

The story of the London Business Survey

Catherine Bright, Jenny Holmes & Joel Marsden (Greater London Authority) with Sarah Levy (Office for National Statistics)

July 2015



copyright

Greater London Authority
July 2015

Published by

Greater London Authority
City Hall
The Queens Walk
London SE1 2AA

www.london.gov.uk

Tel 020 7983 4922

Minicom 020 7983 4000

Cover photograph

© Daryl Rozario

For more information about this publication, please contact:

GLA Economics

Tel 020 7983 4922

Email glaeconomics@london.gov.uk

GLA Economics provides expert advice and analysis on London's economy and the economic issues facing the capital. Data and analysis from GLA Economics form a basis for the policy and investment decisions facing the Mayor of London and the GLA group. GLA Economics uses a wide range of information and data sourced from third party suppliers within its analysis and reports. GLA Economics cannot be held responsible for the accuracy or timeliness of this information and data. The GLA will not be liable for any losses suffered or liabilities incurred by a party as a result of that party relying in any way on the information contained in this report.

Contents

1. Introduction	2
2. Demand for the survey	3
3. Innovative methods	4
4. Outcome and impact	7
5. Conclusion	9

1. Introduction

In the autumn of 2013 the Greater London Authority (GLA) asked the Office for National Statistics (ONS) to come up with a new design for the London Business Survey, which had last been run seven years previously. The aim was to collect evidence to help inform policies for London businesses. The survey was to be run in the spring and summer of 2014 and provide results by the autumn – a challenging schedule. The results were to be statistically representative of London businesses, specifically of private sector businesses in the main sectors of London’s economy.

This paper tells the story of the London Business Survey (LBS) 2014. Section 2 explains why this piece of work was done and what questions it hoped to answer. Section 3 considers how the design of this survey differed both from the methods used before in surveys of London businesses and from official UK business surveys. Section 4 asks the questions: What was the outcome? And what impact has it had so far? The conclusion considers whether it was worthwhile.

2. Demand for the survey

Why did the GLA commission the LBS 2014? The last survey of businesses in London was carried out in 2007 and by 2014 the economy of London had changed a great deal. The GLA had been commissioning bespoke research to gather evidence in relation to individual projects, but better and more up-to-date information was needed to provide a full picture of the factors affecting businesses in 2014. There was a particular wish to improve the existing evidence base in relation to Small-and Medium-sized Enterprise (SME) activity.

The lack of detailed data about London's businesses was seen as inhibiting policy decisions on issues such as business support, skills development and promoting economic growth. The survey was seen as a way of providing better intelligence for the GLA and others to create more effective policies and interventions. As the Mayor of London, Boris Johnson, put it in his introductory letter to businesses on the front page of the LBS 2014 questionnaire: "Your input will be used to give us a more detailed understanding of the issues businesses across the city are facing and help us to ensure that London is the best big city in the world to do business".

There were several key stakeholders who were keen to obtain information from the survey: the Mayor, the GLA, the SME Working Group of the London Enterprise Panel and London & Partners (the organisation responsible for building London's international reputation and attracting investment). These stakeholders came together at a workshop early in the survey design process to agree what topics and questions should be included. In particular, they wanted to know more about:

- how many London businesses export goods and services,
- the main sources of finance for London's businesses;
- ownership of London's businesses;
- who SMEs go to for advice;
- what percentage of businesses invest in training/upskilling and in innovation; and
- how London is perceived as a place to do business.

3. Innovative methods

The design of the LBS 2014 differed both from the methods used before in surveys of London businesses and from official UK business surveys.

The earlier surveys of London businesses which were run up to 2007 used ‘quota sampling’, which looks for people (or businesses) to interview until a target sample size has been met. In the case of the previous surveys this sampling method was usually stratified at the sub-regional and/or size of business level. The quota sampling method is often used by researchers in cases where there is no comprehensive list of the population of interest (‘sampling frame’). Outside central government only partial lists of businesses are available and consequently this method was considered to be the best approach. However such an approach may not be truly representative of London’s business population.

The results were weighted to the population of businesses in London by a variety of means. One method used published tables from the Inter-Departmental Business Register (IDBR), the government’s comprehensive list of registered businesses. However, such tables can be misleading if used for this purpose in relation to a specific geographical area within the UK because they may reflect results for head offices based in the area rather than results for the specific area.

This combination of issues meant that the results of earlier London Business Surveys could not claim to be truly representative of London businesses.

