RESEARCH

LONDON DEVELOPMENT AGENCY

Business Link

The London Annual Business Survey 2003

December 2003

FOREWORD

Business Link for London

I am delighted that Business Link for London and the London Development Agency have jointly commissioned this first London Annual Business Survey. It reflects the goals of both organisations to support the capital's businesses to grow and prosper.

London is very important to the national economy. We have the highest regional GVA, and the sheer scale and diversity of businesses operating here is second to none. This new report helps us understand some of the underlying performance measures on which this success is founded.

Businesses in London are growing, with roughly a third showing increases in profitability or turnover. They are customer focused; and benefiting from the adoption of ICT. Many firms do not have problems raising finance, and in general the barriers to doing business in London appear lower than the opportunities. But there are some problems and weaknesses. Not enough businesses are deriving benefits from innovation or working together. There is still some way to go to improve management skills and adoption of basic planning techniques. Perhaps as a consequence, almost two thirds of businesses have seen no increase in their productivity.

This report is the first in an annual series. I know it will help all of us involved in business support to ensure our services match business needs, so we can continue to help businesses improve their productivity.

Judith Rutherford, Chief Executive, Business Link for London

London Development Agency

Understanding the drivers of business competitiveness in London is essential if economic development interventions are to have maximum impact. I am therefore pleased to welcome the first London Annual Business Survey. The survey, which it is hoped will be repeated annually, has involved the participation of over 4,000 private sector firms in London of all types, and provides a robust analysis of the structure of the business sector, it's competitiveness and productivity, and as the survey is repeated in future years, how it is changing.

The business sector in London has a different structure from that in many other UK regions and has many unique advantages, but also faces different problems. The survey shows how London's businesses face continuing shortages of skilled labour and high costs of recruitment in certain sectors, problems in finding appropriate premises, and pressure from an increasingly strained transport system. Also, not all sectors of the community have been equally able to benefit from the success of London's business sector.

This report provides details of the results from the survey for London as a whole, although the range of the survey means it is an invaluable tool for analysing more specific issues and it is being extensively used in this respect. We believe that this survey will be an important resource for the London Development Agency and Business Link for London, and also for all other organisations involved in ensuring London's businesses continue to grow.

Manny Lewis, Acting Chief Executive, London Development Agency

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EXECUTIVE SUMMARY

Introduction

This research has been commissioned by the London Development Agency (LDA) and Business Link for London. The survey was undertaken in June/July 2003 covering all types of businesses in London with 4,073 firms participating. It is intended that the survey will be repeated on an annual basis.

The objectives of the survey are:

(1) To measure indicators of the competitiveness/productivity of businesses in London and identify the factors that affect this as a basis for assisting in the development of LDA and Business Link for London activities.

(2) To analyse how the physical/social infrastructure of London either enables or acts as a barrier to business competitiveness.

(3) To identify particular problems faced by businesses where they may need further help.

(4) To monitor how these factors are developing over time.

Structure of Businesses in London

London's estimated 300,000 businesses are primarily engaged in service-based activities. Only 13% of businesses are in the Manufacturing and Construction sectors, and this may be an over-estimate as a large proportion of Manufacturing and Construction sector establishments in London are head offices, at which little 'actual' manufacturing takes place. In addition, a significant proportion are publishing companies which are traditionally classified as being in the manufacturing sector.

The majority of London's businesses are small. 47% have less than five employees, 88% less than ten. However, despite there being a large number of small firms, the majority of employment is concentrated in large firms. The London Annual Business Survey shows that:

- London has a high proportion of establishments engaged in group administrative or other strategic activities. 22% are mainly involved in the administration of other operations within their group or division, 4% with strategic sales and 3% are engaged in design.

- 62% of London's firms conduct all their business from a single site. Of the other 38% of firms that are multi-site, a quarter of the sites surveyed act as Head Offices for the wider organisation, and a third had their Head Office located elsewhere in London.

The majority of London's business owners are white and male. Overall, the data suggests that large proportions of the population are under-represented amongst business owners in London. The survey results show that:

- People from Black ethnic groups are generally under-represented amongst London's business owning community. 77% of owners of businesses come from White ethnic groups (White ethnic groups represent 71% of London's population), 3% of businesses are Black owned (compared to a 11% representation in the population as whole), and 12% are Asian owned (which accurately reflects the proportion of Asian ethnic groups in the population).

- Only 21% of business owners are female. 53% of businesses have no female owners and only 7% are owned completely by women. Female owned businesses are more likely to be smaller and to be in specific sectors, particularly Education, Health and Social Work; Other Community, Social and Personal Activities.

- The representation of women owners also varies by ethnic group. The average proportion of women owners is 21% for White owned businesses, 29% for Black owned businesses and 15% for Asian owned businesses.

- 1% of owners of businesses state they suffer from a disability or long term illness.

Turnover, Productivity and Profit

Across UK regions there are strong differences in regional economic prosperity. This is certainly shown in all Government data with London having a higher Gross Value Added[1] per head, household income per head and average earnings than any other UK region. Recently, London has also been growing faster than most other regions.

The UK has had relatively stable macro-economic conditions over past years, with low unemployment, inflation and interest rates. However, the survey took place in general conditions of flattening demand, the war against Iraq, and the outbreak of the SARS virus, together with some specific London factors including the introduction of the congestion charge and the temporary closure of the Central Underground Line. We might expect, therefore, that these conditions are reflected in the results we see on turnover, productivity and profitability. However, the survey data shows that despite these factors:

- 39% of businesses have seen their turnover increase over the last 12 months, with 39% stating that it has stayed the same and 22% that it has declined

- 29% of businesses believed that productivity has increased at their establishment, with 64% stating that it had stayed the same. Only a minority (7%) believed that it had decreased.

- 31% of businesses believed that profitability had increased, whilst 46% thought that it had stayed the same. Just less than a quarter (24%) stated that it had decreased.

- Businesses in some sectors (notably Manufacturing and Publishing) were more likely to state that turnover, productivity and profits were static or declining. Different factors affect different sectors. For example, long term economic restructuring is a key influence on Manufacturing, whilst Publishing, which is heavily dependent on advertising revenues which are currently depressed, is suffering because of the particular stage of the economic cycle.

Over and above size and sector influences on turnover, productivity and profitability there are some other key findings. Firms that have business plans, are foreign-owned and are hi-technology based are more likely to have seen increases in their turnover and productivity.

[1] Gross value added gives an indication of the value of the economic activity generated within an area through the production of new goods and services. It essentially measures the value of goods and services sold minus the costs of inputs.

Although the data is generally positive, there are some findings, particularly relating to productivity, that are of concern:

- there are high proportions (64%) of firms who state that productivity is static. Without constant incremental productivity gains, London's firms will eventually lose ground.

- when asked the main reason for productivity gains (or decreases), the majority of businesses point to the external market, ie they simply increase their output by using existing resources more intensively without necessarily improving the efficiency of underlying processes within the company.

Management issues

Previous research has suggested that UK companies adopt modern management techniques later and less often than their competitors. They also seem to achieve lower returns from implementing them. There is some evidence to support this assertion from the London Annual Business Survey, in that:

- only half of businesses have a business plan

- just over half (51%) have management accounts

- only 42% have a sales and marketing plan.

These planning processes are the basic tools of management and it is of concern that so many London businesses appear to be operating without them. This is particularly so when we consider that there are positive links between the existence of these planning tools and 'success factors', such as an increased likelihood of having increased turnover, productivity and profits. There is a particular concern here amongst smaller establishments – they are unlikely to have any of these planning tools in place.

Comparative data suggests that the UK appears to have a lower level of management skills than other countries. Data from the London Annual Business Survey supports the idea that difficulties in these areas may exist.

- 67% of senior management teams gained their management experience on-the-job with the current company

- 76% do not have a formal management qualification

- 95% of London businesses make no use of non-executive directors.

It appears that there are limited beneficial external influences and knowledge being brought to bear on London's firms that may be damaging their competitiveness.

Workforce issues

Internationally, the UK as a whole compares well on levels of labour force participation, but London has one of the lowest participation rates in the UK and also one of the highest unemployment rates. There is evidence that some sections of the population are more likely to be excluded from the labour market with unemployment rates for minority ethnic groups being higher than for white groups.

This survey is designed to be complementary to the *London Employers Survey*, published earlier this year, and co-sponsored by the LDA and Business Link for London and partners. The *London Employers Survey* shows that:

- Businesses in London are just as likely as those elsewhere in the UK to be facing hard-to-fill vacancies and internal skill shortages. There is no clear evidence that London employers recognise that they face shortages amongst their employees of basic or generic skills.

- But this is not to suggest that London's labour market is the same as elsewhere in the UK. It benefits from a large migrant labour force, which can be part of the formal workforce. There is also a sizeable more 'informal' workforce of young people coming to London from overseas for short durations. Little is formally known about this group, but anecdotal evidence is that they tend to be young and well qualified. London had more low-skill jobs than the rest of the UK in 2001, and there is a hypothesis that these 'informal' and 'formal' workforces go some way to filling the large number of low skill and low pay jobs.

Findings from the London Annual Business Survey also show that:

- 20% of businesses have increased the size of their workforce over the past 12 months, and 30% expect to increase their headcount over the next 12 months
- Smaller firms are most likely to have a stable workforce – as firms get bigger they are more likely to both recruit new employees and/or reduce the size of their workforce
- The vast majority (87%) of firms have increased their workforce to meet a higher demand for products and services, and 10% have recruited to fill skills gaps
- Only 42% of firms have a training plan, with wide variations by sector – ranging from 28% of Manufacturing firms to 67% of Other Community; Social and Personal Activities businesses
- Possession of a training plan appears to be related to higher performance levels. 42% of firms with a training plan have increased turnover compared to 28% of those without. Similarly 30% of firms with a training plan have increased profitability compared to 22% without a plan, and 33% of firms have increased productivity compared to 20% for those firms without.

It is apparent that there is a clear link between possession of a training plan and increased turnover, productivity and profitability. It is also apparent that smaller firms are less likely to have either a training plan, or to actually offer training.

Investment and Access to Finance

UK companies are thought to be operating with lower levels of capital than their competitors in Europe and the United States. Business investment has increased to the level of other advanced economies in the past decade, but this has not been enough to close the gap in terms of capital intensity. However, the survey results are quite positive, showing that:

- London's businesses are spending more in real terms on investment than previously and expect to continue to do so over the next 12 months.
- There is limited support for the commonly held view that there are constraints on investment with 51% stating that they can invest as much as they would like, although 18% did not know.
- The 31% who would have liked to invest more capital in their business have been unable to because of external factors, particularly market conditions.

These findings are not unexpected. The City of London is one of the most competitive financial services clusters in the world. Venture capital availability is the highest in Europe, behind the Netherlands (although there are some concerns about the relatively greater focus on later stage funding rather than seed capital). However, for many firms, particularly small and start-up ones, this is not a realistic form of funding and does not satisfy the needs of such businesses. Certainly data from the *London Employers' Survey* found a greater reliance by companies (and particularly smaller companies) on credit cards and overdrafts as financing sources, which although convenient, are not necessarily the most appropriate forms. Such financing methods are often expensive, which can potentially harm the growth prospects of small and medium-sized firms.

Information and Communication Technology

Information and communications technologies (ICT) are in relatively common use in London businesses, with positive benefits associated with them. However, when firms were asked to describe themselves in terms of their technological adoption, they were relatively cautious.

- Just over a fifth (21%) of London's businesses describe themselves as being hi-tech companies, with a third (34%) believing themselves to be 'lo-tech'.

- On average, two-thirds of staff in London use computers on a day-to-day basis. In over half (55%) of establishments, all staff use computers every day, although in 16% of companies no staff do so. Usage of other ICT is also common with mobile phones being used by 69% of companies and e-mail by 64%.

- These information and communication technologies have had overall positive impacts on companies that have adopted them, particularly on external communications with customers and suppliers. Businesses are less positive about their impacts on 'bottom-line' outcomes such as turnover and productivity, but this may be because they have either not yet seen the impact demonstrated or that the linkage is too diffuse to be recognised.

- Take-up of broadband appears to be accelerating and in this survey 43% of establishments were using it. Where it was being used, broadband was having the most positive impact of any ICT. Although online sales were used by relatively few firms (21%), where they are used, they are regarded as having a very positive impact on the competitiveness of the business.

Overall most firms report beneficial impacts from the adoption of ICT; albeit in terms of communication and efficiency rather than impacts on the bottom line. Going forward it will be interesting to see if firms are able in the future to quantify financially the return on their investments.

Research and Development, Innovation and Collaboration

The creation and commercialisation of new knowledge is a key driver of improving productivity.

In the recent past the UK has invested less public money in research and development than most other advanced economies and, over the last decade, Government expenditure on public research and development relative to GDP has declined. Recent policy changes have started to address this shortfall and the Government budgets for the next few years register a significant increase of public sector spending in this area. It will, however, take some time before the accumulated effect of years of under-investment have been overcome.

There is also a decline in business research and development expenditure. The research and development gap between the UK and its main competitors is increasing and the UK is one of the few advanced economies in which business spending on research and development has actually fallen relative to GDP in the 1990s. The survey shows the following results for innovation in London:

- Within London, 25% of businesses have introduced new products or services in the last year and another 25% have introduced significantly enhanced business practices or processes.

- Looked at together, this suggests that 15% of companies in London are innovative having introduced both: 63% of businesses have introduced neither.

- Businesses are more likely to be innovative if they are larger, foreign-owned, have business plans, are hi-tech, and are located in the Financial Services, Professional Services, Education and Health and Social Work sectors.

- Business collaboration in London is low. Only 16% of firms in London are engaged in collaboration with external partners. Comparative data suggests that this may be low relative to the rest of the UK – some sources put the national figure at 35%. This weak pattern of collaboration may be damaging as collaboration enables companies to broaden their range of experiences and gives them access to a wider range of competences and skills, as well as new markets. Taken together, these factors can help firms gain a competitive edge.

- Where collaboration takes place, it is likely to be with other companies – either customers (47% of collaborative partners) or suppliers (37%). Links between business and Higher Education, although a policy aim for the last two decades, are limited and particularly so amongst smaller establishments.

The results show there is a clear positive relationship between the likelihood of external collaboration and an increase in turnover, productivity and profitability.

Sales and Purchasing

London firms appear to be doing the majority of their business (both buying and selling) within London; presumably because of the density of customers and suppliers within a relatively small geographic area. Improving customer relationships is a key priority for firms, as they see this as their best route to improving competitiveness, but the potential of this aim is probably not being fully achieved as the majority of firms fail to carry out any formal customer satisfaction analysis. The survey shows:

- More than half of London's trade (ie trading relationships with both suppliers and customers) is within London. The majority of trade (about 90% of sales and 95% of purchases) is within the UK. This indicates the importance of London as a business centre, although the fact that a significant amount of this trade is between businesses means the figures may under-represent the importance of international trade. This is because a business may be trading with another business which is selling its products overseas, however, the first business's trade with the second will not be recorded as international trade even though it is clearly dependent on the international market, albeit indirectly.

- 66% of firms have enhanced their relationship with their customers as a means of improving competitiveness, and 45% have implemented an advertising or marketing strategy.

- However, only 25% of businesses formally measure customer satisfaction. This suggests that three quarters have no systematic and direct means of gathering information on their markets or customers. They are operating purely on their own perception of what their customers want This is of concern, as there is evidence that firms who are more formal in their planning processes (which may include customer satisfaction surveys) are more likely to have seen increased turnover over the past 12 months.

London as a Business Location

Only 62% of new businesses started in London are still in existence three years later, which is lower than the national average. The question of course arises whether this reflects inherently higher failure rates or a more dynamic entrepreneurial environment, bearing in mind, on a more positive note, that London does have a very high rate of start-ups.

The London Annual Business Survey shows that:

- The main reasons given for establishing a new company are the desire for the owner to be their own boss, to make more money or to implement a new idea or product. The 'push' factor from unemployment or redundancy does not appear to be an important driver in London, and is certainly less of an issue than data for the rest of the UK would indicate.

- Businesses select the location of their current site because the owner(s) of the business live in or near to London (43% of businesses).

- 39% of businesses chose their current location because their customers/clients are based in London.

- 19% are located in London because it is the central location in the UK.

- Relatively few businesses intend to relocate any of their activities away from their current site despite the fact that London is one of the most expensive places in which to do business.

Barriers and Enablers Affecting Business Competitiveness

There are many influences and factors which give firms their competitive advantage. In London, the survey shows the following:

- Companies consider that the most important factors contributing to competitive advantage are established reputation (59% consider this provides a substantial contribution to their competitiveness), the reliability of service (55%), quality of service (53%) and quality of workforce (52%). Given the lack of formal customer satisfaction assessment highlighted earlier, the fact that firms rely on their established reputation may mean that some firms are vulnerable to changing customer requirements.

- Businesses do not believe that price or cost of products and services are particularly important factors. Whilst the relatively low importance of price competition is encouraging, indicating a propensity to compete on quality, businesses may be missing opportunities to put downward pressures on costs.

- As well as building stronger client relationships and devising advertising/marketing strategies as previously mentioned, 41% of firms have adopted IT as a way of improving competitiveness, 24% have cut production costs and 22% have diversified or launched new products in different sectors.

- Businesses say that the key factor in the successful running of the business is the availability of skilled labour, followed by the cost of this labour.

- Following these labour-related factors, premises (cost and size) and then proximity to customers are the key issues for the successful running of a business in London. Relatively speaking, proximity to suppliers or other businesses in the same sector are seen as being less important.

- The survey also asked about the extent to which these factors represent a problem to the successful running of businesses. Labour-related and premises-related issues were the most often cited problem areas, followed by transport issues. Proximity to customers is seen as important for the running of businesses but is not seen as a particular problem area in London.

Business Information and Advice

There has been a long tradition of both publicly and privately supported business advice provision in London, currently:

- 57% of firms have used business advice services over the past 3 years. This is encouraging, especially given the range of issues and potential problems facing businesses previously highlighted.

- The most commonly used sources are accountants (43%), banks (34%), trade associations (9%) and Business Link for London (8%).

- Small firms are more likely to use external business advice services, as are UK-owned and hi-tech businesses, firms in Central, West and North London, and those in the Publishing, Financial Services and Professional Services sectors.

The top four providers in terms of customer satisfaction are accountants, who have a mean score of 4.13 out of a possible 5, business consultancies (4.01), chambers of commerce (3.99) and Business Link for London (3.88).

The main advice sources are accountants and banks. This is to be expected as the vast majority of businesses will have an on-going relationship with these two types of organisation. Satisfaction with advice sources used is generally high.

Discussion and Conclusions

Overall Performance

London's economy is of overwhelming importance to the UK as it has the highest regional Gross Value Added per head of population, and the highest levels of average income and income per household. It is primarily a service sector based market, which is continuing to grow. Perhaps because of this concentration in growth sectors, firms in London are prospering – 39% have seen an increase in turnover over the past 12 months.

The economy is dominated by microfirms – ie firms with less than 10 staff – although the majority of employment is actually in larger firms. The majority of firms also have very low turnover; only 10% have a turnover of more than £1million, and 44.5% have a turnover of less than £100,000.

However, to maintain current levels of prosperity, overcome skills gaps and compete successfully given the high cost base of being located in London, there are 4 key challenges facing businesses in the capital:

Priority – Productivity

Being able to operate effectively and efficiently is a key tool to improving competitiveness, at all levels, and as such is a major concern for both policymakers and practitioners. The survey evidence shows that 29% of firms in London think that they have increased productivity over the past 12 months. However, the main reason given for the positive change in productivity is to meet increased demand for products and services, ie they simply increase their output by using existing resources more intensively. There is relatively little evidence that firms have improved their underlying efficiency - using their existing resources and assets more effectively and improving the efficiency of underlying processes within the company - although 10% report that increased use of IT has helped. Equally worryingly, there is a sizeable proportion of the business population (69%) who report that their staff productivity has stayed the same. This means that London could be failing to optimise its competitive capabilities.

There is a clear need to track this performance level over time and to investigate in more depth just how firms are realising productivity gains. Encouraging more firms to become more productive is also a key priority.

Priority – Innovation

The creation and commercialisation of new knowledge and ideas is a crucial source of improvements in productivity and competitiveness, particularly in the emerging knowledge economy.

According to national statistics, London has relatively low levels of spend on research and development; which can be one component of spend on innovation. The London Annual Business Survey appears to support this view. It has also discovered that only 25% of firms have introduced new products or services within the last year, and another 25% have introduced new business processes. We call both these groups Changers. Just 15% of firms have implemented both sets of innovation activities, and can be truly classified as Innovators. More worryingly almost two thirds (63%) have done neither, these are classified as Conservatives.

The London Annual Business Survey shows there is a clear positive link between the propensity to be innovative and the likelihood of an increase in turnover. The overall message is that more firms need to be encouraged to become innovative. Once again, by tracking this performance over time it will be possible to see the extent to which this aim has been achieved.

Priority – Management

One of the key conditions which needs to be present in a business to allow both innovation and productivity to flourish, is a competent management structure and associated processes.

The London Annual Business Survey highlights significant gaps in these areas. Significant proportions of the business population lack rudimentary business planning processes – 50% do not have a business plan, 58% do not have a sales and marketing plan, 79% do not have monthly management accounts, and only 25% of businesses formally measure customer satisfaction. These are basic management tools, and their absence across large proportions of the business community suggests, at best, that they are being run on an 'ad hoc' basis.

This lack of business planning is likely to be even more damaging to the competitiveness of firms in London when we consider that effective planning tools are positively correlated with increased turnover, productivity, size of the workforce expenditure on product and service development and the propensity to be innovative.

The challenge here is to effectively reach the large and diverse marketplace, which is primarily made up of microfirms, and to encourage more firms to adopt good management tools and processes.

Priority – Business Information and Advice

In the light of the challenges relating to productivity, innovation and management capabilities it is clearly apparent that there is still a key role for the provision of advice, support and networking to businesses in London. Although 57% of firms have used external advice during the past 3 years, 43% have not. When we consider that the majority (67%) of managers in London have acquired their skills on-the-job within their current firm, and less than one quarter (24%) have formal management qualifications, there are evident grounds for concern that firms are not benefiting as much as they could from external influences – including the wide variety of external business support.

1. INTRODUCTION

1.1 Introduction

Aims and objectives

This research has been commissioned by the London Development Agency (LDA)[1] and Business Link for London[2] to inform the understanding of a range of issues affecting the performance levels of London businesses, and collectively the performance of the London economy. In turn, this will give some understanding of some of the factors which drive firm-level competitiveness.

Prior to this survey, there has been little large-scale comprehensive regional research on business performance within the capital. One of the aims of this report is to establish baseline information that will inform and drive future policy and service development activity. Over time, this will allow the creation of trend data.

The main purpose of this report is to provide an analytical description of the main findings from the survey. This analysis is mainly carried out on a univariate basis, taking each variable and looking at how it compares with other variables separately. A detailed multivariate analysis may follow at a later stage, but it is not the purpose of this report.

Defining competitiveness

A difficulty underpinning research of this nature is that 'competitiveness' remains a concept that is not well understood, even if there is widespread acceptance of its importance. Standards of living are determined by the productivity of an economy, which is measured by the value of goods and services produced per unit of the human, capital and natural resources. Productivity depends upon the value of the goods and services produced (governed by the prices that can be charged on the open market) and the efficiency with which they can be produced. What matters, therefore, is what is produced and how it is produced.

Porter[3] notes that the UK business environment has been fundamentally upgraded in the last two decades. This has enabled the UK to be a more attractive place to do business and has helped companies located here to achieve much higher levels of productivity.

[1] The LDA was established in July 2000 as both the Mayor's development agency for London and as one of nine Regional Development Agencies for England. The LDA has responsibility for promoting sustainable economic development in London, whilst facilitating social and physical regeneration

[2] Business Link for London offers business support, advice, consultancy and brokerage to over 300,000 small and medium sized firms in London. It is the largest business support agency in Europe, with 400 staff and a turnover of £40 million

[3] Porter M and Ketels C, UK Competitiveness: moving to the next stage, Department of Trade and Industry Economics Paper No. 3, May 2003

Ultimately, competitiveness depends on firms and the way they compete and their ability to create valuable goods and services using efficient methods. Increasing productivity is directly related, in part, to the quality of the business environment, which in turn can be understood in terms of four inter-related areas:

- the quality of factor input conditions: the efficiency, quality and specialisation of underlying inputs that firms can draw on in terms of:

    - human resources
    - capital resources
    - physical infrastructure
    - administrative infrastructure
    - scientific and technological infrastructure
    - natural resources

- the context for firm strategy and rivalry, shaping the extent of corporate investment, the types of strategies involved and the intensity of local rivalry;

- the quality of local demand conditions, particularly the sophistication of local demand and the pressure from local buyers to upgrade products and services; and

- the presence of related and supporting industries, including the availability of local suppliers and related industries and the state of development of clusters.

This research aims to gather and analyse information which will throw light on aspects which directly impact on firm's productivity and competitiveness. It lays down baseline data which will allow the LDA and Business Link for London to track changes in these factors over time. To provide some comparative analysis at this early stage we have compared the data from this survey, where appropriate, with data from the report *Enterprise Challenged: Policy and Performance in the British SME sector, 1999 – 2002*[4]. Some of the questions used in the London Annual Business Survey are similar, and though there are differences between the surveys[5] that will lead to differences in results, there are some bases for comparison.

1.2 Methodology

The main body of this report is based on data produced by a telephone survey of a sample of 4,000 private sector businesses across London. The survey covered all private sector businesses, excluding the self-employed who are not registered companies. However, in reality, some self-employed people who are not registered companies may have been included.

The questionnaire was developed by the LDA and Business Link for London. The questionnaire was delivered by Computer Aided Telephone Interviewing (CATI) and was intensively piloted before use in the research. The questionnaire took an average of 28 minutes to deliver.

The sample was selected so that it was spread equally across each of the London sub-regions and was chosen so that it would give statistically significant data at a sub-regional and sector level. Larger employers were over-sampled so that robust data could be gained on this relatively small numeric group.

Full information on the methodology is given in Annex 1.

The data from the survey has been weighted so that the employers surveyed (i) form their appropriate proportions with regard to size and sector and (ii) the total number of employers reflect the overall business population numbers.

[4] Cosh A and Hughes A (Editors), Enterprise Challenged: Policy and Performance in the British SME sector, 1999 – 2002, Centre for Business Research, 2003

[5] The main difference is in the sampling framework. The London Annual Business Survey is a survey of all enterprises, whilst the CBR research is only those firms who have less than 500 employees. Also the CBR sample consists of 61% from manufacturing: these are only a minority in the London research

1.3 Structure of the report

The remainder of the report is structured in the following manner:

- section 2 examines the structure of business in London, looking at sector, size, legal status, location of ownership, and characteristics of owners;
- section 3 discusses the 'outputs' of London's businesses: turnover, productivity and profit;
- section 4 discusses management issues, including existence of planning tools, management styles and how management experience and expertise is gathered;
- section 5 discusses workforce issues, including labour force participation rates in London, changes in workforce size, the existence of labour market difficulties, training and average earning levels;
- section 6 analyses investment and access to finance;
- section 7 discusses the use of Information and Communication Technology (ICT), examining the level of technology used, the existence and usage of personal computers and other communication technologies and levels of investment in ICT;
- section 8 looks at businesses activities regarding research and development, innovation and collaboration with other employers;
- section 9 looks at sales and purchasing patterns;
- section 10 examines locational issues, looking at relative regional industrial property and office rental costs, the reasons behind the choice of the current location and any proposed relocation of activities.
- section 11 examines views of barriers and enablers to doing business in London;
- section 12 discusses use of business advice services, and satisfaction levels, and
- section 13 draws together the findings in initial discussion and conclusions.

It is worth noting at this stage that the report contains many tables and standard reporting conventions have been used:

- all percentages have been rounded to whole numbers. This may mean on occasion that percentages do not sum to 100%; and
- a '*' indicates that the value is less than 0.5%.

2. STRUCTURE OF BUSINESSES IN LONDON

2.1 Introduction

This section examines the structure of businesses in London, discussing their sector, size, structure and patterns of establishment. Its primary purpose is to describe the overall business environment of London.

2.2 Industry sector and activity

Industry sector

The majority of London's businesses are located in two sectors, with 40% in Business Services and 21% in Wholesale and Retail Trade. Although much attention is focused on the activities of the Financial Services sector in London, in overall terms it only accounts for 3% of establishments[6].

The data confirms the relatively small proportion of London's firms (13%) that are engaged in production activities – ie Manufacturing (7%) and Construction (6%). The equivalent proportion for the overall UK economy is 25%. However, even this relatively low figure exaggerates the extent of 'real' manufacturing in London as a third of those classified as Manufacturing establishments are actually engaged in Publishing, which cannot be truly regarded as a manufacturing activity.

[6] The terms 'Business Services' and 'Financial Services' are used here for ease of use rather than the SIC definition and titles used by the Office for National Statistics, which are 'Real Estate, Renting and Business Activities' and 'Financial Intermediation'. Business Services covers activities such as Real Estate Sales and Management, Consultancies, Advertising, Design, etc. Financial Services covers Banking, Building Societies, Investment Agencies and Trusts, Insurance, etc.

Chart 2.1 Industry Sector

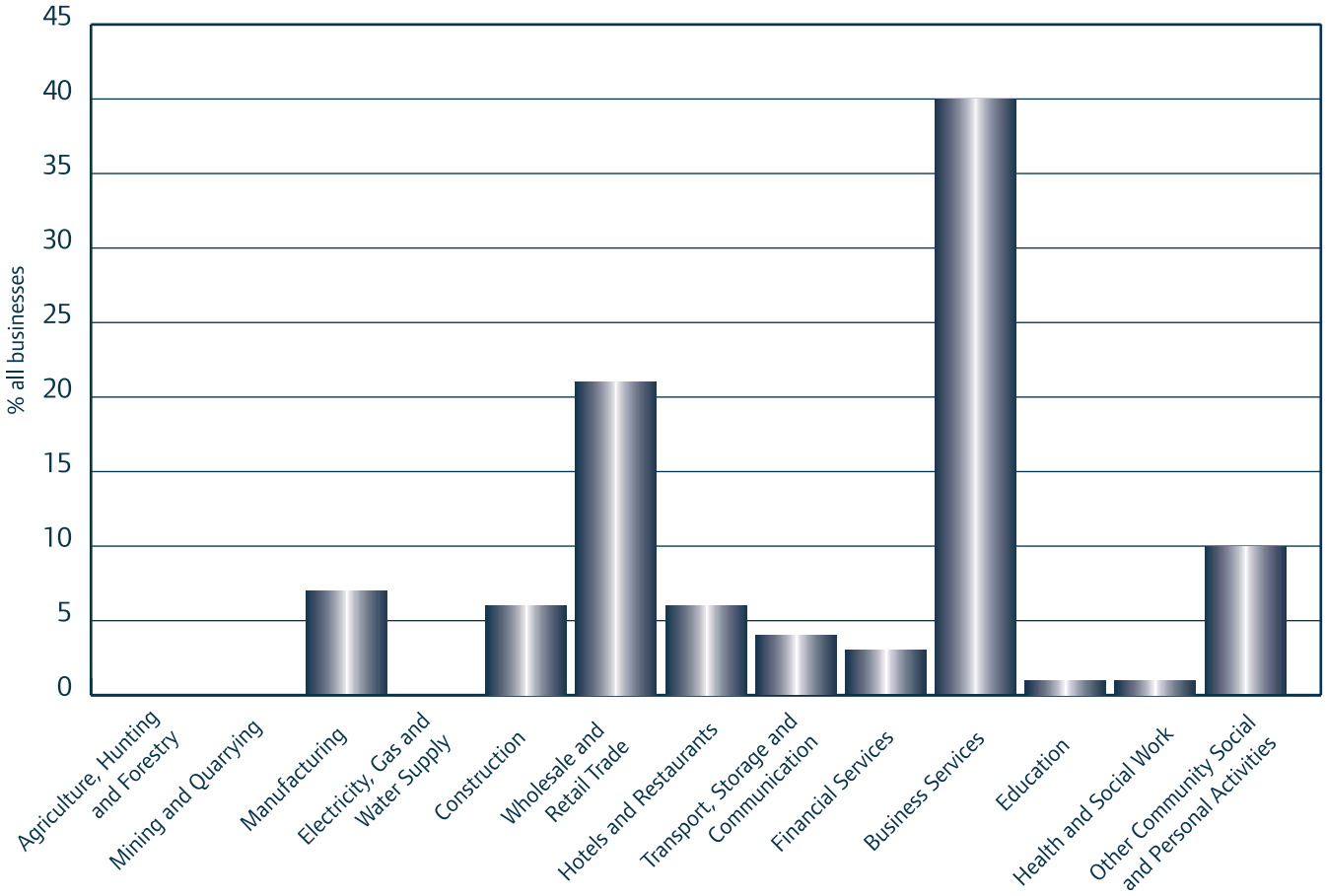


Table 2.1: Industry sector

	%
Agriculture, Hunting and Forestry	*
Mining and Quarrying	*
Manufacturing	7
Electricity, Gas and Water Supply	*
Construction	6
Wholesale and Retail Trade	21
Hotels and Restaurants	6
Transport, Storage and Communication	4
Financial Services	3
Business Services	40
Education	1
Health and Social Work	1
Other Community, Social and Personal Activities	10
Weighted base	**301,587**
Unweighted base	**4,073**

Source: London Annual Business Survey, 2003
Base: all businesses

The sectoral distribution of employers is similar in four of the five sub-regions[7], with only Central London being different. Central London has a higher proportion of employers engaged in Business Services (46%), with the proportions in other areas ranging from 36% – 38%.

Table 2.2: Industry sector and area

	London	Central	East	North	South	West
	%	%	%	%	%	%
Agriculture, Hunting and Forestry	*	0	*	*	*	1
Mining and Quarrying	*	*	0	0	0	0
Manufacturing	7	6	7	8	7	6
Electricity, Gas and Water Supply	*	0	0	*	0	1
Construction	6	3	8	9	10	7
Wholesale and Retail Trade	21	18	22	26	21	22
Hotels and Restaurants	6	7	6	5	6	6
Transport, Storage and Communication	4	3	5	4	4	6
Financial Services	3	3	6	2	2	2
Business Services	40	46	36	36	38	38
Education	1	1	2	1	1	1
Health and Social Work	1	1	1	2	2	1
Other Community, Social and Personal Activities	10	12	7	8	9	8
Weighted base	**301,587**	**108,301**	**62,883**	**32,951**	**44,977**	**52,475**
Unweighted base	**4,073**	**864**	**801**	**801**	**803**	**804**

Source: London Annual Business Survey, 2003
Base: all employers

The structure of sectoral employment has been changing over time and will continue to do so. Employment[8] in the UK has increased over the last 10 years from 26 million to 27.5 million. Within this overall increase, there has been a decrease in employment in the Primary, Manufacturing and Construction sectors and increases in employment in Distribution and Transport, Business and Miscellaneous Services. Looking forward to 2010, it is forecast that there will be further decreases in Primary and Manufacturing, although employment in Construction will stabilise. However, it is also forecast that these decreases will be more than offset by increases in the service sectors, particularly Business and Miscellaneous Services, leading to an overall increase in employment of two million.

Trends in London largely mirror these wider UK changes. Against a backdrop of increasing overall employment levels (projected to rise from 4.4 million in 2001 to 5.1 million in 2016, an increase of over 600,000 jobs), actual employment in Primary; Manufacturing and Construction is forecast to decrease. Increases in employment in London are largely expected in the Business Services; Other Services and Hotels and Restaurants sectors. The scale of the increase in these sectors (by 437,000, 178,000 and 141,000 respectively to 2016) is such that they are the only sectors to increase their shares of total employment. By 2010, it is expected that the Business Services sector will account for 31% of all employment in London.

[7] The sub-regions for the LDA and Business Link for London are the same as the LSC areas. **Central** consists of the City of Westminster, Kensington and Chelsea, Lambeth, Wandsworth, Southwark, Camden and Islington; **East** of Hackney, Redbridge, Havering, Barking and Dagenham, Newham, Tower Hamlets, the City of London, Bexley, Greenwich and Lewisham; **North** of Barnet, Enfield, Haringey and Waltham Forest; **South** of Merton, Sutton, Richmond, Kingston, Croydon and Bromley and **West** of Hillingdon, Harrow, Brent, Ealing, Hounslow and Hammersmith and Fulham.

[8] Institute for Employment Research, Projections of occupations and qualifications: 2000/2001, 2001

It is worth noting that not all service-based sectors are forecast to increase in London: Public Administration is forecast to have a decrease of 48,000 jobs over the period; Transport and Communication a decrease of 33,000.

Table 2.3: Employment by sector in London: historical trends and forecasts

	1991	2001	2011	2016	Change, 2001 – 2016
	n	n	n	n	n
Employment levels					
Primary	40,300	20,000	15,000	15,000	-5,000
Manufacturing	372,200	322,250	270,000	240,000	-82,250
Construction	258,700	211,583	180,000	160,000	-51,583
Wholesale	253,500	275,750	285,000	290,000	14,250
Retail	359,500	405,333	415,000	415,000	9,667
Hotels and Restaurants	218,300	303,583	400,000	445,000	141,417
Transport & Communications	348,800	358,000	335,000	325,000	-33,000
Financial Services	263,200	249,667	270,000	275,000	25,333
Business Services	778,300	1,152,667	1,445,000	1,590,000	437,333
Public Administration	256,600	223,000	190,000	175,000	-48,000
Health & Education	576,600	610,000	644,000	660,000	50,000
Other services	263,000	351,750	470,000	530,000	178,250
Total	**4,007,900**	**4,483,583**	**4,919,000**	**5,120,000**	**636,417**

	%	%	%	%	% point change 2001 – 2016
London shares					
Primary	1	0	0	0	*
Manufacturing	9	7	5	5	- 2
Construction	6	5	4	3	- 2
Wholesale	6	6	6	6	*
Retail	9	9	8	8	- 1
Hotels and Restaurants	5	7	8	9	2
Transport & Communications	9	8	7	6	- 2
Financial Services	7	6	5	5	- 1
Business Services	20	26	29	31	5
Public Administration	6	5	4	3	- 2
Health & Education	14	14	13	13	- 1
Other services	7	8	10	10	2
Total	**100**	**100**	**100**	**100**	**0**

Source: ONS, Cambridge Econometric, Institute for Employment Research, and Volterra Consultants, taken from Planning for London's Growth, GLA, 2003

Main activity at site

In addition to the SIC code, we have information on the main activity undertaken at the specific site interviewed. Given the sector distribution in the previous tables, it will be of no surprise that the main activities are sales direct to customers (30%) and delivery of professional or other services (23%). There is, however, a strong administrative and strategic base in London's economy: 22% are mainly involved in the administration of other operations within the group or division, 4% with strategic sales or marketing functions and 3% in design.

Table 2.4: Main activity at site

	%
Sales direct to customers or clients	30
Delivery of professional or other services	23
Administration of other operations within the group or division (eg Head Office)	22
Entertainment, leisure, catering, etc	5
Strategic sales or marketing functions	4
Construction activities	3
Design	3
Production or assembly line operations	2
Wholesale distribution or import/ export activities	2
Transport or haulage of goods and services	2
Routine office functions	1
Education or training	1
Call centre or volume telephone-based operations	*
Research and development	*
Other	1
Don't know/no response	*
Weighted base	**301,587**
Unweighted base	**4,073**

Source: London Annual Business Survey, 2003
Base: all businesses

The proportion of firms in London engaged with routine (and perhaps lower value-added) functions is low: 2% are engaged in production or assembly line operations, 1% in routine office functions and less than 0.5% in call centre or volume telephone-based operations.

