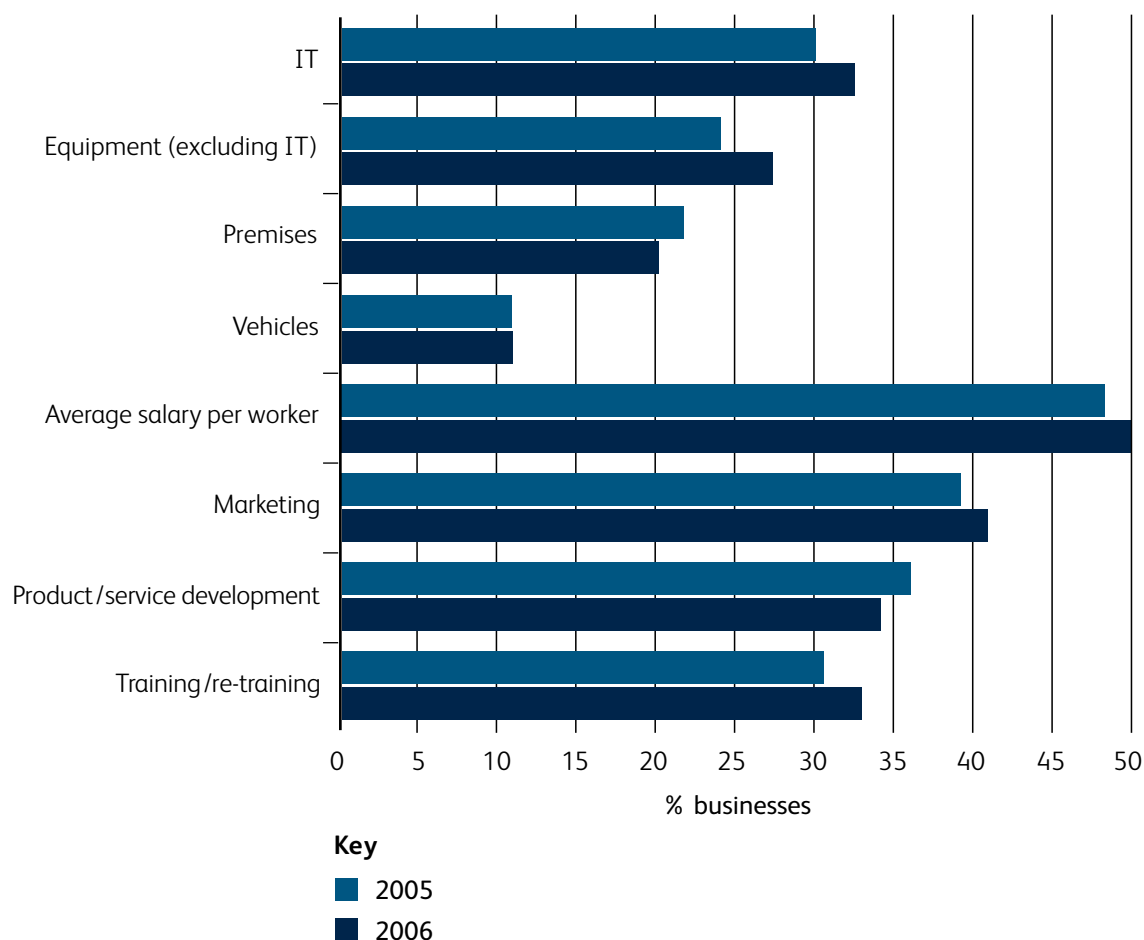
Table 9.3: Percentage of businesses saying different spending categories will increase/remain the same/decrease during the next 12 months

	Increased	Remained the same	Decreased	Don't know	Not applicable/ continue to spend nothing	Balance of +ve over -ve
	%	%	%	%	%	%
Investment spending						
IT	36.2	48.7	3.9	1.4	9.8	32.4
Equipment (excl IT)	31.9	52.3	4.7	1.9	9.2	27.2
Premises	23.2	63.7	3.2	1.9	7.9	20.0
Vehicles	13.2	43.6	2.4	1.5	39.2	10.8
Other spending						
Product/service development	35.5	45.0	1.5	2.3	15.8	34.0
Training/re-training	34.3	40.8	1.5	1.7	21.8	32.8
Marketing	43.6	38.4	2.8	1.6	13.6	40.8
Average salary per worker	52.9	33.5	3.0	4.2	6.5	49.9

Source: LABS 2006

The balances of businesses expecting to increase spending on IT, equipment (excluding IT), average salary per worker, marketing, and training/re-training are higher in LABS 2006 than they were in 2005. Only the balances of businesses expecting to increase spending on premises and product/service development have declined when compared with the LABS 2005 results.

Graph 9.2: Balance percentage of businesses saying different categories of spending will increase over those saying that it will decrease over the next year (LABS 2006 and LABS 2005)



Source: LABS 2006

Smaller organisations (5–9 and 10–49 employees) were the most optimistic about increasing spending across all categories. Organisations employing 50–99 people were the least optimistic.

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Table 9.4a: Balance percentage of businesses saying categories of investment spending will increase over those saying they will decrease over the next year – by size of organisation (employment)

Balance of +ve versus -ve	All businesses	1–4	5–9	10–49	50–99	100–249	250+	Don't know
	%	%	%	%	%	%	%	%
Investment spending								
IT	32.4	32.2	34.2	35.2	36.4	39.2	28.0	14.2
Equipment (excluding IT)	27.2	26.4	33.1	29.7	21.0	31.8	28.7	9.0
Premises	20.0	18.2	23.6	24.2	9.7	29.8	29.3	14.4
Vehicles	10.8	11.0	12.8	12.3	4.5	6.6	8.9	3.0
Other spending								
Product/service development	34.0	32.2	38.4	37.4	24.7	42.2	42.0	34.1
Training/re-training	32.8	28.2	33.5	46.8	44.6	39.9	47.8	29.2
Marketing	40.8	40.2	48.0	40.8	33.8	46.5	42.0	23.8
Average salary per worker	49.9	41.1	65.1	73.1	69.6	64.8	66.3	41.4

Source: LABS 2006

Significantly above all businesses figure at 95% confidence level

Significantly below all businesses figure at 95% confidence level

The Hotels and Restaurants sector was the most optimistic, with an above average proportion of businesses in this sector anticipating increases in spending on balance in all categories except IT. Business and Professional Services was also optimistic, with an above average proportion of businesses anticipating increases on balance for spending on IT, marketing and average salary per worker. Publishing and Construction were the most pessimistic sectors, with the Construction sector reporting a below average proportion of businesses on balance anticipating increases in spending in all categories except vehicles.

Foreign-owned businesses reported an above average proportion of businesses on balance anticipating increases in spending on product/service development and training/re-training, while joint UK-foreign-owned businesses reported an above average proportion of businesses on balance anticipating increases in spending on IT and average salary per worker.

Table 9.4b: Balance percentage of businesses saying categories of investment spending will increase over those saying they will decrease over the next year – by sector

Balance of +ve versus -ve	All businesses	Publishing	Manufacturing excluding Publishing	Construction	Wholesale & Retail	Hotels & Restaurants	Transport & Communications	Banking & Finance	Business & Professional Services	Education, Health & Social Work	Other Community Services
	%	%	%	%	%	%	%	%	%	%	%
Investment spending											
IT	32.4	30.4	25.2	11.3	24.1	21.9	37.6	34.6	42.8	32.0	25.8
Equipment (excluding IT)	27.2	33.5	19.7	21.2	25.1	39.9	25.4	24.3	28.4	29.0	24.3
Premises	20.0	8.1	21.0	12.3	24.7	40.7	19.5	13.2	18.1	22.5	13.1
Vehicles	10.8	5.2	16.8	21.0	11.0	13.8	19.2	6.7	10.0	4.8	5.1
Other spending											
Product/service development	34.0	19.7	37.6	15.8	33.7	42.4	30.8	35.2	34.9	41.9	36.4
Training/re-training	32.8	23.0	32.6	19.7	27.8	40.0	28.4	34.9	36.2	42.1	31.2
Marketing	40.8	35.1	36.7	21.4	34.9	41.3	39.5	37.2	46.9	42.1	42.1
Average salary per worker	49.9	25.6	43.5	38.9	39.4	54.3	45.5	54.2	59.3	60.6	38.6

Source: LABS 2006

Significantly above all businesses figure at 95% confidence level

Significantly below all businesses figure at 95% confidence level

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Table 9.4c: Balance percentage of businesses saying categories of investment spending will increase over those saying they will decrease over the next year – by country of ownership

Balance of +ve versus -ve	All businesses	UK-owned	Foreign-owned	Joint UK-foreign	DK/Refused
	%	%	%	%	%
Investment spending					
IT	32.4	32.5	29.9	46.4	6.3
Equipment (excluding IT)	27.2	27.5	25.0	19.2	16.4
Premises	20.0	20.2	21.5	10.4	2.2
Vehicles	10.8	11.3	4.5	0.0	-0.6
Other spending					
Product/service development	34.0	33.8	36.8	26.3	64.2
Training/re-training	32.8	32.3	46.5	25.8	9.9
Marketing	40.8	41.3	35.2	33.5	20.8
Average salary per worker	49.9	49.5	54.6	83.0	26.6

Source: LABS 2006

■ Significantly above all businesses figure at 95% confidence level

■ Significantly below all businesses figure at 95% confidence level

Joint male/female-owned businesses were the least optimistic in terms of the proportion of firms on balance anticipating spending increases across the categories of expenditure, although they had the highest proportion of firms on balance anticipating an increase in IT spending. Except for the purchase of vehicles, where majority male firms were more likely on balance to anticipate increasing spending, there was little difference in the results for majority male and majority female-owned businesses.

Table 9.4d: Balance percentage of businesses saying categories of investment spending will increase over those saying they will decrease over the next year – by gender of ownership

Balance of + ve versus - ve	All businesses	Majority female	50:50 male/female	Majority male	Don't know/ refused
	%	%	%	%	%
Investment spending					
IT	32.4	33.6	37.5	31.9	23.0
Equipment (excluding IT)	27.2	28.2	26.3	28.0	21.3
Premises	20.0	20.0	19.1	20.6	17.7
Vehicles	10.8	9.6	9.3	12.5	4.0
Other spending					
Product/service development	34.0	34.1	32.1	34.5	34.7
Training/re-training	32.8	32.6	32.7	32.2	37.3
Marketing	40.8	43.7	38.6	41.6	33.6
Average salary per worker	49.9	50.8	46.8	50.1	53.9

Source: LABS 2006

 Significantly above all businesses figure at 95% confidence level

 Significantly below all businesses figure at 95% confidence level

Black-owned and other/Chinese-owned businesses were the most optimistic and white-owned businesses the most pessimistic about anticipated increases in spending across the categories of expenditure. Black-owned businesses reported a significantly higher than average proportion of firms on balance anticipating spending increases across all the categories surveyed. Other/Chinese-owned businesses also reported a significantly higher than average proportion of firms on balance anticipating spending increases in all categories except equipment (excluding IT) and vehicles. White-owned businesses reported a significantly below average proportion of firms on balance anticipating increases in spending on product/service development (31%), training/re-training (31%) and marketing (38%).

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Table 9.4e: Balance percentage of businesses saying categories of investment spending will increase over those saying they will decrease over the next year – by ethnicity of ownership

	All businesses	White	Black	Asian	Mixed	Other/ Chinese	Don't know/ refused
	%	%	%	%	%	%	%
Investment spending							
IT	32.4	32.2	59.2	27.7	15.1	45.6	26.4
Equipment (excluding IT)	27.2	27.5	48.4	22.2	42.0	37.8	17.4
Premises	20.0	19.7	38.9	17.4	11.3	42.8	11.6
Vehicles	10.8	9.6	32.5	14.6	4.8	11.5	5.6
Other spending							
Product/service development	34.0	31.2	59.1	39.4	42.2	48.0	33.9
Training/re-training	32.8	31.1	61.0	32.6	9.2	55.9	30.3
Marketing	40.8	37.8	73.5	50.1	12.0	67.8	33.3
Average salary per worker	49.9	48.6	67.1	50.1	17.4	66.4	52.2

Source: LABS 2006

Significantly above all businesses figure at 95% confidence level

Significantly below all businesses figure at 95% confidence level

Level of capital expenditure in 2006

The following tables show the level of capital investment per worker by business characteristics. Although the absolute level of investment is positively related to firm size (unsurprisingly larger organisations invest more in absolute terms), when investment spending is expressed in terms of the amount 'per worker' a negative relationship emerges. The largest firms, those employing more than 250 people, invest in capital on average around £2,900 per worker. In contrast, very small organisations (one to four employees) invest in capital on average over £33,000 per worker.