A key requirement of the LBS 2014 was that it should be representative of private sector businesses in London and that it should be possible to measure the precision of the estimates using confidence intervals. Consequently the ONS proposed a probability-based sampling method, drawing a random sample of some 10,000 businesses using the IDBR as a sampling frame. The IDBR is a comprehensive list of registered businesses and covers almost all of the UK’s economic activity; it is the sampling frame that is used for most official business surveys (but is not available outside central government)¹. A sample taken from the IDBR can be weighted up to the population by taking the relationship between the population and the sample. In order to make this process efficient, the random sample for the LBS 2014 was stratified (divided into subsets) using two key dimensions of interest to the policymakers: size of enterprise and sector of the economy.

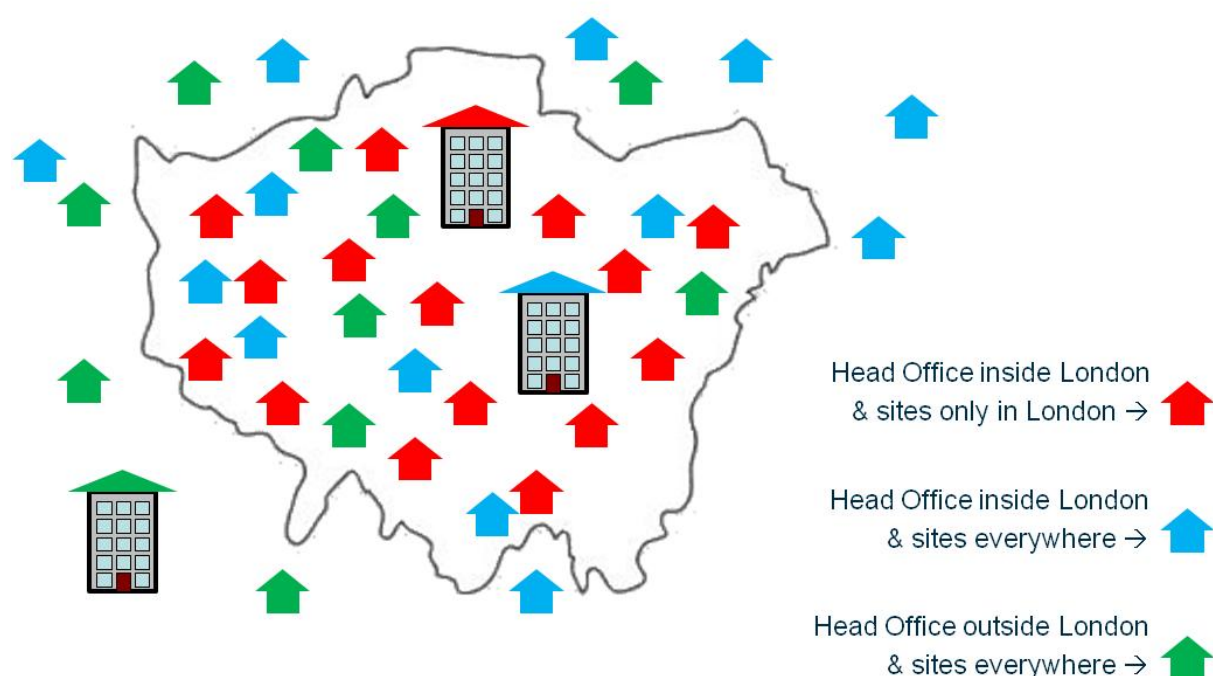
When using the IDBR, the complexity of business structures becomes clear. A company may have only one workplace, or it may have many sites across the UK (multi-site companies) – in which case the head office may be in a different place from where much of the activity of the business takes place (Figure 1). So one important initial decision was: should we sample at the level of the head office or at the level of the workplace (site)? Whichever level we decided to sample at would also be the level at which results were reported. For the UK, the results would

¹ The IDBR is a statistical register based on administrative sources and surveys which contains information on businesses in all parts of the economy. An organisation will be on the IDBR if it is registered for Value Added Tax (VAT), and/or pays employees through a Pay As You Earn (PAYE) scheme and/or is an incorporated business registered at Companies House. Some very small businesses, self-employed people and non-profit-making organisations are not on the IDBR as they are not registered in any of these ways.

be the same whichever way we approached it, but for a particular area such as London they would probably be different.

The ONS produced an innovative survey design to address this issue. As our aim was to survey London businesses, we decided to draw a sample from the IDBR at site level instead of head office level. However, this created a difficulty: many sites in multi-site enterprises would not be able to answer questions on all of the topics that the LBS was interested in. Therefore for multi-site enterprises we decided to send questionnaires asking for responses to 'head office level questions' to related head offices in addition to sending questionnaires with 'site level questions' to the selected sites. When we received responses to head office questionnaires, they were assigned to the sites selected for the survey and used to estimate results for the LBS population.