There is a difference in the distribution of these activities by area, with Central and East London being more likely to have establishments engaged in these 'Head Office' activities (26 and 25% respectively). Larger companies are also more likely to be engaged in these activities.

However, the biggest source of variation in the main activity is the sector in which the business is located. Much of this tends towards the self-evident (eg 61% of those engaged in Distribution have as a main activity 'Sales direct to customers', 34% of those in the Banking, Finance and Professional Services sectors are engaged in 'Delivery of professional services' etc), but it is worth noting that amongst the Manufacturing and Other Production sectors, relatively few are actually engaged in production processes, with over half of Manufacturing establishments being engaged in Administration (20%), Sales direct to customers (20%) or Delivery of professional or other services (14%).

Table 2.5: Main activity at site

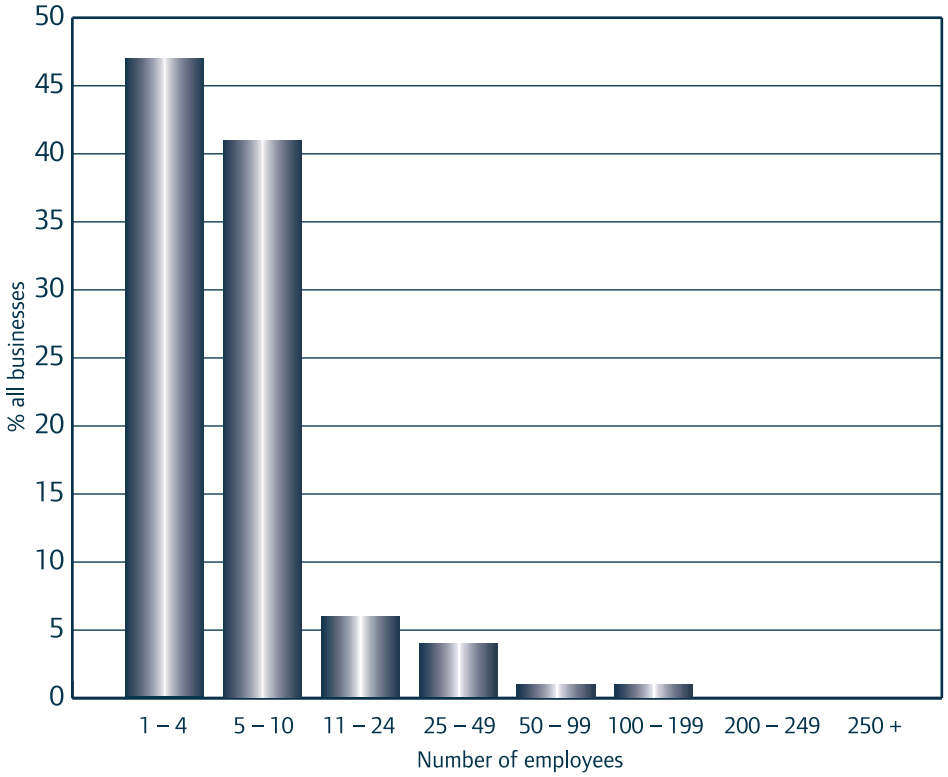
	All	Manufac-turing	Other prod.	Dist.	Banking, finance and prof. services	Other misc services	Public services
	%	%	%	%	%	%	%
Sales direct to customers or clients	30	20	10	61	19	28	7
Delivery of professional or other services	23	14	22	8	34	17	41
Administration of other operations within the group or division (eg Head Office)	22	20	25	10	30	17	14
Entertainment, leisure, catering, etc	5	1	*	2	1	27	4
Strategic sales or marketing functions	4	3	5	2	5	7	2
Construction activities	3	5	32	*	2	*	0
Design	3	5	1	*	5	1	0
Production or assembly line operations	2	27	2	2	*	*	0
Wholesale distribution or import/export activities	2	3	0	8	1	1	0
Transport or haulage of goods and services	2	*	*	6	*	*	1
Routine office functions	1	1	2	*	1	*	*
Education or training	1	1	0	*	1	1	30
Call centre or volume telephone based operations	*	*	0	*	1	*	0
Research and development	*	*	0	*	1	1	0
Other	1	*	2	1	*	1	2
Don't know/no response	*	0	0	1	*	1	0
Weighted base	**301,587**	**19,959**	**20,087**	**75,150**	**131,419**	**47,886**	**7,086**
Unweighted base	**4,073**	**476**	**322**	**1,214**	**1,221**	**612**	**228**

Source: London Annual Business Survey, 2003
Base: all businesses

2.3 Size of establishments

The majority of establishments in London are small: 47% have less than five employees, 88% have 10 or fewer. Only a minority of establishments are of a significant size: less than 0.5% have 200 – 249 employees or more than 250 employees.

Chart 2.2 Size of Establishment



However, it bears pointing out that these small numbers of larger establishments do employ large numbers of staff: a fifth of the 3.25 million employees in London work in the less than 0.5% of establishments with more than 250 employees. The nine-tenths of establishments with 10 employees or less employ 41% of all employees in London.

The average size of establishment varies according to sub-region. North London has a higher proportion of very small establishments (56% with less than five employees), leading to the smaller average staff size of 7.6 employees per establishment. East London has the highest average establishment size at 12.4 employees per establishment. It is worth noting that London East contains the City of London and the Canary Wharf development which are areas containing large firms.

Table 2.6: Size of establishment and area

	London	Central	East	North	South	West
	%	%	%	%	%	%
1 – 4	47	43	46	56	51	49
5 – 10	41	45	41	35	38	40
11 – 24	6	6	6	4	5	4
25 – 49	4	3	4	3	4	4
50 – 99	1	1	1	1	1	1
100 – 199	1	1	1	1	1	1
200 – 249	*	*	*	*	*	*
250 +	*	*	*	*	*	*
Total number of employees	3,248,254	1,253,468	780,910	251,239	416,684	545,954
Mean number of staff	10.8	11.6	12.4	7.6	9.3	10.4
Weighted base	**301,587**	**108,301**	**62,883**	**32,951**	**44,977**	**52,475**
Unweighted base	**4,073**	**864**	**801**	**801**	**803**	**804**

Source: London Annual Business Survey, 2003
Base: all businesses

Establishments based in the Public Services sector are largest, with an average of 16.6 employees per establishment, Those in Other Production (which mainly consists of Construction companies) are the smallest with an average of 7.5 employees per establishment.

Table 2.7: Size of establishment and sector

	All	Manufac-turing	Other prod.	Dist.	Banking, finance and prof. services	Other misc services	Public services
	%	%	%	%	%	%	%
1 – 4	47	49	54	48	46	50	24
5 – 10	41	36	38	39	45	37	43
11 – 24	6	7	4	6	5	6	16
25 – 49	4	5	3	4	2	5	11
50 – 99	1	2	1	1	1	2	4
100 – 199	1	1	*	1	1	1	2
200 – 249	*	*	*	*	*	*	*
250 +	*	1	*	*	1	*	*
Total number of employees	3,248,254	262,322	150,008	827,489	1,428,115	462,847	117,394
Mean number of staff	10.8	13.1	7.5	11.0	10.9	9.7	16.6
Weighted base	**301,587**	**19,959**	**20,087**	**75,150**	**131,419**	**47,886**	**7,086**
Unweighted base	**4,073**	**476**	**322**	**1,214**	**1,221**	**612**	**228**

Source: London Annual Business Survey, 2003
Base: all businesses

2.4 Structure of business

Single or multiple site organisation

The majority (62%) of establishments in London are single site, with 38% being multiple site organisations. As would be expected, as the size of the business grows, the more likely it is that it becomes a multiple site organisation, but even amongst the smallest establishments (those with 10 employees or less) over a third (35%) are part of multiple site organisations.

Consistent with this is that the longer the establishment has been in existence, the more likely it is to be a multiple site organisation. Early stage firms are more likely to be single site.

Table 2.8: Structure of business by size

	Single site	Multiple site	Weighted base	Unweighted base
	%	%	n	n
All businesses	**62**	**38**	**301,587**	**4,073**
Size				
1 – 10	65	35	266,266	1,842
11 – 49	40	60	27,404	1,379
50 – 249	24	76	6,711	664
250 – 499	8	92	905	126
500 +	7	93	301	62
Length of establishment				
Up to 18 months	76	24	128	13,776
18 months – 3 years	73	27	364	40,647
3 – 5 years	68	32	322	33,114
More than 5 years	58	42	3,174	209,491

Source: London Annual Business Survey, 2003
Base: all businesses

There are some sectors that tend to have a higher proportion of multiple site businesses than others, particularly Hotels and Restaurants (59% of establishments belong to a multiple site organisation), Wholesale and Retail Trade (45%) and Financial Services (also 45%).

Table 2.9: Structure of business by sector

	Single site	Multiple site	Weighted base	Unweighted base
	%	%	n	n
All businesses	**62**	**38**	**301,587**	**4,073**
Sector				
Primary and Utilities	40	60	986	13
Manufacturing (excluding publishing)	69	31	6,729	314
Publishing	78	22	13,207	159
Construction	76	24	19,101	309
Wholesale and Retail Trade	55	45	62,480	987
Hotels and Restaurants	41	59	19,097	338
Transport, Storage and Communication	59	41	12,670	227
Financial Services	55	45	9,593	162
Business Services	64	36	121,826	1,059
Education, Health and Social Work	50	50	7,086	228
Other Community, Social and Personal Activities	69	31	28,789	274

Source: London Annual Business Survey, 2003
Base: all businesses

Due to this sectoral distribution, different areas have differing proportions of single and multiple site establishments within them. The London North and South sub-regions have a higher proportion of single site establishments (72% and 67% respectively), whilst the Central sub-region has the highest proportion of multiple site organisations (42%).

Table 2.10: Structure of business and area

	Single site	Multiple site	Weighted base	Unweighted base
	%	%	n	n
All businesses	**62**	**38**	**301,587**	**4,073**
Area				
Central	58	42	108,301	864
East	60	40	62,883	801
North	72	28	32,951	801
South	67	33	44,977	803
West	61	39	52,475	804

Source: London Annual Business Survey, 2003
Base: all businesses

Location of Head Office

For single site establishments, business decisions are obviously made on that site. Of multi-site organisations, just less than a quarter of establishments, were also the Head Office. A third were located elsewhere in London (3% elsewhere in the same Borough, 29% elsewhere in London).

Table 2.11: Location of business decision-making centre

	%
Establishment also Head Office	24
Elsewhere in the Borough	3
Elsewhere in London	29
Elsewhere in the South East	6
Elsewhere in the UK	18
Elsewhere in the EU	2
Elsewhere in Europe	1
United States of America	3
Japan	*
Other	1
Don't know	14
Weighted base	**114,976**
Unweighted base	**2,065**

Source: London Annual Business Survey, 2003
Base: all multiple site establishments

On the basis of these findings we estimate that the majority of London businesses (83%) have their main decision-making function within London. This reinforces the finding that a high proportion of London's establishments have administration or some other strategic role as their main function.

2.5 Ownership patterns of businesses in London

Legal status

There are three main types of legal status of businesses in London: private limited companies (62%), sole proprietorships (16%) and partnerships (10%). Minorities of businesses are public limited companies (6%).

Table 2.12: Legal status of the business

	%
Sole proprietorship	16
Partnership	10
Private limited company (ltd)	62
Public limited company (plc)	6
Social enterprise	1
Other	5
Don't know/non response	2
Weighted base	**301,587**
Unweighted base	**4,073**

Source: London Annual Business Survey, 2003
Base: all multiple site establishments

There are clear relationships between the size of the business (in terms of the number of employees) and the legal status of the establishment. Small establishments are likely to have a range of legal statuses including sole proprietorships (18%) and partnerships (11%), although the most common remains private limited company (61%). As the company size grows, the proportion that have these legal formations decreases and the proportion that are public limited companies increases, so that amongst the largest firms, 36% are classed as a plc.

Table 2.13: Legal status of the business and size of establishment

		Size (number of employees)				
	All	**1 – 10**	**11 – 49**	**50 – 249**	**250 – 499**	**500 +**
	%	%	%	%	%	%
Sole proprietorship	16	18	3	2	0	0
Partnership	10	11	7	6	5	16
Private limited company (ltd)	62	61	70	63	54	40
Public limited company (plc)	6	4	13	25	40	36
Social enterprise	1	1	2	3	*	2
Other	5	5	4	3	1	7
Don't know/non response	2	2	3	2	*	3
Weighted base	**301,587**	**266,266**	**27,404**	**6,711**	**905**	**301**
Unweighted base	**4,073**	**1,842**	**1,379**	**664**	**126**	**62**

Source: London Annual Business Survey, 2003
Base: all businesses

UK or foreign ownership

Porter[9] notes that inward foreign investment improves the business environment by elevating the level of domestic competition and raising the level of buyer sophistication through the procurement standards and choices of foreign multinationals. It also provides an economy with an inflow of new technologies, operational practices and other knowledge developed elsewhere. These foreign investors often have superior capabilities which allow them to operate in a location they otherwise know less well. These superior capabilities are reflected in the higher productivity of foreign-owned companies relative to the average domestic company.

More than nine out of ten establishments in London are UK-owned. As the establishment size increases so does the proportion that are foreign-owned, from 5% of the smallest companies to 28% of the largest (those with more than 500 employees).

Table 2.14: Location of ownership and size of establishment

		Size (number of employees)				
	All	1 – 10	11 – 49	50 – 249	250 – 499	500 +
	%	%	%	%	%	%
UK owned	93	94	87	77	78	70
Foreign owned	7	5	12	23	18	28
Don't know/non response	*	*	1	1	4	2
Weighted base	**301,587**	**266,266**	**27,404**	**6,711**	**905**	**301**
Unweighted base	**4,073**	**1,842**	**1,379**	**664**	**126**	**62**

Source: London Annual Business Survey, 2003
Base: all businesses

There is an inter-relationship between the legal status and location of ownership. Smaller establishments are more likely to be sole proprietorships or partnerships and are more likely to be UK owned. Larger establishments are more likely to be public limited companies and more likely to be foreign owned.

2.6 Characteristics of owners

Respondents were asked a number of questions about the gender, ethnicity and disability status of the owners of the business. They were told that these questions could relate to an individual or partners. From the answers to these questions we are able to judge the extent to which people from different groups are represented in senior positions in comparison to the population as a whole. This is particularly important in London, where there is a wide cross-section of different groups.

Gender

A relatively high proportion of respondents did not know the proportion of owners who were female so in the table below we show the response with these excluded. Once this has been done, the data shows that 62% of businesses have no female owners. At the other end of the scale, 7% of businesses have 100% female ownership. The average proportion of female ownership is 21%.

[9] Porter M and Ketels C, UK Competitiveness: moving to the next stage, Department of Trade and Industry Economics Paper No. 3, May 2003

Table 2.15: Proportion of owners who are female

	All	Excluding don't knows
	%	%
0%	53	62
1 – 20%	5	5
21 – 40%	5	5
41 – 60%	16	18
61 – 80%	2	2
81 – 99%	1	1
100%	6	7
Don't know/non response	13	n/a
Average % of female owners	21	21
Weighted base	**301,587**	**261,524**
Unweighted base	**4,073**	**3,532**

Source: London Annual Business Survey, 2003
Base: all businesses

The average proportion of female ownership varies according to:

- size: the smaller the organisation, the higher the average level of female owners;
- sector: there are some sectors which have a greater than average proportion of female owners, particularly those providing services to the public sector (Education, Health and Social Work) at 33% and Other Community, Social and Personal Activities (31%).

Chart 2.3 Average percentage of female ownership by size of business

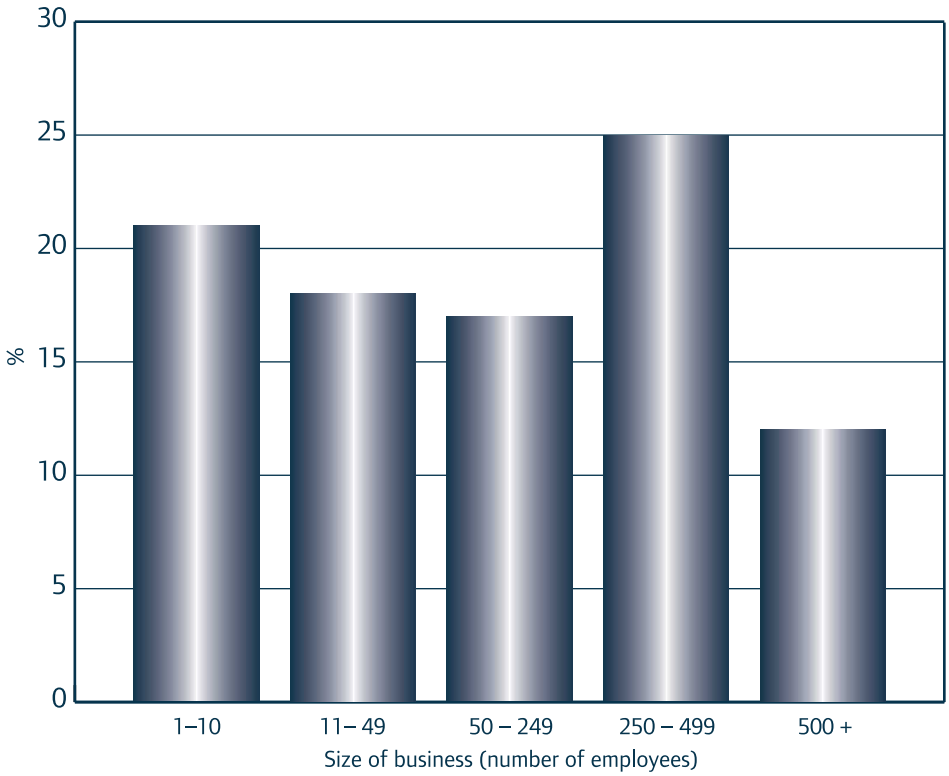


Table 2.16: Average percentage of female ownership

		Unweighted base
	%	n
All	**21**	**4,073**
Size		
1 –10	21	1,842
11 – 49	18	1,379
50 – 249	17	664
250 – 499	25	126
500 +	12	62
Sector		
Primary and Utilities	19	13
Manufacturing (excluding publishing)	14	314
Publishing	17	159
Construction	15	309
Wholesale and Retail Trade	20	987
Hotels and Restaurants	20	338
Transport, Storage and Communication	17	227
Financial Services	11	162
Business Services	20	1,059
Education, Health and Social Work	33	228
Other Community, Social and Personal Activities	31	274

Source: London Annual Business Survey, 2003
Base: all businesses

These findings are very similar to that obtained from the *2002 London Employers Survey* (LES), which, whilst only asking about the gender of single proprietors, found that the majority (79%) of single proprietors were men, a finding which changed little since the 2000 Survey, where 80% of single proprietors were men.

Similar to our findings the LES found that single proprietors are more likely to be female in:

- smaller businesses: 19% of owners of companies with 1 – 10 employees are women, compared to 10% of those with 250-499 employees, although some care needs to be taken with the larger establishments as sample sizes are small;

- specific sectors, particularly Health and Social Work (60%); Other Community, Social and Personal Activities (40%), and Education (32%). There are a number of sectors with no or very low levels of female ownership;

Both surveys suggest that the ratio of male to female owners is in the region 80:20. The population of London is 52% female, and, even given differential economic activity rates, women still make up 43% of the economically active workforce[10]. All this suggests that women remain substantially under-represented amongst business owners in London.

The representation of women owners also varies across ethnic groups: the average proportion of women owners is 21% for White owned businesses, 29% for Black owned businesses, 15% for Asian owned businesses, 27% for Mixed and 29% for businesses owned by other ethnic groups.

[10] Labour Force Survey, Winter 2002/3

Existence of disability

The average proportion of disabled owners is less than 1%. The majority of establishments (98%, if excluding the 'don't know' responses) do not have any owners who have disabilities.

Table 2.17: Proportion of owners who are disabled

	All	Excluding don't knows
	%	%
0%	84	98
1 – 20%	1	1
21 – 40%	*	*
41 – 60%	1	1
61 – 80%	*	*
81 – 99%	*	*
100%	*	*
Don't know/non response	14	n/a
Average % of disabled owners	0.9	0.9
Weighted base	**301,587**	**258,063**
Unweighted base	**4,073**	**3,485**

Source: London Annual Business Survey, 2003
Base: all businesses

Again, this suggests that there is a considerable under-representation of people with disabilities amongst owners of businesses in London.

Ethnicity

Ownership of private sector business in London remains predominantly in the hands of White ethnic groups. Of the respondents who were able to respond to this question, just over three-quarters (77%) stated that the owners were White, 12% Asian, 3% from Black ethnic groups and 7% Mixed. These results are very much in line with those found in the *2002 London Employers Survey*.

Table 2.18: Ethnicity of owners

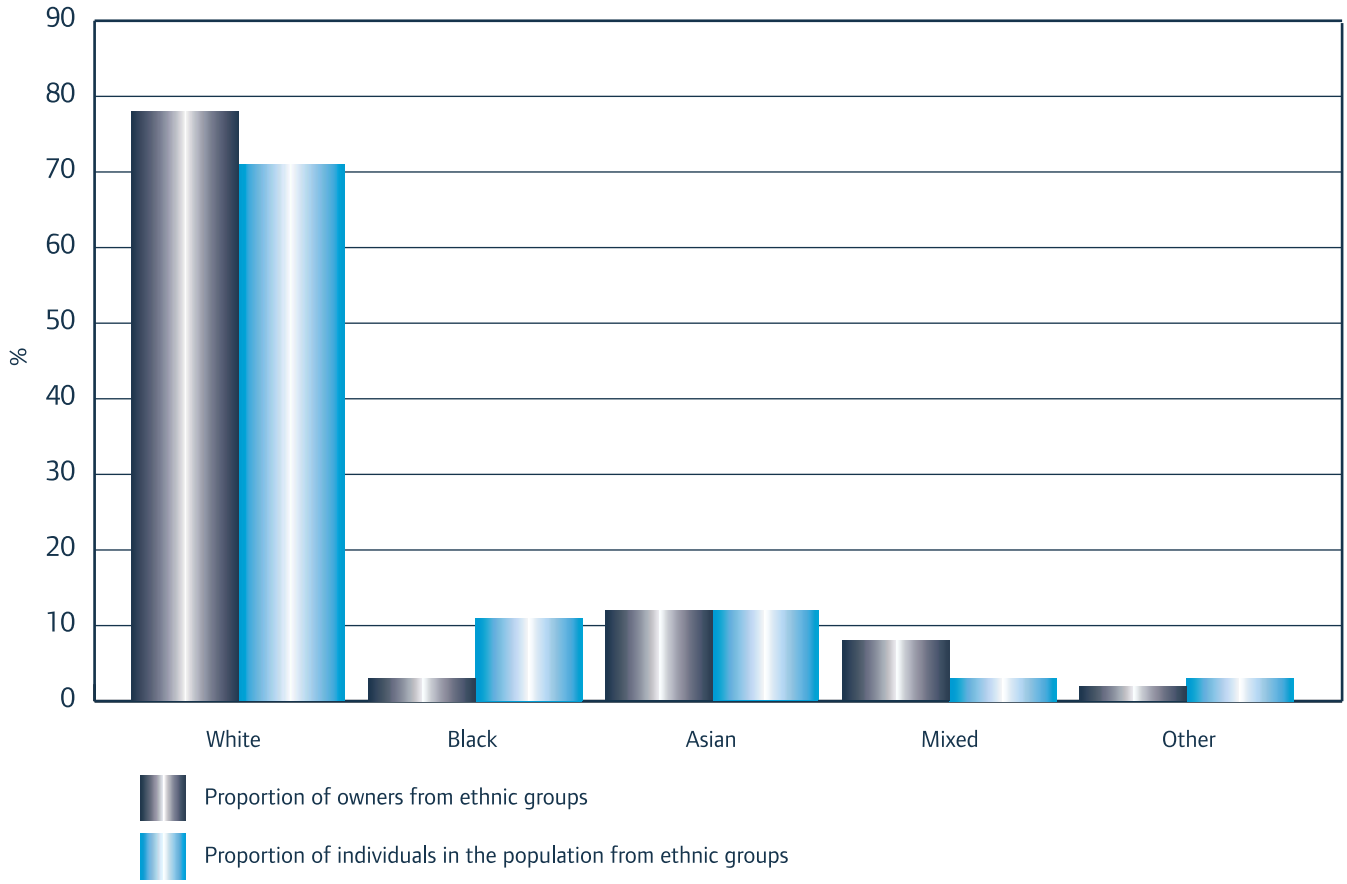
	All	Excluding don't knows
	%	%
White	**67**	**77**
White British	58	67
White Irish	1	2
White: other EU	5	5
White: other	3	3
Black 3	3	
Black British	1	1
Black Caribbean	1	1
Black African	1	1
Black: other	*	*
Asian	**10**	**12**
Asian British	3	4
Asian Indian	3	4
Asian Pakistani	1	2
Asian Bangladeshi	*	1
Asian Other	2	1
Mixed	**6**	**7**
White and Black Caribbean	1	1
White and Black African	*	*
White and Asian	2	2
Other	**3**	**3**
Chinese	*	*
Japanese	*	*
East Asian	*	*
West Asian	1	1
Other	1	1
Don't know/non-response	13	n/a
Weighted base	**301,587**	**261,041**
Unweighted base	**4,073**	**3,525**

Source: London Annual Business Survey, 2003
Base: all businesses

Again, relative to the proportion of the population from ethnic minorities who live in London, there is a considerable under-representation of people from some of these groups. In London, the overall proportion of the population from ethnic minority groups is 29%[11]. However, although 12% of business owners are from Asian groups, which is in line with their population share, it is amongst Black ethnic groups that the under-representation occurs. Only 3% of business owners are from these groups, compared to an 11% representation in the overall population.

[11] 2001 Population Census, ONS

Chart 2.4 Ethnicity of owners



The proportion of owners from ethnic minority groups varies widely across each of the sub-regions, from a low of 14% in London South, to 31% in London West. In each area the same patterns occur of an under-representation of Black business owners.

Table 2.19: Ethnicity of owners by area

	London	Central	East	North	South	West
	%	%	%	%	%	%
Proportion of owners from ethnic groups						
White	77	79	76	73	87	69
Black	3	3	3	6	1	2
Asian	12	8	14	15	8	19
Mixed	7	9	5	4	4	9
Other	2	2	2	3	1	1
Weighted base	**261,041**	**94,888**	**53,451**	**27,597**	**38,942**	**46,162**
Unweighted base	**3,525**	**757**	**681**	**671**	**695**	**707**
Proportion of individuals in the population from ethnic groups						
White	71	71	69	71	83	63
Black	11	15	12	12	6	9
Asian	12	6	14	10	7	22
Mixed	3	4	3	3	3	3
Other	3	4	2	3	2	3

Source: London Annual Business Survey, 2003 & 2001 Population Census, ONS
Base: all businesses

There are a number of sectors that have a higher proportion of owners from ethnic minority groups, for example, Hotels and Restaurants (41%) and Wholesale and Retail Trade (35%). Where owners do come from Black ethnic groups, they are more likely to be found in the Hotel, and Restaurant, and Transport, Storage and Communication sectors. Asian owners particularly predominate in the Wholesale and Retail and Transport, Storage and Communication sectors. Publishing and Construction remain White dominated.

The proportion of owners who come from ethnic minority groups decreases as the size of the establishment increases. Most Black and Minority Ethnic-owned businesses are small.

Table 2.20: Ethnicity of owners by size and sector

	White	Black	Asian	Mixed	Other	Wtd Base	Unwtd Base
	%	%	%	%	%		
All	**77**	**3**	**12**	**7**	**2**	**261,041**	**3,525**
Sector							
Primary and utilities	91	0	9	0	0	954	12
Manufacturing (excluding publishing)	76	2	14	7	2	11,256	268
Publishing	87	4	7	2	*	5,974	141
Construction	90	3	3	4	*	17,756	287
Wholesale and retail trade	65	2	26	5	1	51,888	820
Hotels and restaurants	59	7	15	10	9	13,705	243
Transport, storage and communication	58	8	26	8	1	10,596	190
Financial Services	83	*	7	7	3	8,171	138
Business Services	82	2	6	8	2	108,990	947
Education, Health and social work	77	2	13	8	*	5,826	187
Other community, social and personal activities	82	4	7	6	1	25,909	247
Size							
1 – 10	69	3	11	6	2	235,098	1,626
11 – 49	82	1	7	9	2	20,751	1.044
50 – 249	83	1	4	10	2	4,607	456
250 – 499	92	0	1	6	1	425	59
500 +	100	0	0	0	0	160	33

Source: London Annual Business Survey, 2003
Base: all businesses able to identify ethnic group of the majority of owners

2.7 Summary

London's estimated 300,000 businesses are primarily engaged in service-based activities. The data suggests that only 13% of London's businesses can be classified as engaged in Production-based industry sectors, but even this is an over-estimate as some of these establishments will be Head Offices, at which little 'actual' manufacturing takes place. In addition, publishing is traditionally included in the manufacturing sector.

London has a high proportion of establishments engaged in administrative and strategic activities: 22% are mainly involved in the administration of other operations within the group or division, 4% with strategic sales and 3% in design. The proportion of establishments in London engaged in routine functions is low.

The relative importance of the service-sector has increased over time and it is forecast that it will continue to do so. The main growth sector will be Business Services, and by 2016 this sector will account for nearly a third of all London's employment.

The majority of London's employing establishments are small. However, the few large employers account for a high proportion of jobs. 20% of London's three million workforce work in the 0.5% of employers with more than 250 employees.

Consistent with this is that the majority (62%) of London's employers are single site organisations. Of the other 38% of firms that are multi-site, a quarter of the sites surveyed act as Head Offices for the wider organisation, and a third had their Head Office located elsewhere in London.

The majority of London's business owners are White and male. The results show that:

- Only 21% of business owners are female. 53% of businesses have no female owners and only 7% are owned completely by women. Female-owned businesses are more likely to be smaller and to be in specific sectors, particularly Education, Health and Social Work; Other Community, Social and Personal Activities.

- The representation of women owners also varies by ethnic group. The average proportion of women owners is 21% for White owned businesses, 29% for Black-owned businesses and 15% for Asian-owned businesses.

- People from Black ethnic groups are generally under-represented amongst London's business owning community. 77% of owners of businesses come from White ethnic groups (White ethnic groups represent 71% of London's population), 3% of businesses are Black-owned (compared to a 11% representation in the population as whole), and 12% are Asian-owned (which accurately reflects the proportion of Asian ethnic groups in the population).

- 1% of owners of businesses state they suffer from a disability or long term illness.

3. TURNOVER, PRODUCTIVITY AND PROFIT

3.1 Introduction

This section examines turnover, productivity and profit factors for firms in London. Essentially these variables form the 'success factors' for businesses and collectively provide the basis for regional income. For this report (the first in a time series), this data only provides a snapshot of how well businesses have performed over the last 12 months and their views of their likely prospects over the next 12 months. Over time, as this project develops, the data will become of more value as it becomes an indicator of changes in the performance and confidence of London's businesses.

3.2 Relative regional income

The Department of Trade and Industry uses Gross Value Added (GVA) and Household Disposable (HDI) Income per head to measure different aspects of a region's income. They differ in that:

- Gross Value Added gives an indication of the value of the economic activity generated within an area through the production of new goods and services. It essentially measures the value of goods and services sold, minus the costs of inputs. The measure we use below is GVA per head, which is the value of the total output of London divided by the numbers of people who work and reside in London. It does not include those who work in London, but live elsewhere; and

- Household Disposable Income provides an indication of the income received by resident households and non-profit organisations that service households. It is defined as total household income (including benefits) less current taxes on income, wealth and other social contributions. It measures what financial resources households have available to spend on goods and services.

Gross Value Added

Between 1989 and 2001 London has consistently had the highest GVA per head of population of any UK region, growing from £10,252 in 1989 to £19,500 in 2001. In 2001 London accounted for some 16.5% of total UK GVA.

Table 3.1: Gross value added (2001)

GVA (workplace based)	£s per head	UK index
UK	14,852	100
London	19,526	135
South West	12,880	89
South East	17,345	120
East of England	15,899	110
West Midlands	13,070	90
East Midlands	13,268	92
Yorkshire & Humberside	12,468	86
North West	13,011	90
North East	11,019	76
England	14,844	103
Wales	11,396	79
Scotland	13,660	94
Northern Ireland	11,311	78

Source: ONS, Regional gross value added, August 2003

Total GVA has been growing in all regions, although there has been a variation in the rate of increase. In 2001 London experienced the greatest growth, 5.4% higher than in 2000.

Gross Household Disposable Income

In 1999, Household Disposable Income per head of population in London at £12,207 was 20% above UK income per head (£10,142).

Table 3.2: Gross Household Disposable Income per head (1999)

	£s per head	UK index
UK	10,142	100
London	12,207	120
South West	10,073	99
South East	11,055	109
Eastern	10,638	105
West Midlands	9,541	94
East Midlands	9,409	93
Yorkshire & Humberside	9,325	92
North West	9,501	94
North East	9,018	89
England	10,284	101
Wales	8,870	87
Scotland	9,870	97
Northern Ireland	8,998	89

Source: Department of Trade and Industry, Regional Competitiveness and State of the Regions, January 2003

A key component of household income is the level of average earnings. As would be expected during 2002, the hourly earnings (including overtime) of full-time employees in London were higher than any other UK region at £15.40 per hour. This was an increase of just over 5% on the previous year.

Table 3.3: Average hourly earnings, full-time employees (2002)

	Male	Female	All
	£	£	£
UK	11.9	9.9	11.2
London	**16.8**	**13.2**	**15.4**
South West	10.9	9.2	10.3
South East	12.9	10.2	11.9
Eastern	11.7	9.6	11.0
West Midlands	10.8	9.1	10.2
East Midlands	10.4	8.7	9.9
Yorkshire & Humberside	10.3	9.0	9.9
North West	11.0	9.3	10.4
North East	10.2	8.8	9.7
England	12.1	10.1	11.
Wales	10.2	9.1	9.8
Scotland	11.0	9.2	10.3
Northern Ireland	10.0	9.1	9.7

Source: New Earnings Survey, ONS, taken from Department of Trade and Industry, Regional Competitiveness and State of the Regions, January 2003

It should be noted that whilst the overall level of household income and earnings are higher in London than elsewhere, this does not mean that all residents of London enjoy the benefits. These averages disguise the fact that earnings and household income are unevenly distributed. Deprivation is concentrated in parts of Inner and East London, down the Lee Valley to the east and in the arc south of the Thames. Income distribution between the wealthiest and poorest households is far more polarised in London than elsewhere. In London, the incomes of the wealthiest 20% are more than seven times higher than the bottom 20%, while in the rest of the country the difference is less than five times[12].

[12] Planning for London's Growth, GLA, 2003

3.3 Turnover

As normal in surveys such as this, turnover data is not available from all companies, either because the information is not known or is regarded as being confidential. As a result, this question suffers from a significant level of non-response, with 52% of companies not answering it. There is, however, no discernible pattern to the non-response rate.

Overall level of turnover

Given the range of sizes of establishments in London, it will be of no surprise that there is an equally large spread in turnover size bands. The majority of companies have relatively low levels of turnover, with three-quarters (75%) having less than £1 million per year. The mean turnover of £5,001,822 is skewed upwards by a few larger companies with high levels: the median turnover is £300,000.

Table 3.4: Level of turnover in the last financial year

	All	All excluding 'don't knows'	Cumulative
	%	%	%
Up to £50,000	6	12	12
£50,001 – £100,000	7	14	26
£100,001 – £500,000	16	32	58
£500,001 – £1 million	8	17	75
£1 million – £5 million	9	18	93
£5 million – £10 million	1	3	96
More than £10 million	2	4	100
Don't know/refused	52	n/a	n/a
Mean turnover (£)	5,001,822	5,001,822	5,001,822
Median turnover (£)	300,000	300,000	300,000
Weighted base	**301,587**	**146,377**	**146,377**
Unweighted base	**4,073**	**1,977**	**1,977**

Source: London Annual Business Survey, 2003
Base: all businesses

Turnover per employee

Perhaps of more interest is the level of turnover per employee. This is estimated at a mean value of £330,820 per employee, although the range is from less than £10,000 per employee through to over £500,000 per employee. The median value for turnover per employee is £75,000 per year, which is probably a truer reflection of the correct value.

Table 3.5: Turnover per employee

	All	All excluding 'don't knows'	Cumulative
Turnover per employee (£)	**%**	**%**	**%**
Less than £10,000	4	8	8
£10,001 - £25,000	6	14	22
£25,001 - £50,000	7	14	36
£50,001 - £100,000	11	24	60
£100,001 - £500,000	13	30	90
More than £500,000	5	10	100
Don't know/refused	55	n/a	n/a
Mean turnover per employee (£)	330,820	330,820	330,820
Median turnover per employee (£)	75,000	75,000	75,000
Unweighted base	**301,587**	**134,944**	**134,944**
Weighted base	**4,073**	**1,822**	**1,822**

Source: London Annual Business Survey, 2003
Base: all businesses

The average turnover generated by each employee varies markedly across London, from a low of £237,000 in London South to £395,000 in London East. It is worth noting that London East contains the City of London and the Canary Wharf development which are areas containing economic sectors generating high levels of turnover. The impact of the inclusion of these two sectors is to bring the average for London East to the highest in London.

Table 3.6: Mean and median turnover per employee and sub-region

	Mean turnover per employee	Median turnover per employee	Weighted base	Unweighted base
	£	£	n	n
London	**330,820**	**75,000**	**134,944**	**1,822**
Central	331,580	75,000	46,824	374
East	394,966	100,000	25,138	320
North	362,654	75,000	17,074	415
South	236,809	75,000	23,571	421
West	331,907	100,000	22,336	342

Source: London Annual Business Survey, 2003
Base: all businesses providing details of turnover and number of employees

Whilst there is no consistent pattern of turnover per employee between establishments of different sizes, there are significant variations across industry sectors. Some care needs to be taken with sample sizes here, but we can see that the range of mean turnover per employee ranges from a low in Other Community, Social and Personal Activities (£110,000 per employee) and Education, Health and Social Work sectors (£128,000 per employee) through to £1,227,000 in the Financial Services sector.

Table 3.7: Mean and median turnover per employee and industry sector

	Mean turnover per employee	Median turnover per employee	Weighted base	Unweighted base
	£	£	n	n
All businesses	**330,820**	**75,000**	**134,944**	**1,822**
Primary and Utilities	872,964	300,000	381	5
Manufacturing (excluding publishing)	229,059	60,000	7,094	167
Publishing	315,191	100,000	3,692	87
Construction	247,202	100,000	9,715	157
Wholesale and Retail Trade	392,228	107,413	25,967	410
Hotels and Restaurants	194,697	43,750	7,719	137
Transport, Storage and Communication	426,914	62,500	7,187	129
Financial Services	1,226,859	150,000	4,425	75
Business Services	316,206	75,000	54,983	478
Education, Health and Social Work	127,676	50,000	1,836	59
Other Community, Social and Personal activities	109,774	37,500	11,929	114

Source: London Annual Business Survey, 2003
Base: all businesses providing details of turnover and number of employees

Changing level of turnover

This sub-section examines the changing level of turnover in the last 12 months. As noted above, at this stage the data only provides a snapshot of how well businesses have performed over the last 12 months and their views of their likely prospects over the next 12 months. Over time, as this project develops, the data will become of more value as it becomes an indicator of changes in the performance and confidence of London's businesses.