Other Community Services (£40,900) and Business and Professional Services (£39,100) reported the highest levels of capital expenditure per employee. Spending levels in these sectors were around four times the level of capital investment per worker found in the Manufacturing, excluding Publishing sector (£10,600) and Hotels and Restaurants (£11,500) sectors, which were the lowest spending sectors in relation to their number of employees.

Table 9.5a: Capital investment on site per worker in previous 12 months
by business characteristics – by size of organisation (employment)

	All businesses		1 – 4		5 – 9		10 – 49		50 – 99		100 – 249		250+		Don't know	
	%		%		%		%		%		%		%		%	
Average investment per employee	28,272		33,098		16,010		10,198		7,555		5,641		2,918		2,918	
Unweighted sample	3,195		830		770		1,147		206		130		112		112	

Source: LABS 2006

Table 9.5b: Capital investment on site per worker in previous 12 months
by business characteristics – by sector

	All businesses		Publishing		Manufacturing excluding Publishing		Construction		Wholesale & Retail		Hotels & Restaurants		Transport & Communications		Banking & Finance		Business & Professional Services		Education, Health & Social Work		Other Community Services	
	%		%		%		%		%		%		%		%		%		%		%	
Average investment per employee	28,272		15,441		10,604		14,040		19,879		11,545		12,288		15,367		39,111		13,611		40,887	
Unweighted sample	3,195		99		229		284		592		346		256		158		760		219		234	

Source: LABS 2006

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UK-owned businesses reported higher levels of capital investment per employee than foreign-owned and joint UK-foreign-owned businesses. This is partly explained by the tendency for the smallest businesses, who report the highest levels of capital investment per employee, to be UK-owned.

Table 9.5c: Capital investment on site per worker in previous 12 months by business characteristics – by country of ownership

	All businesses	UK-owned	Foreign-owned	Joint UK-foreign	DK/Refused
	%	%	%	%	%
Average investment per employee	28,272	29,201	12,458	21,065	3,666
Unweighted sample	3,195	2,892	248	44	11

Source: LABS 2006

Majority male-owned businesses tend to spend more on capital investment, averaging £33,000 per worker, compared with £26,000 for majority female-owned businesses.

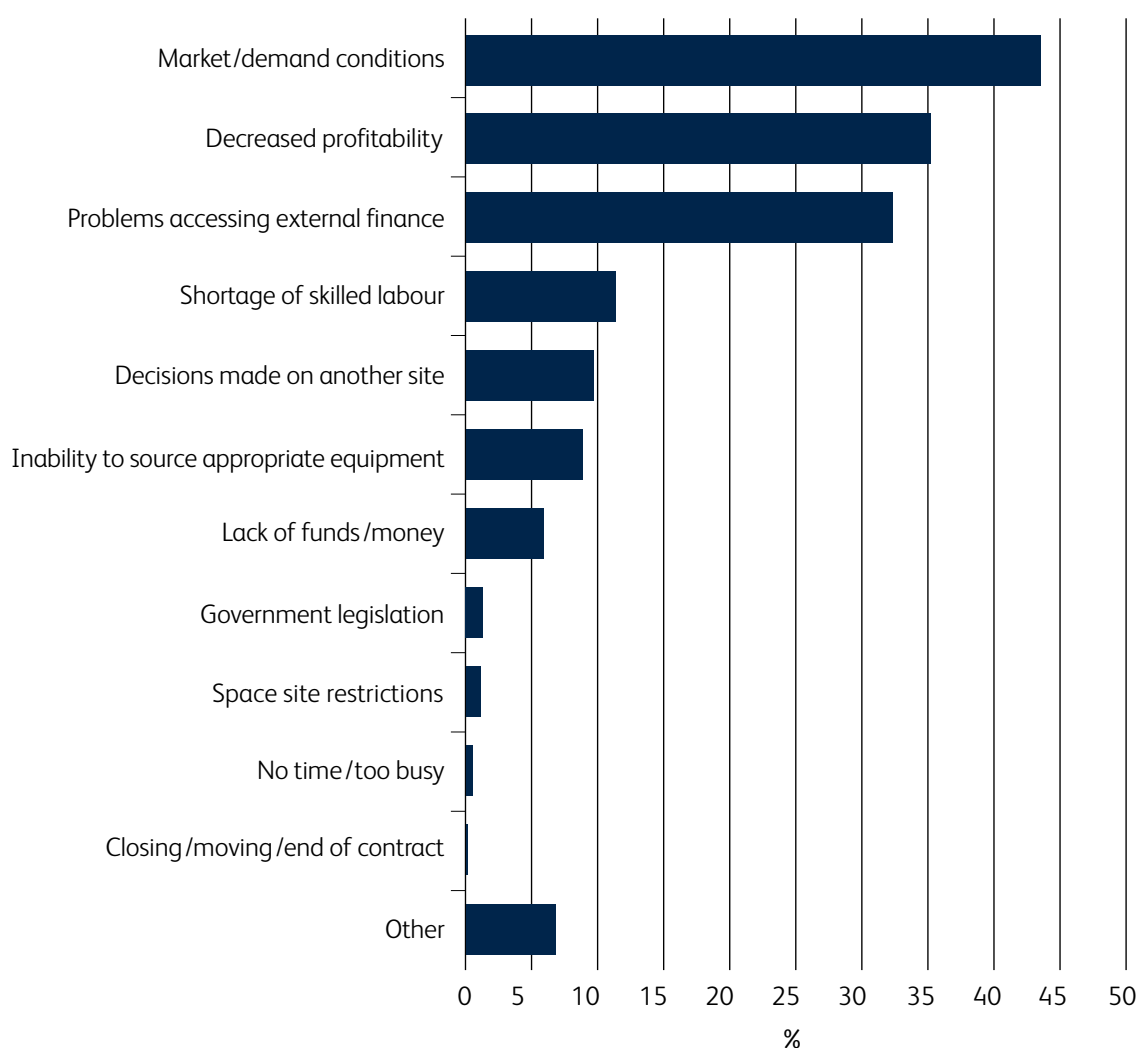
Table 9.5d: Capital investment on site per worker in previous 12 months by business characteristics – by gender of ownership

	All businesses	Majority female	50:50 male/female	Majority male	Don't know/ refused
	%	%	%	%	%
Average investment per employee	28,272	25,795	36,916	33,140	15,147
Unweighted sample	3,195	1,878	514	349	454

Source: LABS 2006

Constraints on investment spending

Businesses were asked if they had been able to invest as much capital as they would have liked over the last 12 months, and 35% said that they had not. 44% of businesses that stated that they had not, said that this was due to market conditions/demand. Around one-third of businesses also cited a decrease in profitability (35%) and problems accessing external finance (33%) as constraints on investment spending.

Graph 9.3: Constraints on investment

Source: LABS 2006

Significantly more organisations with 5–9 employees (52%) cited market conditions/demand as a constraint on investment than average. A significantly higher proportion of organisations with 5–49 employees cited problems accessing external finance as a constraint on investment and a higher percentage of organisations with 5–99 employees reported shortage of skilled labour as a constraint on investment than average.

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Table 9.6a: Constraints on investment by type of business – by size of organisation (employment)

	All businesses	1–4	5–9	10–49	50–99	100–249	250+	Don't know
	%	%	%	%	%	%	%	%
Market conditions/demand	43.8	44.9	52.1	36.3	26.3	36.3	36.1	13.0
Decrease in profitability	35.4	36.0	38.7	34.2	32.1	25.3	27.5	27.6
Problems accessing external finance	32.5	33.1	41.6	38.9	24.5	11.7	8.7	9.1
Shortage of skilled labour	11.4	10.0	18.3	14.9	23.5	12.3	8.6	1.8
Decisions made an another site	9.7	3.7	12.5	9.6	44.1	39.9	56.7	51.6
Inability to source appropriate equipment	8.9	9.1	7.8	12.8	5.1	5.1	5.8	3.7
Other	6.8	7.4	3.0	5.3	6.7	9.5	8.8	4.3
Lack of funds/money	5.9	6.2	8.0	5.2	1.0	3.1	1.7	0.0
Government legislation	1.3	1.4	0.9	2.3	0.2	0.0	0.1	0.0
Space/site restrictions	1.1	1.1	1.6	1.2	2.0	0.0	0.0	1.5
No time/ too busy	0.5	0.6	0.6	0.1	0.6	0.0	0.1	0.0
Closing/moving/end of contract	0.1	0.0	0.0	0.3	0.0	0.6	0.6	0.0
Unweighted sample	1,953	559	392	532	76	72	283	39

Source: LABS 2006

Significantly above all businesses figure at 95% confidence level

Significantly below all businesses figure at 95% confidence level

Across the sectors only in Wholesale and Retail did a significantly higher percentage of businesses than average report that market conditions/demand were a constraint on investment. A significantly higher than average percentage of businesses in Business and Professional Services cited problems accessing external finance as a constraint on investment, while decreases in profitability were cited as a constraint on investment significantly more often by businesses in Manufacturing excluding Publishing, Wholesale and Retail and Hotels and Restaurants.

Foreign-owned businesses in general faced fewer constraints on capital investment spending than UK-owned and joint UK-foreign-owned businesses.

Table 9.6b: Constraints on investment by type of business – by sector

	All businesses											Other Community Services
	Publishing	Manufacturing excluding Publishing	Construction	Wholesale & Retail	Hotels & Restaurants	Transport & Communications	Banking & Finance	Business & Professional Services	Education, Health & Social Work			
	%	%	%	%	%	%	%	%	%	%	%	
Market conditions/demand	43.8	44.1	34.5	51.5	55.8	34.1	35.6	50.3	42.8	38.6	26.2	
Decrease in profitability	35.4	39.8	48.5	39.8	43.6	43.0	29.1	25.4	30.1	28.5	27.9	
Problems accessing external finance	32.5	15.4	33.1	28.4	21.3	32.5	36.7	32.4	40.6	33.9	31.9	
Shortage of skilled labour	11.4	3.2	18.4	12.6	9.7	13.3	12.0	9.5	12.6	13.5	6.7	
Decisions made an another site	9.7	6.0	2.0	9.5	9.8	25.0	12.1	20.5	8.1	11.0	4.6	
Inability to source appropriate equipment	8.9	0.6	7.2	3.1	14.6	12.9	6.0	1.2	7.9	10.3	3.9	
Other	6.8	5.6	1.6	3.1	4.9	3.5	0.0	8.9	8.9	8.2	11.9	
Lack of funds/money	5.9	1.3	7.3	2.2	0.1	0.0	4.4	3.4	1.5	1.8	0.9	
Government legislation	1.3	0.1	3.4	0.0	3.1	0.7	0.5	1.6	0.2	1.2	2.1	
Space/site restrictions	1.1	0.0	6.4	0.1	0.9	0.6	0.3	0.0	1.5	0.0	0.0	
No time/ too busy	0.5	4.7	0.0	2.0	0.3	0.1	0.0	0.0	0.1	3.7	0.1	
Closing /moving/end of contract	0.1	0.0	1.3	0.0	0.0	0.1	0.0	0.9	0.0	0.0	0.1	
Unweighted sample	1,953	62	138	146	375	229.0	154	67	429	178	163	

Source: LABS 2006

 Significantly above all businesses figure at 95% confidence level

 Significantly below all businesses figure at 95% confidence level

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Table 9.6c: Constraints on investment by type of business – by country of ownership

	All businesses	UK-owned	Foreign-owned	Joint UK-foreign	DK/Refused
	%	%	%	%	%
Market conditions/demand	43.8	44.4	29.9	48.0	6.0
Decrease in profitability	35.4	35.7	25.9	50.7	34.5
Problems accessing external finance	32.5	32.9	23.2	45.8	6.0
Shortage of skilled labour	11.4	11.7	5.1	0.0	6.0
Decisions made an another site	9.7	8.4	39.2	36.1	25.0
Inability to source appropriate equipment	8.9	9.2	1.9	0.0	8.9
Other	6.8	6.7	9.8	0.0	52.4
Lack of funds/money	5.9	6.1	0.9	0.0	0.0
Government legislation	1.3	1.3	0.0	0.0	0.0
Space/site restrictions	1.1	1.1	0.2	0.0	0.0
No time/ too busy	0.5	0.5	0.1	0.0	0.0
Closing/moving/end of contract	0.1	0.1	0.8	0.0	0.0
Unweighted sample	1,953	1,798	126	19	10

Source: LABS 2006

Significantly above all businesses figure at 95% confidence level

Significantly below all businesses figure at 95% confidence level

There was little significant variation by gender of ownership on the constraints on investment faced by businesses.