Figure 1: The structure of businesses and the LBS population



Some of the findings in the survey report were based on head office level questions, and some on site level questions. The information collected at site level included turnover, sales, purchases, exports and imports. In official UK business surveys, all information is collected at head office level and 'regionalised' (allocated to sub-national areas using regression modelling) on the basis of indicators such as the proportion of people employed in the region in relation to the national total. The LBS 2014 showed that information can be collected directly from sites located in sub-national areas such as London, although there were some areas of weakness such

as low response rates from sites belonging to multi-site enterprises in finance and insurance². These weaknesses would need to be addressed if the approach were to be replicated in future.

Irrespective of where the responses came from (site or head office), all results in the LBS 2014 were treated as being for the sites in our sample and used to produce results for the population of 'business units' in London. A business unit is the whole business in the case of businesses which only have one site and part of the business (the site) in the case of multi-site firms.

In conclusion, the requirement to produce representative results for a specific geographical location within the UK implied **firstly** obtaining access to a reliable sampling frame (the IDBR) which allowed us to draw a stratified, random sample; and **secondly** using a survey design based on selecting the sample at site level rather than at head office level. The LBS 2014 showed that this was effective in producing estimates for an area like London. The same method could, in theory, be replicated for other sub-national areas such as the Northern Powerhouse area or some of the larger Local Enterprise Partnerships (LEPs).

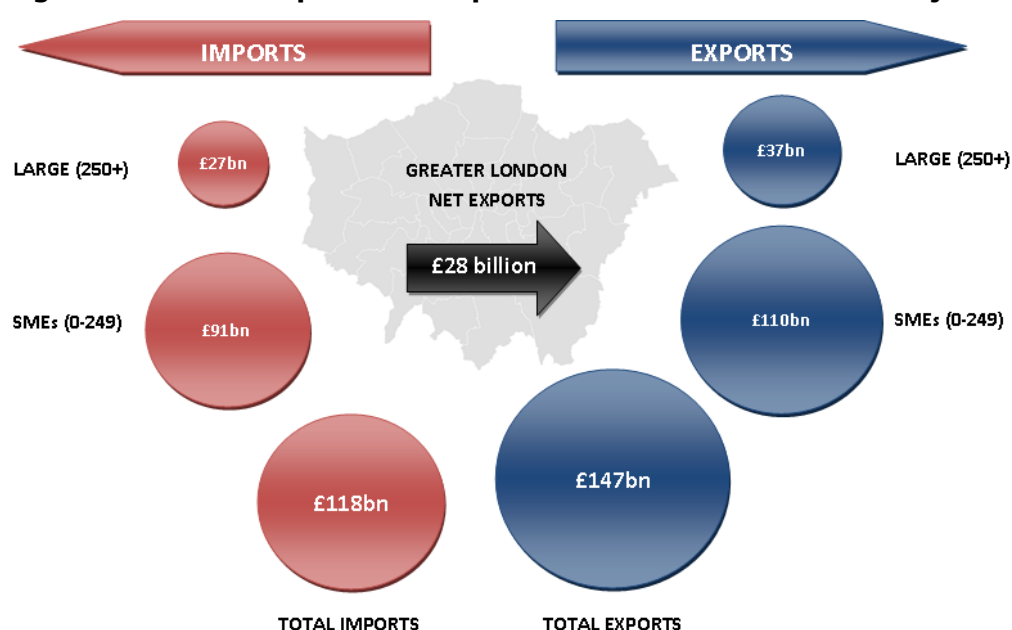
² For more details, see LBS 2014 Methodology Report at: <http://www.london.gov.uk/priorities/business-economy/publications/gla-economics/london-business-survey-2014>

4. Outcome and impact

The findings from the LBS 2014 were published on 10 November 2014³, only two and a half months after the end of the fieldwork, which is a quicker turnaround than for most official surveys. This meant that work on validating responses had to be kept to a minimum. Nevertheless, the ONS ran quality control tests on the results and concluded that: “Although the results of this survey are experimental, they appear to be of reasonable quality overall and of good quality for SMEs”.

The publication of the main findings coincided with the start of ‘Export Week’, part of the Mayor’s Export Programme designed to help SMEs to sell goods and services abroad. The LBS 2014 is the only source of statistics on the number (and characteristics) of businesses in London that are exporting and importing and the value of their exports and imports.