Last 12 months

Excluding those that don't know (13%) the majority of firms have seen turnover increasing or staying the same over the last 12 months, such that:

- 39% have seen their level of turnover increase over the last 12 months, 13% by more than 10%, 26% by less than 10%;
- 39% have seen their turnover remain the same.

Just over a fifth (22%) have seen turnover decrease, with 15% seeing a decrease of less than 10% and a minority (7%) by more than 10%.

Chart 3.1 Changing level of turnover in last 12 months

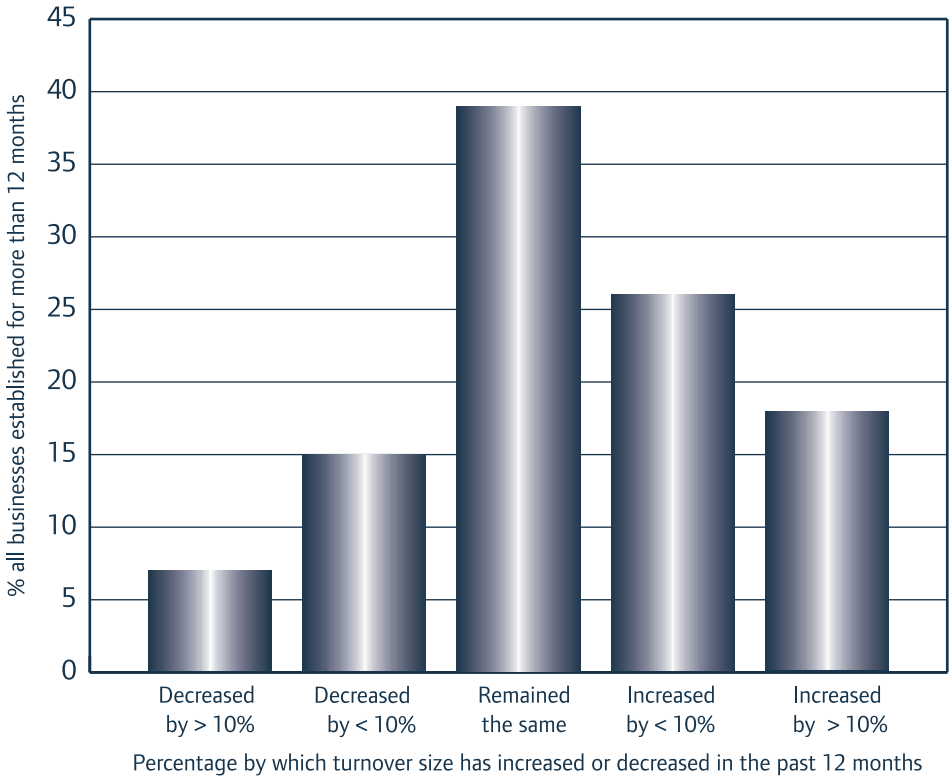


Table 3.8: Changing level of turnover in last 12 months

	All	Excluding don't knows
	%	%
Increased by > 10%	11	13
Increased by < 10%	23	26
Remained the same	34	39
Decreased by < 10%	13	15
Decreased by > 10%	6	7
Don't know/non-response	13	n/a
Weighted base	**288,906**	**252,464**
Unweighted base	**3,956**	**3,457**

Source: London Annual Business Survey, 2003
Base: all businesses established for more than 12 months

Evidently, factors that are linked to this change in level of turnover are key to understanding the competitive basis of the regional economy. Looking at some of the main factors we can see that:

- there are no clear relationships between increase in turnover and size;
- there are a number of sectors where a higher proportion of establishments have seen an increase in turnover than others, particularly Financial Services where 60% of establishments have increased the level of turnover over the last 12 months. There are also sectors where a higher proportion have seen a decrease over the last 12 months, particularly Publishing (37%) due to this sector's particular sensitivity to the economic cycle;
- foreign-owned establishments are more likely to report increased turnover than UK-owned establishments (49% compared to 39%);

- establishments which classify themselves as 'hi-tech' are more likely to have increased turnover than those which are 'medium' or 'lo-tech';

- establishments which have either business or training plans are more likely to report an increase in turnover in the last 12 months.

Table 3.9: Variations in change in turnover last 12 months

	Change in turnover in last 12 months				
	Increased	Stayed the same	Decreased	Weighted base	Unweighted base
	%	%	%	n	n
All employers	**39**	**39**	**22**	**252,464**	**3,457**
Size					
1 – 10	38	39	23	223,138	1,539
11 – 49	46	37	17	22,862	1,152
50 – 249	46	38	16	5,368	530
250 – 499	52	34	14	826	115
500 +	39	49	13	269	55
Sector					
Primary and utilities	32	68	0	953	12
Manufacturing (excluding publishing)	30	41	29	10,960	263
Publishing	33	30	37	6,027	145
Construction	35	45	20	15,962	261
Wholesale and Retail Trade	39	36	24	52,248	834
Hotels and Restaurants	33	38	29	14,509	274
Transport, Storage and Communication	32	38	30	11,090	201
Financial Services	60	25	15	8,559	144
Business Services	43	38	19	104,097	913
Education, Health and Social Work	41	52	8	4,916	161
Other Community, Social and Personal activities	35	57	29	19,257	190
Location of ownership					
UK-owned	39	39	22	234,393	3,071
Foreign-owned	49	36	15	17,292	366
Technology base					
Hi-tech	45	36	19	54,355	839
Medium-tech	41	38	21	110,622	1,633
Lo-tech	34	41	25	84,539	947
Existence of business planning					
Yes	47	34	19	128,846	2,033
No	31	44	25	123,618	1,434
Existence of training planning					
Yes	48	33	19	107,557	1,943
No	33	43	24	144,906	1,523

Source: London Annual Business Survey, 2003
Base: all businesses established for more than 12 months, excluding don't know/refused answers

Next 12 months

Just over half (53%) of businesses expect turnover to increase over the next 12 months with 40% expecting it to stay at the same level. A minority of firms (7%) expect turnover to decrease.

Table 3.10: Changing level of turnover in next 12 months

	All	Excluding don't knows
	%	%
Increased by > 10%	18	21
Increased by < 10%	27	32
Remained the same	33	40
Decreased by < 10%	4	5
Decreased by > 10%	2	2
Don't know/non-response	16	n/a
Weighted base	**301,587**	**254,779**
Unweighted base	**4,073**	**3,441**

Source: London Annual Business Survey, 2003
Base: all businesses established for more than 12 months

The finding that more businesses expect turnover to increase over the next 12 months than actually experienced such an increase in the last 12 months is a common finding in research such as this. In this survey in particular, it reflects the timing of the economic cycle and conditions at the time of the fieldwork. In part, however, it is a common finding that businesses appear to be more optimistic with regards to the future than their actual experience in the past has proved to be.

3.4 Productivity

Porter[13] notes that the UK's current economic performance presents a significant change from the pre-1980s. UK productivity growth has been comparable to other advanced economies: a marked improvement to the pre-1980s, when productivity growth persistently lagged. Whilst this faster UK productivity growth has halted the erosion of relative productivity gaps, it has not led to a substantial convergence. According to the OECD, UK productivity is 25% lower than the Netherlands, 15% lower than the United States, 11% lower than France and 8% lower than Germany.

The gap in productivity can be broken down into the effects of three components: capital intensity, labour force skills and total factor productivity (the component of productivity that cannot be explained by the quality or quantity of factor inputs). On each of these:

- the UK has a lower capital stock per worker and per hour worked that is 60% lower than France, 32% lower than Germany and 25% lower than the United States. The UK's rate of capital investment has increased strongly over the last 10 years and its capital stock growth rates are on a par with France, but lag Germany and the United States. However, the current growth rate will not be sufficient to close the gap;

- the UK lags the US in the share of high skill employees and also has a slightly higher share of low skill employees. The UK has a significantly lower share of intermediate employees than Germany and France, while the share of high skill employees is similar. The UK's labour force problems appear to be with regard to its current stock of employees: in terms of inflows of recent graduates, the UK does not lag;

- in Total Factor Productivity (TFP), the part of productivity which cannot be attributed directly to factor inputs, the UK falls in the middle group of advanced economies. Lower levels of TFP indicate inefficiencies unrelated to factor inputs and reflect lower levels of innovation and less effective use of technology.

[13] Porter M and Ketels C, UK Competitiveness: moving to the next stage, Department of Trade and Industry Economics Paper No. 3, May 2003

Change in staff productivity

Last 12 months

Of those establishments able to provide a response, 29% stated that their staff productivity had increased over the past 12 months. The majority (64%) stated that it had stayed the same. Only a minority (7%) stated that it has decreased and of these only 2% stated that it had decreased by more than 10%.

Chart 3.2 Changing level of staff productivity in last 12 months

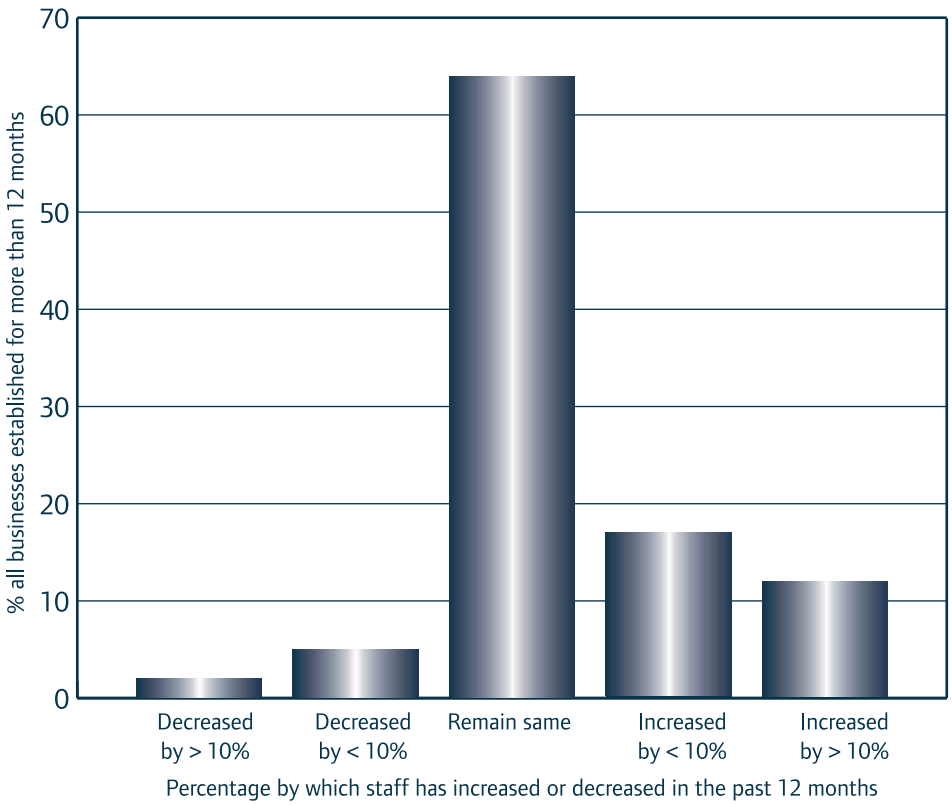


Table 3.11: Changing level of staff productivity in last 12 months

	All	Excluding don't knows
	%	%
Increased by > 10%	11	12
Increased by < 10%	15	17
Remained the same	57	64
Decreased by < 10%	4	5
Decreased by > 10%	2	2
Don't know/non-response	12	n/a
Weighted base	**288,906**	**254,710**
Unweighted base	**3,956**	**3,488**

Source: London Annual Business Survey, 2003
Base: all businesses established for more than 12 months

The relationship between changing productivity and size is interesting. The bigger the company, the more likely they are to state that staff productivity has increased: with 28% of the smallest firms stating that they had seen an increase, rising to 51% of the largest. However, it is also amongst these largest firms that we see significant proportions of businesses who say that productivity has decreased (14%). Smaller firms were more likely to report that productivity had not changed.

Patterns of productivity change vary considerably by sector and not in such a way as to allow a crude 'production' and 'services' distinction. Sectors in which businesses are more likely to have seen an increase in productivity are Education, Health and Social Care; Transport, Storage and

Communication; Financial Services and Professional Services. Sectors with a higher likelihood of decreasing productivity are Manufacturing and Publishing. Sectors in which productivity is more likely not to have changed are Other Community, Social and Personal Services (75% state that productivity has not changed); Wholesale and Retail Trade (66%); Hotels and Restaurants (also 66%) and Manufacturing (65%).

There are also other links between facets of the establishment and an increased likelihood of increased staff productivity:

- establishments which are foreign-owned are more likely to have seen productivity increase (48% compared to 28% of UK-owned establishments);
- establishments which rank themselves as being hi-tech are more likely to report productivity increases; and
- establishments which have business and training plans are more likely to report productivity increases.

Table 3.12: Change in staff productivity over last 12 months

	Change in turnover in last 12 months				
	Increased	Stayed the same	Decreased	Weighted base	Unweighted base
	%	%	%	n	n
All businesses	**29**	**64**	**7**	**254,710**	**3,488**
Size					
1 – 10	28	65	7	224,989	1,552
11 – 49	34	61	5	23,247	1,172
50 – 249	37	59	4	5,464	540
250 – 499	45	53	2	759	106
500 +	51	35	14	251	52
Sector					
Primary and Utilities	40	60	0	965	13
Manufacturing (excluding publishing)	20	65	15	10,858	260
Publishing	26	63	11	5,804	139
Construction	18	63	9	16,315	267
Wholesale and Retail Trade	28	66	6	53,871	860
Hotels and Restaurants	31	66	3	14,660	276
Transport, Storage and Communication	36	57	7	10,584	192
Financial Services	33	59	8	9,042	152
Business Services	33	60	7	103,236	906
Education, Health and Social Work	42	57	1	5,728	188
Other Community, Social and Personal activities	19	75	7	23,624	234
Location of ownership					
UK-owned	28	65	7	236,857	3,104
Foreign-owned	48	47	5	16,857	307
Technology base					
Hi-tech	39	54	8	54,842	847
Medium-tech	31	64	6	112,235	1,656
Lo-tech	22	71	7	84,084	942
Existence of business planning					
Yes	36	58	6	129,510	2,044
No	22	71	8	125,200	1,452
Existence of training planning					
Yes	37	59	5	109,852	1,984
No	24	68	8	144,858	1,523

Source: London Annual Business Survey, 2003
Base: all businesses established for more than 12 months, excluding don't know/refused answers

Reasons behind productivity change

The main reason for increases in productivity are increases in demand for products and services (49%), which, one assumes, allows for a greater level of output without a comparable increase in levels of input. Similarly, the main reason for decreases in productivity is a fall in demand for products and services. This is a finding of some significance, because it suggests that employers see their main scope for increasing their productivity as being related to the external market rather than their own internal production processes. This leaves them vulnerable to fluctuations in demand.

Table 3.13: Reasons behind changing productivity

Increases in productivity	**%**
Increase in the demand for products and services	49
Recruitment of more skilled staff	14
Increase in capital expenditure	10
Greater IT use	10
Installation of more technologically advanced equipment	9
Flexible working patterns	9
Decreasing workforce size with no corresponding reduction in demand for product/service	8
Increase in staff wages/benefits	6
Other	7
Don't know/non response	9
Weighted base	**74,345**
Unweighted base	**1,078**

Decreases in productivity	
Fall in demand for products	62
Decrease in capital expenditure	11
Government regulation	5
Unreliability of existing equipment/ machinery	4
Economic climate	4
Competition	3
Inability to recruit sufficiently skilled staff	2
Absenteeism	2
War and terrorism affecting demand	1
Other	7
Don't know/non response	7
Weighted base	**17,258**
Unweighted base	**197**

Source: London Annual Business Survey, 2003
Base: all businesses established for at least 12 months and who reported (i) an increase or (ii) a decrease in productivity

Next 12 months

Looking forward to the next 12 months, businesses are more positive than their experiences over the last 12 months might lead one to expect. 41% are expecting staff productivity to increase (as compared to 29% who actually saw an increase last year). 56% expect productivity to stay the same (as compared to 64% who stated that productivity had stayed the same) and only 3% expected decreases (as compared to 7% who had experienced a decrease).

Table 3.14: Changing level of staff productivity in next 12 months

	All	Excluding don't knows
	%	%
Increased by > 10%	15	18
Increased by < 10%	20	23
Remained the same	47	56
Decreased by < 10%	2	2
Decreased by > 10%	1	1
Don't know/non response	15	n/a
Weighted base	**301,587**	**256,561**
Unweighted base	**4,073**	**3,465**

Source: London Annual Business Survey, 2003
Base: all businesses

3.5 Profit

Looking at profitability, of those who were able/willing to give a response, 31% of establishments had seen increased levels of profitability over the last 12 months, with 46% stating that profitability had remained the same. 24% responded that profitability had decreased.

On the face of it, these responses are positive, with more businesses reporting an increase in profitability than a decrease (31% as compared to 24%). However, these have to be seen in the context of changing productivity. Only 7% of businesses stated that productivity had decreased, but a higher proportion (24%) have seen declining profitability.

Table 3.15: Changing level of profitability in last 12 months

	All	Excluding don't knows
	%	%
Increased by > 10%	8	10
Increased by < 10%	17	21
Remained the same	38	46
Decreased by < 10%	14	17
Decreased by > 10%	6	7
Don't know/non-response	18	n/a
Weighted base	**288,906**	**237,831**
Unweighted base	**3,956**	**3,257**

Source: London Annual Business Survey, 2003
Base: all businesses established for more than 12 months

Looking forward to the next 12 months, we again see that businesses tend to be more optimistic about the future than their performance in the past 12 months would suggest. 49% expect to see profitability increasing, with 44% expecting profits levels to stay the same. Less than one in ten (8%) expect profit levels to decrease.

Table 3.16: Changing level of profitability in next 12 months

	All	Excluding don't knows
	%	%
Increase by > 10%	15	18
Increase by < 10%	25	31
Remain the same	36	44
Decrease by < 10%	5	6
Decrease by > 10%	2	2
Don't know/non- response	19	n/a
Weighted base	**301,587**	**244,999**
Unweighted base	**4,073**	**3,309**

Source: London Annual Business Survey, 2003
Base: all businesses

The closest relationship between expected profitability over the next 12 months is, as would be expected, recent experience of profitability over the last 12 months. Those who have seen profits increase are more likely to expect to see profits increase again; those who have seen them decrease are more likely to expect them to decrease again. However, 39% of the businesses who saw an actual decrease in profitability last year expect profitability to rise in the next 12 months.

3.6 Summary

Across UK regions there are strong differences in economic prosperity that are consistent with differences in the quality of regional business environments. This is certainly shown in all Government data, with London enjoying a higher Gross Value Added per head, household income per head and average earnings than anywhere else in the UK. Furthermore, whilst in other countries there is a convergence of regional prosperity, in the UK there is a divergence with London's GVA rising faster than that of other areas.

In recent years the background economic situation in the UK has been one of relatively stable macro-economic conditions, with low rates of unemployment, inflation and interest rates compared to earlier years. However, the survey took place in conditions of flattening demand, with general impacts of a war against Iraq, the outbreak of the SARS virus and the specific London factors of the introduction of the Congestion Charge and difficulties with the Central Underground Line. We might expect, therefore, these conditions to be reflected through into the results we see on turnover, productivity and profit. The data shows that despite these factors:

- 39% of firms have seen their turnover increase over the last 12 months, with 39% stating that it has stayed the same and 22% that it has declined;
- 29% believed that productivity has increased at their establishment, with 64% stating that it had stayed the same. Only a minority (7%) believed that it had decreased; and
- 31% believed that profitability had increased, whilst 46% thought it had stayed the same. Just less than a quarter (24%) stated that it had decreased.

Establishments in some sectors (notably Manufacturing and Publishing) are more likely to state that turnover, productivity and profits were static or declining. There are different factors affecting different sectors, with some influences being long-term economic restructuring (eg on Manufacturing) whilst other sectors are suffering because of the impact of this particular stage of the economic cycle, for example, Publishing, which is dependent on advertising revenues.

Over and above size and sector influences there are also some common findings, which show that firms which have business plans, are foreign-owned and are hi-technology based are more likely to have seen increases in their turnover and productivity than those without.

Although the data is generally positive, there are some findings that are of concern, particularly relating to productivity, where:

- there are high proportions (64%) who state that productivity is static. Without constant incremental productivity gains London's employers will eventually lose ground;
- when asked the main reason for productivity gains (or decreases), the majority of businesses point to the external market, which suggests that they increase output when the market allows, without a comparable increase in the level of inputs. This suggests that many are vulnerable to market place fluctuations.

4. MANAGEMENT ISSUES

4.1 Introduction

The quality of management can be crucial in determining competitiveness. Rapidly changing markets, driven by new technology and ever-changing customer requirements, increasingly require employers to be able to manage information, people and processes and to acquire and apply knowledge more effectively. There is a rising premium on management skills, especially the capacity for leadership and entrepreneurship and the ability to organise and motivate people and to break down barriers within and between organisations.

The Department of Trade and Industry[14] notes that the UK performs relatively poorly on availability of management skills, with UK managers being inadequately qualified in comparison with international competitors. Although this situation is improving, the UK's position has been compounded by inadequate levels of training and development over several years.

In addition to constraining a business's ability to compete and to maximise its effectiveness, these relatively poor levels of management skills also have external implications, including potentially deterring private sector investment.

This section examines the data from the survey on management issues, looking at the existence of planning tools, management styles and how managers acquire their experience and expertise.

4.2 Existence of planning tools

Just less than a third (32%) of establishments had no strategic planning tools. Just over a half (51%) had management accounts, half (50%) had a business plan and 42% a sales and marketing plan.

This finding is of major concern. These planning processes are the basic tools of management. Certainly they are pre-requisites for any business that would be seeking funding or investment from an external source. However, we can see that half have no management accounts, half no business plan and more than half no sales and marketing plan.

Table 4.1: Strategic planning tools in place at the site

	%
Management accounts	51
Business plan	50
Sales and marketing plan	42
None of these	32
Weighted base	**301,587**
Unweighted base	**4,073**

Source: London Annual Business Survey, 2003
Base: all businesses

[14] Department of Trade and Industry, UK Competitiveness Indicators, 2nd Edition, 2001

With regard to the management accounts, relatively few (31%) of those who had management accounts updated these at least monthly, which suggests that just over a fifth (21%) of firms have monthly management accounts.

There is considerable variation in the existence of planning tools at the establishment. The first point to note is the importance of size. 34% of the smallest companies have none of these planning tools in place, which falls to 5% of the largest. However, it is difficult to imagine that an establishment with more than 500 employees does not have any of these planning processes in place and what the survey may be picking up here is that the individual respondent replying on behalf of the establishment does not have sight of these planning processes. This may explain the peculiar relationship between size of company and existence of management accounts that actually decreases for the largest establishments.

Beyond this, there are also a number of other relationships. These are obviously also affected by the inter-relationship with the size of the establishment, but we can see that:

- there are some areas which have a higher proportion of establishments without business planning processes, particularly the North (44%) and South (41%);
- there are some sectors which have a higher proportion of establishments without planning processes. 46% of Manufacturing firms have none of these planning tools, neither do 44% of those in Wholesale and Retail Trade and 43% of those in Construction;
- foreign-owned establishments are more likely to have these planning processes in place; and
- companies which regard themselves as being hi-tech are more likely to have each of these planning processes in place than those which regard themselves as medium-tech. These medium-tech companies, in turn, are more likely to have each of the planning processes in place than lo-tech companies.

The exact influence of each of these variables is difficult to determine using the univariate analysis in this report, although it may be explored at a later stage in a multivariate analysis. Here, we draw attention to the variation in the existence of planning tools in companies.

Chart 4.1 Variation in existence of strategic planning tools

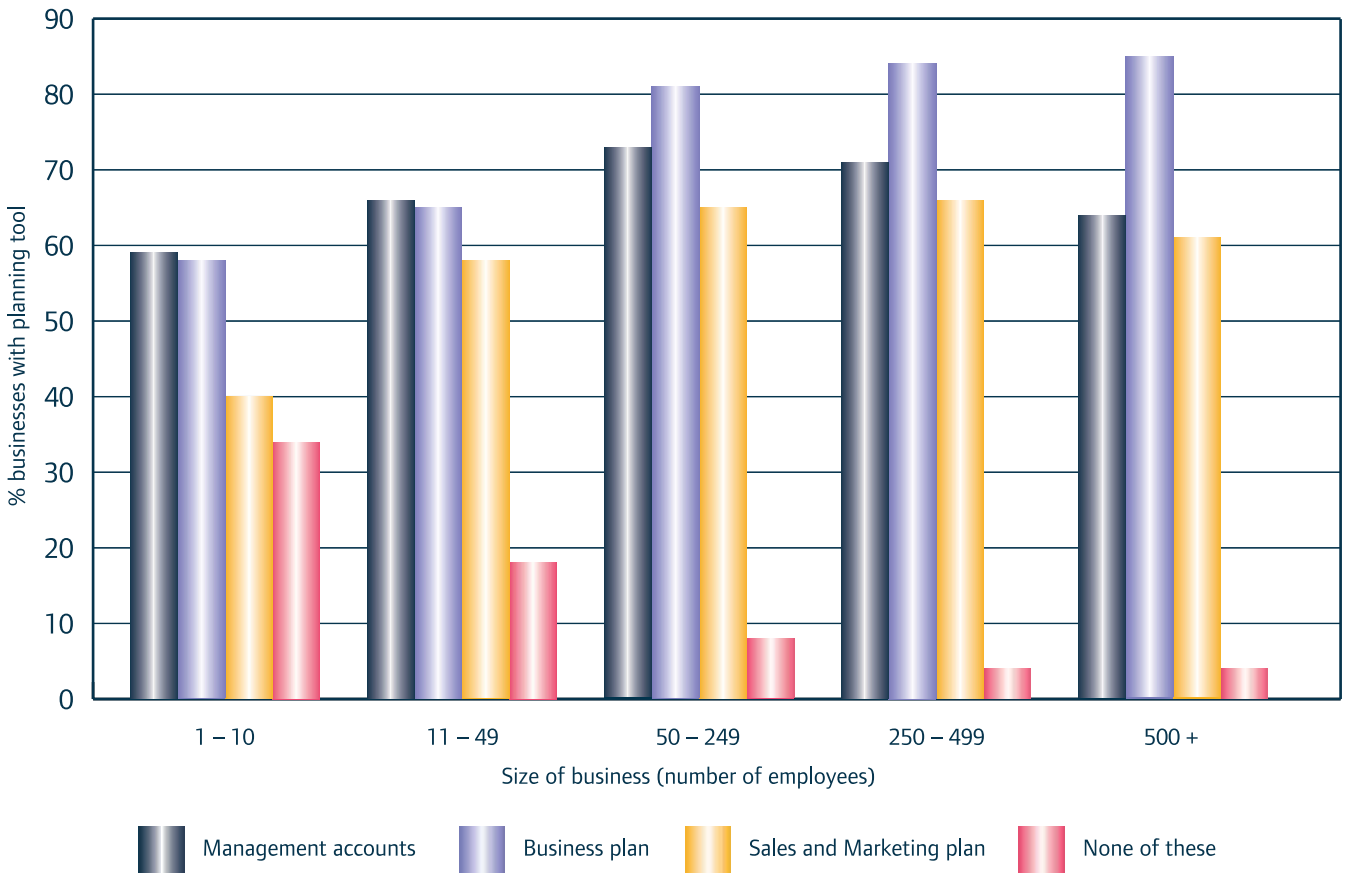


Table 4.2: Variation in existence of strategic planning tools

	Management account	Business plan	Sales & mkting plan	None of these	Wtd base	Unwtd base
	%	%	%	%	n	n
All businesses	**51**	**50**	**42**	**32**	**301,587**	**4,073**
Size						
1 – 10	49	48	40	34	266,266	1,842
11 – 49	66	65	56	16	27,404	1,379
50 – 249	74	81	65	7	6,711	664
250 – 499	71	84	67	4	905	126
500 +	64	85	62	5	301	62
Area						
Central	53	54	46	28	108,301	864
East	58	56	44	27	62,883	801
North	42	39	31	44	32,951	801
South	45	42	37	41	44,977	803
West	50	52	45	31	52,475	804
Sector						
Primary and Utilities	44	60	61	28	986	13
Manufacturing (excluding publishing)	38	41	31	46	13,207	314
Publishing	56	56	44	32	6,729	159
Construction	45	36	30	43	19,101	309
Wholesale and Retail Trade	41	38	34	44	62,480	987
Hotels and Restaurants	51	62	43	25	19,097	338
Transport, Storage and Communication	59	54	54	22	12,670	227
Financial Services	68	75	48	15	9,593	162
Business Services	58	58	51	25	121,826	1,059
Education, Health and Social Work	53	61	40	22	7,086	228
Other Community, Social and Personal activities	44	39	30	39	28,789	274
Location of ownership						
UK-owned	50	49	42	33	280,908	3,631
Foreign-owned	63	67	51	22	19,455	411
Technology base						
Hi-tech	62	68	56	19	64,596	968
Medium-tech	56	53	47	26	131,579	1,922
Lo-tech	39	37	28	46	101,246	1,128

Source: London Annual Business Survey, 2003
Base: all businesses

Whilst it is difficult to draw directions of causality, it is clear that there are links between the existence of these planning processes and positive outcomes in the workplace. It can be seen that those businesses that increased their turnover and/or workforce size in the last 12 months are also more likely to have management accounts, business plans and sales and marketing plans in place than those whose turnover and/or workforce size was static or decreased.

Chart 4.2 Existence of planning process and change in turnover in last 12 months

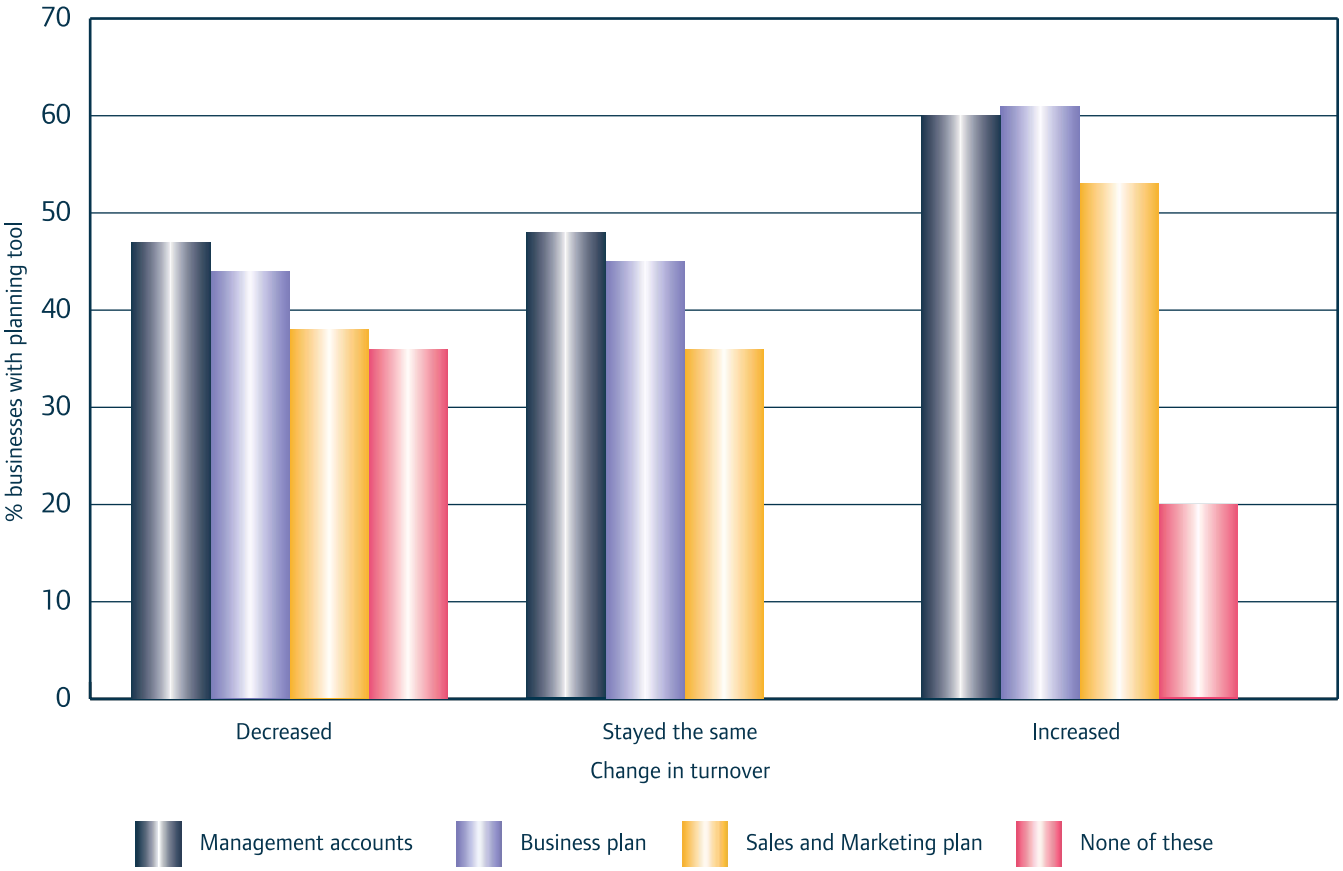


Table 4.3: Existence of planning processes and changes in turnover and workforce in last 12 months

	Management accounts	Business plan	Sales & mkting plan	None of these	Wtd base	Unwtd base
	%	%	%	%	n	n
All businesses	**51**	**50**	**42**	**32**	**301,587**	**4,073**
Change in turnover						
Increased	60	61	53	20	98,872	1,392
Stayed the same	48	45	36	40	98,124	1,304
Decreased	47	44	38	36	55,467	668
Change in workforce						
Increased	66	69	57	14	59,880	1,055
Stayed the same	45	44	37	38	197,481	2,385
Decreased	61	56	47	28	40,674	596

Source: London Annual Business Survey, 2003
Base: all businesses

4.3 Management styles

The respondents were asked to describe the role of their Managing Director or Chief Executive within the business as a whole. They were read out a series of statements and asked which one most applied. These statements reflect the degree of central control operated by the Managing Director or Chief Executive, but do not have any values attached: we do not have a prior assumption that a company which has a more central style of management control is in any sense 'better' or more successful than one which has a more devolved style.

In the first instance we can see that in 44% of establishments the Managing Director or Chief Executive has direct control of all decisions, with direct control of most decisions in a further 20% of cases. In just less than a third of companies, decision-making is more devolved, with the senior management team taking decisions collectively and delegating operational decisions.

Table 4.4: The role of Chief Executive or Managing Director within the business

	All
	%
Has direct control of all decisions	44
Has direct control of most decisions	20
Senior management team (SMT) makes strategic decisions together collectively and delegates operational decisions	30
Other	*
None of the above	3
Don't know/non-response	3
Weighted base	**301,587**
Unweighted base	**4,073**

Source: London Annual Business Survey, 2003
Base: all businesses

As may be expected, there is a clear relationship between the size of the company and the nature of management style, in that the bigger the company is, the more likely it is to devolve operational decisions. Smaller companies are more likely to have a Managing Director or Chief Executive who controls all decisions.

Table 4.5: Variations in management styles and size of company

	MD controls all decisions	MD controls most decisions	SMT makes decisions collectively	Weighted base	Unwtd base
	%	%	%	n	n
All businesses	**44**	**20**	**30**	**301,587**	**4,073**
Size					
1 – 10	46	20	28	266,266	1,842
11 – 49	32	21	40	27,404	1,379
50 – 249	23	23	50	6,711	664
250 – 499	26	19	52	905	126
500 +	13	25	58	301	62

Source: London Annual Business Survey, 2003
Base: all businesses

There are a number of correlations between management style and other aspects of management, particularly the existence of planning. Establishments that have a business and/or training plan are more likely to have devolved decision making. Those without a business and/or training plan are more likely to have all decisions controlled by the Managing Director or Chief Executive.

Table 4.6: Variations in management styles and existence of planning mechanisms

	MD controls all decisions	MD controls most decisions	SMT makes decisions collectively	Weighted base	Unweighted base
	%	%	%	n	n
All businesses	**44**	**20**	**30**	**301,587**	**4,073**
Business plan					
Has business plan	40	24	35	151,938	2,352
No business plan	50	16	24	149,649	1,721
Training plan					
Has training plan	36	23	37	125,591	2,245
No training plan	50	17	24	175,996	1,828

Source: London Annual Business Survey, 2003
Base: all businesses

However, the fact that different establishments have different management styles is only really of relevance if it can be shown that different managerial styles are more or less successful than others. In this survey, we can offer no conclusive proof on this matter at this stage, but would note that establishments which have an increased turnover in the last 12 months are more likely to have a more devolved decision-making process (34%, compared to 30% of those whose turnover has stayed static and 22% of those whose turnover has decreased). Establishments that have seen turnover decrease or stay the same are more likely to have centralised decision making, with the Managing Director or Chief Executive making all the decisions.

Table 4.7: Variations in management styles and existence of planning mechanisms

	MD controls all decisions	MD controls most decisions	SMT makes decisions collectively	Weighted base	Unweighted base
	%	%	%	n	n
All businesses	**44**	**20**	**30**	**301,587**	**4,073**
Change in turnover					
Increased	39	22	34	98,872	1,392
Stayed the same	47	16	30	98,124	1,304
Decreased	49	24	22	55,467	668

Source: London Annual Business Survey, 2003
Base: all businesses

4.4 Acquiring management experience

Finally, with regard to management issues, we asked the employers how the senior management team acquired their management experience. Again, we have no prior view on what would be an appropriate level of answers and what could be considered 'good or bad'. The point of interest is whether businesses have access to regular external knowledge and experience that will help them in running their current business and how this changes over time.

In two-thirds (67%) of establishments, experience is gained on the job within the current organisation. External influences can be seen amongst the 37% who have gained their experience on the job from another organisation and the 24% who have a management qualification.