Table 9.6d: Constraints on investment by type of business – by gender of ownership

	All businesses	Majority female	50:50 male/female	Majority male	Don't know/refused
	%	%	%	%	%
Market conditions/demand	43.8	39.1	42.2	46.4	33.6
Decrease in profitability	35.4	30.1	38.7	37.5	19.6
Problems accessing external finance	32.5	32.3	28.0	35.2	13.4
Shortage of skilled labour	11.4	9.2	11.0	12.2	10.9
Decisions made an another site	9.7	2.8	4.1	9.4	56.4
Inability to source appropriate equipment	8.9	8.4	11.3	8.8	5.1
Other	6.8	8.0	6.8	6.1	11.6
Lack of funds/money	5.9	6.2	4.7	6.4	2.3
Government legislation	1.3	0.0	2.4	1.5	0.1
Space/site restrictions	1.1	1.0	0.8	1.3	0.2
Unweighted sample	1,953	247	315	1,122	269

Source: LABS 2006

■ Significantly above all businesses figure at 95% confidence level

■ Significantly below all businesses figure at 95% confidence level

Black-owned businesses (63%) reported substantially greater than average (33%) problems accessing external finance. Asian-owned businesses (44%) reported substantially greater than average (38%) problems with decreases in profitability, which is probably due to the greater percentage of Asian-owned businesses in the Wholesale and Retail sector which has generally reported greater problems with market conditions/demand and decreases in profitability during 2006. A substantially higher than average proportion of other/Chinese-owned businesses (27%) reported that lack of funds/money was a constraint on investment, while a higher percentage of Asian-owned businesses reported that government legislation was a constraint on investment than average.

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Table 9.6e: Constraints on investment by type of business – by ethnicity of ownership

	All businesses	White	Black	Asian	Mixed	Other/ Chinese	Don't know/ refused
	%	%	%	%	%	%	%
Market conditions/demand	43.8	46.8	29.9	49.8	29.6	22.7	29.9
Decrease in profitability	35.4	34.7	29.6	43.8	78.7	17.7	27.2
Problems accessing external finance	32.5	28.5	62.8	33.2	68.8	20.9	31.3
Shortage of skilled labour	11.4	10.8	10.0	14.8	3.4	2.5	18.6
Decisions made an another site	9.7	7.5	13.9	8.1	2.5	4.2	39.5
Inability to source appropriate equipment	8.9	8.1	11.8	13.9	1.2	0.4	8.1
Other	6.8	7.9	4.1	4.1	0.0	6.3	7.5
Lack of funds/money	5.9	5.9	1.8	5.4	0.0	26.9	1.5
Government legislation	1.3	0.7	1.1	4.8	0.0	0.3	0.3
Space/site restrictions	1.1	1.3	0.9	0.2	0.0	0.0	1.8
No time/ too busy	0.5	0.7	0.0	0.0	0.0	0.1	0.4
Closing/moving/end of contract	0.1	0.1	0.0	0.1	0.0	0.1	0.6
Unweighted sample	1,953	1,199	150	293	22	49	240

Source: LABS 2006

Significantly above all businesses figure at 95% confidence level

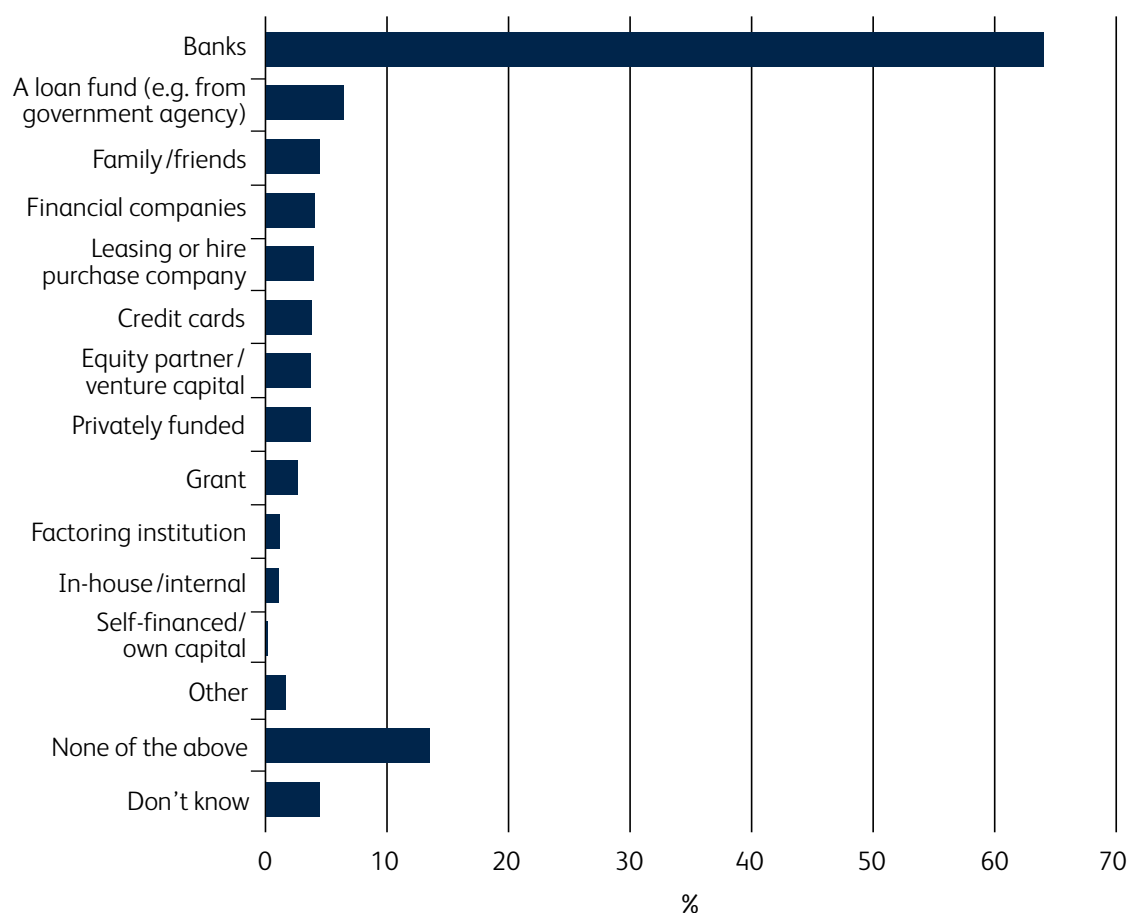
Significantly below all businesses figure at 95% confidence level

9.3 Access to external finance

Sources of external finance approached

All businesses were asked about their use of and sources of external finance. Just over one quarter of all businesses (27%) reported that they had approached external sources for funding in the last 12 months. Graph 9.4 details the sources of external finance approached. Banks were by far the most popular source, with 64% of companies who sought external finance approaching them. Other sources of finance were approached by a much smaller percentage of businesses, with the next most common sources being loan funds (e.g. from a government agency) (6%), family/friends (4%) and (other) financial companies (4%).

**Graph 9.4: Percentage of businesses approaching sources of finance
by source in the previous 12 months**



Source: LABS 2006

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Levels of success in obtaining external finance

Two-thirds (67%) of businesses were successful in their applications for finance from banks. As highlighted in previous years' surveys, there are some noticeable differences when these results are compared across ethnic groups. Nearly three-quarters (74%) of white-owned businesses were successful in obtaining bank finance. This compares with under three out of 10 (29%) black-owned businesses and under six out of 10 (57%) Asian-owned businesses. When compared with 2005 these results show a substantial fall for black-owned businesses, with 44% of these businesses having been successful in obtaining bank finance in 2005.

Table 9.7: Applications for bank finance in previous 12 months and success rates by ethnic group

	Approaching bank	Unweighted sample	Successful	Unweighted sample
	%	n	%	n
Source				
All businesses	64.4	1,639	66.8	1,056
Ethnic groups				
White	62.9	1,063	74.0	692
Black	68.4	124	29.4	88
Asian	65.6	261	58.1	183
Mixed	95.5	21	14.6	13
Other/Chinese	70.9	35	90.2	21
Don't know	59.6	135	71.7	59

Source: LABS 2006

Problems in accessing external finance

Businesses that said that problems with accessing external finance had prevented them from investing as much as they would have liked to were also asked about the specific problems they had experienced in accessing external finance. The three most common problems were lack of collateral (45%), not being able to obtain a large enough loan (42%) and the lender not understanding the applicants business needs (40%). In comparison with 2005 lack of advice about options/sources available was much less of a problem in 2006.

Most problems in accessing external finance tend to decrease as organisation size increases. Lack of collateral particularly shows a tendency to decrease as a problem as organisation size increases. Similarly the problem of the lender not understanding the applicant's business needs and lack of advice about options/sources available tend to diminish with size.

Table 9.8a: Problems in accessing external finance –
by organisation size (employment)

	All businesses	1–4	5–9	10–49	50–99	100–249	250+	Don't know
	%	%	%	%	%	%	%	%
Lack of collateral to guarantee loan	45.2	47.5	37.5	50.9	20.5	38.3	14.0	7.0
Cannot obtain large enough amount	42.4	40.5	50.1	44.8	29.5	36.5	50.4	16.4
Lender does not understand applicants business needs	40.3	44.2	28.9	36.3	26.5	39.0	18.7	64.8
Lack of advice about options/ sources available	32.2	33.8	24.0	38.2	35.1	0.0	13.4	64.8
Cannot meet cost of repayment	22.1	23.3	23.0	15.4	21.7	13.7	10.7	13.3
Other	18.8	22.0	9.5	13.0	15.7	18.4	10.8	0.0
Decisions are made at head office/ another site	7.3	4.6	6.1	11.7	9.2	32.9	68.5	34.4
Unweighted sample	794	233	196	259	35	16	49	6

Source: LABS 2006

 Significantly above all businesses figure at 95% confidence level

 Significantly below all businesses figure at 95% confidence level

Lack of collateral was significantly less of a problem for businesses in the Hotels and Restaurants sector, while inability to obtain a large enough amount of finance was significantly less of a problem in the Transport and Communications sector, but the inability of lenders to understand the applicant's business needs was significantly more of a problem in the Construction sector.

There were no significant differences in the problems faced by businesses in obtaining external finance when analysed by country of ownership, although lack of collateral was reported as a problem more often by joint UK/foreign-owned businesses. A lack of understanding of business needs was reported as a problem less frequently by foreign-owned and joint UK/foreign-owned businesses.

Table 9.8b: Problems in accessing external finance – by sector

	All businesses										Other Community Services	
	%	%	%	%	%	%	%	%	%	%	Education, Health & Social Work	%
Lack of collateral to guarantee loan	45.2	41.9	42.4	40.1	45.8	24.3	53.4	62.2	51.2	23.4	32.3	
Cannot obtain large enough amount	42.4	55.5	38.7	48.3	33.5	51.2	17.3	24.5	44.8	40.3	51.8	
Lender does not understand applicants business needs	40.3	69.1	43.5	56.4	38.1	39.2	38.5	34.0	36.5	23.3	65.4	
Lack of advice about options/sources available	32.2	61.6	46.4	40.0	28.8	35.2	23.1	28.8	29.1	20.2	51.3	
Cannot meet cost of repayment	22.1	45.0	28.9	39.8	19.2	33.1	21.7	3.1	22.1	7.5	17.5	
Other	18.8	6.6	25.1	1.6	9.5	17.5	39.6	11.9	24.3	17.2	8.6	
Decisions are made at head office/another site	7.3	28.9	7.8	9.1	2.7	0	8.5	41.9	3.5	18.1	11.8	
Unweighted sample	794	26	61	65	128	85	60	26	172	88	79	

Source: LABS 2006

 Significantly above all businesses figure at 95% confidence level

 Significantly below all businesses figure at 95% confidence level

Table 9.8c: Problems in accessing external finance –
by country of ownership

	All businesses	UK-owned	Foreign-owned	Joint UK-foreign	DK/Refused
	%	%	%	%	%
Lack of collateral to guarantee loan	45.2	44.9	48.9	70.9	0.0
Cannot obtain large enough amount	42.4	42.3	53.4	27.5	0.0
Lender does not understand applicants business needs	40.3	41.3	17.0	6.6	0.0
Lack of advice about options/ sources available	32.2	32.4	32.5	4.7	58.5
Cannot meet cost of repayment	22.1	22.3	8.1	42.6	0.0
Other	18.8	19.4	0.7	15.1	15.4
Decisions are made at head office/ another site	7.3	6.8	24.4	4.7	26.2
Unweighted sample	794	762	22	7	3

Source: LABS 2006

 Significantly above all businesses figure at 95% confidence level

 Significantly below all businesses figure at 95% confidence level

Joint male/female-owned businesses were somewhat more likely to cite lack of collateral as a problem.