Figure 2: Value of exports and imports of London business units by size of enterprise⁴



Source: GLA Economics calculations based on London Business Survey (2014). Note: due to instances of non-response, the London totals and the figures for large firms are likely to be underestimates. As such the estimated values of exports and imports for SME business units, those in large firms, and London as a whole, are not directly comparable.

Although the LBS 2014 data on export and import values is experimental, we believe that it provides reasonably reliable estimates that are truly attributable to business activity within London – avoiding, for example, issues of head office bias.

³ <http://www.london.gov.uk/priorities/business-economy/publications/gla-economics/london-business-survey-2014>

⁴ From: <http://www.london.gov.uk/sites/default/files/london-business-survey-exports.pdf>

The findings on exports from the LBS 2014 also:

- Provoked and supported a conversation with Core Cities on city-based export data.
- Informed partnership arrangements for a planned new Mayor's Export Programme.
- Allowed the GLA to commence work (in the context of the JP Morgan-Brookings Institute Global Cities Initiative) to design an export plan for London with clear baseline.

The media was interested in the exports drive in London and associated evidence, for example:

- www.financial-news.co.uk/25082/2014/11/value-of-london-exports-increases-to-147bn
- realbusiness.co.uk/article/28371-london-smes-leading-the-export-charge
- www.highbeam.com/doc/1G1-389492851.html
- www.cityam.com/210439/time-trade-britain-s-civic-bosses

Promoting exports is not the only area where the LBS 2014 has had an impact. Evidence from the LBS 2014 was cited by Kit Malthouse (Deputy Mayor for Business and Enterprise) in his blog for Small Business Saturday (a day encouraging people to support small businesses): www.london.gov.uk/city-hall/city-hall-blog/2014/12/back-londons-small-businesses-this-small-business-saturday. It was also used to inform the development of the London Business Growth Hub, the London Enterprise Panel's new 'one-stop-shop' for business support: <https://lep.london/growthhub>

The LBS 2014 has provided unique evidence on the challenges for business growth, the demand for and use of business services and the sources of support and advice. It found that SMEs relied most on accountants for advice⁵ and were six times more likely to go to their accountant for advice than to the Gov.uk (formerly Business Link) website. This has led to a re-think of how best to channel messages from organisations providing support to SMEs.

The survey also found that respondents in small businesses had a more negative view of the availability of skilled staff in London than those working for large firms, and small businesses were much less likely to engage in upskilling of their existing staff. These findings have been used as supporting evidence to develop the rationale for skills interventions in London. This, in turn, has formed the basis of a Skills Inquiry to consider the ways in which London skills policies can take better account of the specific challenges facing small businesses.

The information from the survey is still being analysed and will be used for a number of other projects in the coming months. The latest piece of work is on foreign ownership of businesses in London in support of efforts by London & Partners to promote foreign investment in London⁶. Also, the LBS 2014 data has recently been made available to researchers within the secure environment of the ONS's Virtual Microdata Laboratory, where it will be used to answer further questions.

⁵ <http://www.businessadvice.service.com/2014/11/24/smes-rely-on-their-accountants-says-london-business-survey/>

⁶ <http://www.london.gov.uk/sites/default/files/london-business-survey-foreign-ownership.pdf>

5. Conclusion

When commissioning the LBS 2014, the key stakeholders wanted to gain a better understanding of the business economy in London. There was a particular wish to improve the existing evidence base in relation to SME activity. They recognised that existing methods would not produce results that were ‘representative’ of London businesses, so they asked the ONS to come up with a design based on the statistical methods used for official business surveys. In the course of the design process, it became evident that not only was it necessary to take a random sample from a reliable sampling frame (the IDBR), but that sampling at site level would be an innovative way to produce sub-national estimates, even if some of the information had to be collected from related head offices.

This kind of work involves extra effort, not least for the businesses which take part in the survey. Was the effort worthwhile? In our view, the answer is yes, for three reasons:

1. The experimental survey design proved successful and produced representative results whose reliability can be measured using statistical techniques such as confidence intervals.
2. The approach could potentially be replicated and improved in future, in London and/or in other parts of the UK.
3. The survey has thrown light on many of the key issues for London businesses. The findings have already had an impact on policies and business promotion in London, and the story continues.

GLAECONOMICS

Greater London Authority
City Hall
The Queens Walk
London SE1 2AA

Tel 020 7983 4922
Fax 020 7983 4674
Minicom 020 7983 4000
Email glaeconomics@london.gov.uk

<http://www.london.gov.uk/gla-economics-publications>

MAYOR OF LONDON