Chart 4.3 Means of acquiring management experience

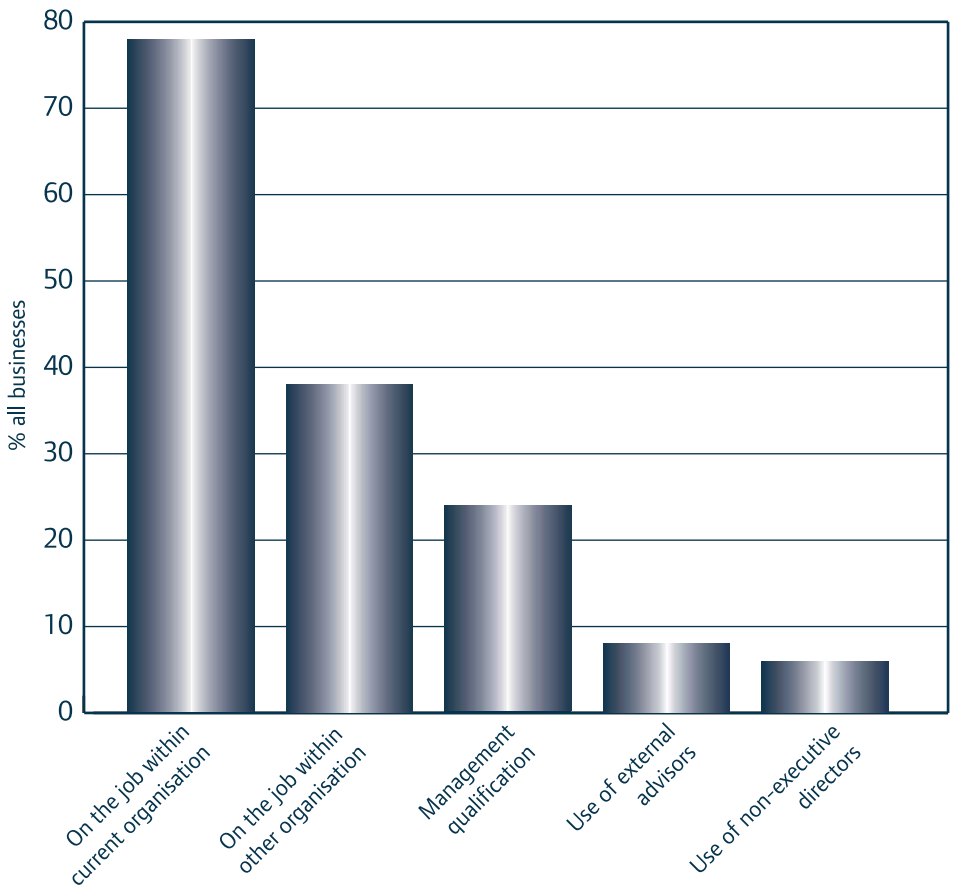


Table 4.8: Means of acquiring management experience

	All
Multiple response	**%**
On the job within current organisation	67
On the job within other organisation	37
Management qualification	24
Use of external advisors	7
Use of non-executive directors	5
None of the above	11
Don't know	6
Weighted base	**301,587**
Unweighted base	**4,073**

Source: London Annual Business Survey, 2003
Base: all businesses

As the size of the establishment increases, there is an increasing likelihood of each of the external methods of acquiring management experience being used. This is particularly clear with regards to the use of management qualifications, external advisors and non-executive directors.

Table 4.9: Means of acquiring management experience and size of establishment

		Number of employees				
	All	1 – 10	11 – 49	50 – 249	250 – 499	500 +
Multiple response	%	%	%	%	%	%
On the job within current organisation	67	66	71	79	95	88
On the job within other organisation	37	35	44	53	44	54
Management qualification	24	23	34	46	52	59
Use of external advisors	7	7	10	12	15	25
Use of non-executive directors	5	5	7	9	15	25
None of the above	11	12	6	2	0	0
Don't know	6	6	8	7	2	3
Weighted base	**301,587**	**266,266**	**27,404**	**6,711**	**905**	**301**
Unweighted base	**4,073**	**1,842**	**1,379**	**664**	**126**	**62**

Source: London Annual Business Survey, 2003
Base: all employers

4.5 Summary

Porter suggests that there is some evidence that UK companies adopt modern management techniques later and less often than their competitors. They also seem to achieve lower returns from implementing them. There is some evidence to support this assertion from the London Annual Business Survey, in that:

- only half of all businesses (50%) have a business plan;
- just over half (51%) have regular management accounts; and
- only 42% have a sales and marketing plan.

These planning processes are the basic tools of management and it is of concern that so many London businesses appear to be operating without them. This is particularly so when we consider, as we have seen, positive links between the existence of these planning tools and 'success factors' such as an increased likelihood of having increased turnover, productivity and profits. There is a particular concern here amongst smaller establishments which are much more likely not to have any of these planning tools in place.

Porter also notes that the UK appears to have a lower share of managers with advanced formal education than peer countries[15], although the supply of the most skilled management is likely to be competitive as many UK management schools get high ratings and attract many strong students. Problems with managerial skills in the UK seem likely to be concentrated at the lower and middle management level, reflecting the overall skill deficit in the labour market, but there is no conclusive comparative data to confirm this.

Data from this research supports the idea that difficulties in these areas may exist. Less than a quarter (24%) have any management qualifications and the majority (67%) gained their management experience on the job within their current company. There may be limited beneficial external influences and knowledge being brought to bear that may be damaging competitiveness.

[15] although there is some doubt about the validity of this finding due to the very high number of employees classified as 'managers'

5. WORKFORCE ISSUES

5.1 Introduction

There has been much debate on the relative quality of the UK workforce and its contribution to the overall competitiveness of the economy. This section examines a number of workforce issues, looking at labour force participation rates, changes in workforce size, existence of labour market difficulties and training responses.

This section mainly uses data from the *London Employers Survey* (LES), conducted by the London Skills Forecasting Unit[16], and from the *National Employer Skills Survey*. We did not collect data on these subjects in the London Annual Business Survey because it would have simply have replicated the data already available at a London level from these two sources.

5.2 Labour force participation in London

A country's GDP per head is affected by the level of labour productivity, but also by the level of labour force participation. Porter[17] notes that the UK has one of the highest levels of labour force utilisation in the OECD behind only Japan and the United States and ahead of all European countries.

In the UK, in 2002, three quarters (74.7%) of working age people were in work across the UK, the highest level ever measured by the *Labour Force Survey*. However, London is somewhat below this average at 71%, a level that is amongst the lowest in the UK, with only Northern Ireland (67.7%), the North East (69.7%) and Wales (70.5%) having lower participation rates.

London also has the highest regional unemployment rate at 7.1%. This higher unemployment rate is thought[18] to be caused by a number of factors, including:

- the movement of London to a higher-skilled economy, with a continued decline in manual and low-skilled work: those with higher and mid-level skills are predominantly in work, whilst the majority of those with lower skills are not in work (being either unemployed or inactive);
- London's employers have a wider range of options available when filling low skilled jobs, including a wider access to an international pool of labour and students willing to take low skilled jobs, perhaps on a temporary or short-term basis;

[16] The London Skills Forecasting Unit is funded by the five London learning and Skills Councils, the London Development Agency, Business Link for London and Jobcentre Plus. The research consisted of 9,707 interviews across London in December 2002 and January 2003.

[17] Porter M and Ketels C, UK Competitiveness: moving to the next stage, Department of Trade and Industry Economics Paper No. 3, May 2003

[18] Cabinet Office Strategy Unit, London Analytical Report, July, 2003

- those seeking work are not effectively serviced by Jobcentre Plus as employers prefer other means of recruitment. Other initiatives such as Welfare to Work programmes for the inactive (such as lone parents) and unemployed appear to be less effective in London;

- the benefits system provides fewer incentives for the low-skilled to work in London than elsewhere.

Table 5.1: People of working age in employment and unemployment rates

Summer (2002)	% of people of working age in employment (residence based)	Unemployment rate (%)
UK	74.7	5.4
London	**71.0**	**7.1**
South West	79.8	4.0
South East	80.3	3.9
Eastern	79.1	3.9
West Midlands	74.8	6.0
East Midlands	77.2	4.9
Yorkshire & Humberside	74.2	5.7
North West	72.1	5.9
North East	69.7	6.3
England	75.6	5.2
Wales	70.5	5.4
Scotland	74.1	6.8
Northern Ireland	67.7	6.3

Source: Labour Force Survey (2002), taken from Department of Trade and Industry, Regional Competitiveness and State of the Regions, January 2003

The figures for labour market participation and unemployment need to be seen in the context of the operation of the London labour market. London benefits from a large migrant labour force. These can be part of the formal workforce, with people moving to London to work after completion of education. But there is also a sizeable more 'informal' workforce of young people coming to London from overseas for short durations. Little is formally known about this group, but anecdotal evidence is that they tend to be young and well qualified. They also tend to take lower-skilled jobs for which they are over-qualified, mainly because they only intend to be in the country for a short period. London had more low-skill jobs than the rest of the UK in 2001, and there is a hypothesis that these 'informal' and 'formal' workforces go some way to filling the large number of low-skill and low-pay jobs.

5.3 Changes in workforce size

Two-thirds (66%) of employers have not changed the size of their workforce over the last 12 months. The proportion of employers who have increased their workforce size is greater than the proportion that have decreased it (20% compared to 14%).

Table 5.2: Change in number of employees in last 12 months

	All
	%
Increased	20
Stayed the same	66
Decreased	14
Don't know/non-response	1
Weighted base	**301,587**
Unweighted base	**4,073**

Source: London Annual Business Survey, 2003
Base: all businesses

The demand for labour is a derived demand so there is no surprise to find that the change in the size of the workforce is linked most closely with the change in turnover over the last 12 months. Those that have experienced an increase in turnover are more likely to have also increased the size of their workforce (34%); those that have experienced a decrease in turnover are more likely to have decreased the size of their workforce (32%). However, there are significant proportions of employers who have changes in turnover and workforces which are not in the same direction, such that:

- a tenth (9%) of businesses which have increased the size of turnover have decreased the size of their workforce. These firms have evidently found ways to work more productively, and would appear to be making their assets work harder; and
- 7% of firms which have seen their levels of turnover decrease have actually increased the size of their workforce.

Table 5.3: Change in number of employees and change in turnover last 12 months

	Change in turnover in last 12 months				
	Increased	Stayed the same	Decreased	Weighted base	Unweighted base
	%	%	%	n	n
All businesses	**20**	**66**	**14**	**301,587**	**4,073**
Change in turnover					
Increased	34	57	9	98,872	1,392
Stayed the same	13	76	10	98,124	1,304
Decreased	7	60	32	55,467	668

Source: London Annual Business Survey, 2003
Base: all businesses

There are clear relationships between changes in workforce size and size of establishment and sector, such that:

- size: as establishment size increases, so does the proportion who have increased and/or decreased the size of their workforce. Smaller companies have a more stable workforce, with higher proportions (68%) reporting that their workforces have stayed the same size;
- sector: as would be expected there is variability across different sectors. Manufacturers are the most likely to report decreases in workforce size (22%), followed by Publishers (20%). Firms most likely to report increases are those engaged in Financial Services (39%) and Education, Health and Social Work (32%), the latter perhaps reflecting increased public sector investment in these services.

Chart 5.1 Variation in number of employees in the last 12 months

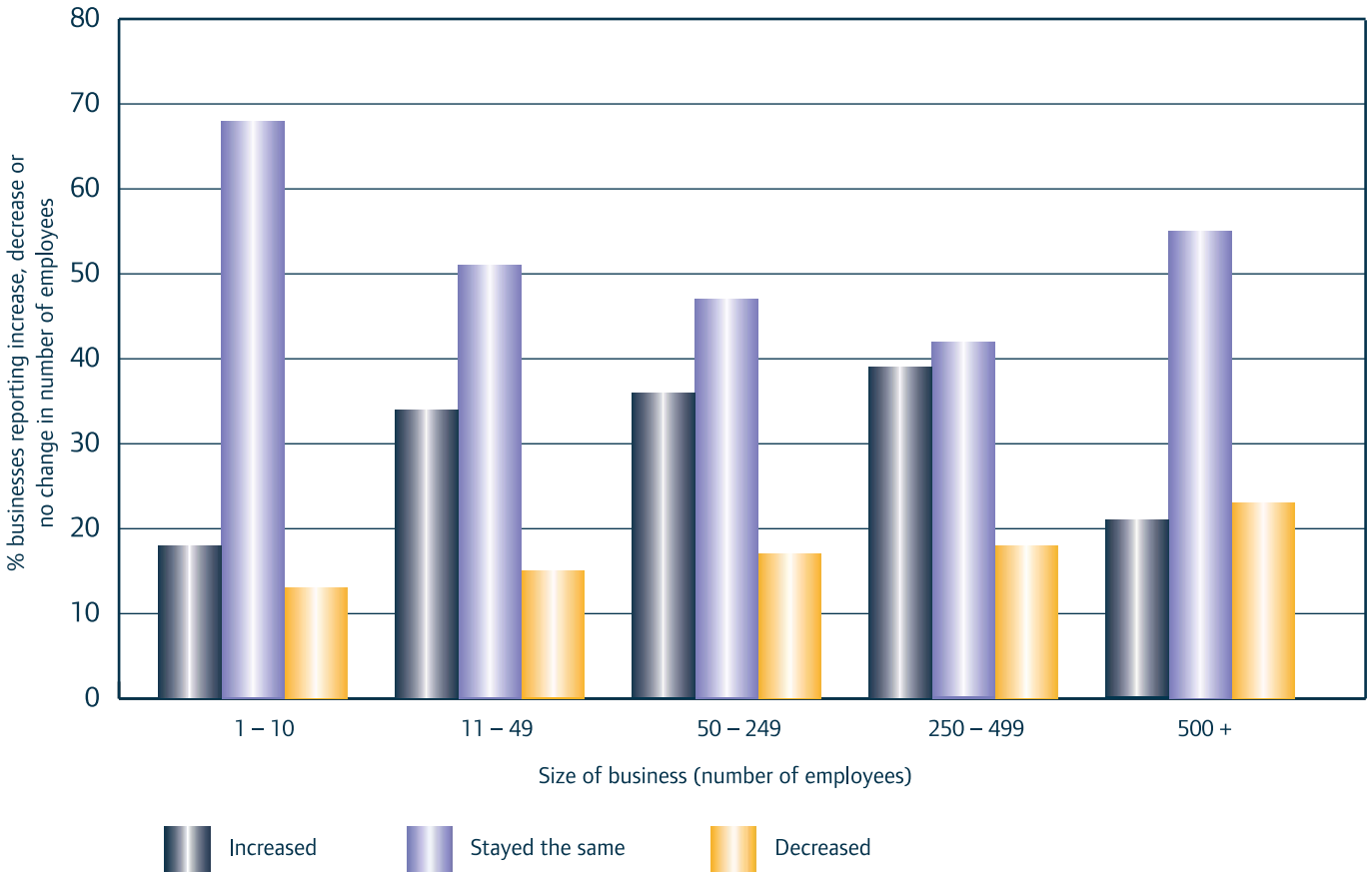


Table 5.4: Variation in number of employees in last 12 months

	Increased	Stayed the same	Decreased	Weighted base	Unweighted base
	%	%	%	n	n
All businesses	**20**	**66**	**14**	**301,587**	**4,073**
Size					
1 – 10	18	68	13	266,266	1,842
11 – 49	34	51	15	27,404	1,379
50 – 249	36	47	17	6,711	664
250 – 499	39	42	18	905	126
500 +	21	55	23	301	62
Primary and Utilities	33	67	0	986	13
Manufacturing (excluding publishing)	13	53	22	6,729	314
Publishing	24	66	20	13,207	159
Construction	15	71	13	19,101	309
Wholesale and Retail Trade	17	71	12	62,480	987
Hotels and Restaurants	15	68	13	19,097	338
Transport, Storage and Communication	19	64	16	12,670	227
Financial Services	39	44	16	9,593	162
Business Services	23	61	15	121,826	1,059
Education, Health and Social Work	32	60	8	7,086	228
Other Community, Social and Personal Activities	14	80	7	28,789	274

Source: London Annual Business Survey, 2003
Base: all businesses

This data can be used to calculate the total number of jobs gained or lost and the areas in which this has happened. These calculations show that, despite the higher proportion stating that they had increased the size of their workforce over the last 12 months, in terms of the actual number of jobs, more have been lost than have been created. This data shows that over the last 12 months just less than 41,000 jobs have actually been lost by London's employers. Job losses have been particularly notable in:

- the South and Central London areas, which have lost 27,000 and 18,000 jobs respectively;
- small firms, which have lost over 72,000 jobs in the last 12 months, offset by job gains in larger firms; and
- some sectors have been relatively big losers of jobs, particularly Transport, Storage and Communications (33,000 jobs); Business Services (11,000 jobs) and Manufacturing (8,000 jobs).

These losses are in line with other data from the Office for National Statistics which show that between 2000 and 2001 London lost some 46,000 jobs, although the sectoral distribution of these job losses is slightly different to that found here. The size of these overall job losses need to be seen in context: London has something in the region of 4 million employees: a loss of just over 1% of these during a period of difficult economic conditions is not dramatic or unduly surprising. Of course, the changes seen in the last 12 months are a snapshot in time and may be due to different causal reasons. Decreases in Manufacturing are more likely to reflect long-term structural changes in the pattern of the economy, whilst those in sectors such as Publishing are more likely to reflect cyclical factors, as the longer term forecast for this sector is for growth.

Table 5.5: Variations in number of employees in last 12 months

	Number of jobs by which workforce size has increased	Number of jobs by which workforce size has decreased	Increase or (decrease)	Increase or (decrease) as % of employment
	n	n	n	%
All businesses	**167,457**	**208,250**	**(40,793)**	**(1.3)**
Area				
Central	62,682	80,517	(17,835)	(1.4)
East	38,600	44,261	(5,661)	(0.7)
North	18,042	14,707	3,335	1.3
South	23,055	50,393	(27,338)	(6.6)
West	25,078	18,372	6,706	1.2
Size				
1–10	79,684	152,281	(72,597)	(5.5)
11–49	39,649	27,928	11,721	1.8
50–249	31,348	17,620	13,728	2.1
250–499	10,910	5,312	5,598	1.8
500+	5,867	5,110	757	0.2
Sector				
Primary and Utilities	426	0	426	5.5
Manufacturing (excluding Publishing)	5,481	13,494	(8,013)	(5.4)
Publishing	4,907	6,907	(2,000)	(1.8)
Construction	9,327	5,623	3,704	2.6
Wholesale and Retail Trade	26,310	19,736	6,574	1.1
Hotels and Restaurants	7,904	10,753	(2,849)	(1.1)
Transport, Storage and Communication	10,931	44,247	(33,316)	(16.2)
Financial Services	13,239	9,934	3,305	1.2
Business Services	73,636	88,045	(14,409)	(1.3)
Education, Health and Social Work	7,792	3,708	4,084	3.5
Other Community, Social and Personal Activities	7,417	5,804	1,613	0.7
Technology base				
Hi-tech	53,593	72,253	(18,660)	(1.8)
Medium-tech	80,076	99,625	(19,549)	(1.3)
Low-tech	32,086	35,987	(3,901)	(0.6)

Source: London Annual Business Survey, 2003
Base: all businesses

Reason for changes in workforce size

Businesses which had seen the size of their workforce change over the last 12 months were asked the reasons for this change. Again, we see that the main reason for internal changes are related to the performance of the external market. 87% state that the main reason for increasing the workforce was to meet higher demand for products and services, 56% stated that the main reason for the decreased workforce size was a fall in demand for products and services.

Table 5.6: Reasons for change in number of employees in last 12 months

	All
	%
Increased workforce size	
To meet higher demand for products/services	87
Requirement for new staff with specific skills	10
Have introduced new products/services	6
Have introduced new technology or equipment	4
Introduction of flexible working patterns	2
Acquired new company	2
Other	2
Don't know/non-response	3
Weighted base	**59,880**
Unweighted base	**1,055**
Decreased workforce size	
Fall in demand for products/services	56
General business restructuring	18
Pressures on cash flow	9
High cost of living/staff leaving area	4
Wage increases	3
Company merger/over take	2
Other	9
Don't know/non-response	11
Weighted base	**40,674**
Unweighted base	**596**

Source: London Annual Business Survey, 2003
Base: all businesses who have either (i) increased or (ii) decreased the size of their workforce in the last 12 months

Change in workforce over next 12 months

Looking to the next 12 months, the majority of firms (63%) think that they will maintain the same sized workforce. Where change is expected, the majority of businesses (30%) believe that there will be an increase: only 3% expect to decrease. Given that 14% of employers actually decreased their workforce size over the last 12 months, this suggests that even they are expecting the next 12 months to be more positive than the preceding 12 months.

Table 5.7: Change in number of employees in next 12 months

	All
	%
Increase by > 10%	13
Increase by < 10%	17
Stay the same	63
Decrease by <10%	2
Decrease by > 10%	1
Don't know/non-response	5
Weighted base	**301,587**
Unweighted base	**4,073**

Source: London Annual Business Survey, 2003
Base: all businesses

The main determinants in whether businesses expect to see an increase in staff over the next 12 months is their experience over the last 12 months. Employers who have seen an increase in turnover and/or staff in the last 12 months are more likely to predict an increase in the next year. Similarly, those who have seen decreases in turnover or staff are more likely to expect decreases.

Table 5.8: Expected change in number of employees in next 12 months

	Change in workforce size over next 12 months				
	Increase	Stay the same	Decrease	Weighted base	Unweighted base
	%	%	%	n	n
All businesses	**30**	**63**	**3**	**301,587**	**4,073**
Change in turnover over last 12 months					
Increased	44	52	2	98,872	1,392
Stayed the same	17	77	2	98,124	1,304
Decreased	22	64	8	55,467	668
Change in employment over last 12 months					
Increased	55	41	*	59,880	1,055
Stayed the same	22	72	2	197,481	2,385
Decreased	30	52	10	40,674	596

Source: London Annual Business Survey, 2003
Base: all businesses

5.4 Labour market difficulties

In this section we report on data taken from London results from the 2001 *National Employer Skills Survey* (NES), which consisted of 27,301 interviews across England, of which 4,011 interviews were of establishments based in London[19].

Recruitment difficulties and skill shortage vacancies

The NES estimated that 16% of all establishments in London were facing vacancies at the time of the survey, equating to some 180,119 vacant jobs. 8% of London establishments reported that they were facing hard-to-fill vacancies (76,490 vacancies) and 4% of establishments were facing a skill shortage[20] vacancy (33,649 vacancies).

Possibly the most striking point from the comparison with all England is the fact that the results are so similar. Slightly fewer establishments in England have any vacancies at the time of the survey (16% compared to 18%) and the hard-to-fill vacancy and skill shortage vacancy rates are the same. Thus, despite all the differences which have been noted between London's labour market and that existing elsewhere, the market seems to be operating at a similar level of efficiency.

Table 5.9: Level of current vacancies, hard-to-fill vacancies and skill shortage vacancies

	London		England	
	% of establishments reporting	Number of vacancies (n)	% of establishments reporting	Number of vacancies (n)
All vacancies	16	180,119	18	766,000
Hard-to-fill vacancies	8	76,490	8	358,000
Skill shortage vacancies	4	33,649	4	159,000
Unweighted base	**4,011**	**-**	**27,301**	
Weighted base	**380,237**	**-**		

Source: National Employer Skills Survey, 2001, London data
Base: all respondents

[19] IFF, Employer Skills Survey, 2001

[20] In this survey the employers are asked if they have any existing vacancies at the time of the interview and, if yes, whether any of these are proving hard-to-fill. In this sense, 'hard-to-fill vacancies' are self-defined by the employer. Skill shortage vacancies are those hard-to-fill vacancies which respondents said were due to applicants lacking the required skills, the level of work experience the company demands and/or the qualifications the company demands.

The incidence of vacancies, hard to-fill vacancies and skill shortage vacancies vary consistently with size of employer. The data shows that:

- the larger the employer the more likely they are to report each of current vacancies, hard-to fill vacancies and skill shortage vacancies. Thus, 69% of the largest firms (those with more than 500 employees) report a current vacancy, compared to 7% of the smallest employers, 75% of the largest have a hard-to-fill vacancy, compared to 7% of the smallest and 41% of the largest have a skill shortage vacancy compared to 3% of the smallest;

- despite this, the largest proportion of actual vacancies is amongst the smallest firms. Thus, 56% of all vacancies exist in companies with less than 25 employees, as do 64% of all hard to-fill vacancies and 52% of all skill shortage vacancies.

Table 5.10: Level of current vacancies, hard-to-fill vacancies and skill shortage vacancies by company size

	Number of employees							
	1 – 4	5 – 24	25 – 49	50 – 99	100 – 199	200 – 499	500 +	All
								%
% reporting vacancies	12	20	39	53	64	70	69	16
Total number of vacancies	69,293	32,304	14,361	16,158	10,456	18,902	18,646	180,119
% reporting hard-to-fill vacancies	7	10	17	25	27	27	75	8
Total number of hard-to-fill vacancies	35,846	12,830	6,222	7,115	3,019	5,819	6,638	76,490
% reporting skill shortage vacancies	3	5	8	13	12	14	41	4
Total number of skill shortage vacancies	14,636	5,460	2,975	3,462	1,189	2,572	3,355	33,649
Unweighted base	**506**	**1,190**	**882**	**493**	**426**	**370**	**144**	**4,011**
Weighted base	**286,471**	**69,460**	**12,003**	**6,955**	**2,451**	**2,236**	**661**	**380,237**

Source: National Employer Skills Survey, 2001, London data
Base: all respondents

As well as being more numerous in small employers, the hard-to-fill vacancies and skill shortage vacancies also represent a higher proportion of total employment in smaller employers than they do for larger companies. Hard-to-fill vacancies represent just less than 9% of all employment for the smallest employers, but less than 1% for the largest. Similarly, skill shortage vacancies account for 3.6% of all employment in the smallest firms, compared to 0.5% in the largest.

Table 5.11: Hard-to-fill vacancies and skill shortage vacancies as % of employment

	Number of employees							
	1 – 4	5 – 24	25 – 49	50 – 99	100 – 199	200 – 499	500 +	All
								%
Hard-to-fill vacancies as % of employment	8.7	1.8	1.5	1.6	0.9	0.9	0.9	2.1
Skill shortage vacancies as % of employment	3.6	0.8	0.7	0.8	0.4	0.4	0.5	0.9
Unweighted base	**506**	**1,190**	**882**	**493**	**426**	**370**	**144**	**4,011**
Weighted base	**286,471**	**69,460**	**12,003**	**6,955**	**2,451**	**2,236**	**661**	**380,237**

Source: National Employer Skills Survey, 2001, London data
Base: all respondents

Internal skills gaps

To assess the extent of internal skills gaps employers were asked for each occupational group what proportion of existing staff at the establishment were regarded as being fully proficient. Responses were allowed on a scale of 'all', 'nearly all', 'over half', 'some but under half' and 'very few'. Internal skill gaps were deemed to exist where, for any occupation, the response was 'over half' or less.

On this basis, it is estimated that 6% of establishments in London suffered from internal skills gaps. This data suggests that there are some 336,997 jobs that are suffering from a skills gap, some 9% of all jobs in London. The comparable level for England overall is 7%.

The likelihood of businesses reporting an internal skills gap tends to increase with employer size, although the relationship is not clear or consistent once size goes beyond 100 employees.

Table 5.12: Existence of internal skills gaps

	% of establishments reporting
All	**6**
Size (number of employees)	
1-4	3
5-24	14
25-49	19
50-99	23
100-199	20
200-499	16
500+	21
Unweighted base	**4,011**
Weighted base	**380,237**

Source: National Employer Skills Survey, 2001, London data
Base: all respondents

Basic skill shortages

The Basic Skills Agency defines basic skills as *'the ability to read, write and speak in English and use mathematics at a level necessary to function and progress at work and in society in general'*[21]. A perceived deficiency in basic skills has been the subject of widespread analysis and debate in recent years and nationally it is estimated that one in five (19%) of adults has less literacy than is expected of an 11 year old child (below NVQ Level 1). Problems relating to numeracy are thought to be even more severe: approximately half (48%) of all adults have numeracy problems (again the skills expected of an 11 year old child), with 23% classed as having 'very low' levels of numeracy[22].

The policy and research agenda has been focused on the supply of basic skills and the impact of low basic skills for an individual's life chances. Evidence of employer views of basic skills is more limited, but there are two clear trends[23]:

- changes in the sectoral and occupational structure have meant a reduction in the proportion of jobs held by people with low levels of basic skills, in particular, the decline in the number of people employed in manual and unskilled jobs. This has meant that there has been an increase in the relative demand for people with a minimum level of basic skills;
- basic skills have become more important to employers across a range of occupations.

[21] Basic Skills Agency, Staying the Course: the relationship between basic skills, support, drop out, retention and achievement in FE Colleges, 1997
[22] Data taken from Skills In England, Campbell, 2001
[23] Discussed in full detail in Campbell M, et al, Skills in England 2001, The Research Report, Department for Education and Skills

However, employers do not report basic skill deficiencies as being problematic, they are less important than a range of generic or IT skills. The LES found that relatively few businesses in London feel that there are any jobs within their establishments in which their current staff have shortcomings in basic skills. 3% of employers believed that some of their staff have shortages of reading skills, writing skills and oral communication skills. 2% believe that some staff have shortcomings in their numeracy skills.

Generic skill shortages

The LES also shows that relatively few employers in London believe their staff have shortages in generic skills. Only 3% think that there are shortcomings in customer service skills and 2% that there are any with regard to team working. Shortages in IT skills are slightly more widespread, but even here only 6% of employers report any shortcomings.

5.5 Training

Existence of a training plan

42% of employers have a training plan. The incidence of having a training plan varies such that:

- larger employers are more likely to have a training plan than smaller ones. 38% of those with 10 employees or less have a training plan compared to nine out of ten (88%) of those with more than 500 employees;
- establishments based in North and South London are less likely to have a training plan;
- there is a wide variation by sector, such that only 28% of establishments in Manufacturing have a training plan, as do 33% in Publishing and 36% in both Construction and Other Community, Social and Personal Activities. At the other end of the scale, 67% of establishments in Education, Health and Social Work and 62% of Hotels and Restaurants have a training plan. This may appear high for Hotels and Restaurants, but may be because a relatively high proportion of them are part of multi-site organisations (59%) which will have corporate training plans;
- foreign-owned establishments are more likely to have a training plan than UK-owned establishments (57% compared to 41%), although this may be an impact of the inter-relationship with size of the establishment; and
- companies which classify themselves as hi-and medium-technology based companies are more likely to have a training plan than lo-tech companies.

These patterns of variation in the existence of training plans are consistent with the earlier findings on the existence of business, sales and marketing plans and management accounts. As noted earlier the exact influence of each of these variables is difficult to determine using the univariate analysis in this report.

Table 5.13: Existence of training plan at the establishment

	Training plan	Weighted base	Unweighted base
	%	n	n
All businesses	**42**	**301,587**	**4,073**
Size			
1 – 10	38	266,266	1,842
11 – 49	67	27,404	1,379
50 – 249	82	6,711	664
250 – 499	89	905	126
500 +	88	301	62
Area			
Central	43	108,301	864
East	46	62,883	801
North	30	32,951	801
South	35	44,977	803
West	47	52,475	804
Sector			
Primary and Utilities	35	986	13
Manufacturing (excluding publishing)	28	13,207	314
Publishing	33	6,729	159
Construction	36	19,101	309
Wholesale and Retail Trade	38	62,480	987
Hotels and restaurants	62	19,097	338
Transport, Storage and Communication	49	12,670	227
Financial Services	61	9,593	162
Business Services	41	121,826	1,059
Education, Health and Social Work	67	7,086	228
Other Community, Social and Personal Activities	36	28,789	274
Location of ownership			
UK-owned	41	280,908	3,631
Foreign-owned	57	19,455	411
Technology base			
Hi-tech	49	64,596	968
Medium-tech	48	131,579	1,922
Lo-tech	30	101,246	1,128

Source: London Annual Business Survey, 2003
Base: all businesses

There is a clear link between the existence of a business plan and a training plan, in that establishments who have a business plan are more likely to have a training plan: 66% of establishments with a business plan also have a training plan; 83% of companies who do not have a business plan, also do not have a training plan.

Table 5.14: Existence of business plans and training plans

Existence of business plan	All businesses	Has business plan	No business plan
	%	%	%
Has training plan	42	66	17
Does not have training plan	58	34	83
Weighted base	**301,587**	**151,938**	**149,649**
Unweighted base	**4,073**	**2,352**	**1,721**

Source: London Annual Business Survey, 2003
Base: all businesses

Again, whilst the direction of causality is difficult to prove, it is apparent that those establishments which have a training plan are more successful than those who do not: they are more likely to have increased turnover in the last 12 months (42% compared to 28%), to have increased profitability (30% compared to 22%) and to have increased productivity (33% compared to 20%).

Table 5.15: Training plans and changes in performance

	All businesses	Has training plan	No training plan
	%	%	%
Change in turnover over last 12 months			
Increased	34	42	28
Stayed the same	23	29	37
Decreased	19	17	21
Change in profitability over last 12 months			
Increased	25	30	22
Stayed the same	38	36	39
Decreased	19	15	22
Change in productivity over last 12 months			
Increased	26	33	20
Stayed the same	57	53	59
Decreased	6	4	7
Weighted base	**301,587**	**121,699**	**167,207**
Unweighted base	**4,073**	**2,198**	**1,758**

Source: London Annual Business Survey, 2003
Base: all businesses

The LES shows that 35% of employers have a budget for training expenditure. It also demonstrates a clear relationship between the existence of planning and the provision of training. Employers who have a training plan and are involved with 'Investors in People' are more likely to have offered training and development opportunities in the last year and to provide it to a higher proportion of their employees.

From the LES we calculate that two-thirds (65%) of employers have provided training and other personal development opportunities at their establishments over the last 12 months. There is a strong association between the size of employer and the likelihood of providing training.

Across London, the LES estimates that training has penetrated to 41% of employees, with penetration being highest in the largest employers.

5.6 Summary

GDP per head is composed of two factors: the level of labour force participation and its labour productivity: that is how many are working and how productive they are.

Whilst internationally, the UK compares well on the levels of labour force participation, London has one of the lowest participation rates in the UK and also one of the highest unemployment rates. There is evidence that some sections of the population are more likely to be excluded from the labour market, with unemployment rates for minority ethnic groups being higher than for white groups.

Porter notes that labour force skills continue to be an area of competitive disadvantage for the UK, although the picture is mixed. More specifically:

- in terms of education, the UK has received low marks for the quality of schools and specifically for maths and science education. This is consistent with the comparatively low spending on education, on a per student basis – the UK ranks 15th amongst all OECD countries on this measure.

- in terms of general labour market skills, the UK is still thought to fall behind competing economies, especially because of a high share of the population with low levels of educational attainment.

- in terms of advanced skills, the UK is thought to rank well on management education, but less well on the numbers of scientists and engineers. Whilst the numbers of these have been increasing, they still remain at a low level.

Evidence on this being a specific London problem is less clear. National surveys on labour market difficulties suggest that London employers are just as likely as those elsewhere in the UK to be facing hard-to-fill vacancies and internal skill shortages. There is no clear evidence that London employers recognise that they face basic or general skills shortages amongst their employees. Whilst hard-to-fill and skill shortage vacancies are proportionally more likely to occur in larger firms, smaller firms have the largest number of hard-to-fill vacancies. Thus 56% of all vacancies occur in companies with less than 25 employees, as do 64% of all hard-to-fill vacancies and 52% of skill shortage vacancies.

Only 42% of businesses have a training plan, despite positive associations between the possession of training plans and increases in turnover in the last 12 months (42% compared to 28% for those without training plans), as well as increased profitability (30% compared to 22%) and increased productivity (33% compared to 20%).

6. INVESTMENTS AND ACCESS TO FINANCE

6.1 Introduction

This section examines investments made by businesses in London and any limitations on availability of finance. As with other sections, it is worth noting that this data only provides a snapshot of the situation at a moment in time. The data will become of more value as it becomes a time series indicator.

6.2 Investment

Change in spending over the last 12 months

Businesses were asked whether, in real terms, they had changed their spending in a number of investment areas over the last 12 months. In each area, the highest proportion of employers stated that spending had stayed the same in real terms. However, the balance of investment is positive with higher proportions having increased spending than having decreased it for each area.

Chart 6.1 Spending change, in real terms

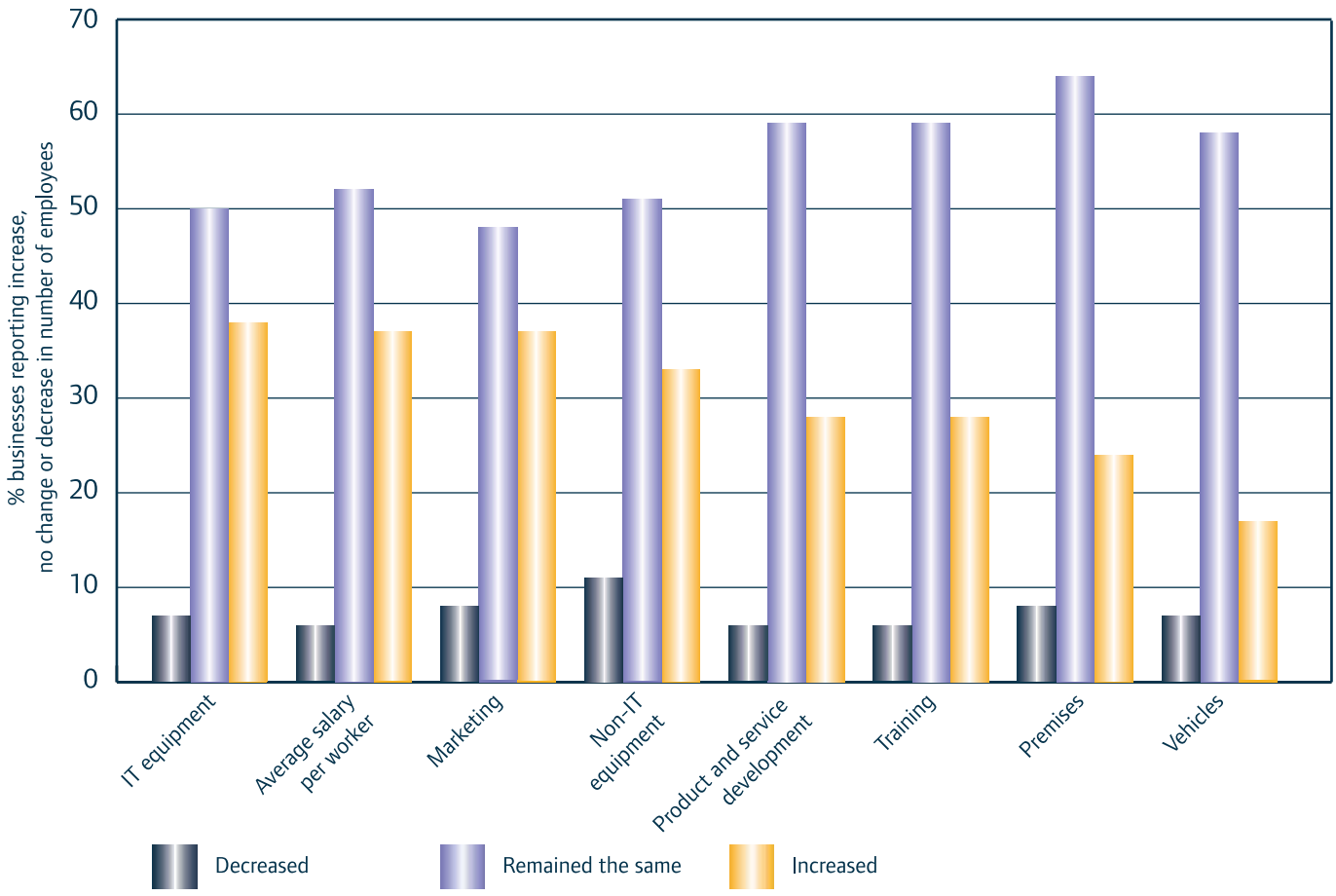


Table 6.1: Spending change, in real terms

	Increased	Remained the same	Decreased	DK/decisions are made elsewhere	Balance of + ve over - ve
	%	%	%	%	% points
IT equipment	37	50	6	7	31
Average salary per worker	36	52	5	8	31
Marketing	36	48	7	9	29
Non-IT equipment	33	51	11	6	22
Product service and development	27	59	5	10	22
Training	27	59	5	9	22
Premises	24	64	7	6	17
Vehicles	16	58	6	19	10

Source: London Annual Business Survey, 2003
Base: all businesses. Weighted base is 301,587, unweighted base is 4,073

In general terms the likelihood of firms having increased their spending in real terms on each of the areas is higher amongst establishments which:

- are newer: as length of time of establishment increases, the proportion who say that investment has increased in real terms decreases;
- have seen an increase in turnover in the last 12 months; and
- have seen an increase in workforce size over the last 12 months.