Table 9.8d: Problems in accessing external finance –
by gender of ownership

	All businesses	Majority female	50:50 male/female	Majority male	Don't know/ refused
	%	%	%	%	%
Lack of collateral to guarantee loan	45.2	44.8	64.7	41.9	24.6
Cannot obtain large enough amount	42.4	39.7	44.7	42.9	38.0
Lender does not understand applicants business needs	40.3	34.8	42.7	42.7	11.5
Lack of advice about options/ sources available	32.2	29.8	31.0	33.9	15.5
Cannot meet cost of repayment	22.1	20.2	28.8	22.0	3.7
Other	18.8	31.5	16.1	16.2	10.2
Decisions are made at head office/ another site	7.3	5.8	9.7	4.9	59.3
Unweighted sample	794	106	153	479	56

Source: LABS 2006

 Significantly above all businesses figure at 95% confidence level

 Significantly below all businesses figure at 95% confidence level

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Black-owned businesses were significantly more likely to report lack of collateral and lack of advice about options/sources available as problems than other businesses. Asian-owned businesses were significantly more likely to report problems with obtaining a large enough amount and meeting the cost of repayments than other businesses.

Table 9.8e: Problems in accessing external finance – by ethnicity of ownership

	All businesses	White	Black	Asian	Mixed	Other/ Chinese	Don't know/ refused
	%	%	%	%	%	%	%
Lack of collateral to guarantee loan	45.2	44.8	59.9	50.3	13.1	35.6	20.8
Cannot obtain large enough amount	42.4	40.6	48.7	62.1	2.4	14.8	31.6
Lender does not understand applicants business needs	40.3	41.3	29.8	45.4	74.0	26.4	36.8
Lack of advice about options/ sources available	32.2	29.2	51.5	35.3	13.5	36.0	12.4
Cannot meet cost of repayment	22.1	16.6	23.2	50.2	0.6	12.7	15.5
Other	18.8	20.6	8.6	14.3	12.4	65.2	10.0
Decisions are made at head office/ another site	7.3	5.9	9.1	4.0	0.0	0.6	33.1
Unweighted sample	794	454	103	142	11	17	67

Source: LABS 2006

Significantly above all businesses figure at 95% confidence level

Significantly below all businesses figure at 95% confidence level

9.4 The effects of investment and access to finance on business performance

After controlling for all other business characteristics, the multivariate analysis shows that spending on IT is significantly related to growth in turnover, while spending on equipment excluding IT is significantly related to growth in profits. Spending on vehicles is negatively related to growth in turnover and growth in profits.

The form of finance used can have a significant impact on growth. Use of an equity partner/venture capital is associated with significantly below average employment growth, while use of a factoring institution is associated with below average growth in employment and productivity. Grant finance is associated with significantly lower growth in turnover, while use of credit card finance is associated with lower growth in profits.

Table 9.4: The effects of investment and access to finance on business performance

Structural variables	Odds ratio			
	Growth in employment	Growth in turnover	Growth in productivity	Growth in profits
Investment (past 12 months)				
Equipment excluding IT	1.15	0.88	1.02	1.16
IT	1.05	1.14	1.11	0.96
Premises	1.02	1.03	0.93	0.97
Product/service development	1.04	0.92	1.00	0.91
Vehicles	1.07	0.80	0.98	0.84
Training/retraining	1.10	1.13	0.97	0.96
Marketing	1.00	1.06	1.06	1.13
Average salary per worker	0.97	1.07	1.00	1.11
Finance (approached and successful)				
Banks	1.07	0.93	1.07	1.20
Leasing or hire purchase company	0.96	0.70	0.88	0.82
Equity partner/venture capital	0.29	0.59	0.50	0.66
Loan fund	1.97	0.95	0.55	0.52
Grant	1.58	0.39	0.81	1.99
Factoring institution	0.29	0.70	0.22	1.43
Credit card	1.01	1.40	0.79	0.29

Source: LABS 2006

Likelihood that variable significantly affects growth at 10% significance level

Likelihood that variable significantly detracts from growth at 10% significance level

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Summary

- Just under one third of businesses in London reported that they had undertaken R&D in the previous 12 months, broadly matching the level reported in LABS 2005, but well above the figures for 2003 and 2004.
- The average median spending figure for R&D was just over £3,000 per employee.
- Although larger businesses have a higher propensity to engage in R&D, on average they spend less on R&D per employee.
- Two out of five organisations undertaking R&D collaborated with other organisations. The results from LABS 2006 show a decline in collaboration by organisations undertaking R&D, to 40% from 50% in 2005. The 2006 result is, however, in line with the 2004 figure and well ahead of the 2003 figure, when only 15% of organisations engaging in R&D did this in collaboration with other organisations.
- Three out of five businesses reported seeking advice on technical, innovation and R&D activity, with suppliers, consultants, companies in the same group, customers and internal/head office being the most commonly used sources of advice. Universities/higher education institutes were only consulted by 1.5% of businesses.
- Just under half (46%) of London's firms introduced some form of innovation last year. 17% of firms made product/service innovations only and 11% made process innovations only, but 19% made both product/service innovations and process innovations.
- Four out of five businesses had at least some staff that used a computer every day and the use of broadband has continued to increase.
- Out of those London businesses that used a computer every day, six out of 10 made online purchases and nearly three out of 10 made online sales. The use of online purchasing had continued to increase, although the use of online sales has been more limited.

Influence on performance

- Firms that had introduced major products/services were significantly more likely to have seen growth in employment, turnover, productivity and profit. Those that introduced major equipment were more likely to have seen growth in all four performance measures except profits. Businesses that undertook R&D were more likely to have seen growth in employment and productivity. Businesses that introduced modified versions of existing products or services were more likely to have seen a rise in productivity but were also more likely to have seen an accompanying fall in employment.

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10.5 The effects of R&D on business performance

10.1 Introduction

The focus of this chapter is to understand how different characteristics of businesses in London influence their application of Research & Development (R&D), innovative practices and their use of information technology. The multivariate analysis examines how R&D, innovation and IT have influenced business performance in London.

10.2 Research & Development

Involvement in Research & Development

Just under one third (31%) of businesses in London reported that they had undertaken R&D in the previous 12 months, which broadly matched the level reported in LABS 2005, but was well above the figure for 2003 (9%).

Involvement in R&D varied significantly by organisation size, but given that R&D is usually a centrally controlled activity, it is not surprising that the “don’t know” category was generally higher for larger companies which are more likely to be multiple-site organisations.

In terms of sector, firms operating in the Business and Professional Services (37%), Other Community Services (36%) and Banking and Finance (36%) sectors were significantly more likely to undertake R&D than average. Construction was the sector that was least likely to engage in R&D activity (16%). In addition, significantly fewer businesses in the Wholesale and Retail, Hotels and Restaurants, Publishing and Transport and Communications sectors undertook R&D activity in the past 12 months than average.

Table 10.1a: Businesses undertaking R&D in previous 12 months by size of organisation (employment)

	All businesses		1 – 4		5 – 9		10 – 49		50 – 99		100 – 249		250 +		Don't know	
	%		%		%		%		%		%		%		%	
Yes	30.5		29.1		33.7		36.8		32.4		38.4		32.9		6.9	
No	67.2		70.3		64.3		60.5		67.0		40.8		60.6		65.1	
Don't know	2.2		0.6		2.0		2.6		0.6		20.8		6.4		28.1	
Unweighted sample	5,600		1,325		1,016		1,486		310		258		1,026		179	

Table 10.1b: Businesses undertaking R&D in previous 12 months by sector

	All businesses		Publishing		Manufacturing excluding Publishing		Construction		Wholesale & Retail		Hotels & Restaurants		Transport & Communications		Banking & Finance		Business & Professional Services		Education, Health & Social Work		Other Community Services	
	%		%		%		%		%		%		%		%		%		%		%	
Yes	30.5		21.3		34.8		16.3		21.2		21.3		21.5		35.8		37.4		33.5		36.2	
No	67.2		78.7		64.2		82.5		76.6		72.7		77.8		62.8		60.4		64.8		61.4	
Don't know	2.2		0.0		1.1		1.2		2.1		5.9		0.7		1.4		2.2		1.7		2.4	
Unweighted sample	5,600		161		351		479		1,115		622		434		327		1,280		415		391	

Source: LABS 2006

 Significantly above all businesses figure at 95% confidence level

 Significantly below all businesses figure at 95% confidence level

There were few significant differences between businesses in terms of R&D activity by country of ownership and gender.

Table 10.1c: Businesses undertaking R&D in previous 12 months by country of ownership

	All businesses	UK-owned	Foreign-owned	Joint UK-foreign	Don't know/ refused
	%	%	%	%	%
Yes	30.5	30.5	33.2	30.3	17.2
No	67.2	67.6	64.3	67.9	31.5
Don't know	2.2	1.9	2.5	1.8	51.3
Unweighted sample	5,600	5,020	456	81	43

Source: LABS 2006

Significantly above all businesses figure at 95% confidence level

Significantly below all businesses figure at 95% confidence level

Table 10.1d: Businesses undertaking R&D in previous 12 months by gender of owners

	All businesses	Majority female	50:50 male/female	Majority male	Don't know
	%	%	%	%	%
Yes	30.5	29.4	31.5	30.4	31.8
No	67.2	68.6	67.4	68.5	55.2
Don't know	2.2	1.9	1.1	1.1	13.0
Unweighted sample	5,600	593	867	3,118	1,022

Source: LABS 2006

Significantly above all businesses figure at 95% confidence level

Significantly below all businesses figure at 95% confidence level

Majority Asian-owned businesses were significantly less likely to engage in R&D activity than average which is probably due to the greater number of these businesses being in the Wholesale and Retail sector. This is similar to the findings from the 2005 survey.

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Table 10.1e: Businesses undertaking R&D in previous 12 months by ethnicity of owners

	All businesses	White	Black	Asian	Mixed	Other/ Chinese	Don't know/ refused
	%	%	%	%	%	%	
Yes	30.5	32.6	32.6	20.3	16.1	30.0	28.4
No	67.2	65.8	67.2	78.9	83.6	70.0	60.2
Don't know	2.2	1.6	0.2	0.8	0.4	0.0	11.4
Unweighted sample	5,600	3,706	236	629	49	115	865

Source: LABS 2006

■ Significantly above all businesses figure at 95% confidence level

■ Significantly below all businesses figure at 95% confidence level

Expenditure on research and development

Spending on R&D varies considerably. Measurement of average R&D spending per employee is influenced by very high levels of R&D spend by a handful of businesses, resulting in large differences between average (mean) (£158,000) and median levels (£3,000) of R&D spend per employee. Larger businesses tend to spend larger absolute amounts on R&D, but R&D spend per employee falls as organisation size increases, from a median of £5,000 for businesses with 1 – 4 employees to £310 for businesses with over 250 employees.

R&D spend per employee also varies by sector. Very high levels of spend by a few organisations again results in high average (mean) levels of spend in Banking and Finance, Publishing and Manufacturing excluding Publishing. There is less variation in median levels of spend on R&D per employee, although organisations in Other Community Services, Banking and Finance, Manufacturing, excluding Publishing, Publishing, and Wholesale and Retail spend more on R&D per employee than the median for all businesses.

Table 10.2a: Spending per employee on research and development by businesses undertaking R&D in the previous 12 months by size of organisation (employment)

	All businesses		1 – 4		5 – 9		10 – 49		50 – 99		100 – 249		250+		Don't know	
	%		%		%		%		%		%		%		%	
Average investment per employee	158,273		151,889		391,492		47,640		58,672		18,691		9,486		9,486	
Median investment per employee	3,000		5,000		3,125		1,364		656		526		311		12,500	
Unweighted sample	1,225		258		279		458		103		79		48		48	

Table 10.2b: Spending per employee on research and development by businesses undertaking R&D in the previous 12 months by sector

	All businesses		Publishing		Manufacturing excluding Publishing		Construction		Wholesale & Retail		Hotels & Restaurants		Transport & Communications		Banking & Finance		Business & Professional Services		Education, Health & Social Work		Other Community Services	
	%		%		%		%		%		%		%		%		%		%		%	
Average investment per employee	158,273		201,798		100,873		3,862		76,941		5,625		6,389		3,552,415		22,593		6,317		8,802	
Median investment per employee	3,000		4,000		4,000		2,000		4,000		1,667		1,667		5,000		3,000		1,191		8,000	
Unweighted sample	1,225		45		93		81		158		95		72		74		396		106		103	

Source: LABS 2006

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Median spend per employee on R&D by both foreign-owned and joint UK-foreign-owned businesses exceeded the median R&D spend per employee for other businesses.

Table 10.2c: Spending per employee on research and development by businesses undertaking R&D in the previous 12 months by country of ownership

	All businesses	UK-owned	Foreign-owned	Joint UK-foreign	Don't know/ refused
	%	%	%	%	%
Average investment per employee	158,273	157,654	197,383	47,472	10,503
Median investment per employee	3,000	2,857	5,000	3,571	3,571
Unweighted sample	1,225	1,108	91	21	5

Source: LABS 2006

Median spend per employee on R&D was higher in majority male-owned businesses than for majority female-owned and 50:50 male/female-owned businesses.