In addition to this, there are variations with regard to specific areas of investment. In particular:

- businesses which consider themselves to be 'hi-tech' are more likely to have increased their spending on IT equipment than those which are 'medium' or 'lo-tech' (49% compared to 44% and 21% respectively);
- firms which have a business plan are more likely to have increased spending on product and service development than those without a business plan (32% compared to 22% respectively);
- businesses which have increased their workforce size over the last 12 months are more likely to have increased their spending on training. 45% of those who have increased their workforce size have increased training expenditure, compared to 24% who have kept the same workforce size and 19% of those who have decreased it. Similarly, companies that have a training plan are more likely to have increased spending on training than those who have not (41% compared to 17%).

There are also a number of sectors that are more likely than average to have increased their investment in a number of areas. These particularly include businesses in the Transport, Storage and Communication; Education, Health and Social Work; Publishing and Financial Services sectors. Those sectors that have lower than average levels of investment are the Manufacturing; Other Community, Social and Personal Services and Hotels and Restaurants sectors.

Anticipated change in spending over the next 12 months

When asked about anticipated spending on the same activities over the next 12 months, the responses are of a roughly similar distribution. The highest proportions state that spending in real terms will remain the same. Where a change is anticipated, the balance is for an increase in all areas. Only a minority of firms expect that they will decrease their spending in any of these areas.

Table 6.2: Anticipated spending change, in real terms, over next 12 months

	Increase	Remain the same	Decrease	DK/decisions are made elsewhere	Balance of + ve over - ve
	%	%	%	%	% points
Average salary per worker	38	46	3	14	35
Marketing	32	50	4	14	28
IT equipment	28	55	4	13	24
Training	27	56	3	14	24
Non-IT equipment	25	58	5	12	20
Product service and development	24	58	3	15	21
Premises	19	65	4	12	15
Vehicles	14	61	4	21	10

Source: London Annual Business Survey, 2003
Base: all businesses. Weighted base is 301,587, unweighted base is 4,073

Limitations on investment

Businesses were asked whether they have been able to invest as much capital as they would have liked in the infrastructure, equipment and staff at their site over the previous 12 months. Over half (51%) had been able to do so, 31% had not. Almost a fifth of businesses (18%) did not know whether they had been able to invest as much as they would have liked or not. This is probably due to investment decisions being made elsewhere away from that establishment or by someone other than the respondent.

Table 6.3: Ability to invest as much capital as would have liked over last 12 months

	All
	%
Have been able to	51
Have not been able to	31
Don't know/non response	18
Weighted base	**301,587**
Unweighted base	**4,073**

Source: London Annual Business Survey, 2003
Base: all businesses

There is no clear relationship between the ability to invest as much as required and the establishment size or age of the business. The main relationship is with change in turnover in the last 12 months. 58% of those whose turnover has increased and 57% of those whose turnover has stayed the same have been able to invest all they wanted, compared to 34% of those whose turnover had decreased over the last year. This is to be expected; a fall in the level of turnover would impact upon cash flow and funds available for investment.

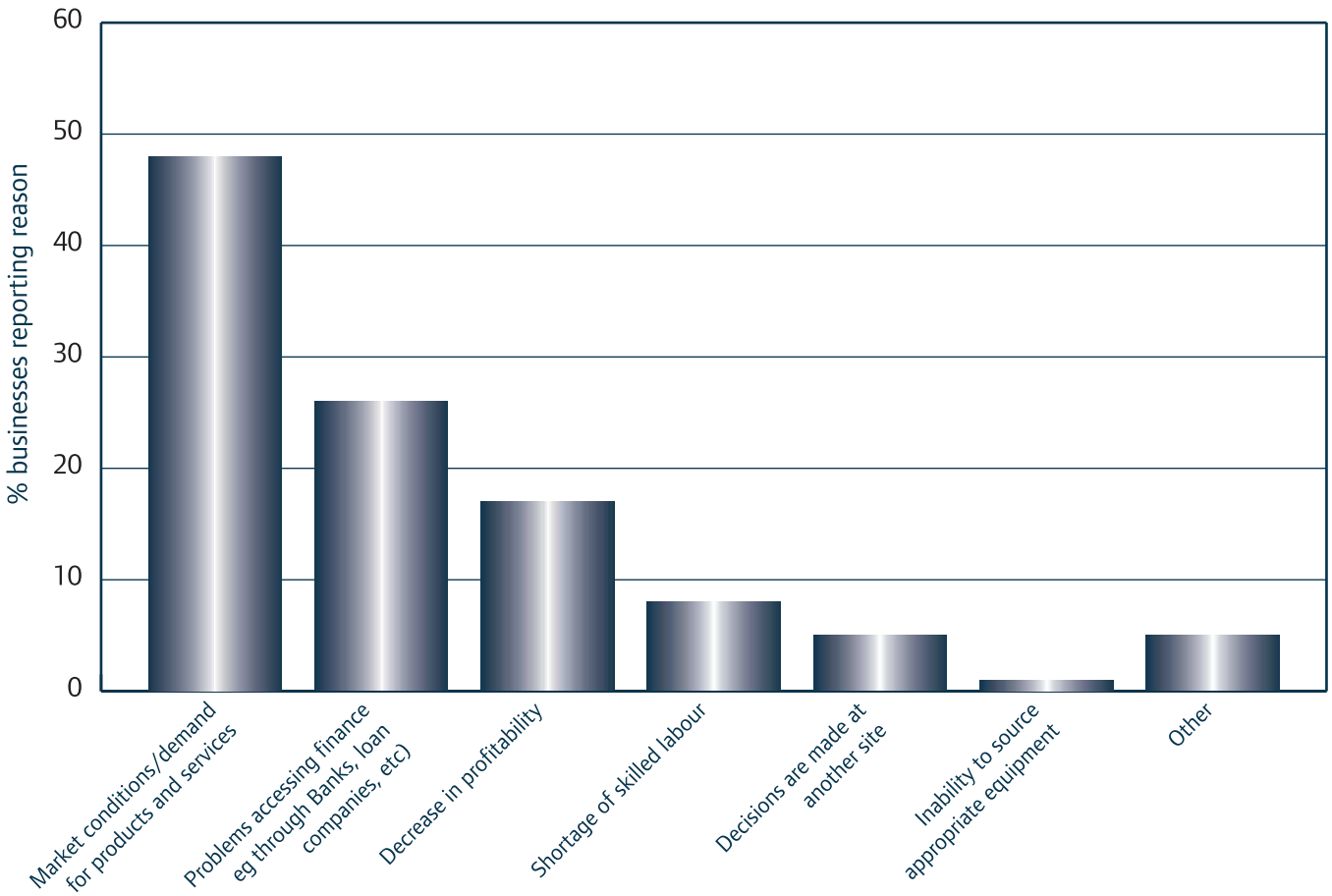
Table 6.4: Ability to invest as much capital as would have liked over last 12 months

		Change in turnover in last 12 months		
	All	Increased	Stayed the same	Decreased
	%	%	%	%
Have been able to	51	58	57	34
Have not been able to	31	28	29	51
Don't know/non response	18	14	14	15
Weighted base	**301,587**	**98,872**	**98,124**	**55,467**
Unweighted base	**4,073**	**1,392**	**1,304**	**668**

Source: London Annual Business Survey, 2003
Base: all businesses

Those who have been unable to invest all the capital they wished were asked what actually prevented them from doing so. Consistent with the finding above linking a shortage of investment to changes in turnover, the most common reason is market conditions (48%) and a decrease in profitability (16%). Once again we see that businesses are more sensitive and vulnerable to external conditions rather than to their own actions. However, 26% of employers reported problems accessing external finance as their main barrier to investing.

Chart 6.2 What prevented business investing as much capital as would have liked



However, even though relatively few firms have problems regarding access to finance, there is more doubt over whether the source of finance is the most appropriate one. The London Employers Survey[24] asked employers what types of finance were used. Of those using external finance, the most common form was a credit card or an overdraft. Smaller companies were more likely to use overdrafts, with larger companies more likely to use external equity. As companies mature, they appear less likely to use finance, with companies in early stage of development being more reliant on finance provided by owners and directors.

[24] London Skills Forecasting Unit, London Employers' Survey, 2002

The distribution of the reasons behind the inability to make all the desired investments varies by size of company. The impact of market conditions is reasonably consistent for all company sizes, though being higher for the largest, but problems accessing external finance are more likely to be an issue for smaller companies. Larger companies are more likely to report that the reason behind the lack of investment is that decisions regarding such investment are taken at another site, although some care needs to be taken here with this data due to small sample sizes amongst these large companies.

Table 6.5: What prevented investing as much capital as would have liked over last 12 months

		Size (number of employees)				
	All	**1 – 10**	**11 – 49**	**50 – 249**	**250 – 499**	**500 +**
Multiple response	**%**	**%**	**%**	**%**	**%**	**%**
Market conditions/demand for products and services	48	48	43	45	51	62
Problems accessing external finance (eg through banks, loan companies, etc)	26	27	16	13	14	0
Decrease in profitability	16	16	16	16	6	16
Shortage of skilled labour	7	7	6	6	10	0
Decisions are made at another site	5	5	11	14	21	23
Inability to source appropriate equipment	1	1	2	3	0	0
Other	5	5	6	6	5	0
Don't know/non response	13	12	21	13	6	0
Weighted base	**94,209**	**86,088**	**6,548**	**1,305**	**206**	**62**
Unweighted base	**1,109**	**584**	**345**	**142**	**27**	**11**

Source: London Annual Business Survey, 2003
Base: all businesses unable to make all desired capital investments in past 12 months

Market conditions are evidently more severe in some sectors than in others, so as would be expected, the relative importance of this on the ability to make all the desired investments varies. 69% of businesses in Publishing and 66% of those in Transport and Communications report that market conditions adversely affected their ability to invest.

There are also some indications that more recently established companies are more likely to report problems accessing external finance. 54% of those who have been established in the last 18 months reported some difficulties in accessing external finance, compared to 22% of those who have been established for five years or more.

Those that had found problems in accessing external finance were asked what problems they had experienced. The main difficulty (given by 36% of these respondents) is in obtaining large enough amounts. On being asked whether they found accessing external finance a problem, 70% of these firms said yes, with 36% finding it a major problem.

Chart 6.3 Problems in accessing external finance in the past 12 months

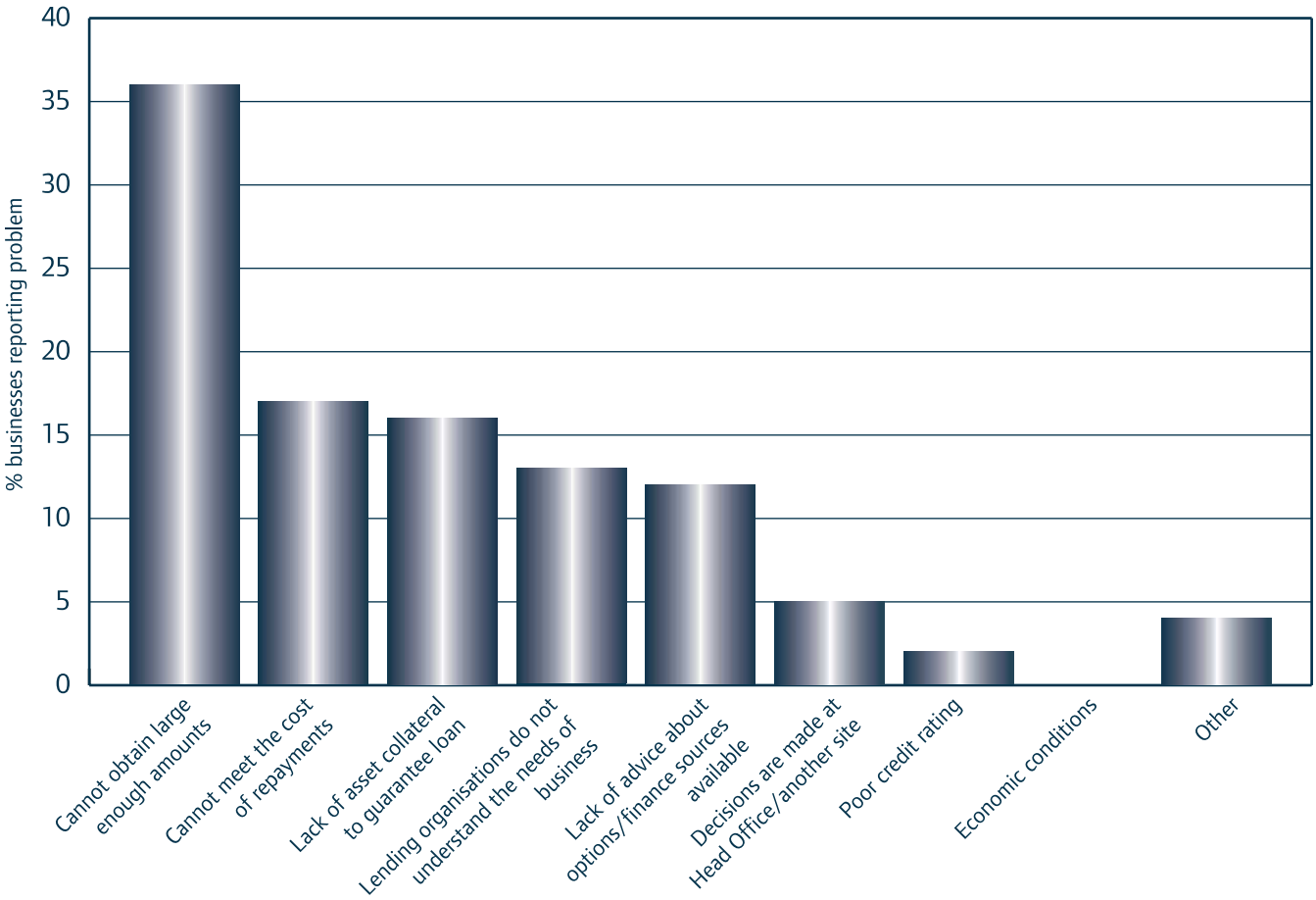


Table 6.6: Problems in accessing external finance in the past 12 months

	All
Multiple response	**%**
Cannot obtain large enough amounts	36
Cannot meet the cost of repayments	17
Lack of asset collateral to guarantee loan	16
Lending organisations do not understand the needs of business	13
Lack of advice about options/finance sources available	12
Decisions are made at Head Office/another site	5
Poor credit rating	2
Economic conditions	*
Other	4
Don't know/non-response	23

Extent of problems in accessing external finance in last 12 months	
Not a problem	11
A minor problem	34
A major problem	36
Don't know/non-response	20
Weighted base	**24,344**
Unweighted base	**246**

Source: London Annual Business Survey, 2003
Base: all businesses unable to make desired capital investments in the past year, and experiencing problems in accessing finance

6.3 Replacing capital equipment

Companies were asked how often they replaced capital equipment at their site, including office equipment but excluding IT equipment (which is discussed separately in section 7). This question elicited a high non-response rate, with a quarter (26%) of firms not knowing or refusing to answer.

Looking at the 'raw data', we see that, on average, capital equipment has been replaced every 3.6 years. This, however, excludes the 21% of establishments who have never replaced their capital equipment. These businesses are not, as may have been expected, all new companies: of the 63,000 companies who say that they have never replaced their capital equipment, 62% (39,000) have been established for more than five years. This finding, therefore, distorts downwards the 'average age' of capital equipment and to overcome this we have adjusted the data by substituting for these firms the age of their business. On this basis, the average frequency with which capital equipment is replaced increases to 4.0 years.

Table 6.7: Frequency with which capital equipment is replaced

	Raw data	Adjusted data
	%	%
Every year	7	10
Every 2 – 3 years	24	29
Every 4 – 5 years	18	20
Every 6 – 10 years	4	14
More than every 10 years	*	*
Have never replaced it	21	n/a
Don't know/non-response	26	26
Mean number of years	3.6	4.0
Weighted base	**301,587**	**301,587**
Unweighted base	**4,073**	**4,073**

Source: London Annual Business Survey, 2003
Base: all businesses

Variations in the frequency with which capital equipment is replaced are:

- the smaller the establishment, the more frequently capital equipment is replaced, although this may be a result of smaller companies being younger;
- younger companies have replaced their capital equipment more frequently;
- establishments in the Central and East sub-regions of London replace their capital equipment more frequently;
- firms with a business plan replace their capital equipment more frequently than those without;
- foreign-owned establishments replace their capital equipment more frequently than UK-owned establishments (3.6 years compared to 4.1); and
- hi-tech establishments replace their capital equipment more frequently than medium-tech establishments, who in turn replace it more frequently than lo-tech establishments (3.5, 4.1 and 4.4 years respectively).

Table 6.8: Average frequency with which capital equipment is replaced (adjusted data)

	Average years	Weighted base	Unweighted base
	n	n	n
All businesses	**4.0**	**301,587**	**4,073**
Size			
1 – 10	4.0	266,266	1,842
11 – 49	4.0	27,404	1,379
50 – 249	4.3	6,711	664
250 – 499	5.2	905	126
500 +	4.9	301	62
Age of company			
Up to 18 months	1.7	13,776	128
> 18 months – 3 years	3.0	40,647	364
> 3 years – 5 years	3.3	33,114	322
> 5 years	4.5	209,491	3,174
Area			
Central	3.9	108,301	864
East	3.7	62,883	801
North	4.5	32,951	801
South	4.2	44,977	803
West	4.1	52,475	804
Sector			
Primary and Utilities	2.8	986	13
Manufacturing (excluding publishing)	4.6	13,207	314
Publishing	4.5	6,729	159
Construction	4.3	19,101	309
Wholesale and Retail Trade	4.2	62,480	987
Hotels and Restaurants	3.8	19,097	338
Transport, Storage and Communication	4.2	12,670	227
Financial Services	3.8	9,593	162
Business Services	3.7	121,826	1,059
Education, Health and Social Work	4.0	7,086	228
Other Community, Social and Personal Activities	4.8	28,789	274
Business plan			
Has business plan	3.7	151,938	2,352
No business plan	4.4	149,649	1,721
Location of ownership			
UK-owned	4.1	280,908	3,631
Foreign-owned	3.6	19,455	411
Technology base			
Hi-tech	3.5	64,596	968
Medium-tech	4.1	131,579	1,922
Lo-tech	4.4	101,246	1,128

Source: London Annual Business Survey, 2003
Base: all businesses

Of course, replacing capital equipment has financial implications and it is not surprising that those businesses who have seen an increase in turnover in the last 12 months replace their capital equipment more frequently than those whose turnover has stayed the same or decreased.

Table 6.9: Average frequency with which capital equipment is replaced (adjusted data)

	Average years	Weighted base	Unweighted base
	n	n	n
All employers	**4.0**	**301,587**	**4,073**
Turnover increased	3.6	98,872	1,392
Turnover stayed the same	4.3	98,124	1,304
Turnover decreased	4.5	55,467	668

Source: London Annual Business Survey, 2003
Base: all businesses

6.4 Summary

Porter asserts that UK companies are operating with lower levels of capital intensity than their competitors in Europe and the United States. Business investment has increased to the level of other advanced economies in the past decade, but this has not been enough to close the gap in terms of capital intensity. Analysis by the OECD suggests that the lower investment in the UK over the last decade has been mainly related to investments in buildings and structures: there is no lag in investments in machinery.

Data from the London Annual Business Survey suggests that London's employers are spending more in real terms on investment than previously and expect to continue to do so over the next 12 months. There is also limited support for the view that there are constraints on investment: 51% state that they can invest as much as they would like, with 18% not knowing, although this leaves a third (31%) who would have liked to invest more capital in their business. Again, however, these firms tend to attribute this inability to invest to external factors, particularly market conditions.

This may be expected. The City of London is one of the most competitive financial services clusters in the world. Venture capital availability is the highest in Europe, behind the Netherlands (although there are some concerns about the relatively greater focus on later stage funding). However, for many firms, particularly small and start-up ones, this is not a realistic form of funding and does not satisfy the needs of such businesses. Certainly, data from the *London Employers Survey* found a greater reliance by companies (and particularly smaller companies) on credit cards and overdrafts as financing sources, which, although convenient, are not necessarily the most appropriate forms. Such financing methods are often expensive, which can potentially harm the growth prospects of small and medium-sized firms.

7. INFORMATION AND COMMUNICATION TECHNOLOGY

7.1 Introduction

This section examines the uptake of information and communication technology (ICT) amongst businesses in London. It examines the level of technology at the establishment, the existence and usage of personal computers and other communication technologies and the impact of these on the business and the level of investment in ICT.

7.2 Level of technology at the establishment

Companies were asked whether the business at their site was 'lo-tech', 'medium-tech' or 'hi-tech'. This is a self-assessment – no independent checks were made to verify their technology status and the normal caveats apply when such a self-assessment is made, which are that individual perceptions of what is meant by each of different levels of technology may vary.

A third (34%) of businesses stated that they were lo-tech and 44% stated that they were medium-tech. Just over a fifth (21%) stated that they were 'hi-tech' companies. This is worth noting, despite the popular image of London as being at the leading edge of the UK economy, three-quarters of its businesses do not consider themselves to be hi-technology based companies.

Table 7.1: Description of technology at the establishment

	%
Lo-tech	34
Medium-tech	44
Hi-tech	21
Don't know/non-response	1
Weighted base	**301,587**
Unweighted base	**4,073**

Source: London Annual Business Survey, 2003
Base: all businesses

The distribution of different technology-based companies varies such that:

- Central London has the highest proportion of hi-tech companies at 24%. North London has the lowest proportion of hi-tech companies (13%) and the highest proportion of lo-tech establishments at 39%, along with South London;
- the likelihood of being a lo-tech company decreases with size. 36% of the smallest establishments classify themselves as lo-tech, compared to 3% of the largest. 59% of the largest establishments classify themselves as hi-tech companies;

- with regard to sector, there is no clear 'service' and 'production' sector bias, but rather clusters where hi-tech establishments are more likely to exist: Business Services (31%), Publishing and Financial Services (both 25%). There are also some sectors with high proportions of lo-tech establishments: Hotels and Restaurants (51%), Other Community Services (45%), Construction (also 45%) and Wholesale and Retail Trade (43%). However, it is clear that in each sector there are hi-and lo tech companies existing side by side.

- foreign-owned businesses are more likely to be hi-tech than UK-owned;

- establishments with a business plan are more likely to be hi-tech, though this may be picking up a size effect.

Table 7.2: Description of technology at the establishment

	Lo-tech	Medium-tech	Hi-tech	Weighted base	Unwtd base
	%	%	%	n	n
All businesses	**34**	**44**	**21**	**301,587**	**4,073**
Area					
Central	31	44	24	108,301	864
East	32	45	21	62,883	801
North	39	46	13	32,951	801
South	39	40	21	44,977	803
West	33	44	22	52,475	804
Size					
1 - 10	36	43	20	266,266	1,842
11 - 49	19	51	28	27,404	1,379
50 - 249	10	53	36	6,711	664
250 - 499	14	47	37	905	126
500+	3	38	59	301	62
Sector					
Primary and Utilities	59	31	10	986	13
Manufacturing (excluding publishing)	43	40	14	13,207	314
Publishing	23	50	25	6,729	159
Construction	45	43	10	19,101	309
Wholesale and Retail Trade	43	41	13	62,480	987
Hotels and Restaurants	51	34	12	19,097	338
Transport, Storage and Communication	35	48	17	12,670	227
Financial Services	11	64	25	9,593	162
Business Services	22	46	31	121,826	1,059
Education, Health and Social Work	36	48	15	7,086	228
Other Community, Social and Personal Activities	45	36	19	28,789	274
Location of ownership					
UK-owned	34	44	21	280,908	3,631
Foreign-owned	23	43	33	19,455	411
Existence of business plan					
Has business plan	25	46	29	151,938	2,352
Does not have business plan	43	41	14	149,649	1,721

Source: London Annual Business Survey, 2003
Base: all businesses

7.3 Existence and usage of IT

Personal computers

Businesses were asked what proportion of their staff at that site use personal computers (PC) on a day-to-day basis for their job. A PC was defined as being a desktop, laptop or handheld computer.

Over half of businesses (55%) report that all their staff use PCs on a day-to-day basis, by far outweighing the 16% who say that none of their staff use PCs. As a result the average level of staff using PCs is 66%.

Table 7.3: Proportion of staff using computers on a day-to-day basis

	%
0%	16
1 – 10%	7
11 – 20%	3
21 – 30%	4
31 – 40%	2
41 – 50%	6
51 – 60%	1
61 – 70%	2
71 – 80%	2
81 – 90%	1
91 – 99%	*
100%	55
Don't know/non response	1
Mean level	*66.32*
Weighted base	**301,587**
Unweighted base	**4,073**

Source: London Annual Business Survey, 2003
Base: all businesses

There is obviously a relationship between this level of PC-usage and the firm's own assessment of its technology base. PC usage is estimated at 92% in hi-tech businesss, 73% in medium-tech and 42% in lo-tech firms respectively. Beyond this, the average level of staff PC usage does not vary consistently by business size, either in terms of employees or turnover. There are some sectors, however, which have higher rates of PC usage, notably Financial Services (92%), Business Services (87%) and Publishing (75%). Hotels and Restaurants are notable for their low PC-adoption rate (31%).

The finding for Construction, with a PC-usage rate of 52%, needs some methodological consideration. A visitor to any construction site cannot fail to notice that levels of PC-usage are low, however, surveys such as these do not pick up what is happening at actual construction sites, but at head office establishments which accounts for this relatively high result.

Table 7.4: Proportion of staff using computers on a day-to-day basis

	% of employees using PCs	Weighted base	Unweighted base
	%	n	n
All businesses	**66**	**301,587**	**4,073**
Technology base			
Hi-tech	92	64,596	968
Medium-tech	73	131,579	1,922
Lo-tech	42	101,246	1,128
Sector			
Primary and Utilities	46	986	13
Manufacturing (excluding Publishing)	44	13,207	314
Publishing	75	6,729	159
Construction	52	19,101	309
Wholesale and Retail Trade	48	62,480	987
Hotels and Restaurants	31	19,097	338
Transport, Storage and Communication	70	12,670	227
Financial Services	92	9,593	162
Business Services	87	121,826	1,059
Education, Health and Social Work	61	7,086	228
Other Community, Social and Personal Activities	50	28,789	274
Location of ownership			
UK-owned	66	280,908	3,631
Foreign-owned	75	19,455	411

Source: London Annual Business Survey, 2003
Base: all businesses

Other communication technologies

The most common other technologies used are mobile phones (69%) of establishments and e-mail (64%). 17% have adopted none of these technologies.

43% of respondents state that they now have broadband connections to the internet. This figure is considerably higher than the broadband connectivity rate found in Business Link for London's *2002 E-Business Survey* of 17%. This new higher figure may be explained by the accelerated broadband take-up that has occurred due to recent aggressive broadband marketing campaigns.

Table 7.5: Proportion of staff using other communication technologies on a day-to-day basis

	Yes	No
	%	%
Mobile phones	69	31
Dial-up internet	44	56
Broadband internet	43	57
External e-mail	64	36
Online purchasing	30	70
Online sales	21	79
None of the above	17	83

Source: London Annual Business Survey, 2003
Base: all businesses: weighted base is 301,587, unweighted base is 4,073

The larger the establishment, the more likely they are to have adopted each of these technologies. Hi-tech establishments are also more likely to use them, but it is worth noting that even amongst the lo-tech companies there are substantial proportions who do make use of these communication technologies: 42% of lo-tech establishments use e-mail, 13% use online purchasing and 8% online sales.

Table 7.6: Proportion of staff using other communication technologies on a day-to-day basis

	All employers	Hi-tech	Medium-tech	Lo-tech
	%	%	%	%
Mobile phones	69	80	73	58
Dial-up internet	44	48	50	36
Broadband internet	43	72	47	20
External e-mail	64	84	71	42
Online purchasing	30	53	33	13
Online sales	21	40	22	8
None of the above	17	5	12	28
Weighted base	**301,587**	**64,596**	**131,579**	**101,246**
Unweighted base	**4,073**	**968**	**1,922**	**1,128**

Source: London Annual Business Survey, 2003
Base: all businesses

Impact of ICT on business

Each of these technologies has had a generally positive impact on business competitiveness. Very few say that any of these have had a negative impact (ranging from 1% to a maximum of 5% for online purchasing). Higher proportions say that they have had no impact, but these are far outweighed by the proportions that say that there has been a positive impact.

The most positive impacts are noted for broadband internet. London is leading the way in rates of adoption of broadband and it is encouraging that it is regarded as having a positive impact. Also interesting is the positive view of online sales. Although used by relatively few establishments, where they are used they are regarded as having a high positive impact on the competitiveness of the business.

Chart 7.1 Impact of the adoption of new ICT on the competitiveness of the business

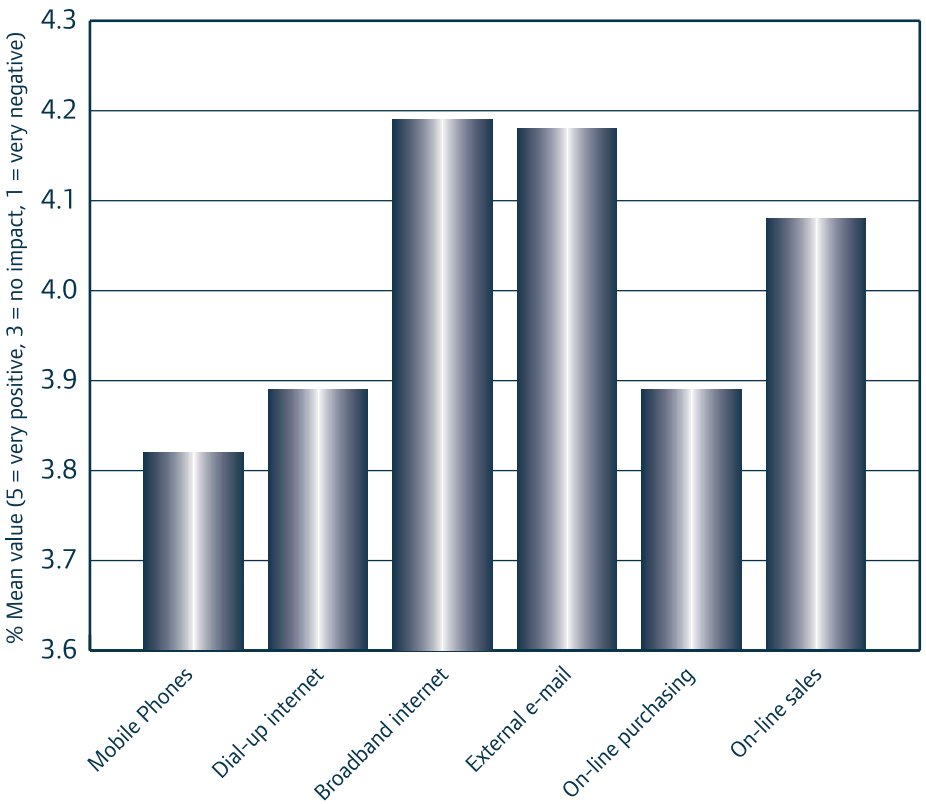


Table 7.7: Impact of adoption of new ICT on the competitiveness of the business

	Degree of impact								
	Very negative	Fairly negative	No impact	Fairly positive	Very positive	DK	Mean value	Wtd base	Unwtd base
	%	%	%	%	%	%	N	n	n
Mobile phones	1	2	36	36	24	1	3.82	208,597	2,786
Dial-up internet	1	2	26	48	22	2	3.89	133,703	1,978
Broadband internet	*	1	15	46	36	2	4.19	128,986	1,797
External e-mail	*	1	16	47	36	1	4.18	191,664	2,664
Online purchasing	2	3	26	43	26	1	3.89	90,487	1,197
Online sales	1	3	20	40	35	1	4.07	62,271	897

Source: London Annual Business Survey, 2003
Base: all businesses who have adopted that technology at their establishment

Those businesses which have online sales were asked what proportion of their turnover is derived from these – it is still very small. Although 12% do not charge for online information, where a product /service is charged for, it forms a minority of sales for the majority of companies, being less than 10% for 57% of firms, and less than 20% for 72% of businesses.

Table 7.8: Proportion of turnover generated by online sales

	All	Excluding don't knows
	%	%
1 – 10%	29	57
11 – 20%	8	15
21 – 30%	4	9
31 – 40%	3	5
41 – 50%	1	2
51 – 60%	2	3
61 – 70%	*	*
71 – 80%	2	3
81 – 90%	1	1
91 – 99%	1	2
100%	2	3
Do not charge for online information	12	n/a
Don't know/non response	37	n/a
Mean level	22	22
Weighted base	**62,271**	**31,907**
Unweighted base	**897**	**460**

Source: London Annual Business Survey, 2003
Base: all businesses who use online sales technology at their establishment

As well as the impacts of the technologies themselves, businesses were also asked about ICT impact on a number of functions, processes and other aspects of their business. Again, the responses are positive, in that relatively few stated that any areas have suffered from the introduction of new technologies.

The most positive impacts are for external communication (with customers and suppliers), although interestingly, ICT is regarded as having a less positive impact on internal communications.

The least positive impacts are on 'success factors' such as turnover and productivity. This may be because the respondents have not identified the link between the technologies, the effectiveness of communications with clients and suppliers and bottom-line business benefits, perhaps borne out by the findings on the effects of online sales highlighted above.

Chart 7.2 Impact on adoption of new ICT on the business

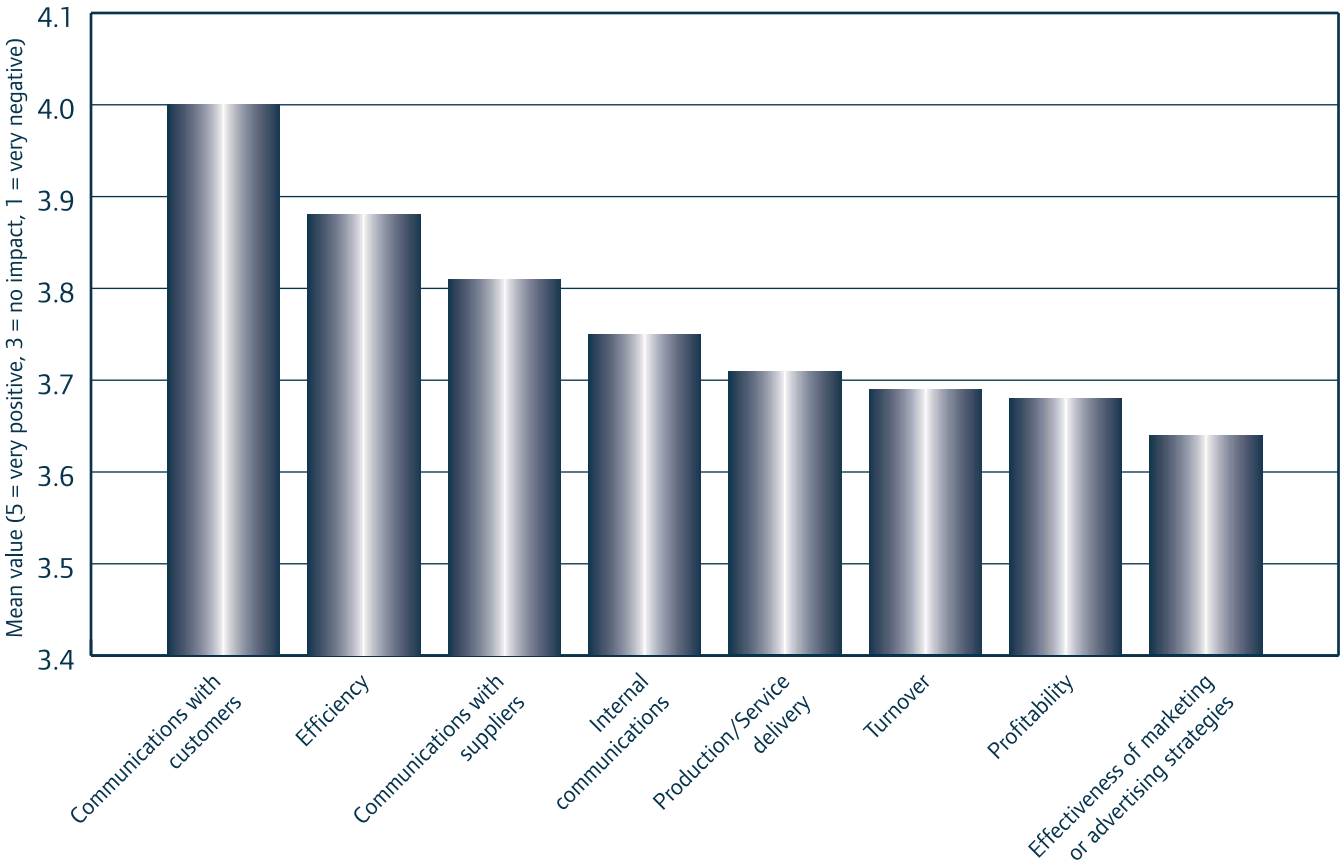


Table 7.9: Impact of adoption of new ICT on the business

	Nature of impact						
	Very negative	Fairly negative	No impact	Fairly positive	Very positive	DK	Mean
	%	%	%	%	%	%	n
Communications with customers	*	2	19	42	34	3	4.00
Efficiency	*	2	23	44	26	4	3.88
Communications with suppliers	1	3	25	42	25	4	3.82
Internal communications	1	3	34	39	19	4	3.75
Production/service delivery	2	4	31	38	22	5	3.71
Turnover	1	3	33	38	19	7	3.69
Profitability	1	3	32	38	19	8	3.68
Effectiveness of marketing or advertising strategies	1	4	33	35	19	9	3.64

Source: London Annual Business Survey, 2003
Base: all businesses; weighted base 301,587, unweighted base 4,073

7.4 Investment in ICT

Updating hardware

The average age of desk top computers is 29 months, that of lap top computers 20 months and notebooks (PDAs, etc) 15 months. This seems to be reflecting, as much as a replacement rate, a technology take-up rate. Notebooks are a newer product than desktops and laptops, although not 'brand new'. The lower average age of such technology reflects this later take-up. This is confirmed by the proportions who do not use these products (at least not at that site). Whilst only 1% do not use desk top computers this increases to 17% for lap-top computers and 28% for notebooks.

Table 7.10: Average age of ICT equipment at the establishment

	Desktop computers	Lap-top computers	Notebooks (PDAs, etc)
	%	%	%
Up to 3 months	5	5	6
4 – 6 months	5	5	3
7 – 12 months	20	18	8
> 1 – 2 years	28	14	4
> 2 – 3 years	14	6	1
> 3 – 4 years	4	1	1
> 4 years	11	2	1
Not used at this site	1	17	28
Don't know/refused	13	33	49
Mean level (months)	29	20	15
Weighted base	**254,271**	**254,271**	**254,271**
Unweighted base	**3,575**	**3,575**	**3,575**

Source: London Annual Business Survey, 2003
Base: all businesses who use ICT technology at their establishment

The average age of computing equipment does not vary consistently with the size or sector of the establishment. Where variations do exist they show that:

- foreign-owned establishments have more recently purchased ICT equipment than UK-owned establishments;
- hi-tech companies have more recently purchased equipment than medium and lo-tech companies; and
- establishments which have increased their turnover in the last 12 months are more likely to have replaced their ICT equipment more recently.