Table 10.2d: Spending per employee on research and development by businesses undertaking R&D in the previous 12 months by gender of ownership

	All businesses	Majority female	50:50 male/female	Majority male	Don't know
	%	%	%	%	%
Average investment per employee	158,273	70,292	10,887	27,899	1,335,080
Median investment per employee	3,000	3,000	1,500	4,000	12,500
Unweighted sample	1,225	717	197	128	183

Source: LABS 2006

Median spend per employee on R&D in other/Chinese and black majority-owned businesses was higher than for other businesses.

Table 10.2e: Spending per employee on research and development by businesses undertaking R&D in the previous 12 months by ethnicity of ownership

	All businesses	White	Black	Asian	Mixed	Other/ Chinese	Don't know/ refused
	%	%	%	%	%	%	
Average investment per employee	158,273	180,145	34,174	48,209	3,675	31,853	156,759
Median investment per employee	3,000	3,000	5,000	1,667	3,000	8,333	6,250
Unweighted sample	1,225	885	55	93	18	19	155
Unweighted population							5,600

Source: LABS 2006

Collaboration on research and development

Two out of five organisations undertaking R&D collaborated with other organisations, however larger businesses, with over 100 employees, were significantly more likely to engage in collaborative R&D. Smaller organisations and particularly organisations with 5–9 and 50–99 employees that engaged in R&D were significantly less likely than other organisations to do so collaboratively.

The results from LABS 2006 show a decline in collaboration by organisations undertaking R&D, to 40% from 50% in 2005. The 2006 result is, however, in line with the 2004 figure and well ahead of the 2003 figure, when only 15% of organisations engaging in R&D did this in collaboration with other organisations.

In regard to sectors, Publishing had the highest level of collaboration on R&D activity (69%). Education, Health and Social Work (55%) and Other Community Services (49%) were the only other sectors that were significantly more likely than average to collaborate on R&D. Businesses in Wholesale and Retail (22%) and Construction (28%) undertaking R&D were significantly less likely to do so collaboratively.

Table 10.3a: Businesses undertaking external collaboration for R&D by size of organisation (employment)

	All businesses		1 – 4		5 – 9		10 – 49		50 – 99		100 – 249		250 +		Don't know	
	%		%		%		%		%		%		%		%	
Yes	39.8		37.4		31.7		49.0		26.2		60.4		56.6		35.0	
No	59.0		62.3		68.2		50.5		72.1		37.6		33.4		41.8	
Don't know	1.2		0.3		0.1		0.5		1.7		2.0		10.0		23.4	
Unweighted sample	1,843		339		312		535		137		131		360		29	

Table 10.3b: Businesses undertaking external collaboration for R&D by sector

	All businesses		Publishing		Manufacturing excluding Publishing		Construction		Wholesale & Retail		Hotels & Restaurants		Transport & Communications		Banking & Finance		Business & Professional Services		Education, Health & Social Work		Other Community Services	
	%		%		%		%		%		%		%		%		%		%		%	
Yes	39.8		68.5		48.1		27.6		21.6		35.8		33.7		41.4		41.2		54.8		48.7	
No	59.0		31.2		51.5		72.3		75.8		56.1		65.6		57.6		58.3		42.9		51.2	
Don't know	1.2		0.2		0.4		0.1		2.6		8.1		0.7		1.0		0.5		2.3		0.0	
Unweighted sample	1,843		66		132		107		256		171		111		120		551		169		156	

Source: LABS 2006

 Significantly above all businesses figure at 95% confidence level

 Significantly below all businesses figure at 95% confidence level

In terms of country of ownership, UK-owned companies that engaged in R&D were least likely to do so collaboratively (38%). Foreign-owned businesses (61%) and UK/foreign-owned businesses (81%) were significantly more likely to undertake R&D on a collaborative basis than other businesses.

Table 10.3c: Businesses undertaking external collaboration for R&D by country of ownership

	All businesses	UK-owned	Foreign-owned	Joint UK-foreign	Don't know/ refused
	%	%	%	%	%
Yes	39.8	38.0	61.0	80.5	89.3
No	59.0	60.9	36.5	15.5	0.7
Don't know	1.2	1.0	2.5	4.2	10.0
Unweighted sample	1,843	1,636	159	34	14

Source: LABS 2006

Significantly above all businesses figure at 95% confidence level

Significantly below all businesses figure at 95% confidence level

There were no significant differences in the extent of R&D collaboration by gender of ownership.

Table 10.3d: Businesses undertaking external collaboration for R&D by gender of ownership

	All businesses	Majority female	50:50 male/female	Majority male	Don't know
	%	%	%	%	%
Yes	39.8	37.2	41.0	37.8	55.6
No	59.0	61.5	58.8	61.8	36.6
Don't know	1.2	1.3	0.2	0.5	7.8
Unweighted sample	1,843	196	268	1,026	353

Source: LABS 2006

Significantly above all businesses figure at 95% confidence level

Significantly below all businesses figure at 95% confidence level

Majority Asian-owned businesses undertaking R&D were significantly less likely (28%) to have collaborated with external organisations than average.

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Table 10.3e: Businesses undertaking external collaboration for R&D by ethnicity of ownership

	All businesses	White	Black	Asian	Mixed	Other/ Chinese	Don't know/ refused
	%	%	%	%	%	%	%
Yes	39.8	40.7	48.3	28.2	40.9	24.0	43.1
No	59.0	58.8	48.0	71.4	58.3	75.2	50.2
Don't know	1.2	0.5	3.8	0.3	1.0	0.9	6.7
Unweighted sample	1,843	1,281	73	144	25	28	292

Source: LABS 2006

Significantly above all businesses figure at 95% confidence level

Significantly below all businesses figure at 95% confidence level

Advice on research and development

Three out of five (62%) businesses reported seeking advice on technical, innovation and R&D activity. The most popular source of advice was suppliers (7.1%). The next most popular source was consultants (7.5%), with other companies in the group ranked third (7%). Customers were the next most used source (6%), followed by internal/head office (5%). Universities/higher education institutions were only consulted by 1.5% of businesses.

Table 10.4: Sources of advice on technical, innovation and research and development activity

	% businesses seeking advice
Multiple response	
Suppliers	7.9
Consultants	7.5
Other companies in the group	6.6
Clients/customers	6.0
Internally/Head Office	5.4
Internet	5.2
Trade associations	5.0
Technical/trade press	4.5
Competitors	3.6
Family/friends	2.9
Business Link for London (BL4L)	2.9
Professional conferences, fairs and exhibitions	2.0
Universities/higher education	1.5
Industry operated or commercial laboratories/R&D enterprises	1.4
Technical standards and regulations	1.3
Government research labs	1.1
Local/Central Government	1.0
Private research institutes	0.8
Banks/accountants/financial companies	0.7
Professional bodies	0.7
Environmental standards and regulations	0.7
Joint ventures	0.6
Chamber of Commerce	0.2
Other	1.9
Don't normally seek such advice	37.9
Don't know	8.2

Source: LABS 2006

Table 10.5a: Innovation in London's businesses by size of organisation (employment)

	All businesses		1 – 4		5 – 9		10 – 49		50 – 99		100 – 249		250 +		Don't know	
	%		%		%		%		%		%		%		%	
Any innovation	46.2		40.8		49.4		55.7		61.2		51.2		66.1		64.0	
New products or services	24.5		19.3		28.3		32.4		28.8		34.5		48.1		40.5	
Existing products or services	23.3		19.8		24.6		31.2		35.7		25.2		37.0		22.4	
Major new equipment	17.2		14.4		20.3		21.9		17.6		20.7		26.4		34.9	
Major changes in working practices	20.8		17.4		21.8		27.9		29.5		27.1		35.5		19.6	
None of the above	53.8		59.2		50.6		44.3		38.8		48.8		33.9		36.0	
Unweighted sample	5,600		1,325		1,016		1,486		310		258		1,026		179	

Table 10.5b: Innovation in London's businesses by sector

	All businesses		Publishing		Manufacturing excluding Publishing		Construction		Wholesale & Retail		Hotels & Restaurants		Transport & Communications		Banking & Finance		Business & Professional Services		Education, Health & Social Work		Other Community Services	
	%		%		%		%		%		%		%		%		%		%		%	
Any innovation	46.2		34.6		48.7		31.3		51.1		51.3		47.1		46.3		45.1		56.8		43.9	
New products or services	24.5		23.6		31.2		11.8		34.6		31.0		27.6		28.1		18.1		28.9		28.7	
Existing products or services	23.3		16.9		31.4		14.5		21.2		25.6		25.6		23.6		24.7		30.1		20.0	
Major new equipment	17.2		9.2		19.8		14.0		17.5		20.9		20.7		15.5		19.0		24.9		6.0	
Major changes in working practices	20.8		11.2		22.8		18.3		25.6		19.4		20.4		28.4		19.6		27.8		15.0	
None of the above	53.8		65.4		51.3		68.7		48.9		48.7		52.9		53.7		54.9		43.2		56.1	
Unweighted sample	5,600		161		351		479		1,115		622		434		327		1,280		415		391	

Source: LABS 2006

 Significantly above all businesses figure at 95% confidence level

 Significantly below all businesses figure at 95% confidence level

10.3 Innovation

Just under half (46%) of London's firms introduced some form of innovation last year. 17% of firms made product/service innovations only and 11% made process innovations only, but 19% made both product/service innovations and process innovations. In total 25% of businesses had introduced new products or services, while 23% of businesses had modified existing products or services. In terms of process innovations, about a fifth of businesses had made major changes to equipment (17%) and 21% had made major changes to working practices.

There was a positive relationship between firm size and innovation, with larger firms more likely to undertake innovation of all types. The largest difference was in new products or services, with 48% of companies with 250+ employees having innovated in this way compared to only 19% of companies with 1 – 4 employees.



Businesses in Education, Health and Social Work (57%), Hotels and Restaurants (51%) and Wholesale and Retail (51%) were significantly more likely to have undertaken some form of innovation, although this was mainly the introduction of new products or services. Businesses in construction (31%) were significantly less likely to have undertaken any innovation.

Joint UK/foreign-owned (86%) and foreign-owned businesses (66%) were significantly more likely to have introduced some form of innovation than other businesses. Significantly more foreign-owned businesses introduced new products or services (42%) and introduced innovation for existing products or services (50%) than average, while joint UK/foreign-owned businesses were significantly more likely to have introduced new products or services (42%) and to have introduced major changes in working practices (64%) than other businesses.

Table 10.5c: Innovation in London's businesses by country of ownership

	All businesses	UK-owned	Foreign-owned	Joint UK-foreign	Don't know/ refused
	%	%	%	%	%
Any innovation	46.2	44.6	66.2	86.3	73.5
New products or services	24.5	23.5	41.5	42.3	20.4
Existing products or services	23.3	21.9	49.6	28.1	19.0
Major new equipment	17.2	16.7	19.1	20.9	62.7
Major changes in working practices	20.8	20.5	18.9	63.8	16.5
None of the above	53.8	55.4	33.8	13.7	26.5
Unweighted sample	5,600	5,020	456	81	43

Source: LABS 2006

 Significantly above all businesses figure at 95% confidence level
 Significantly below all businesses figure at 95% confidence level

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Majority female-owned businesses were significantly less innovative than other businesses with only two out of five (39%) of these types of businesses having introduced any form of innovation. Joint male/female-owned businesses were however significantly more likely to have introduced major changes in working practices (26%) than other businesses.

Table 10.5d: Innovation in London's businesses by gender of owners

	All businesses	Majority female	50:50 male/female	Majority male	Don't know
	%	%	%	%	%
Any innovation	46.2	39.4	49.1	45.8	56.2
New products or services	24.5	21.2	25.2	23.2	38.5
Existing products or services	23.3	17.5	19.6	24.9	29.9
Major new equipment	17.2	12.4	17.3	17.6	23.6
Major changes in working practices	20.8	13.3	25.9	20.5	27.0
None of the above	53.8	60.6	50.9	54.2	43.8
Unweighted sample	5,600	593	867	3,118	1,022

Source: LABS 2006

■ Significantly above all businesses figure at 95% confidence level

■ Significantly below all businesses figure at 95% confidence level

Majority other/Chinese-owned businesses were significantly more likely to have introduced some form of innovation (64%) than other businesses. Majority black (16%) and majority Asian-owned (20%) businesses were significantly less likely to have introduced new products or services, but majority black-owned businesses (31%) were significantly more likely to have introduced major new equipment, while majority Asian-owned businesses were significantly more likely (31%) to have introduced innovations to existing products or services.