Table 7.11: Average age of ICT equipment at the establishment

	Desktop computers	Lap-top computers	Notebooks (PDAs, etc)
	months	months	months
All businesses	**29**	**20**	**15**
Ownership			
UK-owned	29.7	20.3	14.7
Foreign-owned	24.2	17.5	12.2
Technology base			
Hi-tech	26.5	18.6	14.7
Medium-tech	28.5	20.0	13.4
Lo-tech	33.4	22.4	15.8
Change in turnover in last 12 months			
Increased	27.3	18.9	12.6
Stayed the same	31.7	22.2	19.1
Decreased	33.8	22.0	15.4

Source: London Annual Business Survey, 2003
Base: all businesses who use that ICT technology at their establishment

Updating software

Businesses were asked if, when software upgrades are released, they implement the upgrades automatically, usually, sometimes, rarely or never. A quarter (25%) of firms adopted the new software immediately, with 18% doing so usually. At the other end of the scale, a fifth of businesses are slow to adopt new software upgrades, with 15% doing so rarely and 6% never.

Table 7.12: Frequency at which upgrades to existing software are made

	%
Automatically	25
Usually	18
Sometimes	28
Rarely	15
Never	6
Don't know/non-response	8
Weighted base	**254,271**
Unweighted base	**3,575**

Source: London Annual Business Survey, 2003
Base: all businesses who use computers at that site

Companies which are more likely to upgrade their software frequently are more likely to be:

- hi-tech companies: 61% of hi-tech companies upgrade their software automatically or usually, compared to 43% of medium-tech and 28% of lo-tech companies;
- bigger: 64% of the largest companies (more than 500 employees) upgrade their software automatically or usually, compared with 42% of the smallest (less than 10 employees);
- foreign-owned: 54% of foreign-owned companies adopt new software automatically or usually, compared to 42% of UK-owned companies;
- establishments which have had increased turnover in the last 12 months: 50% of those with increased turnover upgrade software automatically or usually, compared to 39% whose turnover has stayed the same or decreased

7.5 Summary

Just over a fifth (21%) of London's businesses describe themselves as being hi-tech companies, with a third (34%) believing themselves to be 'lo-tech'.

On average, two-thirds of staff in London use computers on a day-to-day basis. In over half (55%) of establishments all staff use computers every day, although in 16% of companies no staff do so. Usage of other communication technologies is also common: mobile phones (used by 69% of companies), e-mail (64%).

These information and communication technologies have had overall positive impacts on companies that have adopted them, particularly on external communications with customers and suppliers. Businesses are less positive about their impacts on 'bottom-line' outcomes such as turnover and productivity, but this may be because they have either not yet seen the impact demonstrated or that the linkage is too diffuse to be recognised.

Take-up of broadband appears to be accelerating and in this survey 43% of establishments were using it. Broadband has the most positive impact of any ICT. Similarly, online sales were used by relatively few establishments (21%), but where they are used they are regarded as having a very positive impact on the competitiveness of the business.

8. RESEARCH AND DEVELOPMENT, INNOVATION AND COLLABORATION

8.1 Introduction

This section examines firm's research and development activities, the extent to which they have innovated in terms of product/service development or the introduction of new internal processes, and the extent of collaboration with external partners.

8.2 UK data on research and development

The Department of Trade and Industry provides regional level data on research and development in the form of two indicators:

- the value of research and development activity carried out by the combined manufacturing and service sector as a proportion of regional GVA; and
- the proportion of employee jobs in high and medium-high technology manufacturing industries.

London does not fare particularly well on either of these indicators, having the lowest proportion of GVA being spent on research and development of any of the UK regions (being equal bottom with Yorkshire and Humberside at 0.5%) and having the lowest proportion of employees engaged in the high and medium technology sectors. This may be a result of London's skewed employment structure as research and development activity is in general higher in the manufacturing than services sector.

Table 8.1: Research and development

	R&D expenditure as % of total gross value added	% of employee jobs in high and medium technology sectors
UK	1.4	5.3
London	**0.5**	**1.7**
South West	1.5	5.9
South East	2.5	5.3
Eastern	3.5	6.0
West Midlands	1.1	7.9
East Midlands	1.6	6.3
Yorkshire & Humberside	0.5	4.9
North West	1.9	6.1
North East	0.6	6.7
England	1.6	5.3
Wales	0.7	6.5
Scotland	0.6	4.8
Northern Ireland	0.6	4.8

Source: Department of Trade and Industry, Regional Competitiveness and State of the Regions, January 2003

8.3 Spend on research and development

The respondents were asked how much they had spent on research and development within their business in the past 12 months. Again, as would be expected with this question, there is a high non-response rate, with 50% stating that they did not know or would not answer. Because of this, we have also shown the responses with these excluded.

As can be seen, the majority of businesses who were able to give a response either do not have a research and development budget (47%), or if they do have such a budget spent nothing (35%). Thus, more than four-fifths (82%) of London businesses did not spend anything on research and development over the last year.

Where there was a spend on research and development, it averaged at just over £18,000 per establishment.

Table 8.2: Spend on research and development in last 12 months

	All	Excluding don't know & refused
	%	%
Do not have R&D budget	23	47
Nothing	17	35
Up to £5,000	4	8
£5,001 – £10,000	1	2
£10,001 – £30,000	2	4
£30,001 – £50,000	1	1
£50,001 – £100,000	1	1
£100,001 – £500,000	1	1
Over £500,000	*	1
Don't know/non-response	50	n/a
Mean	£18,028	£18,028
Weighted base	**301,587**	**149,570**
Unweighted base	**4,073**	**2,120**

Source: London Annual Business Survey, 2003
Base: all businesses

The likelihood of an establishment spending on research and development and the average level of that spending varies such that:

- establishments in the Central London sub-region have a far higher average spend at £35,941. This is partly caused by a higher proportion of establishments spending on research and development (at 24%), but this is not the sole cause. A similar proportion of establishments in the Eastern sub-region conduct research and development (23%), but here the average spend is much lower (£8,217);

- larger establishments are more likely to have undertaken research and development over the last year (35% of those with more than 500 employees compared to 18% of those with 10 employees or less). They are also more likely to spend more on average. Some care here needs to be taken with small sample sizes amongst the larger companies;

- businesses most likely to conduct research and development are those in the Manufacturing (29%), Business Services (26%) and Publishing (25%) sectors. Average research and development spend is highest amongst companies in the Business Services (£27,502), Financial Services (£24,142) and Wholesale and Retail Trade (£20,252) sectors;

- foreign-owned establishments are more likely to conduct research and development (26% compared to 18% of UK-owned establishments) and are more likely to spend more on average (£110,782 compared to £13,837), a difference created by the foreign-owned businesses being more likely to be larger and in the Financial Services sector;

- hi-tech companies are more likely to conduct research and development in the last year than medium-tech companies, who in turn are more likely to do so than lo-tech companies (37%, 19% and 10% respectively). Average research and development spend is by far the highest amongst hi-tech companies at £76,675 compared to £7,666 in medium-tech companies and £3,136 in lo-tech companies; and

- establishments with a business plan are more likely to conduct research and development and more likely to spend more on average than those without.

Table 8.3: Proportion conducting, and average spend on, research and development in the last year

	% which have spent on R&D	Average spend	Weighted base	Unweighted base
	%	£	n	n
All businesses	**18**	**18,028**	**149,570**	**2,020**
Area				
Central	24	35,941	41,604	332
East	23	8,217	25,296	322
North	9	9,364	20,504	498
South	16	8,118	31,339	560
West	16	17,741	30,828	472
Size				
1 – 10	18	14,014	137,413	951
11 – 49	22	47,701	10,005	504
50 – 249	23	93,506	1,938	192
250 – 499	24	637,822	165	23
500 +	35	137,907	49	10
Sector				
Primary and Utilities	0	0	630	8
Manufacturing (excluding Publishing)	29	11,370	6,738	161
Publishing	25	16,091	2,824	67
Construction	8	852	11,626	188
Wholesale and Retail Trade	8	20,252	35,278	557
Hotels and Restaurants	18	4,573	7,052	125
Transport, Storage and Communication	20	16,830	6,998	125
Financial Services	12	24,142	4,095	69
Business Services	26	27,502	55,938	486
Education, Health and Social Work	17	3,029	3,178	102
Other Community, Social and Personal Activities	17	3,489	15,211	145
Ownership				
UK-owned	18	13,837	142,674	1,844
Foreign-owned	26	110,782	6,520	138
Technology base				
Hi-tech	37	76,675	26,476	397
Medium-tech	19	7,666	62,989	920
Lo-tech	10	3,136	58,522	652
Existence of business plan				
Has business plan	31	33,889	68,443	1.060
Does not have business plan	8	4,646	81,127	933

Source: London Annual Business Survey, 2003
Base: all businesses

We can use this data to calculate the spend on research and development as a proportion of turnover. Some care has to be taken with this data as there is a high non-response rate. The combination of the non-responses for the research and development and the turnover questions means that spend on research and development cannot be calculated for 53% of the sample. There is also a skew to the response rate, with this being 51% for the smallest establishments and rising to 84% of the largest.

With these caveats and looking at only those businesses who did spend on research and development in the last year, it can be seen that for a quarter the spend equated to between 1% and 2% of overall turnover and for another 28% it is between 3% and 4%.

Table 8.4: Spend on research and development in last 12 months as proportion of turnover

	All	Excluding don't know & refused	Excluding don't know & refused and those who spent nothing
	%	%	%
0%	42	89	n/a
1 – 2%	1	3	24
3 – 4%	1	3	28
5 – 10%	1	1	12
11 – 20%	1	2	18
21% and above	1	2	18
Don't know/non-response	53	n/a	n/a
Weighted base	**301,587**	**141,288**	**15,226**
Unweighted base	**4,073**	**2,120**	**206**

Source: London Annual Business Survey, 2003
Base: all businesses

8.4 Innovation

The creation and commercialisation of new knowledge is a crucial source of improvements in productivity. A frequently used measure of innovation is the level of US patenting[25], which shows that the UK has a disappointing performance in the recent past. The UK has grown its patenting level only slowly from a relatively low base, whilst other countries have significantly increased their levels.

Introducing new products or services

Businesses were asked whether they had introduced new or significantly enhanced products or services in the past 12 months. A quarter (25%) of them had done so, with 73% stating that they had not.

This level of innovation is considerably lower than that found in *Enterprise Challenged*, which found that 54% of firms had introduced a product or service innovation new to their firms, with 28% being 'novel' innovators: introducing a product or service which is new to their industry[26].

Table 8.5: Whether have introduced new or significantly enhanced products or services in past 12 months

	%
Have introduced	25
Have not introduced	73
Don't know/non-response	2
Weighted base	**301,587**
Unweighted base	**4,073**

Source: London Annual Business Survey, 2003
Base: all businesses

[25] chosen because most economically important innovations are likely to be patented in the world's largest market
[26] however, Enterprise Challenged asked about innovative activity over the past 3 years, whereas the London Annual Business Survey asks about innovation during the past 12 months.

The proportion of businesses which have introduced new or significantly enhanced products or services in the past 12 months varies such that:

- establishments in the Central and West sub-regions of London are more likely to have innovated over the last year;
- smaller companies are less likely to have introduced new products and services over the last year, larger companies are more likely to have done so;
- there is relatively little variation in the likelihood of introducing new products and services across sectors, except for those based in the Construction sector. Only 14% of businesses have done so in this sector, a finding of particular concern given the importance of this sector in the London economy;
- foreign-owned establishments are more likely to have innovated than UK-owned companies;
- hi-tech establishments are more likely to have innovated than medium-tech establishments, who in turn are more likely to have innovated than lo-tech establishments;
- establishments with a business plan are more likely to have innovated than those without.

Chart 8.1 Proportion of businesses which have introduced new or significantly enhanced products or services in past 12 months – by size of business

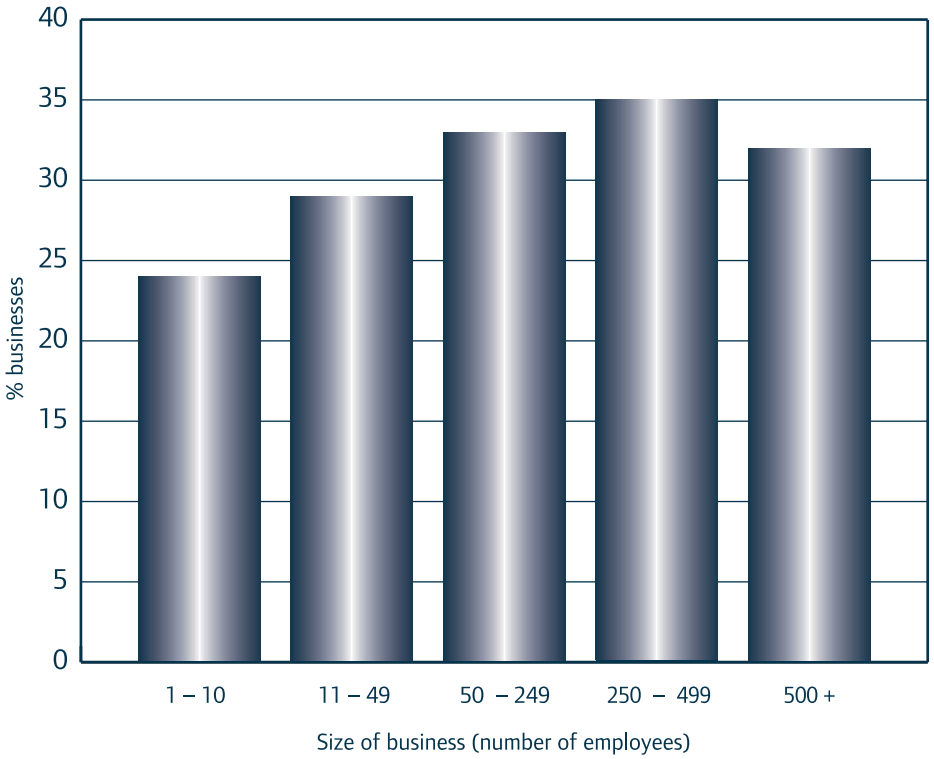


Chart 8.2 **Proportion of businesses which have introduced new of significantly enhanced products or services in past 12 months – by sector**

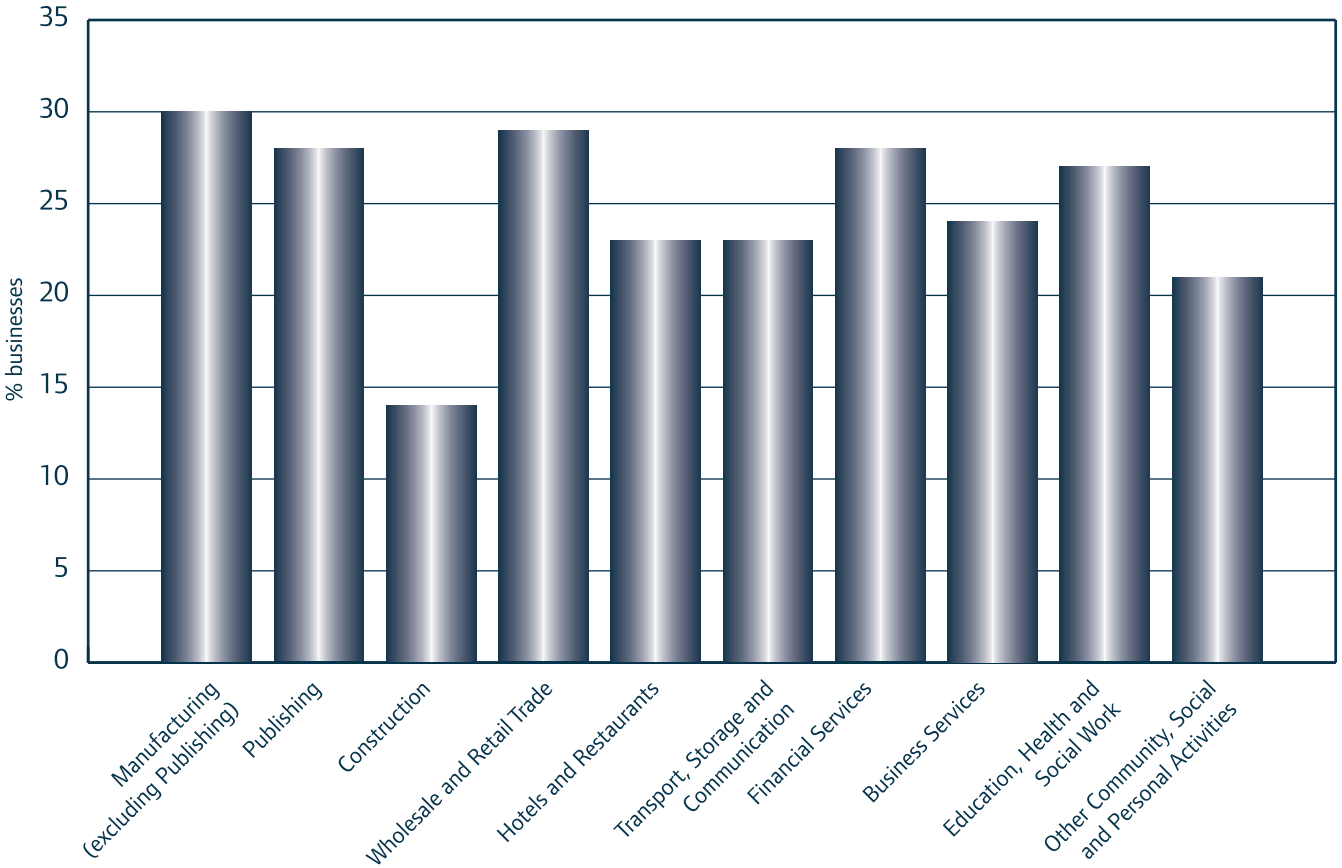


Table 8.6: Proportion of businesses which have introduced new or significantly enhanced products or services in past 12 months

	% which have innovated	Wtd base	Unwtd base
	%	n	n
All businesses	**25**	**301,587**	**4,073**
Area			
Central	28	108,301	864
East	24	62,883	801
North	22	32,951	801
South	16	44,977	803
West	26	52,475	804
Size			
1 – 10	24	266,266	1,842
11 – 49	29	27,404	1,379
50 – 249	33	6,711	664
250 – 499	35	905	126
500 +	32	301	62
Sector			
Primary and utilities	57	986	13
Manufacturing (excluding publishing)	30	13,207	314
Publishing	28	6,729	159
Construction	14	19,101	309
Wholesale and retail trade	29	62,480	987
Hotels and restaurants	23	19,097	338
Transport, storage and communication	23	12,670	227
Financial Services	28	9,593	162
Business Services	24	121,826	1,059
Education, Health and social work	27	7,086	228
Other community, social and personal activities	21	28,789	274
Ownership			
UK-owned	24	280,908	3,631
Foreign-owned	35	19,455	411
Technology base			
Hi-tech	39	64,596	968
Medium-tech	25	131,579	1,922
Lo-tech	16	101,246	1,128
Existence of business plan			
Has business plan	32	151,938	2,352
Does not have business plan	17	149,649	1,721

Source: London Annual Business Survey, 2003
Base: all businesses

One way of judging the success of innovation is to look at the revenue generated by new or improved products and services. As may be expected, new product or service sales tend to generate only a small proportion of overall sales or turnover, particularly if they have been introduced recently. For 53% of establishments who have produced a new product or service they contribute 10% or less of overall sales.

Table 8.7: Proportion of sales turnover generated by new products or services

	All	All excluding don't knows
	%	%
0%	8	12
1 – 10%	25	41
11 – 20%	10	17
21 – 30%	8	14
31 – 40%	2	3
41 – 50%	4	6
51 – 60%	1	2
61 – 70%	*	*
71 – 80%	1	2
81 – 90%	0	0
91 – 99%	0	0
100%	2	3
Don't know/non response	39	n/a
Mean level	20	20
Weighted base	**73,766**	**44,904**
Unweighted base	**1,079**	**657**

Source: London Annual Business Survey, 2003
Base: all businesses who have introduced new products or services at their establishment

Introducing new business practices or processes

Looking internally, 25% of firms have introduced new or significantly improved business practices or processes in the last 12 months.

Table 8.8: Whether have introduced new or significantly improved business practices or processes in past 12 months

	%
Have introduced	25
Have not introduced	72
Don't know/non-response	3
Weighted base	**301,587**
Unweighted base	**4,073**

Source: London Annual Business Survey, 2003
Base: all businesses

There is a similar distribution amongst those companies introducing new business processes and practices as there was for businesses introducing new products and services, in that they are more likely to be larger, foreign-owned, hi-technology businesses who have a business plan. However, the sector distribution is different to that seen earlier, with Construction still performing towards the bottom end of the spectrum but not standing out as clearly as an under-performing sector.

Chart 8.3 **Proportion of businesses which have introduced new or significantly enhanced business practices or processes in past 12 months – by size of business**

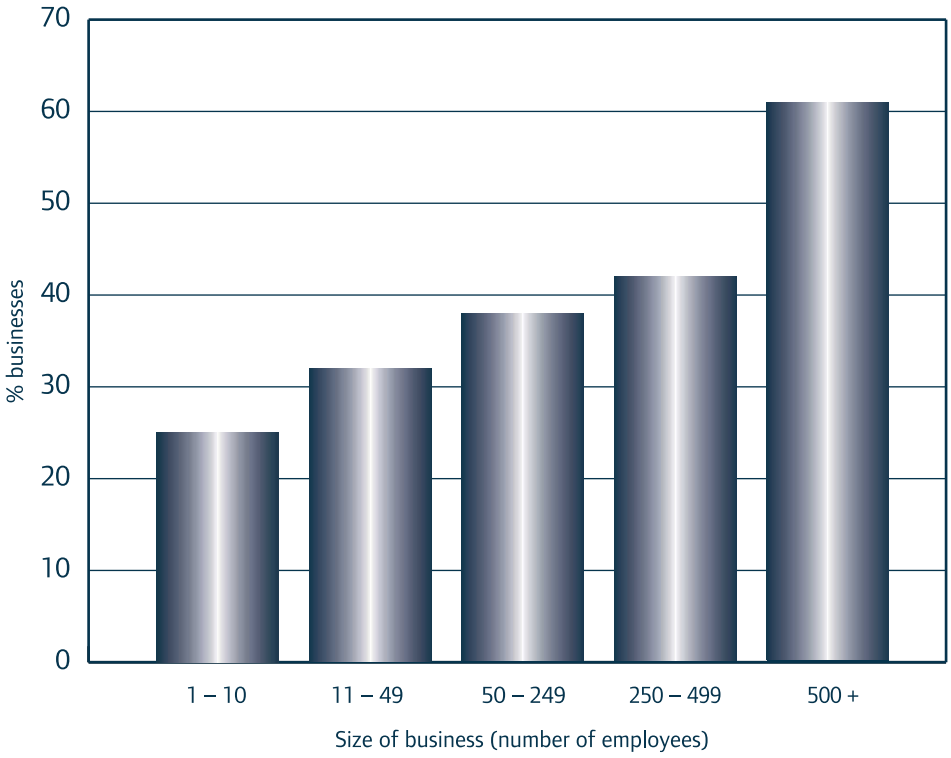


Chart 8.4 **Proportion of businesses which have introduced new or significantly enhance business practices or processes in past 12 months – by sector**

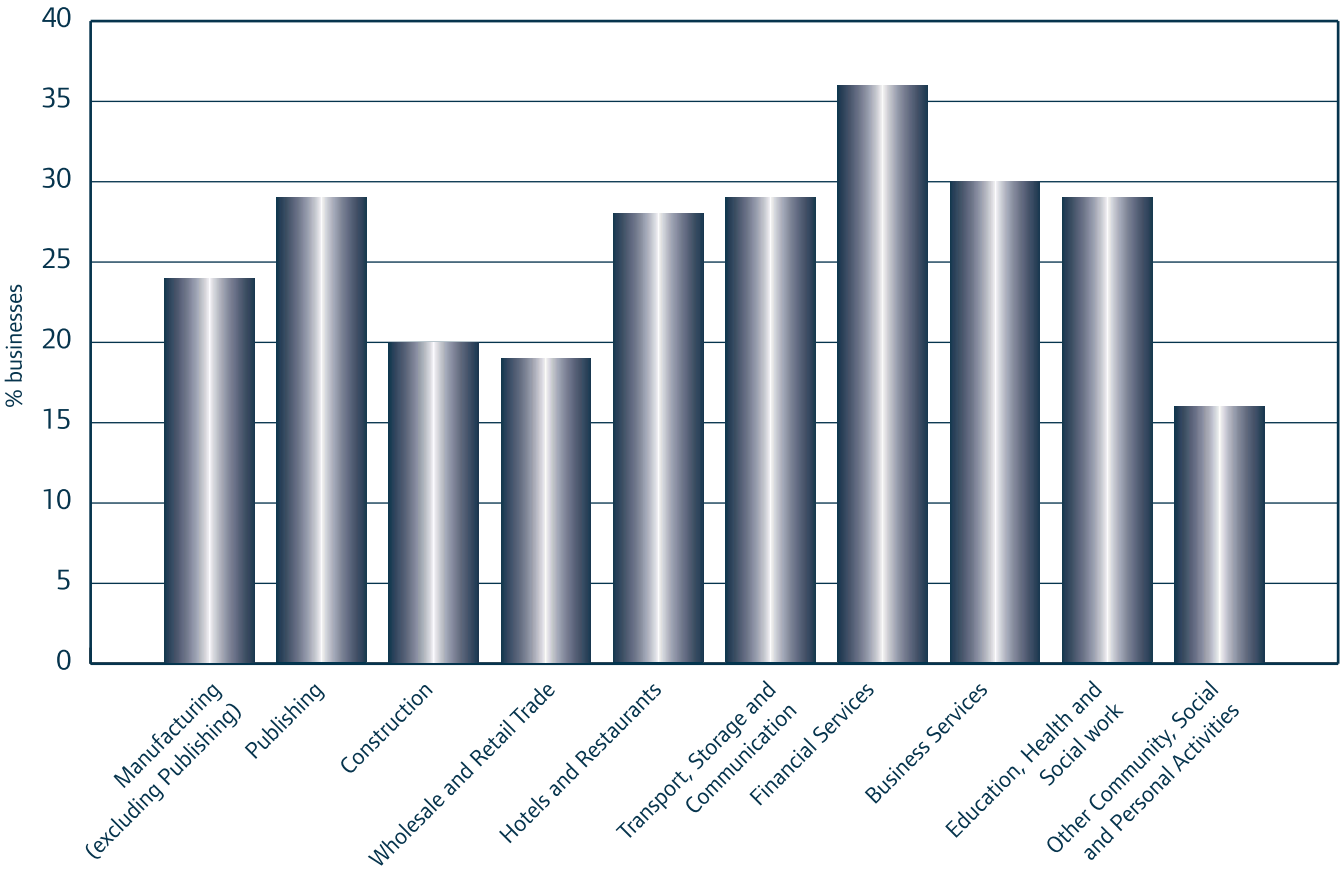


Table 8.9: Proportion of businesses which have introduced new or significantly enhanced business practices or processes in past 12 months

	% who have introduced	Wtd base	Unwtd base
		n	n
All businesses	**25**	**301,587**	**4,073**
Area			
Central	29	108,301	864
East	24	62,883	801
North	21	32,951	801
South	19	44,977	803
West	26	52,475	804
Size			
1 – 10	24	266,266	1,842
11 – 49	32	27,404	1,379
50 – 249	37	6,711	664
250 – 499	42	905	126
500 +	61	301	62
Sector			
Primary and Utilities	31	986	13
Manufacturing (excluding Publishing)	24	13,207	314
Publishing	29	6,729	159
Construction	20	19,101	309
Wholesale and Retail Trade	19	62,480	987
Hotels and Restaurants	28	19,097	338
Transport, Storage and Communication	29	12,670	227
Financial Services	36	9,593	162
Business Services	30	121,826	1,059
Education, Health and Social Work	29	7,086	228
Other Community, Social and Personal Activities	16	28,789	274
Ownership			
UK-owned	25	280,908	3,631
Foreign-owned	34	19,455	411
Technology base			
Hi-tech	37	64,596	968
Medium-tech	27	131,579	1,922
Lo-tech	17	101,246	1,128
Existence of business plan			
Has business plan	36	151,938	2,352
Does not have business plan	14	149,649	1,721

Source: London Annual Business Survey, 2003
Base: all businesses

From the response to these two questions we can draw up a four-way schema of attitude to innovations, shown in the table below. This divides businesses into three 'types', which are:

- **innovators:** have introduced new or significantly improved business practices or processes and new or significantly enhanced products and services;
- **changers:** have introduced new or significantly improved business practices or processes or new or significantly enhanced products and services;
- **conservatives:** have not introduced new or significantly improved business practices or processes or new or significantly enhanced products and services.

In addition we have a small minority of employers who do not know whether they have introduced new business processes or practices or new products and services. These are not included in the analysis below, an omission of 3% of the overall sample.

		Introduced new or significantly enhanced products or services	
		Yes	**No**
Introduced new or significantly improved business practices or processes	**Yes**	**Innovators:** have introduced both new products and services and new business processes and practices	**Changers:** have not introduced new products or services, but have introduced new business practices or processes
	No	**Changers:** have introduced new products or services, but have not introduced new business practices or processes	**Conservatives:** have not introduced new products or services or new business processes or practices

On this basis, 15% of establishments in London can be classified as innovative companies, with 20% as companies of changers. However, the majority (63%) are conservatives, having changed neither their product or service offer or introduced new business processes or practices over the last year.

Table 8.10: Innovation and change

	%
Innovators	15
Changers	20
Conservatives	63
Don't know/refused	2
Unweighted base	**301,587**
Weighted base	**4,073**

Source: London Annual Business Survey, 2003
Base: all businesses

The distribution of these innovative companies shows that:

- businesses based in the Central and West sub-regions are more likely to be innovators and changers and least likely to be conservative establishments;
- the larger the establishment the more likely it is that they will be innovators or changers and the less likely it is that they will be conservatives;
- some sectors have a higher proportion of innovating or changing establishments, particularly Financial Services (with 22% being innovators and 19% changers), Education Health and Social Work (16 and 24% respectively) and Professional Services (16 and 22% respectively). Conversely, there are some sectors in which a higher proportion of establishments are conservatives, including Other Community, Social and Personal Activities and Construction (both having 72% of establishments as conservatives);
- foreign-owned establishments are more likely to be innovators and changers and less likely to be conservatives. Nearly two-thirds of UK-owned establishments have not changed either products or services or internal business processes, compared to less than half (48%) of foreign-owned companies;
- hi-tech companies are more likely to be innovators and changers and less likely to be conservatives than medium or lo-tech establishments;
- establishments which have a business plan are more likely to be innovators and changers. Three-quarters of establishments which do not have a business plan have not introduced any new products or services or made any changes to business process and practices over the last year, compared to half (51%) of those with a business plan;

There is also a relationship with the degree of control exercised by the Managing Director. Establishments where the Managing Director has direct control of all the decisions are more likely to be conservative employers and less likely to have innovated. As this central control lessens, establishments are more likely to be innovators or changers.

Research by the Department of Trade and Industry[27] (based on the *European Community Innovation Survey)* has examined the factors that constrain innovation. This suggests that cost factors are the most important constraint, including the direct resource costs of innovation activities and the cost and availability of finance. In particular, obtaining affordable finance for innovation was more often a problem for SMEs than for larger companies. More enterprises felt constrained by economic circumstances than by internal factors, although a lack of qualified personnel was viewed as an important constraint. The impact of regulations and standards was also thought to be a substantial barrier to innovation, particularly for SMEs.

[27] Department of Trade and Industry, UK Innovation Survey, 2001

Table 8.11: Distribution of innovative companies

	Innovators	Changers	Conservatives	Wtd base	Unwtd base
	%	%	%	n	n
All businesses	**15**	**20**	**63**	**301,587**	**4,073**
Area					
Central	18	21	59	108,301	864
East	13	21	64	62,883	801
North	14	16	67	32,951	801
South	10	15	71	44,977	803
West	16	29	62	52,475	804
Size					
1-10	14	19	64	266,266	1,842
11-49	21	20	56	27,404	1,379
50-249	24	21	50	6,711	664
250-499	23	30	40	905	126
500+	27	39	32	301	62
Sector					
Primary and Utilities	29	29	42	986	13
Manufacturing (excluding Publishing)	18	16	65	13,207	314
Publishing	23	13	63	6,729	159
Construction	8	18	72	19,101	309
Wholesale and Retail Trade	15	17	65	62,480	987
Hotels and Restaurants	18	16	62	19,097	338
Transport, Storage and Communication	18	16	66	12,670	227
Financial Services	22	19	55	9,593	162
Business Services	16	22	59	121,826	1,059
Education, Health and Social Work	16	24	55	7,086	228
Other Community, Social and Personal Activities	9	19	72	28,789	274
Ownership					
UK-owned	15	19	64	280,908	3,631
Foreign-owned	22	26	48	19,455	411
Technology base					
Hi-tech	26	26	49	64,596	968
Medium-tech	16	19	63	131,579	1,922
Lo-tech	7	19	72	101,246	1,128
Existence of business plan					
Has business plan	22	24	51	151,938	2,352
Does not have business plan	8	15	75	149,649	1,721
Degree of managerial control					
MD has direct control of all decisions	10	17	71	132,332	1,544
MD has direct control of most decisions	20	25	54	59,716	781
Senior management team makes decisions	21	21	56	88,991	1,486

Source: London Annual Business Survey, 2003
Base: all businesses

8.5 Collaboration

Competitive advantage is not only determined by the activities of individual firms working alone, but through collaborative activity which reaps benefits for all participants, for example, by pooling expertise or sharing costs. The essential strength of collaboration is that it enables companies to take advantage of experience which they do not have in-house, if companies are not looking outside the confines of their own business they may be missing out on opportunities to improve their competitiveness.

Extent of collaboration

Businesses were asked whether their business as a whole collaborates with other external organisations, through, for example, a joint initiative, new product development or research projects. The majority (77%) do not, to which should be added perhaps the 8% who do not know. 16% state that they actively collaborate with external organisations.

This finding suggests that London's businesses collaborate significantly less than businesses elsewhere. *Enterprise Challenged* found that just over a third (35%) of firms had entered into formal or informal collaborative or partnership agreements during the last three years[28].

Table 8.12: Whether the business collaborates with external organisations

	%
Yes	16
No	77
Don't know/non-response	8
Weighted base	**301,587**
Unweighted base	**4,073**

Source: London Annual Business Survey, 2003
Base: all businesses

The propensity of firms to collaborate increases with size, except for the largest businesses, where it declines – possibly because the largest firms have sufficient internal resources. There are also specific sectors in which businesses seem to be more likely to collaborate: Financial Services and Education, Health and Social Work (both 26%). Those companies that classify themselves as being 'hi-tech' are also more likely to have collaborated: 28% compared to 8% of 'lo-tech' companies.

[28] This may be explained by differences in the question: the London Annual Business Survey asked whether the business was currently collaborating, whilst Enterprise Challenged asked whether it had collaborated within the last three years.

Table 8.13: Proportion of businesses which collaborate with external organisations

	% which collaborate	Weighted base	Unweighted base
	%	n	n
All businesses	**16**	**301,587**	**4,073**
Size			
1 – 10	15	266,266	1,842
11 – 49	19	27,404	1,379
50 – 249	23	6,711	664
250 – 499	39	905	126
500 +	22	301	62
Sector			
Primary and Utilities	28	986	13
Manufacturing (excluding Publishing)	12	13,207	314
Publishing	16	6,729	159
Construction	13	19,101	309
Wholesale and Retail Trade	11	62,480	987
Hotels and Restaurants	13	19,097	338
Transport, Storage and Communication	14	12,670	227
Financial Services	26	9,593	162
Business Services	19	121,826	1,059
Education, Health and Social Work	26	7,086	228
Other Community, Social and Personal Activities	15	28,789	274
Technology base			
Hi-tech	28	64,596	968
Medium-tech	16	131,579	1,922
Lo-tech	8	101,246	1,128

Source: London Annual Business Survey, 2003
Base: all businesses

There is a clear relationship between the likelihood of external collaboration and change in turnover in the last 12 months. Just over a fifth (21%) of those who had seen an increase in turnover had collaborated, compared to 13% of those whose turnover had decreased. Similarly, over a fifth (21%) of those who had seen an increase in profitability had collaborated (which is a higher figure than for those with static or decreasing profitability). A quarter of those who had seen an increase in staff productivity had collaborated, which is higher than those for whom staff productivity had stayed the same or declined.

Table 8.14: Collaboration with external organisations and change in turnover

	Does collaborate	Does not collaborate	Don't know	Weighted base	Unweighted base
	%	%	%	%	%
All employers	**16**	**77**	**8**	**301,587**	**4,073**
Change in turnover in last 12 months					
Increased	21	72	7	98,872	1,392
Stayed the same	16	78	6	98,124	1,304
Decreased	13	81	6	55,467	668
Change in profitability in last 12 months					
Increased	21	72	7	72,943	999
Stayed the same	14	80	6	109,204	1.495
Decreased	17	77	6	55,684	762
Change in staff productivity in last 12 months					
Increased	25	68	7	74,345	1,018
Stayed the same	13	80	7	163,107	2,233
Decreased	16	81	4	17,258	236

Source: London Annual Business Survey, 2003
Base: all businesses

Nature of collaborative partners

The most common collaborators are other companies, either customers (47%) or suppliers (37%). Following this are trade or industry bodies (31%).

The fact that businesses who do collaborate are most likely to be working with their supply chain (either customers or suppliers) may be partly because the majority of firms in London trade with other firms in London, and so have already developed relationships, and partly because of the sheer density of firms.

The creation of links between business and the higher education sector has been a policy aim for the last two decades, in order to develop a more creative and innovative industry base. In reality, these links have been slow to develop. In this research we see that that a fifth of companies say they have collaborated with HE. In practice, it tends to be larger companies who build these links, smaller companies cannot always see the relevance of such organisations to their business needs.

Bigger companies are also less likely to collaborate with customers, accountants and banks.