Table 10.5e: Innovation in London's businesses by ethnicity of owners

	All businesses	White	Black	Asian	Mixed	Other/ Chinese	Don't know/ refused
	%	%	%	%	%	%	%
Any innovation	46.2	45.4	48.2	45.5	18.7	64.2	50.8
New products or services	24.5	24.3	16.2	20.0	12.4	42.1	32.4
Existing products or services	23.3	21.7	27.9	30.9	11.4	18.8	26.5
Major new equipment	17.2	16.1	31.1	18.5	7.1	19.4	18.5
Major changes in working practices	20.8	20.2	24.5	21.1	11.4	22.9	23.9
None of the above	53.8	54.6	51.8	54.5	81.3	35.8	49.2
Unweighted sample	5,600	3,706	236	629	49	115	865

Source: LABS 2006

 Significantly above all businesses figure at 95% confidence level

 Significantly below all businesses figure at 95% confidence level

10.4 Information Technology

Businesses were asked whether their employees used computers on a daily basis for their job. Around 80% of all businesses had some staff that used a computer daily. Amongst those companies where computers were used, broadband uptake was 88% in 2006. This compares to 80% in the 2005 survey, just over 60% in the 2004 survey and 40% in the 2003 survey. The use of online purchasing continues to increase as well, with 62% of organisations using this, up from 55% and 30% in the 2005 and 2004 surveys respectively. In contrast, online sales growth has not increased much, rising to only 28% in 2006 from 27% in 2005. Only 5% of businesses have no online access, down from 7% in 2005.

There is a positive relationship between the size of organisation and the use of broadband. Not surprisingly, given the likelihood of there being more centralised purchasing, that the larger the company the somewhat less likely it is that online purchasing is used. There is a variable relationship between online sales and organisation size. The largest companies (250+ employees) are the most likely to engage in online sales (35%). However, businesses with 5–9 employees have the second highest percentage of online sales (34%). Businesses with 100–249 employees have the lowest percentage of online sales (24%).


Table 10.6a: Use of ICT by London's businesses by size or organisation (employment)

	All businesses		1 – 4		5 – 9		10 – 49		50 – 99		100 – 249		250 +		Don't know	
	%		%		%		%		%		%		%		%	
Dialup	14.9		14.4		14.9		13.9		17.2		7.8		21.7		12.5	
Broadband	87.7		89.1		90.5		90.8		86.0		94.4		69.7		64.2	
Online purchases	62.4		64.3		56.0		69.9		63.9		61.0		49.6		36.0	
Online sales	28.0		26.0		34.0		31.1		28.0		24.4		34.9		18.5	
None	4.9		3.9		4.7		2.5		1.1		2.3		16.6		22.1	
Unweighted sample	4,461		923		798		1,244		271		223		862		140	

Table 10.6b: Use of ICT by London's businesses by sector

	All businesses		Publishing		Manufacturing excluding Publishing		Construction		Wholesale & Retail		Hotels & Restaurants		Transport & Communications		Banking & Finance		Business & Professional Services		Education, Health & Social Work		Other Community Services	
	%		%		%		%		%		%		%		%		%		%		%	
Dialup	14.9		23.6		15.6		16.5		13.7		17.5		16.8		12.0		13.7		15.3		17.8	
Broadband	87.7		90.3		83.5		90.8		74.8		77.8		89.2		92.5		94.5		80.1		81.6	
Online purchases	62.4		75.2		59.3		58.1		48.8		44.5		59.6		57.6		70.7		53.0		63.0	
Online sales	28.0		43.1		22.5		27.0		33.2		23.6		41.6		28.5		26.4		24.6		22.9	
None	4.9		0.4		10.1		2.6		11.7		12.8		4.0		3.8		1.9		11.5		1.6	
Unweighted sample	4,461		148		274		403		807		394		367		276		1,140		347		288	

Source: LABS 2006

 Significantly above all businesses figure at 95% confidence level

 Significantly below all businesses figure at 95% confidence level

Businesses that used computers in the Hotels and Restaurants (13%), Wholesale and Retail (12%), Education, Health and Social Work (12%) and Manufacturing, excluding Publishing (10%) sectors were more likely than other businesses to have made no use of dialup or broadband internet access or to have participated in online purchases or sales.

Joint UK/foreign-owned companies that used computers were significantly more likely to make online purchases (84%) and sales (57%) than other companies. Foreign-owned companies (45%) were significantly less likely to make online purchases than other companies.

Table 10.6c: Use of ICT by London's businesses by country of ownership

	All businesses	UK-owned	Foreign-owned	Joint UK-foreign	Don't know/ refused
	%	%	%	%	%
Dialup	14.9	14.7	15.7	13.5	55.2
Broadband	87.7	87.9	87.0	91.6	45.0
Online purchases	62.4	63.0	44.8	83.6	71.8
Online sales	28.0	27.8	24.8	57.1	46.3
None	4.9	4.7	6.9	4.1	14.1
Unweighted sample	4,461	3,975	386	66	34

Source: LABS 2006

Significantly above all businesses figure at 95% confidence level

Significantly below all businesses figure at 95% confidence level

Majority female-owned companies that used computers were significantly less likely to use dialup internet access (10%), to make online purchases (54%) or to make online sales (19%) than other companies, but 50:50 male/female-owned companies were significantly more likely to make online purchases (70%) and online sales (35%) than other companies.

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Table 10.6d: Use of ICT by London's businesses by gender of owners

	All businesses	Majority female	50:50 male/female	Majority male	Don't know
	%	%	%	%	%
Dialup	14.9	9.7	15.1	14.9	22.9
Broadband	87.7	90.1	89.5	89.7	66.9
Online purchases	62.4	54.4	69.7	63.9	52.2
Online sales	28.0	18.8	34.6	28.9	25.5
None	4.9	4.0	2.7	4.5	12.6
Unweighted sample	4,461	442	688	2,476	855

Source: LABS 2006

Significantly above all businesses figure at 95% confidence level

Significantly below all businesses figure at 95% confidence level

Majority white-owned businesses that used computers (66%) were significantly more likely to make online purchases than other businesses, while majority Asian-owned businesses were significantly more likely to make online sales (38%).

Table 10.6e: Use of ICT by London's businesses by ethnicity of owners

	All businesses	White	Black	Asian	Mixed	Other/ Chinese	Don't know/ refused
	%	%	%	%	%	%	%
Dialup	14.9	14.3	17.2	13.1	3.0	7.3	23.5
Broadband	87.7	89.4	86.3	88.8	84.0	96.1	72.3
Online purchases	62.4	65.8	49.1	57.4	16.7	46.9	56.0
Online sales	28.0	27.6	30.7	37.9	13.4	9.3	24.1
None	4.9	4.7	4.4	2.7	13.9	1.3	8.8
Unweighted sample	4,461	3,005	182	437	41	79	717

Source: LABS 2006

Significantly above all businesses figure at 95% confidence level

Significantly below all businesses figure at 95% confidence level

10.5 The effects of R&D on business performance


Controlling for all other factors shows that those firms that had introduced major products/services were significantly more likely to have seen growth in employment, turnover, productivity and profit. Those that introduced major equipment were more likely to have seen growth in all four performance measures except profits. Businesses that undertook R&D were more likely to have seen growth in employment and productivity. Businesses that introduced modified versions of existing products or services were more likely to have seen a rise in productivity but were also more likely to have seen a fall in employment.

Table 10.7: The effects of R&D on business performance

Structural variables	Odds ratio			
	Growth in employment	Growth in turnover	Growth in productivity	Growth in profits
Research and development (last 12 months)				
R&D undertaken	1.35	1.13	1.45	1.10
Introduced major products/services	1.59	1.36	1.52	1.30
Introduced modified existing products/services	0.84	1.06	1.25	1.15
Introduced major equipment	1.61	1.28	1.45	1.15
Introduced major changes to working methods or workforce organisation	0.93	1.00	1.01	0.90
None of the above	1.06	0.94	0.87	1.07

Source: LABS 2006

 Likelihood that variable significantly affects growth at 10% significance level

 Likelihood that variable significantly detracts from growth at 10% significance level

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Summary

- Around two out of five managers had some form of formal management qualification, nearly half had undertaken a management training course, while three out of five had received on the job/ informal management training.
- In general the larger the business in terms of employment the greater the likelihood that managers possessed formal management qualifications, had undertaken a management training course or had gained management experience in another company.
- A significantly higher than average percentage of managers in Banking and Finance, Hotels and Restaurants, Education, Health and Social Work and Transport and Communications had some form of management qualification or had undertaken a management training course, or had gained experience in another company. The opposite was true for Construction and Manufacturing, excluding Publishing, and also in these two particular sectors fewer managers than average had gained management experience in another company.
- Around a fifth of businesses did not have any of the four planning tools asked about.
- The most common source of advice, for issues over and above that normally required to run a business, was accountants with nearly one in six of all firms using them for advice. This was also the case in 2004 and 2005. Other common sources were the bank manager, solicitors and friends and relatives.
- Businesses were most satisfied with the advice that they received from the Chamber of Commerce (mean score 4.5 on a scale of 1 = not at all to 5 = very satisfied), followed by another business owner, trade association and a regulatory body (all with mean score of 4.3). Businesses were least satisfied with the advice they received from Inland Revenue/HMRC (mean score 3.6) and the Bank managers (mean score 3.8).
- For London businesses, managing finance (38%), business planning (31%) and coping with government regulations (28%) were the three main types of advice received.
- Around one third of businesses in London that received advice reported that it had contributed to improved performance in terms of productivity and profitability, while two out of five reported improved sales performance. These results for the impact on performance were weaker than in 2005, which were in turn weaker than in 2004.

- Over one fifth of businesses had collaborated with external organisations in the 12 months prior to LABS 2006. Suppliers were the most likely collaboration partners, and in general businesses tended to work with other firms rather than academia or other specialist research organisations.
- The most common areas of collaboration were developing new products, services or business processes, developing joint ventures or initiatives, extending a network of contacts and sharing good business practice.

Effect on business performance

- Taking into account all other factors the multivariate analysis shows that businesses with management accounts enjoyed significantly faster growth in turnover and in productivity. Businesses where managers have taken management training courses experienced faster growth in turnover, while businesses where managers have received on-the-job/informal management training or where there are non-executive directors enjoyed significantly above average growth in profits.
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11.5 The effects of management systems and business support on business performance

11.1 Introduction

This chapter looks at the management and business planning tools used by businesses in London and their effects on business performance. This chapter also considers the nature of business support used. This includes looking at the sources of assistance used, the main reasons for seeking assistance and the effect it has had on business performance.

11.2 Management

The structure and experience of management

Around two out of five (39%) managers had some form of formal management qualification, nearly half had undertaken a management training course (47%), while around three out of five (62%) had received on the job/informal management training.

In general the larger the business in terms of employment the greater the likelihood that managers possessed formal management qualifications, had undertaken a management training course or had gained management experience in another company.

Table 11.1a: Management team qualifications – by organisation size (employment)

	All businesses		1-4	5-9	10-49	50-99	100-249	250+	Don't know
	%		%	%	%	%	%	%	%
Some form of management qualification	38.7		32.8	41.1	42.5	55.4	48.4	71.1	67.2
Undertaken a management training course	47.4		37.0	53.0	66.6	75.8	81.7	81.5	76.8
Received on-the-job/informal management training	61.5		60.7	57.1	65.4	75.1	74.3	58.5	64.0
Has gained management experience in another company	29.2		26.0	28.1	29.8	42.7	46.7	44.6	48.0
Unweighted sample	5,600		1,325	1,016	1,486	310	258	1,026	179

Table 11.1b: Management team qualifications – by sector

	All businesses		Publishing		Manufacturing excluding Publishing		Construction	Wholesale & Retail	Hotels & Restaurants	Transport & Communications	Banking & Finance	Business & Professional Services	Education, Health & Social Work	Other Community Services
	%		%		%		%	%	%	%	%	%	%	%
Some form of management qualification	38.7	38.1	25.7	23.4	40.0	50.0	48.0	52.0	38.8	48.3	31.8			
Undertaken a management training course	47.4	47.8	36.7	35.4	43.9	55.8	54.7	71.5	51.1	51.9	32.1			
Received on-the-job/informal management training	61.5	66.6	42.1	52.6	56.4	63.6	66.1	74.2	66.7	55.2	55.9			
Has gained management experience in another company	29.2	22.3	20.7	14.5	30.7	39.7	36.5	43.9	28.2	38.6	25.8			
Unweighted sample	5,600	161	351	479	1,115	622	434	327	1,280	415	391			

Source: LABS 2006

 Significantly above all businesses figure at 95% confidence level

 Significantly below all businesses figure at 95% confidence level

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A significantly higher than average percentage of managers in Banking and Finance, Hotels and Restaurants, Education, Health and Social Work and Transport and Communication had some form of management qualification or had undertaken a management training course, or had gained experience in another company. The opposite was true for Construction and Manufacturing, excluding Publishing, and also in these two particular sectors fewer than average managers had gained management experience in another company.