Chart 8.5 Nature of external collaboration

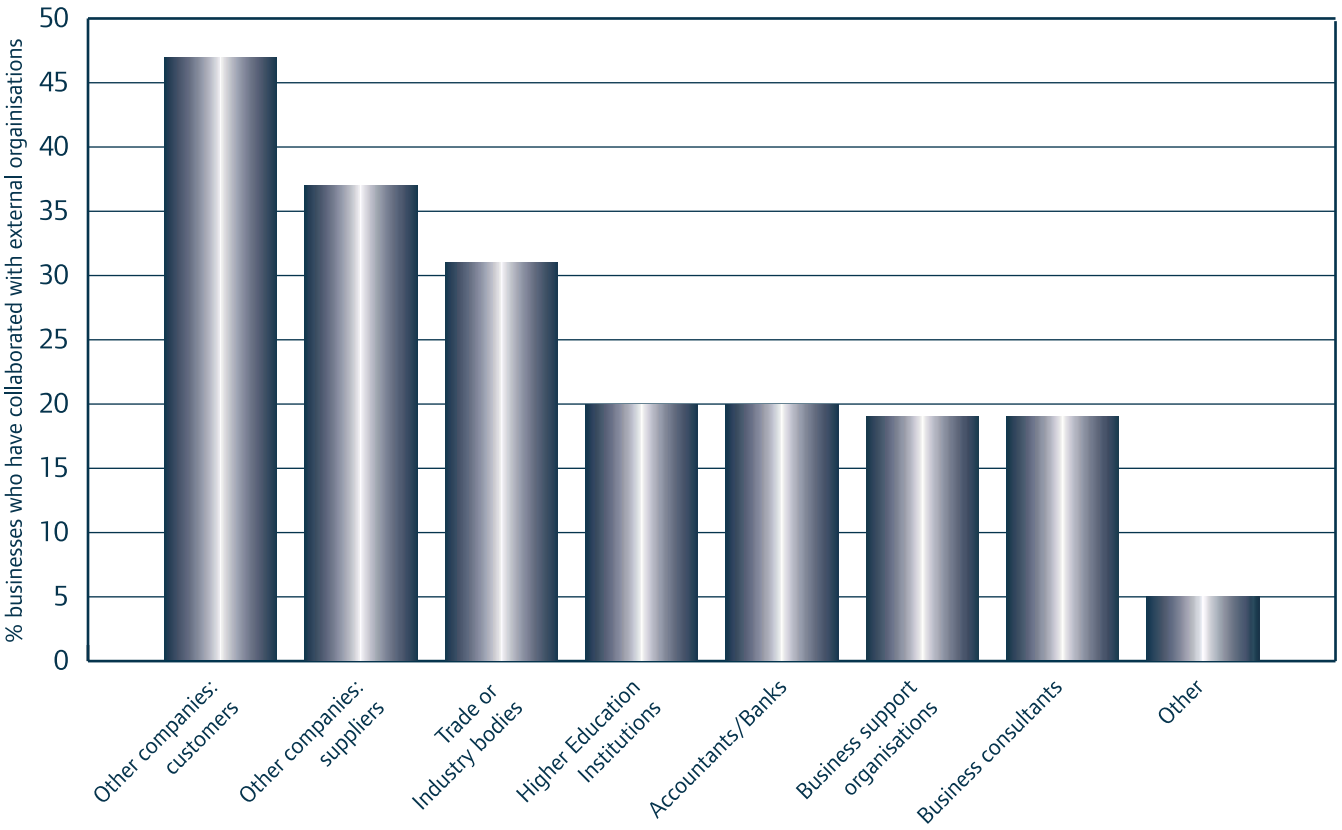


Table 8.15: Nature of external collaborating organisations

	%
Other companies: customers	47
Other companies: suppliers	37
Trade or industry bodies	31
Higher Education Institutions	20
Accountants/banks	20
Business support organisations	19
Business consultancies	19
Other	5
Don't know/non response	8
Weighted base	**47,967**
Unweighted base	**713**

Source: London Annual Business Survey, 2003
Base: all businesses who have collaborated with external organisations

Areas of collaboration

The most common area of collaboration is to develop new products, services or business processes, noted by 68% of these businesses, followed at some distance by the wish to acquire new UK markets (24%).

Table 8.16: Areas of collaboration

	%
Development of new products, services or business processes	68
Acquiring new UK markets	24
Outsourcing/sub-contracting	19
Accessing overseas markets	13
Sharing the costs of new equipment	13
Other	6
Don't know/non-response	11
Weighted base	**47,967**
Unweighted base	**713**

Source: London Annual Business Survey, 2003
Base: all businesses who have collaborated with external organisations

8.6 Summary

Porter notes that the UK has, in the recent past, invested less public money into research and development than most other advanced economies and, over the last decade, Government expenditure on public research and development relative to GDP has worsened. Recent policy changes have started to address this and the Government budgets for the next few years register a significant ramping up of public sector spending in this area. It will, however, take some time before the accumulated effect of years of under investment have been overcome.

Although UK companies invest significantly less in research and development than their competitors, this under-investment has been partially hidden due to the strong position of the research and development intensive pharmaceutical sector, which alone accounts for 23% of all manufacturing research and development by companies. The research and development gap between the UK and its main competitors is increasing and the UK is one of the few advanced economies in which business spending on research and development has actually fallen relative to GDP in the 1990s. There are some indications that UK companies have performed an increasing amount of their research and development abroad.

Looking within the UK, Government data suggests that London spends a lower proportion of its GVA on research and development and has a lower proportion of employee jobs in high and medium technology sectors. The London Annual Business Survey shows that the majority of firms do not invest in research and development.

The creation and commercialisation of new knowledge is a crucial source of improvements in productivity. Within London, a quarter (25%) of businesses have introduced new products and services in the last year and another quarter (25%) have introduced significantly enhanced business practices or processes. Looked at together, this suggests that 15% of companies in London are truly innovative companies, having introduced both. Just under two-thirds (63%) of businesses have introduced neither. Establishments are more likely to be innovative if they are larger, foreign-owned, have business plans, are hi-tech businesses and located in the Financial Services, Professional Services and Education, Health and Social Work sectors.

16% of businesses in London were engaged in collaboration with external partners. Comparative data (see *Enterprise Challenged*) suggests that this may be low (some data sources put the figure for the UK at 35%), which may be damaging as collaboration enables companies to broaden their range of experiences and improves competitiveness. There is a clear positive relationship between the likelihood of external collaboration and an increase in turnover, productivity and profitability.

Collaborative partners are more likely to be other companies, either customers (47% of collaborative partners) or suppliers (37%). Links between business and Higher Education, although a policy aim for the last two decades, are limited and particularly so amongst smaller establishments.

9. SALES AND PURCHASING

9.1 Introduction

This section examines the location and concentration patterns of sales and purchasing of businesses in London.

9.2 Sales

Nature of customers

The majority of turnover for establishments in London is generated by business-to-business customers (55%), with 30% being generated directly by end consumers. Sales to the public sector account for 14% of overall turnover of London's businesses.

Table 9.1: Percentage of sales turnover derived by nature of customer

	All
	%
Business customers	55
Public sector	14
End consumers	30
Weighted base	**301,587**
Unweighted base	**4,073**

Source: London Annual Business Survey, 2003
Base: all businesses

Location of customers

Over half (55%) of the value of sales turnover is generated from within London, either within the borough (26%) or elsewhere in London (29%). A further third (32%) is derived from customers elsewhere in the UK, either in the South East (7%) or elsewhere in the UK (25%).

Relatively small proportions of turnover are generated from overseas. 5% is from Europe, 1% from the USA and 7% from the rest of the world. These figures may understate the impact of international factors on the London economy as they may not reflect the true complexity of the underlying supply chain.

Chart 9.1 Percentage of sales turnover derived by location of customer

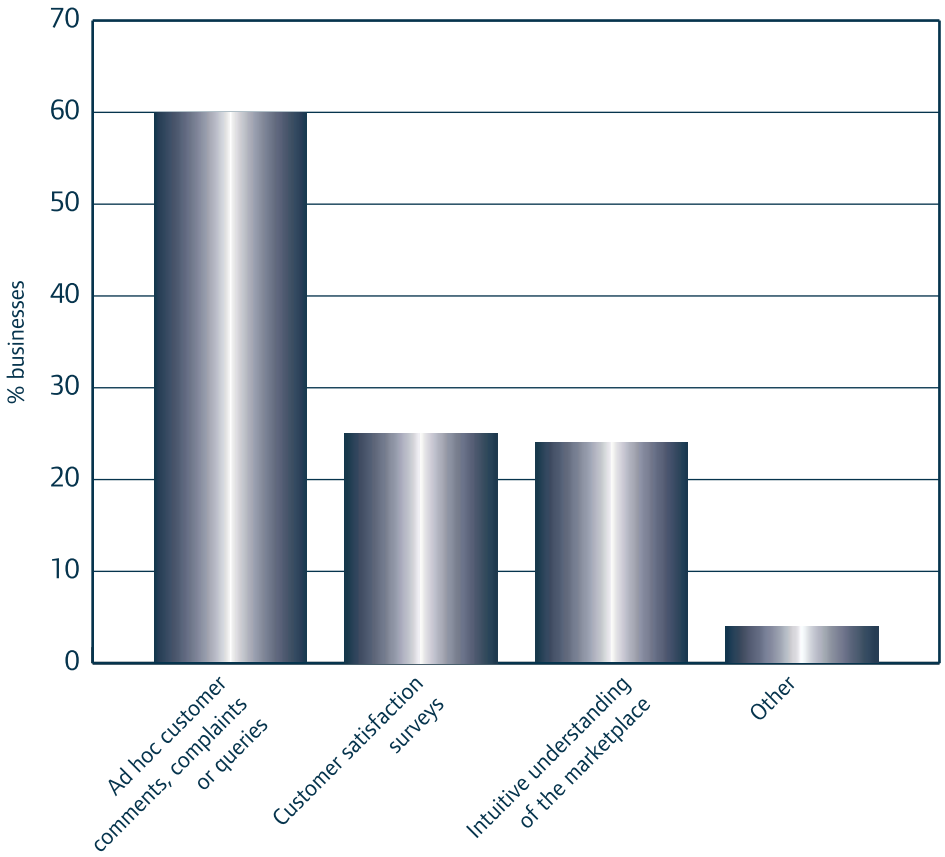


Table 9.2: Percentage of sales turnover derived by location of customer

	All
	%
Elsewhere in the borough	26
Elsewhere in London	29
Elsewhere in the South East	7
Elsewhere in the UK	25
Europe	5
USA	1
Rest of the world	7
Weighted base	**301,587**
Unweighted base	**4,073**

Source: The London Annual Business Survey, 2003
Base: all businesses

The Cabinet Office notes that London shares its wealth with the rest of the UK via trade and the distribution of public finances and acting as a gateway between the regions and the rest of the world. It also estimates that London supports around four million jobs in the rest of the country via trade, commuters' spending and fiscal transfers.

Sales concentration

Businesses were asked what proportion of their sales revenues or turnover is generated by purchases from their single largest customer.

A majority of respondents found this question difficult to answer, leading to a very high non-response rate of 70%, which rises in line with size of establishment (89% of those with more than 500 employees did not answer). Although we have shown the answers below excluding these 'don't knows', caution should be taken when interpreting the data.

The overall level of sales concentration is 32%. A third (33%) of businesses rely on one customer for 31% or more of their sales; half of businesses rely on a single customer for 21% or more of their sales.

These figures are roughly in line with those found in *Enterprise Challenged*: here a third of customers relied on one customer for 25% of more of their sales.

Table 9.3: Proportion of sales revenue/turnover generated from largest single purchaser

	All	Excluding don't knows
	%	%
1 – 10%	11	36
11 – 20%	4	14
21 – 30%	5	17
31 – 40%	2	6
41 – 50%	2	7
51 – 60%	1	4
61 – 70%	1	4
71 – 80%	2	5
81 – 90%	1	2
91 – 99%	*	1
100%	2	6
Don't know/non-response	70	n/a
Mean	32	32
Weighted base	**301,587**	**91,908**
Unweighted base	**4,073**	**1,241**

Source: London Annual Business Survey, 2003
Base: all businesses

Measuring customer satisfaction

The most common way that businesses use to measure customer satisfaction is via informal means, either by ad hoc customer comments, complaints and queries (60%) or by an 'intuitive' understanding of the marketplace (24%). A quarter (25%) conduct customer satisfaction surveys.

These results suggest that there should be some level of concern. Three-quarters of businesses in London have no direct and systematic means to gather information about the views of their customers. Whilst they may have a good grasp of the position, equally they may have a skewed view of reality.

Chart 9.2 Methods used to measure customer satisfaction

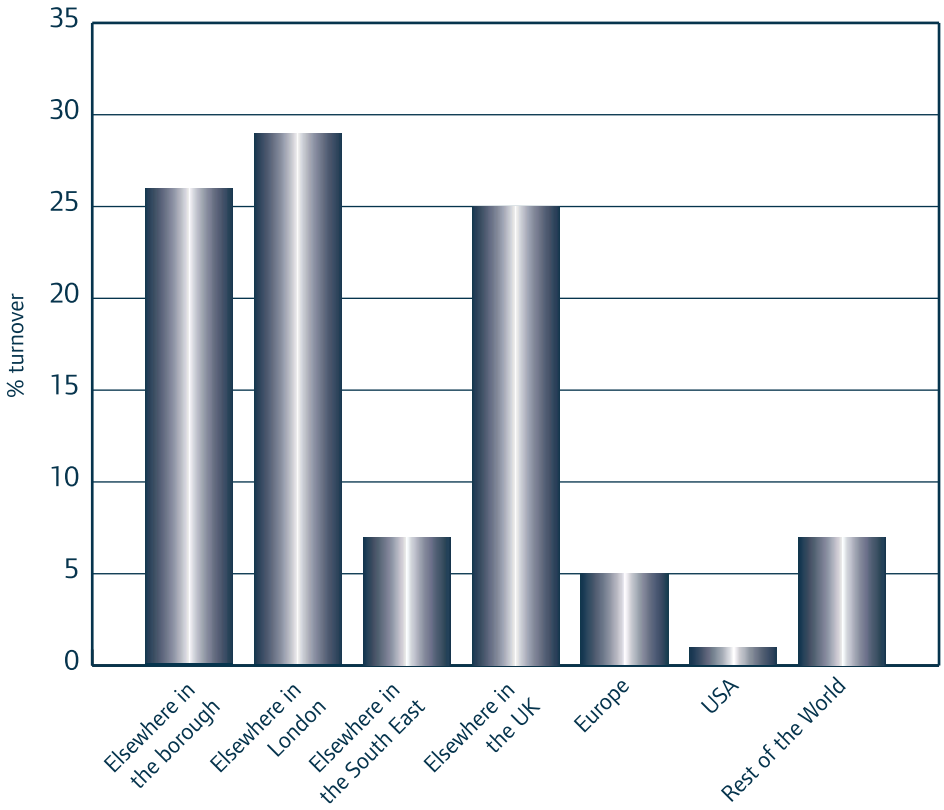


Table 9.4: Methods used to measure customer satisfaction

	All
Multiple response	**%**
Ad hoc customer comments, complaints or queries	60
Customer satisfaction surveys	25
Intuitive understanding of the marketplace	24
Other	3
Don't know/non-response	17
Weighted base	**301,587**
Unweighted base	**4,073**

Source: London Annual Business Survey, 2003
Base: all businesses

The proportion who use formal means of measuring customer satisfaction by using surveys increases as the size of the firm increases, from 22% of the smallest companies to 61% of the largest. There is also evidence that businesses who are more formal in their planning processes are more likely to conduct customer satisfaction surveys. 33% of those who have a business plan also run customer satisfaction surveys, compared to 17% of those without a business plan. Similarly, hi-tech companies are more likely to undertake customer satisfaction surveys than medium or lo-tech companies.

Establishments in some sectors are more likely to undertake customer satisfaction surveys, including those in Education, Health and Social Work (43%); Transport, Storage and Communication (42%) and Hotels and Restaurants (39%). Establishments in Manufacturing and Construction are less likely to undertake customer satisfaction surveys (13% and 15% respectively).

Table 9.5: Variations in use of methods to assess customer satisfaction

	Customer satisfaction surveys	Ad hoc customer comments	Intuitive understanding	Weighted base	Unweighted base
	%	%	%	n	n
All businesses	**25**	**60**	**24**	**301,587**	**4,073**
Size					
1 – 10	22	60	24	266,266	1,842
11 – 49	40	65	26	27,404	1,379
50 – 249	55	65	30	6,711	664
250 – 499	67	68	39	905	126
500 +	61	66	50	301	62
Sector					
Primary and Utilities	28	95	39	986	13
Manufacturing (excluding Publishing)	13	63	24	13,207	314
Publishing	21	60	30	6,729	159
Construction	15	60	23	19,101	309
Wholesale and Retail Trade	20	60	22	62,480	987
Hotels and Restaurants	39	63	28	19,097	338
Transport, Storage and Communication	42	63	25	12,670	227
Financial Services	23	60	25	9,593	162
Business Services	25	59	27	121,826	1,059
Education, Health and Social Work	43	65	25	7,086	228
Other Community, Social and Personal Activities	24	62	14	28,789	274
Business plan					
Has business plan	33	63	29	151,938	2,352
No business plan	17	57	20	149,649	1,721
Location of ownership					
UK-owned	24	60	25	280,908	3,631
Foreign-owned	36	66	22	19,455	411
Technology base					
Hi-tech	33	62	27	64,596	968
Medium-tech	25	61	24	131,579	1,922
Lo-tech	20	60	23	101,246	1,128

Source: London Annual Business Survey, 2003
Base: all businesses

Those who have increased their turnover, workforce size and profit margins were more likely to have undertaken customer satisfaction surveys than those who had seen a decrease in these factors.

Table 9.6: Undertaking customer satisfaction surveys and changes in turnover, workforce size and profit margins

	Turnover			Workforce size			Profit margins		
	In-creased	Stayed the same	De-creased	In-creased	Stayed the same	De-creased	In-creased	Stayed the same	De-creased
	%	%	%	%	%	%	%	%	%
Undertake customer satisfaction surveys	32	21	20	35	22	23	28	23	20
Weighted base	**98,872**	**98,124**	**55,467**	**59,880**	**197,481**	**40,674**	**119,222**	**107,077**	**18,701**
Unweighted base	**1,392**	**1,304**	**668**	**1,055**	**2,385**	**596**	**1.610**	**1,446**	**253**

Source: The London Competitiveness Survey, 2003
Base: all businesses

9.3 Location of suppliers

Just as customers are primarily in London (and even UK-based) so are suppliers. 60% of supplies are purchased from within London (25% from within the same borough, 35% from elsewhere in London). A further third (34%) are purchased from elsewhere in the UK (9% from the South East, 25% from the rest of the UK). Relatively small proportions of purchases are made from outside the UK: just less than 5%.

Table 9.7: Percentage of purchasers by location of supplier

	All
	%
Elsewhere in the borough	25
Elsewhere in London	35
Elsewhere in the south east	9
Elsewhere in the UK	25
Europe	3
USA	1
Rest of world	<0.5
Weighted base	**301,587**
Unweighted base	**4,073**

Source: The London Competitiveness Survey, 2003
Base: all employers

9.4 Summary

More than half of London's trade (ie. transactions with both suppliers and customers of London's businesses) is within London. The majority of trade (about 90% of sales and 95% of purchases) is within the UK. This indicates the importance of London as a business centre, although the fact that a significant amount of this trade is between businesses means the figures may under-represent the importance of international trade. This is because a business may be trading with another business which is selling its products overseas, however, the first business's trade with the second will not be recorded as international trade even though it is clearly dependent on the international market, albeit indirectly.

Only a quarter of businesses use formal means to measure customer satisfaction, which suggests that three-quarters have no systematic means to gather information and have not specifically gone to the market to find out what customers want. It is unlikely that these firms are highly customer focused, they are operating purely on their own perceptions of what their customers want. This is of concern; there is evidence that businesses which are more formal in their planning processes are more likely to conduct customer satisfaction surveys and, because of links we have seen earlier are therefore more likely to have increased turnover.

10. LONDON AS A BUSINESS LOCATION

10.1 Introduction

This section examines factors that impinge upon businesses locating in London. It discusses:

- relative industrial property and office rental costs;
- patterns of business and establishment formation;
- reasons for selecting the current site; and
- re-location.

10.2 Industrial property and office rental costs

The Department of Trade and Industry provides two indicators of industrial property and office rental costs. They are the capital cost of Type 3 industrial/warehouse units and the average rental costs of Type 1 office accommodation[29].

As may be expected, London has the highest values for both capital costs of industrial property and office rentals, being just below twice the national average capital value of industrial property (183%) and more than twice the average office rental value (235%).

London is not just more expensive than the rest of the UK. The Greater London Authority note that total occupancy costs per square metre of office space in London are higher than all other major world cities, including New York and Tokyo[30].

[29] the industrial/warehouse is defined as being 'Type 3': steel framed on concrete base, brickwork to 2m or above with metal PVC cladding above. 10 – 15% will be office content and the building will be detached with private parking and loading facilities. Type 1 office accommodation is defined as being with a town centre location, self contained suite over 1,000 m^2 in an office block erected in the last 10 years, with good standard of finish with lift and good quality fittings to common parts. Limited car parking should be available.

[30] Healey and Baker, 2001, taken from Planning for London's Growth, GLA, 2003

Table 10.1: Industrial property and office rental costs

(2002)	Capital value of Type 3 industrial property Index UK = 100	Rental cost of Type 1 office accommodation Index UK = 100
UK	100	100
London	**183**	**235**
South West	99	80
South East	157	122
Eastern	111	98
West Midlands	88	95
East Midlands	80	62
Yorkshire & Humberside	87	85
North West	83	78
North East	72	75
England	107	103
Wales	69	62
Scotland	73	115
Northern Ireland	97	93

Source: Department of Trade and Industry, Regional Competitiveness and State of the Regions, January 2003

10.3 Patterns of business and establishment formation

Length of establishment

The reforms of the last two decades have left the UK with very low administrative costs for new business formation relative to other countries. However, whilst the rate of new business formation is high, UK start-ups have a significantly lower likelihood of surviving the initial years than their peers in other EU countries and the United States.

The Department of Trade and Industry uses as a 'business formation indicator' the number of new Value Added Tax (VAT) registrations each year as a percentage of enterprises registered for VAT at the start of the year[31]. This data shows that:

- London has the highest business formation rates in terms of both new VAT registrations as a percentage of existing business stock and when expressed per 10,000 of adult population. However, over the last three years the gap between London and the rest of the UK has narrowed as registration levels in London have declined more quickly than in other regions;

- less positive is the business survival rate, which is the proportion of businesses registered for VAT three years after the initial registration. London has one of the lowest survival rates at 62.1%, with only the North West having a lower rate (61.7%). Survival rates for the UK have been rising steadily since 1994. This indicates either the vulnerability of London businesses to economic conditions or possibly the more dynamic nature of London's economy as entrepreneurs set up businesses, then voluntarily close them down as they move on to the next challenge.

[31] Reported in the Department of Trade and Industry, Regional Competitivenesss and State of the Regions, January 2003

Table 10.2: VAT registrations rates and survival rates

	VAT registrations as % of business stock	VAT registrations per 10,000 of adult population	Survival rates (% surviving three years or more)
UK	10.5	36.8	65.1
London	**12.6**	**59.4**	**62.1**
South West	9.7	36.1	67.8
South East	11.1	43.8	68.7
Eastern	10.6	39.9	67.4
West Midlands	10.4	33.5	63.1
East Midlands	10.4	34.3	64.8
Yorkshire & Humberside	10.0	29.0	64.4
North West	10.9	32.1	61.7
North East	9.6	19.6	64.5
England	10.9	38.6	65.0
Wales	8.1	25.5	65.4
Scotland	9.7	28.0	64.3
Northern Ireland	6.6	28.3	72.5

Source: Department of Trade and Industry, Regional Competitiveness and State of the Regions, January 2003

Returning to the survey results, the majority (70%) of businesses in London have been established for more than five years, leading to an average length of establishment of 20 years. This mean is distorted upwards by a relatively few companies who have been established for very long periods: the median length of formation is 14 years.

Table 10.3: Length of time since formation of businesses

	%
Up to 18 months ago	5
18 months to 3 years ago	14
3 – 5 years ago	11
More than 5 years ago	70
Don't know	2
Mean number of years	20
Median number of years	14
Weighted base	**301,587**
Unweighted base	**4,073**

Source: London Annual Business Survey, 2003
Base: all businesses

As would be expected, the larger the establishment (in terms of the number of employees and level of turnover), the longer (on average) it has been established.

Table 10.4: Size of establishment

	Mean number of years	Median number of years	Weighted base	Unweighted base
All businesses	**20**	**14**	**301,587**	**4,073**
Size				
1 – 10	19	12	266,266	1,842
11 – 49	28	20	27,404	1,379
50 – 249	38	30	6,711	664
250 – 499	60	33	905	126
500 +	71	33	301	62
Turnover				
Up to £50k	12	6	17,604	150
£51k – £100k	16	11	20,067	175
£101k – £500k	17	11	47,404	411
£501k – £1 million	17	12	25,041	300
Over £1 million – £5 million	21	15	25,971	519
Over £5 million	35	25	10,289	462

Source: London Annual Business Survey, 2003
Base: all businesses

With regard to the current site, the average period since it was set-up is less than that for the overall business: evidently companies move at least once after they have been set up.

Table 10.5: When current site was set up

	%
Up to one 18 months ago	10
18 months to 3 years ago	22
3 – 5 years ago	14
More than 5 years ago	53
Don't know	2
Mean number of years	11.2
Weighted base	**301,587**
Unweighted base	**4,073**

Source: London Annual Business Survey, 2003
Base: all businesses

Reasons for establishment

The respondents were asked the main reason why the business as a whole (not just the site) was set up. As would be expected, the proportion that do not know the answer is high (24%) and so we have also shown the answers with these excluded.

The most common reason (59% of those who could give an answer) is that the founder wished to run their own business and to be their 'own boss'. Following this is the desire of the founder to 'make more money' than previously being earned (19%) and a 'desire to implement a new idea or develop a new product' (18%).

Chart 10.1 Main reason for the business being set up

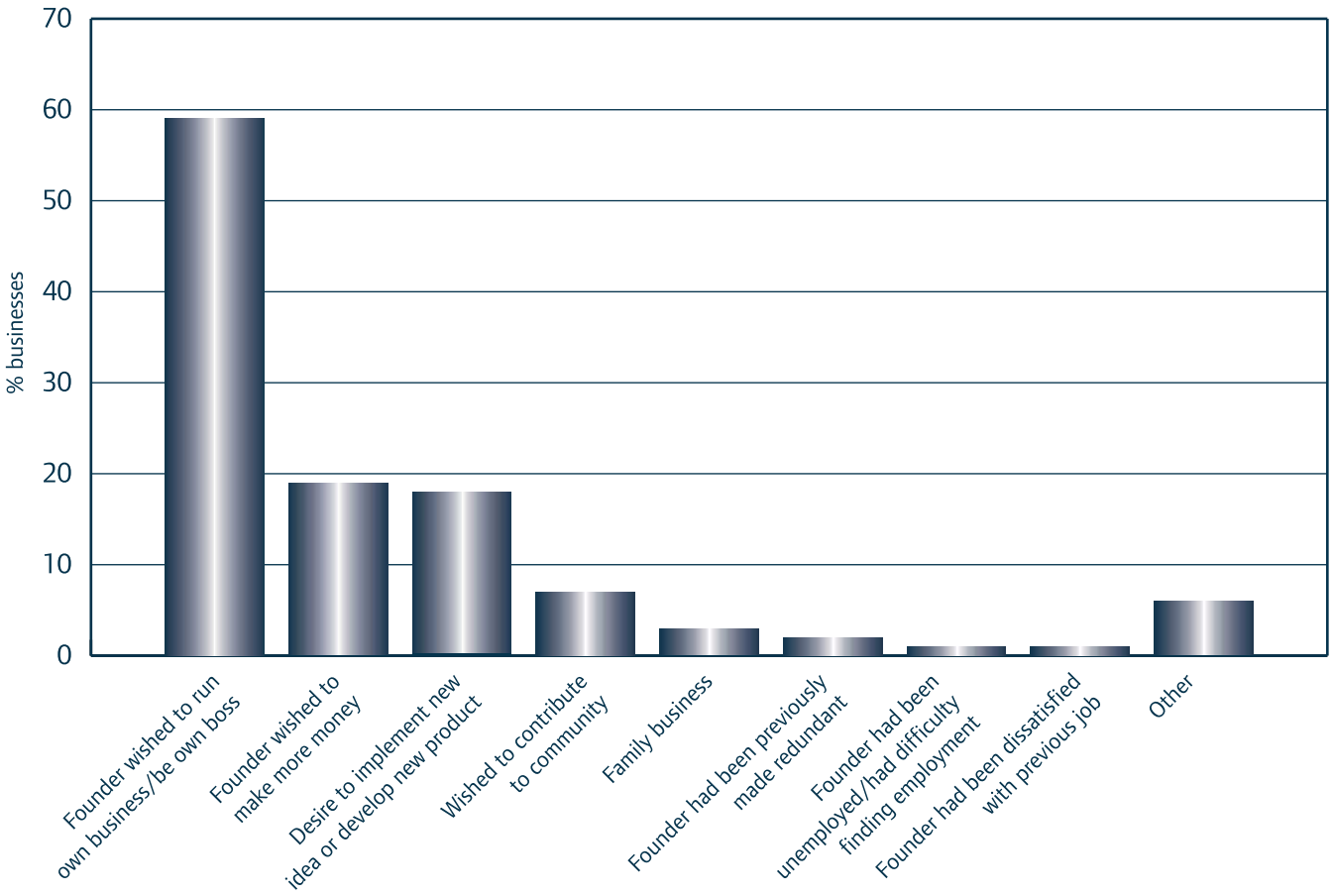


Table 10.6: Main reason for the business being set up

	All	Excluding don't knows
	%	%
Founder wished to run own business/be own boss	45	59
Founder wished to make more money	14	19
Desire to implement new idea or develop new product	14	18
Wished to contribute to community	5	7
Family business	3	3
Founder had been previously made redundant	1	2
Founder had been unemployed/had difficulty finding employment	1	1
Founder had been dissatisfied with previous job	1	1
Other	5	6
Don't know	24	n/a
Weighted base	**301,587**	**229,257**
Unweighted base	**4,073**	**3,096**

Source: London Annual Business Survey, 2003
Base: all businesses

As we have seen earlier, bigger companies tend to have been established longer and it is amongst these companies that there is the highest proportion of 'don't know' responses (as would perhaps be expected). Beyond this there are a number of findings of interest, in that:

- businesses engaged in the delivery of public services (Education, Health and Social Work) are more likely to have been set up because the founder wished to contribute to the community (37% of those giving a response);
- businesses which are owned by a sole proprietor are more likely to have been founded because the founder wished to run their own businesses/be their own boss (71%);
- nearly two-thirds (64%) of social enterprises have been set up because the founder wished to contribute to the community.

The businesses in the *Enterprise Challenged* research suggested similar reasons for setting up their businesses. Here, 70% had set up the business because they wanted to 'be their own boss' (compared to 59% in London), a quarter because they wanted to make more money (compared to 19% in London) and a quarter to implement a new idea (compared to 18% in London).

Where London does appear to be different from the rest of the UK is in the role of unemployment in setting up new businesses. In the UK overall, 20% stated that unemployment had been a factor in business formation: in London this is 3%. This is a surprising finding: as we have seen, London has the highest regional unemployment rate. This suggests some specific London-based reasons why this link between unemployment and business formation is weaker here than elsewhere in the UK, which may be a fruitful avenue for future research.

10.4 Reasons for selecting current site

There are three main reasons given by the employers for establishing the business at their current site in London as opposed to anywhere else in the country. These are that the owner of the business lives in or near to London (43%), that the customers and clients are based in London (39%) or that London is regarded as being the central location in the UK (19%).

Table 10.7: Reason for setting up at current site

	All
	%
Owner of business lives in/near to London	43
Customers/clients based in London	39
Central location in the UK	19
Suppliers based in London	3
Good supply of appropriately skilled employees	2
Proximity to other branches of the same organisation	2
Prestige	2
Transport links	2
International community links	1
Other	2
Don't know/non-response	12
Weighted base	**301,587**
Unweighted base	**4,073**

Source: London Annual Business Survey, 2003
Base: all businesses

The reasons for establishing the business at the current site varies according to sub-region. Reasons according to the 'owner' are more important in North and West London (54 and 49% respectively) and, less important in Central London (37%). Reasons relating to the location of client and customers are more important in the Central area (45%), less so in the West, (31%), North (34%) or South (35%). Reasons relating to London being the 'central location in the UK' are most common in Central and East London (45 and 41% respectively), less so in South (10%), and North London (14%).

Table 10.8: Reason for setting up at current site, by location

	London	Central	East	North	South	West
	%	%	%	%	%	%
Owner of business lives in/near to London	43	37	44	54	42	49
Customers/clients based in London	39	45	41	34	35	31
Central location in the UK	19	24	23	14	10	17
Suppliers based in London	3	3	2	2	7	3
Good supply of appropriately skilled employees	2	2	2	1	1	1
Proximity to other branches of the same organisation	2	2	2	1	1	1
Prestige	2	1	2	1	2	2
Transport links	2	2	1	1	2	2
International community links	1	2	1	1	1	1
Other	2	1	1	4	4	3
Don't know/non-response	12	10	9	16	14	17
Weighted base	**301,587**	**108,301**	**62,883**	**32,951**	**44,977**	**52,475**
Unweighted base	**4,073**	**864**	**801**	**801**	**803**	**804**

Source: London Annual Business Survey, 2003
Base: all businesses

Unsurprisingly, 61% of sole proprietorships and 56% of partnerships are located at their current site because it is convenient for the owner. We can see a number of clear relationships between the reason for establishment of the current site and its size:

- 'personal' reasons become less important as the company size increases. The fact that the owner of the business lives in or near to London is a reason for 46% of the smallest companies (those with 1 – 10 employees), but this decreases to 6% of the largest (those with more than 500 employees);
- the location of clients and customers in London is more important for small and medium sized businesses, but decreases in importance amongst the largest; and
- the importance of London as the central location in the UK increases as business size increases (from 19% amongst the smallest employers to 40% of the largest). The prestige attached to a London location is also more important for the largest businesses.

Table 10.9: Reasons for setting up at current site, by size

	Size (number of employees)					
	All	**1 – 10**	**11 – 49**	**50 – 249**	**250 – 499**	**500 +**
	%	%	%	%	%	%
Owner of business lives in/near to London	43	46	28	19	8	6
Customers/clients based in London	39	38	46	43	21	22
Central location in the UK	19	19	21	27	42	40
Suppliers based in London	3	3	4	2	2	3
Good supply of appropriately skilled employees	2	2	3	2	1	0
Proximity to other branches of the same organisation	2	1	4	2	3	7
Prestige	2	1	3	4	4	15
Transport links	2	1	4	4	10	2
International community links	1	1	2	3	6	4
Other	2	2	2	3	3	0
Don't know/non-response	12	11	17	24	26	39
Weighted base	**301,587**	**266,266**	**27,404**	**6,711**	**905**	**301**
Unweighted base	**4,073**	**1,842**	**1,379**	**664**	**126**	**62**

Source: London Annual Business Survey, 2003
Base: all businesses

There is also considerable variation by sector. Looking at the three main factors only, we can see that:

- the owner of the business living in or near to London is more important for establishments in the Construction (62%), Manufacturing (57%) and Transport and Communication sectors (47%);
- the location of clients and customers in London is more important for establishments in the Financial Services (48%), Publishing (45%) and Real Estate and Renting sectors (44%);

Table 10.10: Reason for setting up at current site, by sector

	Owner of business live in/near to London	**Customers/ clients based in London**	**Central location in the UK**	**Wtd Base**	**Unwtd Base**
	%	**%**	**%**	**n**	**n**
All	**43**	**37**	**19**	**301,587**	**4,073**
Primary and Utilities	40	30	32	986	13
Manufacturing (excluding Publishing)	57	35	15	13,207	314
Publishing	37	45	21	6,729	159
Construction	62	31	11	19,101	309
Wholesale and Retail Trade	45	32	18	62,480	987
Hotels and Restaurants	28	35	18	19,097	338
Transport, Storage and Communication	47	41	20	12,670	227
Financial Services	18	48	22	9,593	162
Business Services	44	44	21	121,826	1,059
Education, Health and Social Work	40	36	17	7,086	228
Other Community, Social and Personal Activities	36	43	23	28,789	274

Source: London Annual Business Survey, 2003
Base: all businesses

10.5 Relocation

Relocating activities to the current site

Only a minority of businesses (7%) have re-located any activities to their current site from other sites within the organisation over the last three years.

Table 10.11: Relocation of activities to current site

	All
	%
Have relocated activities to current site	7
Have not relocated activities to current site	92
Don't know/non-response	2
Weighted base	**301,587**
Unweighted base	**4,073**

Source: London Annual Business Survey, 2003
Base: all businesses

Where such a relocation of activities has taken place, in three quarters of cases they have come from elsewhere in London, either from the same Borough (24%) or elsewhere in London (53%). There appears to be relatively little relocation of activities into London from outside.

Table 10.12: Where relocated activities have come from

	All
	%
Elsewhere in the same Borough	24
Elsewhere in London	53
Elsewhere in the south east	4
Elsewhere in the UK	11
Elsewhere in the EU	3
Elsewhere in Europe	6
USA	2
Rest of World	1
Don't know/non-response	2
Weighted base	**19,593**
Unweighted base	**330**

Source: London Annual Business Survey, 2003
Base: all businesses who have relocated activities to their current establishment in last three years

Relocating activities away from the current site

Businesses in the London Annual Business Survey were not asked about their intentions to move any activities away from the current site. However, the *London Employers Survey* did examine employers' intentions to relocate all or part of their operations out of London. This information, by its nature, has negative overtones in that it concerns 'job losses' but it does not mean that London just suffers from a leakage of employment.

As well as these potential outflows, there will be new jobs being created in London, either by new businesses being created or by companies relocating to London from other parts of the UK or overseas. However, as this survey was a survey of existing firms based in London, both new companies and those located outside of London are outside its scope and we have no information on the incoming flow of jobs. This should be borne in mind whilst reading the following data on potential outflows.

Over three-quarters (77%) of respondents do not believe that there is any likelihood that they will move all or some of their operations away from their current premises. Of those that are definitely intending to move, 10% intend to move all their operations, and 2% some of their operations. Of those that may move their operations, 4% are contemplating moving all their operations, 2% some of their operations.

Table 10.13: Likelihood of moving operations away from current premises

	%
Yes, will move all operations	10
Yes, may move all operations	4
Yes, will move some operations	2
Yes, may move some operations	2
No, will not move	77
Don't know	6
Unweighted base	**9,707**
Weighted base	**365,073**

Source: London Employers Survey, 2002
Base: all businesses

Of the 18% of employers who are considering relocating, three-quarters (76%) expect that they will relocate within London. 46% expect that they will move within the same Borough. 4% expect to move to a location within the South East, 5% within the rest of the UK and 3% overseas. 10% did not know where they would (or might) relocate to.

Table 10.14: Expected destination when moving operations away from current premises

	%
Probably within the same Borough	46
Probably within London, but in another Borough	32
South east England	4
Elsewhere in the UK	5
Overseas	3
Don't know/refused	10
Unweighted base	**1,247**
Weighted base	**62,460**

Source: London Employers Survey, 2002
Base: all businesses who will or may move some or all of their operations

This research estimates that, in total, over 37,000 jobs may be lost from London over the next three years. This is just less than 1% of the current estimated employment level in London. The highest level of job loss may be from East (nearly 15,000 jobs) and Central (nearly 9,000 jobs). It is worth noting that the majority of jobs that may be lost to London are based in small businesses: some 23,500 (66%) of the jobs that may relocate are currently in companies that employ between one and ten employees.

Reasons given for the businesses intentions to move out tend to be related to cost: either because it is generally too expensive (30%), because of the cost of office space (26%) or because overheads are too high (15%).

10.6 Summary

As will be of no surprise, London is one of the most expensive cities in which to secure office or industrial accommodation in the world.

Government data shows that London has the highest business formation rate in the UK, but less positive is the survival rate. Only 62% of new businesses started are still in existence three years later.

Reasons for establishing a new company are the desire for the owner to be their own boss, to make more money or to implement a new idea or product. The 'push' factor from unemployment or redundancy does not appear to be an important factor in London, and is certainly less of a factor than data for the rest of the UK would indicate.

The main reasons why businesses selected their current site are that the owner/s of the business live in or near to London (43% of establishments), that the customers/clients are based in London (39%) or that London is the central location in the UK (19%). For smaller businesses, the most important factors are the fact that the owner lives in or near to London and that customers/clients are London-based. As size of establishment increases, the relative importance of these factors decreases and the importance of London as the central location in the UK increases.