Managers in foreign-owned and joint UK-foreign-owned businesses were more likely to have some form of management qualification, to have undertaken a management training course or to have gained management experience in another company.

Table 11.1c: Management team qualifications – by country of ownership

	All businesses	UK-owned	Foreign-owned	Joint UK-foreign	Don't know/refused
	%	%	%	%	%
Some form of management qualification	38.7	37.4	50.8	76.8	92.7
Undertaken a management training course	47.4	46.0	67.1	72.1	70.3
Received on-the-job/informal management training	61.5	61.1	65.9	64.6	73.5
Has gained management experience in another company	29.2	27.9	39.1	62.7	86.5
Unweighted sample	5600	5020	456	81	43

Source: LABS 2006

■ Significantly above all businesses figure at 95% confidence level

■ Significantly below all businesses figure at 95% confidence level

There were few differences in management qualifications and experience by gender of ownership, although managers in majority female-owned businesses were significantly less likely to have undertaken a management training course.

Table 11.1d: Management team qualifications – by gender of ownership

	All businesses	Majority female	50:50 male / female	Majority male	Don't know
	%	%	%	%	%
Some form of management qualification	38.7	40.3	35.4	34.9	70.8
Undertaken a management training course	47.4	37.6	45.0	46.1	81.2
Received on-the-job/informal management training	61.5	62.1	61.3	60.6	67.3
Has gained management experience in another company	29.2	30.0	26.9	26.7	50.0
Unweighted sample	5,600	593	867	3,118	1,022

Source: LABS 2006

Significantly above all businesses figure at 95% confidence level

Significantly below all businesses figure at 95% confidence level

Managers in Asian-owned businesses were significantly more likely to have some form of management qualification and/or to have gained management experience in another company.

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Table 11.1e: Management team qualifications – by ethnicity of ownership

	All businesses	White	Black	Asian	Mixed	Other / Chinese	Don't know/ refused
	%	%	%	%	%	%	%
Some form of management qualification	38.7	34.9	32.7	43.8	45.9	49.7	62.6
Undertaken a management training course	47.4	44.8	43.4	46.7	47.5	45.2	72.6
Received on-the-job/ informal management training	61.5	61.0	58.1	59.3	52.2	67.6	69.1
Has gained management experience in another company	29.2	25.5	30.4	37.4	40.6	33.7	45.1
Unweighted sample	5,600	3,706	236	629	49	115	865

Source: LABS 2006

Significantly above all businesses figure at 95% confidence level

Significantly below all businesses figure at 95% confidence level

The use of management planning tools

Around a fifth (21%) of businesses did not have any of the four planning tools asked about. Three out of five businesses (60%) use management accounts and over half (53%) have a business plan, but only around two out of five businesses have marketing plans (43%) or training plans (39%). These percentages are close to those reported in LABS 2004 and LABS 2005.

Over a quarter of organisations with 1 – 4 employees have none of the mentioned planning tools, compared with 8% of the largest businesses (250+ employees). The existence of training plans is most clearly related to the size of the business, with 80% of the largest businesses (100+ employees) possessing training plans compared with only 26% of the very smallest businesses (1 – 4 employees) and just over 60% of businesses employing 10 – 99 people.

Table 11.2a: Existence of strategic planning tools – by organisation size (employment)

	All businesses		1-4		5-9		10-49		50-99		100-249		250+		Don't know	
	%		%		%		%		%		%		%		%	
Management Accounts	59.8		55.8		71.8		70.1		68.2		58.0		66.9		42.4	
Sales & Marketing Plan	43.0		35.0		60.5		50.8		63.6		71.9		62.2		49.1	
Business Plan	52.6		44.5		65.2		67.9		71.9		63.7		74.2		59.2	
Training Plan	38.6		25.5		54.3		61.7		61.1		79.8		80.1		56.5	
None	20.7		26.8		10.2		10.1		3.2		4.0		7.5		15.2	
Unweighted sample	5,600		1,325		1,016		1,486		310		258		1,026		179	

Table 11.2b: Existence of strategic planning tools – by sector

	All businesses		Publishing		Manufacturing excluding Publishing		Construction		Wholesale & Retail		Hotels & Restaurants		Transport & Communications		Banking & Finance		Business & Professional Services		Education, Health & Social Work		Other Community Services	
	%		%		%		%		%		%		%		%		%		%		%	
Management Accounts	59.8		55.9		56.0		58.7		48.8		62.8		60.1		74.6		65.2		62.2		54.2	
Sales & Marketing Plan	43.0		52.6		45.7		32.2		35.4		42.8		52.5		52.0		49.7		45.5		26.8	
Business Plan	52.6		40.3		50.7		35.6		44.2		55.6		63.4		67.8		59.0		59.4		42.1	
Training Plan	38.6		14.7		38.4		30.7		36.2		63.1		47.1		57.5		37.0		57.0		27.3	
None	20.7		24.4		28.7		28.6		30.5		16.9		12.8		11.1		13.6		19.2		31.1	
Unweighted sample	5,600		161		351		479		1,115		622		434		327		1,280		415		391	

Source: LABS 2006

 Significantly above all businesses figure at 95% confidence level

 Significantly below all businesses figure at 95% confidence level

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The use of strategic planning tools was significantly below average in the Other Community Services, Wholesale and Retail, Manufacturing, excluding Publishing and Construction sectors.

Foreign-owned and joint UK-foreign-owned businesses were significantly more likely to use strategic planning tools.

Table 11.2c: Existence of strategic planning tools – by country of ownership

	All businesses	UK-owned	Foreign-owned	Joint UK-foreign	Don't know/ refused
	%	%	%	%	%
Management Accounts	59.8	59.3	72.5	76.6	21.2
Sales & Marketing Plan	43.0	42.1	56.1	47.6	68.4
Business Plan	52.6	51.4	66.9	80.1	70.8
Training Plan	38.6	37.5	58.0	61.1	22.5
None	20.7	21.3	12.4	0.5	19.7
Unweighted sample	5,600	5,020	456	81	43

Source: LABS 2006

Significantly above all businesses figure at 95% confidence level

Significantly below all businesses figure at 95% confidence level

Majority female-owned businesses were significantly less likely to use strategic planning tools than average with over one quarter (27%) reporting that no use was made of any of the tools mentioned, compared with an average of 21% for all businesses.

Table 11.2d: Existence of strategic planning tools – by gender of ownership

	All businesses	Majority female	50:50 male / female	Majority male	Don't know
	%	%	%	%	%
Management Accounts	59.8	54.9	62.9	60.5	58.9
Sales & Marketing Plan	43.0	35.0	44.3	42.6	58.6
Business Plan	52.6	49.8	53.6	49.6	76.6
Training Plan	38.6	30.6	41.0	35.1	74.2
None	20.7	26.6	19.9	21.1	7.3
Unweighted sample	5,600	593	867	3,118	1,022

Source: LABS 2006

Significantly above all businesses figure at 95% confidence level

Significantly below all businesses figure at 95% confidence level

In terms of ethnicity of ownership, white-owned (23%) businesses were significantly less likely to use at least one of the four strategic planning tools, while black-owned businesses were significantly more likely to use them. Black-owned businesses were significantly more likely to have a sales and marketing plan, a business plan or a training plan.

Table 11.2e: Existence of strategic planning tools – by ethnicity of ownership

	All businesses	White	Black	Asian	Mixed	Other/ Chinese	Don't know/ refused
	%	%	%	%	%	%	%
Management Accounts	59.8	61.2	56.4	52.5	48.0	47.5	65.2
Sales & Marketing Plan	43.0	39.4	58.5	48.2	41.8	52.5	55.5
Business Plan	52.6	49.1	68.2	54.5	55.9	67.0	66.8
Training Plan	38.6	34.3	55.1	46.5	28.3	30.8	59.2
None	20.7	22.6	11.6	19.6	42.6	16.6	8.4
Unweighted sample	5600	3706	236	629	49	115	865

Source: LABS 2006

Significantly above all businesses figure at 95% confidence level

Significantly below all businesses figure at 95% confidence level

11.3 Business support

Sources of business advice

Businesses in London used a wide range of sources for advice over and above the normal requirements of running a business (e.g. preparing annual accounts, routine banking, etc) during the last 12 months. The most common source of advice was accountants with over 17% of firms using them for advice. The next most common sources of this type of advice were bank managers (6%), solicitors (4%) and friends and relatives (4%).

The responses on sources of advice for 2006 were similar to those obtained from LABS 2005. But though solicitors remain the third most popular source of advice, the percentage of businesses using this source has fallen to 4% from 6% in 2005. The percentage of businesses using Business Link fell to 3% from 5% in 2005.

There were some noticeable differences between larger and smaller companies. Organisations employing more than 100 people were significantly less likely to use an accountant, and those employing over 250 people were significantly less likely to use a bank manager. Organisations employing 5–49 people were significantly more likely to use a solicitor, while the very smallest organisations with less than five employees were significantly less likely to use a solicitor. The largest organisations (250+ employees) were significantly more likely to use other government departments, the Inland Revenue/HMRC, management consultants and employers federations (e.g. CBI) than other businesses.

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Table 11.3: Sources of business advice in past 12 months by organisation size (employment)

	All businesses	1 – 4	5 – 9	10 – 49	50 – 99	100 – 249	250+	Don't know
	%	%	%	%	%	%	%	%
Accountant	16.9	18.6	17.9	15.3	18.8	8.5	7.0	0.0
Bank manager	5.8	6.5	7.1	5.6	2.8	3.5	1.6	0.0
Solicitor	4.2	2.7	7.0	10.8	5.7	5.9	4.8	1.0
Friends /relatives	3.9	4.8	4.6	1.3	1.6	1.1	0.4	1.4
Business link	3.3	3.7	3.3	3.7	1.8	0.7	0.5	0.4
Trade association	3.0	2.8	6.6	2.2	1.1	2.8	2.7	0.0
Another business owner	2.4	2.8	2.4	1.8	1.0	1.4	0.3	0.6
Customer/supplier	1.8	2.1	1.0	1.4	0.7	0.8	2.5	0.3
Other government department	1.3	1.2	2.2	0.8	1.1	1.6	2.4	0.0
Inland Revenue/HMRC	0.9	0.7	1.1	1.2	0.4	0.3	2.1	0.0
Management consultants	0.7	0.2	1.5	1.6	1.4	2.6	3.2	0.3
Enterprise agency	0.5	0.4	0.6	0.8	0.3	0.3	1.9	0.0
A regulatory body (e.g. HSE/ Environment Agency)	0.5	0.2	1.1	0.8	0.6	2.6	0.8	0.0
Employers' Federation (e.g. CBI)	0.5	0.5	0.1	0.2	0.2	0.0	1.8	0.0
Chamber of Commerce	0.3	0.4	0.3	0.3	0.1	0.0	0.2	0.3
Other	8.3	8.1	8.2	10.2	6.3	5.8	10.0	5.4
Don't know	5.9	3.7	4.7	10.0	6.1	7.8	18.6	21.5
Unweighted sample	5,600	1,325	1,016	1,486	310	258	1,026	179

Source: LABS 2006

Significantly above all businesses figure at 95% confidence level

Significantly below all businesses figure at 95% confidence level

Table 11.4 details the level of satisfaction that businesses had with the advice they received. Businesses were most satisfied with the advice that they received from the Chamber of Commerce (mean score 4.5 on a scale of 1=not at all to 5=very satisfied), followed by another business owner, trade association and a regulatory body (all with mean score of 4.3). Businesses were least satisfied with the advice they received from Inland Revenue/HMRC (mean score 3.6) and the Bank managers (mean score 3.8).

Table 11.4: Satisfaction with advice

	Very dissatisfied		Fairly dissatisfied		Neither satisfied nor dissatisfied		Fairly satisfied		Very satisfied		Don't know		Mean score		Weighted population	
	%	n	%	n	%	n	%	n	%	n	%	n	%	n	%	n
Multiple choice																
Another business owner	1.6		0.7		11.7		33.5		52.2		0.3		4.3		8142	
Friends / relatives	3.2		1.6		21.1		27.7		46.0		0.5		4.1		13582	
Solicitor	11.7		14.5		13.4		58.7		0.0		1.6		4.0		8380	
Customer/supplier	2.3		3.6		12.3		46.3		35.3		0.1		4.1		6407	
Accountant	3.7		3.6		8.0		33.5		49.3		2.0		4.2		58433	
Bank Manager	3.3		8.9		16.0		46.2		25.7		0.0		3.8		18957	
Inland Revenue/HMRC	5.0		14.6		2.9		64.7		10.7		2.0		3.6		2984	
Other Government Department	9.7		6.0		4.0		25.6		54.7		0.0		4.1		4503	
Business Link	13.3		1.9		8.3		31.3		44.3		0.9		3.9		11189	
Enterprise Agency	15.0		4.8		40.6		17.6		22.0		0.0		3.9		1825	
Chamber of Commerce	0.0		4.3		8.8		20.6		66.3		0.0		4.5		1112	
Trade Association	1.9		1.0		17.0		21.0		59.1		0.0		4.3		10511	
A regulatory body (e.g. HSE/Environment Agency)	12.9		2.7		21.4		35.7		27.3		0.0		4.3		1683	
Management consultants	10.4		4.1		2.8		48.7		34.0		0.0		3.9		2498	
Other	9.7		1.6		13.5		21.6		48.9		4.8		4.0		28645	

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Reasons for seeking advice

For London businesses, managing finance (38%), business planning (31%) and coping with government regulations (28%) were the three main types of advice received. Interestingly very few businesses received external advice on product design/development or technical advice. These results were very similar to those reported in LABS 2005.

Table 11.5: Types of business advice used most frequently

	All businesses	1 – 4	5 – 9	10 – 49	50 – 99	100 – 249	250+	Don't know
	%							
Managing finance	38.0	40.5	45.1	31.6	17.2	27.2	13.7	6.5
Business planning	30.6	31.3	34.0	27.2	15.9	21.3	33.3	11.7
Coping with government regulations	28.1	27.5	30.5	28.2	48.1	27.5	20.6	10.6
Sales and marketing	19.1	19.4	21.5	15.1	8.3	9.6	30.9	13.7
Obtaining finance	15.8	16.6	19.4	12.1	8.6	8.9	8.8	0.0
IT/computing	14.8	14.5	13.7	14.1	16.1	11.7	25.6	16.2
Advice about workforce training	11.3	9.3	12.6	16.4	13.0	17.8	20.5	50.0
Management training	10.5	9.0	7.7	16.6	7.8	29.8	18.4	49.3
Premises	9.6	8.6	11.2	12.6	8.6	12.6	14.1	5.4
Exporting	3.0	2.9	1.7	5.4	0.5	2.0	4.2	0.0
Legal advice	2.8	1.7	7.3	3.1	7.8	9.1	3.8	0.0
Don't know	4.9	5.8	3.2	1.7	2.0	7.0	3.8	11.2
General business advice	2.7	2.1	5.5	3.7	0.9	3.5	2.5	4.0
Human Resource / Personnel	2.6	2.0	0.4	9.8	0.5	2.2	0.5	0.0
Technical advice	1.8	2.3	0.1	0.3	1.9	2.0	1.0	0.0
Tax	1.3	0.9	0.7	2.1	0.5	0.6	9.4	0.0
Improving service / customer satisfaction	0.4	0.2	1.1	0.9	0.0	0.0	0.5	0.0
Product design / development	0.4	0.0	2.7	0.3	0.0	1.4	0.4	0.0
Health and Safety	0.1	0.0	0.4	0.4	0.4	0.6	0.7	0.0
Feedback on services	0.0	0.0	0.0	0.2	0.1	0.0	0.1	0.0
Other	1.7	1.4	1.2	4.2	0.5	2.8	1.6	0.0
Unweighted sample	1,859	445	384	587	127	95	200	21

Source: LABS 2006

Significantly above all businesses figure at 95% confidence level

Significantly below all businesses figure at 95% confidence level

Firms with over 250 employees were significantly more likely to receive advice on IT/computing, sales and marketing, workforce training, management training, premises and tax than other firms. Businesses with 5 – 9 employees were significantly more likely than average to receive advice on managing finance and legal matters. Businesses with 50 – 99 employees were significantly more likely to receive advice on coping with government regulations.

Perceived effectiveness of business advice

Businesses that had received advice were asked for their perceptions of its effectiveness. Around two out of five businesses (22%) in London reported that the external advice that they had received had contributed to improved sales, while almost one third said that profitability (32%) and productivity (31%) had increased. These results suggest a weaker impact from advice than reported in LABS 2005, particularly in relation to sales. In turn the results in 2005 were weaker than in 2004 suggesting decreasing effectiveness of advice through time, at least as perceived by the recipient businesses.

Advice had a significantly above average impact on sales for businesses with 10–49, 100–249 and over 250 employees, while for productivity there was a significantly higher impact on firms employing 5–9 and more than 250 employees.

Table 11.6: Whether assistance contributed to increased business performance

	All businesses	1 – 4	5 – 9	10 – 49	50 – 99	100 – 249	250+	Don't know
	%	%	%	%	%	%	%	%
Increased sales	21.6	19.2	24.3	29.8	18.1	30.9	35.5	10.8
Increased profitability	32.2	31.2	37.1	35.7	17.2	39.6	35.7	10.5
Increased productivity	31.0	28.3	41.3	33.1	19.4	36.1	48.4	28.2
Unweighted sample	1,859	445	384	587	127	95	200	21

Source: LABS 2006

 Significantly above all businesses figure at 95% confidence level

 Significantly below all businesses figure at 95% confidence level

11.4 Collaboration

Businesses were asked if they had collaborated at all with other organisations over the last 12 months. Over a quarter of businesses (28%) reported that they had collaborated with external organisations, which was similar to the results reported in 2005.

Businesses with 10 – 49 employees were significantly more likely to have collaborated with external organisations than average, and as in LABS 2005, there was a tendency towards increasing collaboration with increasing organisation size.

Table 11.7a: Collaboration in the past 12 months – by size of organisation size (employees)

All businesses		1 – 4	5 – 9	10 – 49	50 – 99	100 – 249	250+	Don't know
	%	%	%	%	%	%	%	%
Yes	27.8	23.4	29.7	40.8	31.8	37.5	41.9	32.6
No	70.5	76.5	69.7	57.5	66.6	57.1	45.9	45.0
Don't know	1.7	0.2	0.6	1.6	1.6	5.3	12.2	22.4
Unweighted sample	5,600	1,325	1,016	1,486	310	258	1,026	179

Table 11.7b: Collaboration in the past 12 months – by sector

All businesses		Publishing	Manufacturing excluding publishing	Construction	Wholesale & Retail	Hotels & Restaurants	Transport & Communications	Banking & Finance	Business & Professional Services	Education, Health & Social Work	Other Community Services
	%										
Yes	27.8	25.9	16.6	10.3	20.0	17.5	27.6	35.0	35.5	35.6	27.7
No	70.5	74.0	80.1	89.5	77.0	77.0	69.9	63.0	63.7	62.5	71.8
Don't know	1.7	0.2	3.3	0.2	3.1	5.6	2.6	2.0	0.8	1.9	0.5
Unweighted sample	5,600	161	351	479	1,115	622	434	327	1,280	415	391

Source: LABS 2006

 Significantly above all businesses figure at 95% confidence level

 Significantly below all businesses figure at 95% confidence level

Businesses in the Education, Health and Social work, Business and Professional Services and Banking and Finance sectors were significantly more likely to have collaborated with other organisations, while those in the Construction, Manufacturing, excluding Publishing, Hotels and Restaurants and Wholesale and Retail sectors were significantly less likely to have collaborated with other organisations.

Foreign-owned businesses were significantly more likely to have collaborated with other organisations than average.

Table 11.7c: Collaboration in the past 12 months – by country of ownership

	All businesses	UK-owned	Foreign-owned	Joint UK-foreign	Don't know/ refused
	%	%	%	%	%
Yes	27.8	26.9	38.4	29.2	78.4
No	70.5	71.8	54.8	61.8	9.7
Don't know	1.7	1.3	6.8	8.9	12.0
Unweighted sample	5,600	5,020	456	81	43

Source: LABS 2006

Significantly above all businesses figure at 95% confidence level

Significantly below all businesses figure at 95% confidence level

Majority female-owned businesses were significantly less likely to have entered into collaboration with other organisations than average.

Table 11.7d: Collaboration in the past 12 months – by gender of ownership

	All businesses	Majority female	50:50 male / female	Majority male	Don't know
	%	%	%	%	%
Yes	27.8	22.1	25.4	27.8	43.3
No	70.5	77.7	74.1	71.3	43.8
Don't know	1.7	0.2	0.4	0.9	12.9
Unweighted sample	5,600	593	867	3,118	1,022

Source: LABS 2006

Significantly above all businesses figure at 95% confidence level

Significantly below all businesses figure at 95% confidence level

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Asian-owned businesses were significantly less likely to have collaborated with other organisations than average.

Table 11.7e: Collaboration in the past 12 months – by ethnicity of ownership

	All businesses	White	Black	Asian	Mixed	Other / Chinese	Don't know/ refused
	%						
Yes	27.8	29.4	28.2	14.1	15.5	25.5	35.1
No	70.5	69.7	71.7	85.0	84.3	71.9	54.7
Don't know	1.7	0.9	0.1	0.9	0.2	2.6	10.2
Unweighted sample	5,600	3,706	236	629	49	115	865

Source: LABS 2006

Significantly above all businesses figure at 95% confidence level

Significantly below all businesses figure at 95% confidence level

Businesses were also asked about the areas in which they collaborated with other organisations. The most common areas of collaboration were developing new products, services or business processes (41%), developing joint ventures or initiatives (17%), extending a network of contacts (12%) and sharing good business practice (11%).

Table 11.8: Areas of collaboration

	All businesses
	%
Development of new products, services or business processes	41.2
Developing joint ventures or initiatives	17.4
Extending your network of contacts	11.8
Sharing good business practice	11.1
Accessing new UK markets	10.6
Sharing workload or customers	8.9
Outsourcing / sub-contracting	7.6
Accessing overseas markets	7.6
Marketing / PR	4.0
IT / computer systems	3.1
Research	2.7
Sharing the costs of new equipment	2.1
Charitable work / fund-raising	1.6
Training	1.4
Legislation / regulations	1.2
Conferences / fairs / exhibitions	0.5
Other	15.6
Don't know	2.8
Refusal	0.8
Unweighted population	1,702

Source: LABS 2006

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Businesses collaborated with a wide range of organisation type. The most common collaborators were other companies (suppliers) (19%), competitors (17%), other enterprises within their group (15%) and other companies (customers) (15%). Less than 4% of companies collaborated with higher education institutions, commercial laboratories/R&D enterprises and private research institutes.

Table 11.9: Organisation collaborated with

	All businesses
	%
Other companies (suppliers)	18.6
Competitors	16.7
Other enterprises within your group	15.2
Other companies (customers)	15.2
Business consultancies	7.9
Trade or industry bodies	7.0
Local / Central Government organisations	6.2
Business support organisations	4.8
Higher education institutions	3.1
Charitable organisations	3.1
Commercial laboratories/R&D enterprises	2.0
Accountants / banks	1.9
Private research institutes	1.4
Other	13.1
Don't know	4.1
Unweighted population	1,702

Source: LABS 2006

11.5 The effects of management systems and business support on business performance

Taking into account all other factors, the multivariate analysis shows that businesses with management accounts enjoyed significantly faster growth in turnover and in productivity. Businesses where managers have taken management training courses experienced faster growth in turnover, while business where managers have received on-the-job/informal management training or where there are non-executive directors enjoyed significantly above average growth in profits.

Businesses where there were staff training plans in place, where there had been collaboration with other organisations, where no business advice had been sought in the last 12 months, where advice had been sought from another business owner or advice had been sought from an accountant all saw significantly below average growth in employment.

Table 11.10: The effects of management systems and business support on business performance

Structural variables	Odds ratio			
	Growth in employment	Growth in turnover	Growth in productivity	Growth in profits
Management systems/advice				
Business plan in place	1.01	1.04	0.99	1.13
Staff training plan	0.79	0.96	0.89	1.09
Management accounts	1.04	1.25	1.33	0.96
No management systems in place	0.81	1.22	1.24	1.01
Manager's have some form of management qualification	1.06	0.98	1.05	0.89
Manager's have taken management training course	1.05	1.21	1.15	1.04
Manager's have received on-the-job/ informal management training	0.94	1.04	1.17	1.24
Manager's gained experience at another business	0.98	0.95	1.05	1.07
Business has non-executive directors	1.19	0.88	1.01	1.21
Business has collaborated with other organisations	0.84	1.01	0.88	1.00
Business has regular external advisors	1.09	0.95	0.89	0.87
No business advice sought in the last 12 months	0.77	0.97	1.02	0.90
Advice sought from Business Link	1.23	1.06	0.93	1.12
Advice sought from another business owner	0.56	1.29	0.92	0.99
Advice sought from a friend	0.99	1.19	1.34	1.11
Advice sought from a solicitor	1.08	0.84	1.02	0.77
Advice sought from an accountant	0.74	0.99	1.16	0.95
Advice sought from a bank manager	1.07	1.00	0.98	0.89
Advice sought from a solicitor	1.23	1.06	0.93	1.12
Advice sought from other source	1.09	0.91	0.96	0.91

Source: LABS 2006

Significantly above all businesses figure at 95% confidence level

Significantly below all businesses figure at 95% confidence level