Relatively few businesses have relocated any business activities to their current site and relatively few intend to relocate any activities away from their current site. The implications of this are that policy bodies cannot rely on migrating employers to solve any problems they may have: they have to work with what already exists in their regions and areas.

There is currently much debate about the importance of 'clusters' – geographically proximate groups of interconnected businesses in a particular sector. The London Annual Business Survey data has not yet been interrogated for insights into London's clusters. Research undertaken by the Department of Trade and Industry, suggests that London has two main clusters in Financial Services and Creative Industries, plus other significant clusters in Business Services, Computer and Communication Services, Property and Real Estate, Tourism, Travel, Entertainment and Clothing. Clusters are relatively more significant in London than elsewhere within the UK. London's clusters account for 43% of all London's employment. The debate on clusters is at an early stage and the data from the London Annual Business Survey may be able to contribute to a further understanding.

11. BARRIERS AND ENABLERS AFFECTING BUSINESS COMPETITIVENESS

11.1 Introduction

The respondents were asked about the issues, both internal to their business and externally with regard to London and elsewhere that they felt affected the overall competitiveness of their businesses.

11.2 Contribution to competitive advantage

Employers were asked which of a list of specific areas they considered contributed to their business having a competitive advantage over others within their sector. They were asked to give responses on a scale of one to five, where one equalled 'factor does not contribute' and five equalled 'factor has a substantial contribution'.

As we can see from the table following, all the factors were considered of above average importance. This is expected. The factors were chosen because they are important business areas and to find that any were of little importance would be some surprise. The revealing information is how these factors rank against each other, from which we can determine the competitive basis for the companies.

Overall, we can see that the single most important factor is to have an 'established reputation' (mean score 4.39), which is of interest because (as we have seen in Section 9) relatively few of the businesses have systematic means of establishing exactly what this reputation is. Beyond this, businesses are more likely to wish to compete on the reliability of their service (4.33) and the quality of their products and service (4.27), generated by a quality workforce (4.20), produced in a flexible way which adapts to meet changing customer needs (4.18), quickly (4.12). Cost advantages (3.49) and price of products and services (3.83) are ranked relatively lowly in this list of competitive areas, as is location (3.51).

There are no consistent variations in these mean scores by size, sector, ownership, length of establishment, or existence of business plan. There is also no clear relationship with outcome variables such as change in turnover in the last 12 months.

Chart 11.1 Contributing to competitive advantage

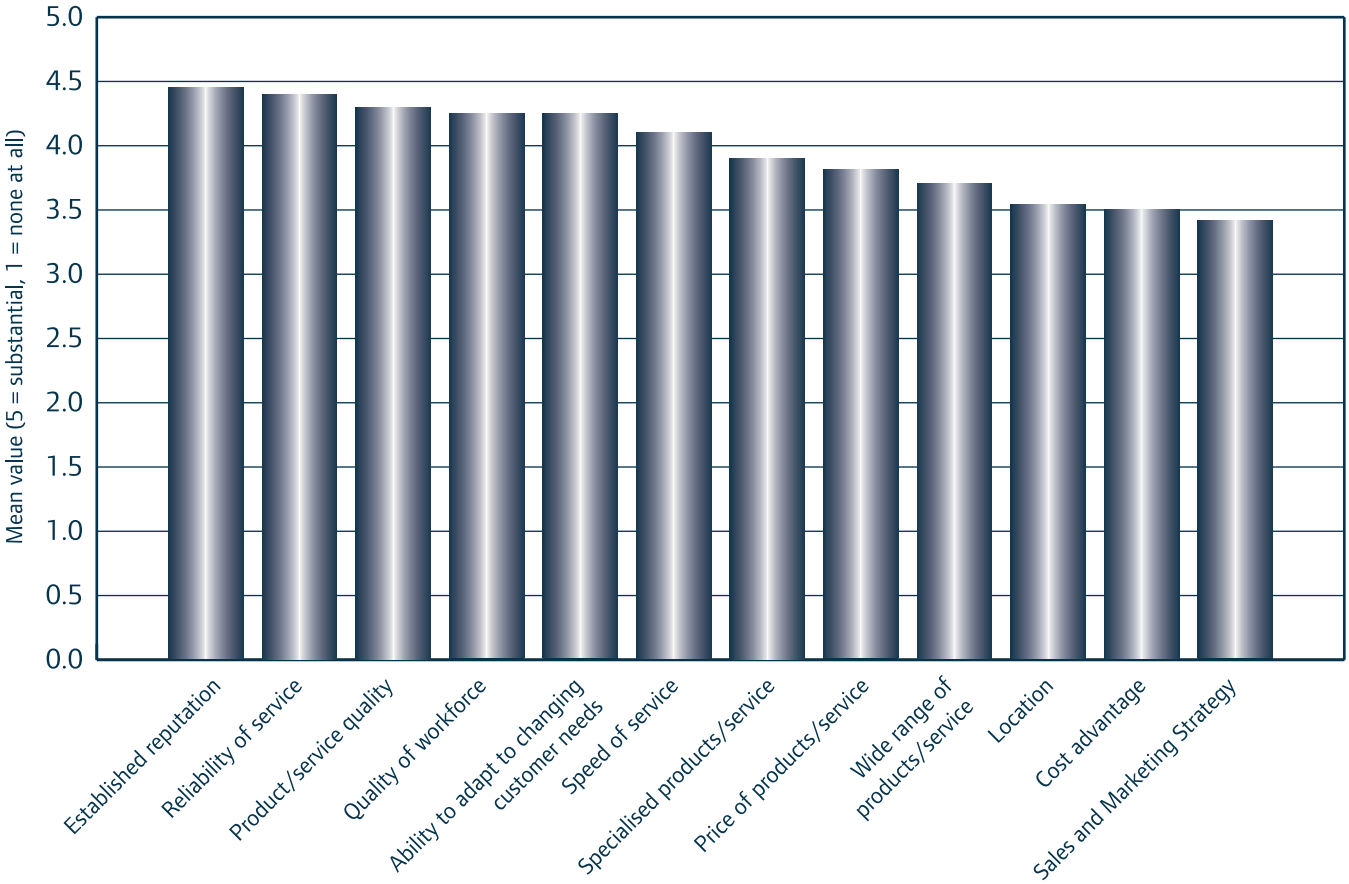


Table 11.1: Contribution to competitive advantage

	Extent of contribution						
	None at all				Substantial	DK/non-response	Mean value
	1	2	3	4	5		
	%	%	%	%	%	%	n
Established reputation	3	2	8	25	59	3	4.39
Reliability of service	3	2	9	28	55	3	4.33
Product/service quality	3	3	11	28	53	3	4.27
Quality of workforce	5	4	12	26	52	3	4.20
Ability to adapt to changing customer needs	4	4	13	29	49	3	4.18
Speed of service	4	4	14	29	46	3	4.12
Specialised products/service	7	5	18	24	42	5	3.93
Price of products/services	6	6	22	28	34	4	3.83
Wide range of products/services	8	9	21	23	33	6	3.68
Location	14	9	21	21	32	3	3.51
Cost advantage	9	10	27	23	25	6	3.49
Sales and marketing strategies	11	12	25	22	25	5	3.40

Source: London Annual Business Survey, 2003
Base: all businesses: weighted base = 301,587, unweighted base = 4,073

Again, these findings are similar to those found in *Enterprise Challenged*. Although the list of factors is slightly different, we can see that reputation, quality and reliability are ranked highest in both surveys: issues relating to price and cost are ranked lowest.

Table 11.2: Relative ranking of factors contributing to competitive advantage

London Annual Business Survey	Mean score	Rank	Enterprise Challenged	Mean score	Rank
Established reputation	4.4	1	Personal attention to client needs	4.3	1
Reliability of service	4.3	2	Product quality	4.0	= 2
Product/service quality	4.3	3	Established reputation	4.0	= 2
Quality of workforce	4.2	4	Specialised expertise or products	4.0	= 2
Ability to adapt to changing customer needs	4.2	5	Speed	3.7	5
Speed of service	4.1	6	Range of expertise or products	3.6	6
Specialised products/service	3.9	7	Product design	3.2	= 7
Price of products/services	3.8	8	Flair and creativity	3.2	= 7
Wide range of products/services	3.7	9	Cost advantage	2.8	9
Location	3.5	10	Price	2.7	10
Cost advantage	3.5	11	Marketing	2.5	11
Sales and marketing strategies	3.4	12			

Source: London Annual Business Survey, 2003 and Enterprise Challenged, CBR, 2003
Base: all businesses: weighted base = 301,587, unweighted base = 4,073

The employers were then asked how important a number of issues were to the successful running of their business and the extent to which these factors were a problem. They were asked to rank these factors on a 'one-to-five' scale.

The most important factor to the successful running of the business is the availability of skilled labour, with a mean score of 3.89. Following this is the cost of this labour (mean score of 3.65). Following this are issues relating to premises, either cost (3.54) or size (3.41). Issues relating to cluster development (proximity to customers and clients, suppliers and other companies in the same sector) rank relatively lowly.

With regard to the same factors being a problem for the successful running of the business, the scores are all much lower than those seen for the importance, indicating that relatively few businesses see these issues as being problematic. However, the relative ranking is much of the same order, with issues regarding labour being the most problematic and issues regarding premises being second.

Chart 11.2 Importance of factor to successful running of business

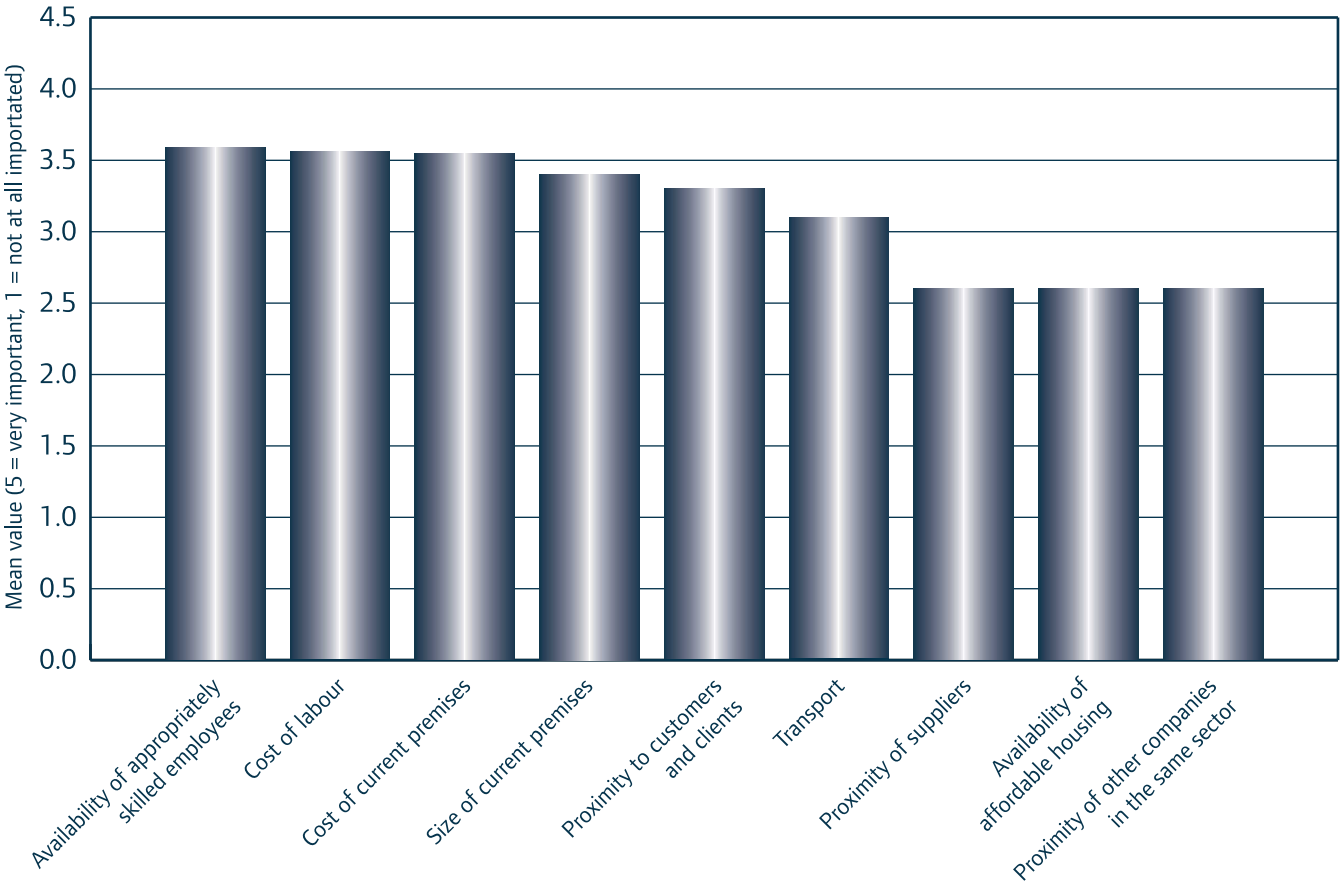


Chart 11.3 Extent that the factor is a problem for the successful running of the business

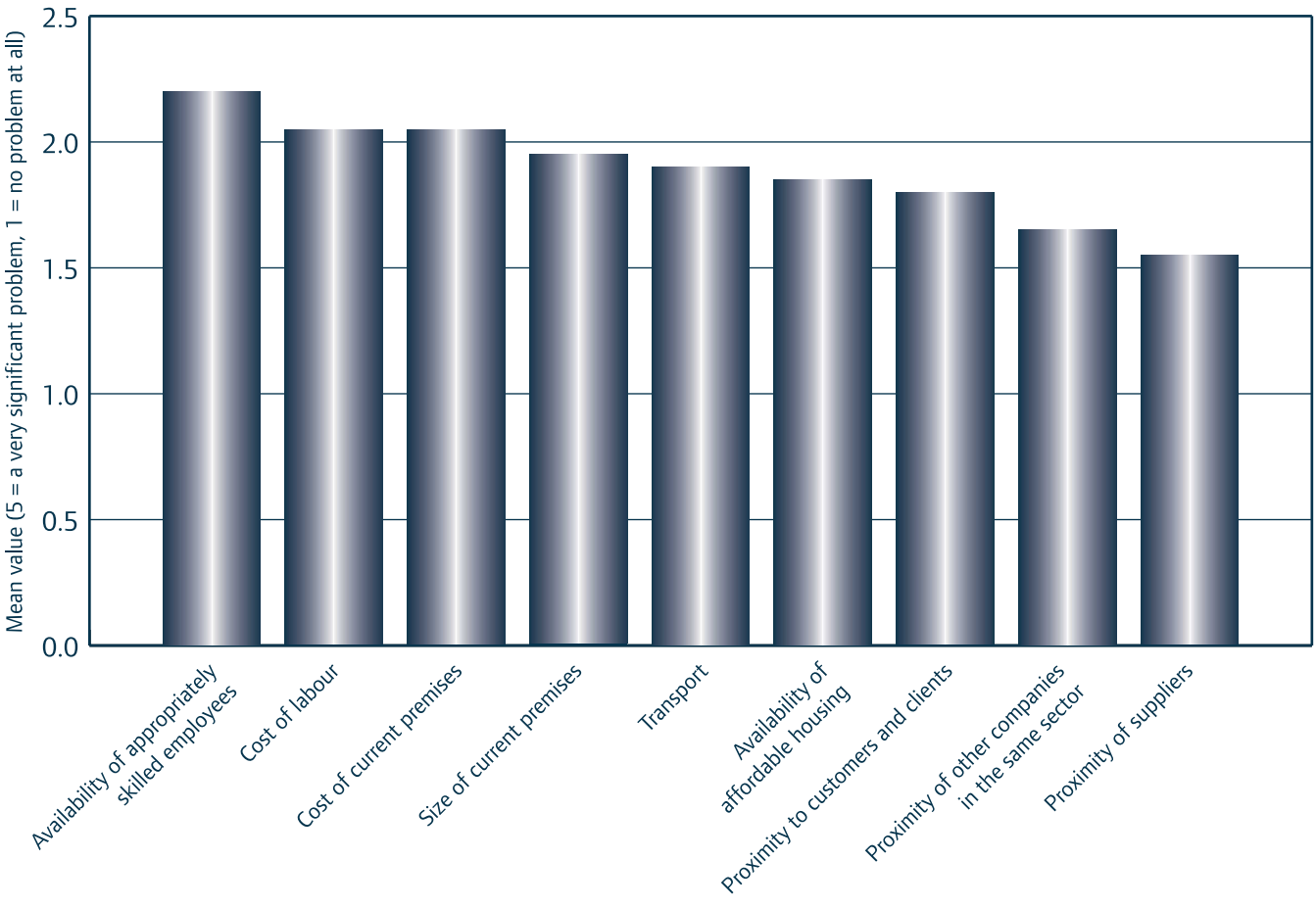


Table 11.3: Importance of factor to successful running of the business and extent that the factor is a problem for the successful running of the business

	Importance						
	Not at all				Very	DK/non-response	Mean value
	1	2	3	4	5		
	%	%	%	%	%	%	n
Importance of factor							
Availability of appropriately skilled employees	7	7	16	25	42	3	3.89
Cost of labour	7	8	26	25	30	4	3.65
Cost of current premises	12	10	21	20	32	5	3.54
Size of current premises	12	12	26	20	27	3	3.41
Proximity to customers and clients	18	14	19	19	26	4	3.20
Transport	19	18	21	18	21	4	3.05
Proximity of suppliers	31	18	21	11	14	4	2.59
Availability of affordable housing	29	24	18	8	16	6	2.56
Proximity of other companies in the same sector	32	17	22	10	14	7	2.54

	Degree of difficulty						
	No problem at all				A very significant problem	DK/ non-response	Mean value
	1	2	3	4	5		
	%	%	%	%	%	%	n
Degree of difficulty							
Availability of appropriately skilled employees	46	15	16	11	9	3	2.19
Cost of labour	47	17	18	9	5	4	2.05
Cost of current premises	50	16	14	7	9	5	2.04
Size of current premises	51	19	14	6	6	4	1.94
Transport	52	17	15	6	6	4	1.91
Availability of affordable housing	54	16	13	6	6	6	1.86
Proximity to customers and clients	58	15	13	5	4	5	1.77
Proximity of other companies in the same sector	62	14	12	4	3	6	1.67
Proximity to suppliers	62	15	12	3	3	5	1.63

Source: London Annual Business Survey, 2003
Base: all businesses: weighted base = 301,587, unweighted base = 4,073

Broadly comparable data can be shown from the *Enterprise Challenged* research, which confirms many of the findings on limitations on a businesses ability to meet their business objectives. As we have seen earlier, the main concerns tend to be related to the external market – increasing competition, overall growth of market demand and marketing and sales skills needed to operate in the market.

Table 11.4: Constraints on ability to meet business objectives

Multiple response	%
Increasing competition	31
Overall growth of market demand	26
Marketing and sales skills	25
Availability and cost of finance for expansion	23
Skilled labour	20
Availability and cost of overdraft finance	19
Management skills	19
Availability of appropriate premises or site	12
Difficulties in implementing new technology	9
Acquisition of new technology	8
Access to overseas markets	7
Unweighted base	**2,064**

Source: Enterprise Challenged, 2003
Base: all businesses

11.3 Actions taken to improve competitiveness

To improve their competitiveness, businesses have been most likely to undertake activities to improve their market position, either by building relationships with end consumers or customers (66%) or by undertaking an advertising or marketing strategy (45%). Given the extent to which London's businesses are apparently vulnerable to the external market, this is of importance.

Significant proportions of businesses had diversified and/or launched new products. However, companies were more likely to do this in a new sector to that in which they currently operated (22%) than to do so in areas related to their core business (16%).

9% of companies had not carried out any of these activities.

Chart 11.4 Actions taken to enhance competitivness in the last 12 months

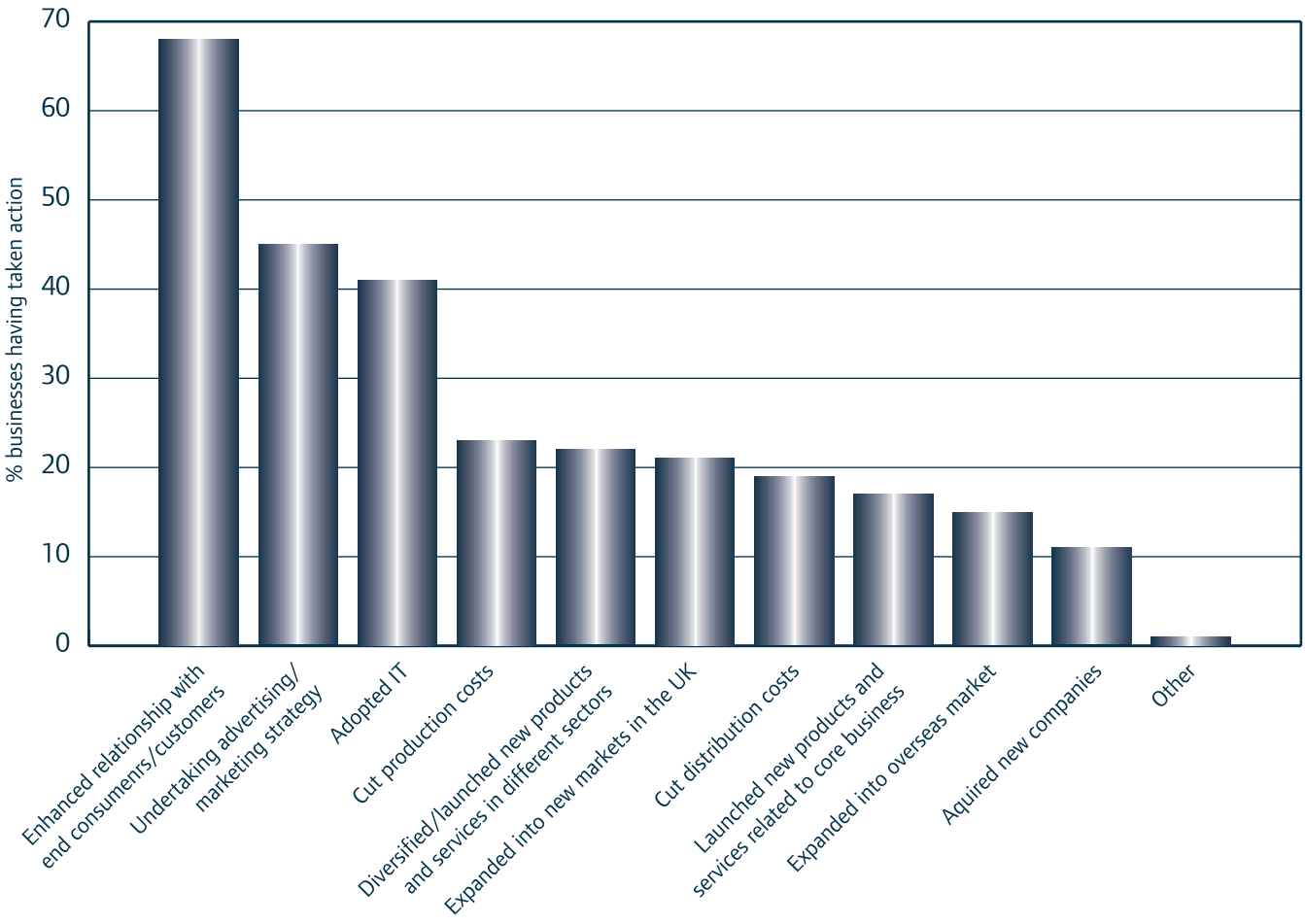


Table 11.5: Actions taken to improve competitiveness in the last 12 months

	Yes	No	DK
	%	%	%
Enhanced relationship with end consumers/customers	66	30	3
Undertaking advertising/ marketing strategy	45	50	4
Adopted IT	41	55	4
Cut production costs	24	66	11
Diversified/launched new products and services in different sectors	22	73	5
Expanded into new markets in the UK	21	75	5
Cut distribution costs	19	67	12
Launched new products and services related to core business	16	80	5
Expanded into overseas market	15	80	5
Acquired new companies	11	85	4
Other	1	62	37
None of these	9	91	n/a

Source: London Annual Business Survey, 2003
Base: all businesses: weighted base = 301,587, unweighted base = 4,073

Table 11.6: Actions taken to improve competitiveness in the last 12 months

	All businesses	Size (number of employees)				
		1 – 10	11 – 49	50 – 249	250 – 499	500 +
	%	%	%	%	%	%
Enhanced relationship with end consumers/customers	66	65	73	72	80	75
Undertaking advertising/ marketing strategy	45	44	55	57	55	61
Adopted IT	41	40	51	54	47	52
Cut production costs	24	24	27	27	24	32
Diversified/launched new products and services in different sectors	22	21	29	35	42	49
Expanded into new markets in the UK	21	19	29	35	33	36
Cut distribution costs	19	19	22	23	19	14
Launched new products and services related to core business	16	15	22	23	24	28
Expanded into overseas market	15	14	21	25	24	30
Acquired new companies	11	10	16	19	20	35
Other	1	1	1	2	1	0
None of the above	9	9	6	6	1	2
Weighted base	**301,587**	**266,266**	**27,404**	**6,711**	**905**	**301**
Unweighted base	**4,073**	**1,842**	**1,379**	**664**	**126**	**62**

Source: London Annual Business Survey, 2003
Base: all businesses

There are a number of relationships that are of interest, in that:

- Bigger companies have been more likely to undertake each of the activities:
- companies with a business plan are more likely to undertake the majority of these activities than those without;
- companies who describe themselves as being 'hi-tech' are more likely to have undertaken each of the activities than those who are 'medium-tech', who in turn are more likely to have undertaken them than 'lo-tech' companies;
- companies who have increased their turnover in the last 12 months are more likely to have undertaken the majority of these activities than those who have not. This may be a dual causal relationship: undertaking these activities may lead to an increased turnover, but also an increasing turnover may give leeway for companies to develop and deliver these strategic competitive actions.

11.4 Summary

The most important factors contributing to competitive advantage are thought to be, established reputation, the reliability of service, quality of service and quality of workforce. The relative importance of reputation and of customer views of quality and reliability further highlights the finding (see section 9) that relatively few (a quarter) employers actually systematically measure customer views of their products and services. Businesses do not believe that price or cost of products and services are particularly important factors. Whilst the relatively low importance of price competition is positive, businesses may be missing opportunities to put downward pressures on costs.

The key factor in the successful running of the business is regarded as being the availability of skilled labour, followed by the cost of this labour. Following this are issues relating to premises. Proximity to clients and customers, suppliers or other employers in the same sector is not seen as being particularly important. Whilst these are important issues for policy makers when they are trying to encourage the growth of clusters, they do not appear to be of such high importance to individual businesses. Given the importance of these factors, it is encouraging to note that the majority of businesses do not experience any great overall degree of difficulty in accessing skilled labour or with the cost of that labour.

Consistent with businesses being vulnerable to the external market, the majority of them have been taking steps to build relationships with end-customers in order to improve their competitiveness.

12. BUSINESS INFORMATION AND ADVICE

12.1 Introduction

External advice is an important resource for businesses, both at an operational and a strategic level. It can be an important way by which performance can be increased by bringing external knowledge to bear on development problems.

12.2 Use of business advice services

Businesses were asked which business advice services they had used in the previous three years. They were read out a pre-coded list and asked to respond to each.

57% of businesses have used external business advice sources over the last three years. The most common source of advice used was accountants (43%), followed by banks (34%). After this there is a gap until we find Trade Associations (used by 9% of respondents) and Business Link for London (8%).

Chart 12.1 Sources of business advice in the last 3 years

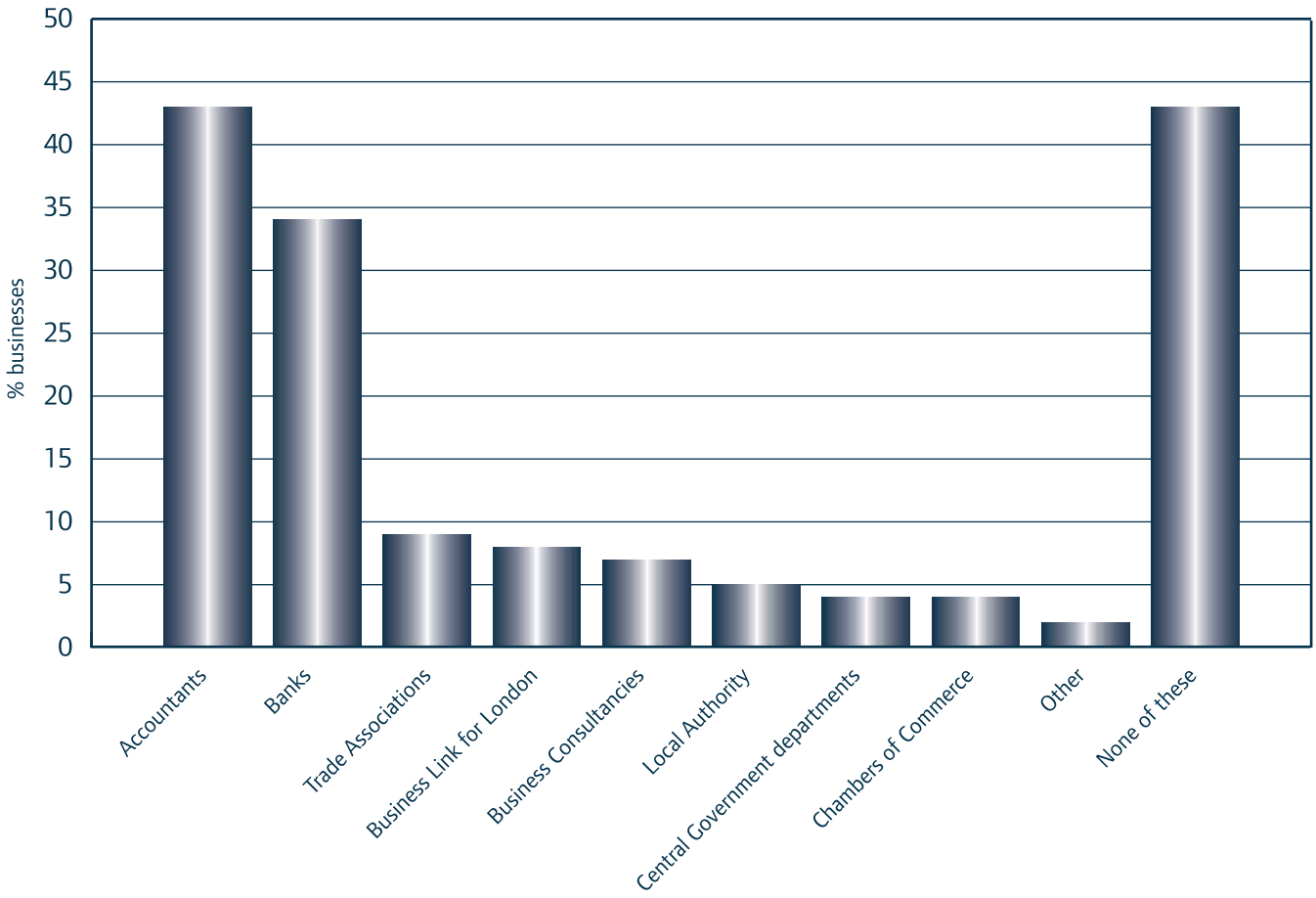


Table 12.1: Sources of business advice used in the last 3 years

	%
Accountants	43
Banks	34
Trade Associations	9
Business Link for London	8
Business Consultancies	7
Local Authority	5
Central Government departments	4
Chamber of Commerce	4
Other	2
None of these	43
Weighted base	**301,587**
Unweighted base	**4,073**

Source: London Annual Business Survey, 2003
Base: all businesses

There are two aspects to explore with regard to business advice: the variation in use of business advice services; and satisfaction with that advice. There are variations in the use of business advice by size and geographical location of the firm, and by sector. It can be seen that:

- there are considerable differences in patterns of usage between the different areas of London: businesses in the Central, West and North areas are more likely to have used these services than those in the East and (particularly) the South;
- the likelihood of using external business advice is greatest amongst small firms and tends to decrease with size, except for the largest businesses;
- firms in some sectors are more likely to have used business advice: Publishing and Real Estate and Renting and Business Activities (both 62%) and Financial Services (61%). The motivation for businesses in these sectors contacting support services will vary: as we have seen, businesses in Publishing are more likely to be facing difficult conditions, whilst those in the Real Estate and Financial Services sectors have been facing more favourable business conditions;
- UK-owned businesses are more likely to have used business advice services; and
- hi-tech establishments are more likely to have used business advice services than medium or lo-tech establishments.

Chart 12.2 Use of business advice by size of firm

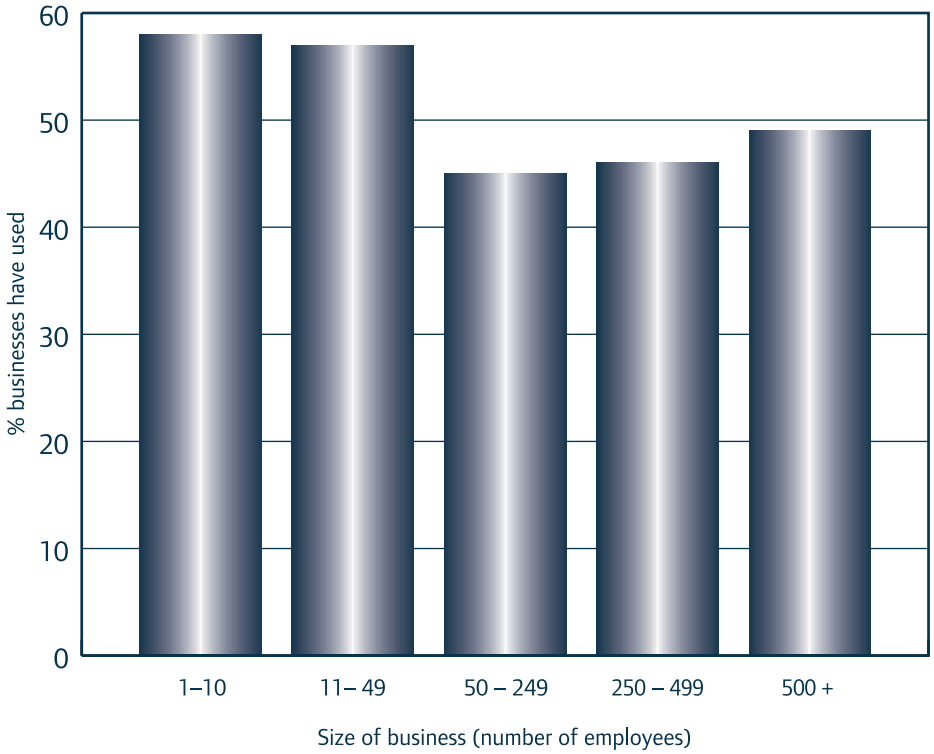


Chart 12.3 Use of business advice services by sector

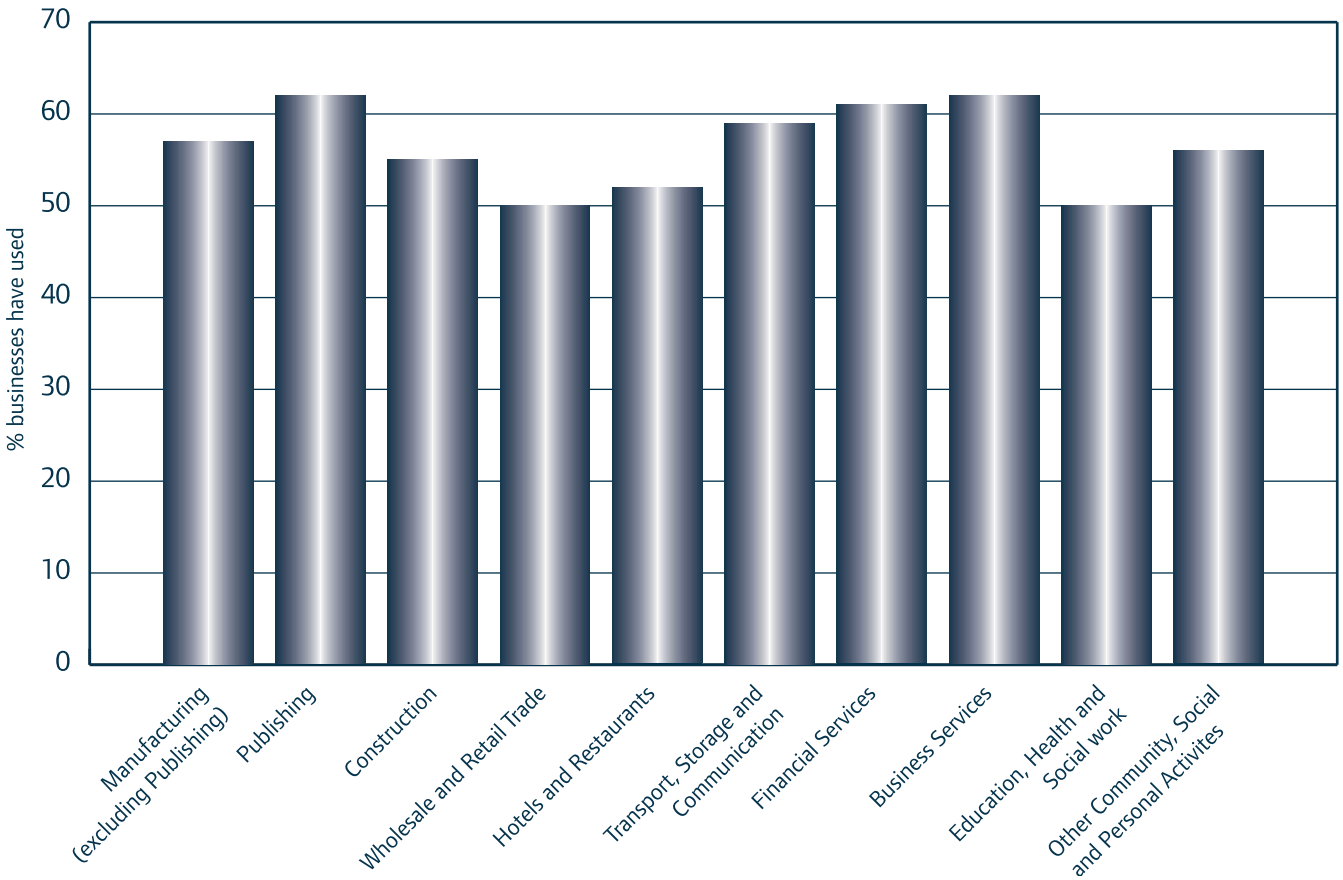


Table 12.2: Use of business advice services

	Have used business advice service	Have not used business advice service	Weighted base	Unwtd base
	%	%	n	n
All businesses	**57**	**43**	**301,587**	**4,073**
Area				
Central	62	38	108,301	864
East	53	47	62,883	801
North	60	40	32,951	801
South	41	59	44,977	803
West	60	40	52,475	804
Size				
1 – 10	57	43	266,266	1,842
11 – 49	53	47	27,404	1,379
50 – 249	45	55	6,711	664
250 – 499	46	54	905	126
500 +	49	51	301	62
Sector				
Primary and Utilities	94	6	986	13
Manufacturing (excluding Publishing)	57	43	13,207	314
Publishing	62	38	6,729	159
Construction	55	45	19,101	309
Wholesale and Retail Trade	50	50	62,480	987
Hotels and Restaurants	52	58	19,097	338
Transport, Storage and Communications	59	41	12,670	227
Financial Services	61	39	9,593	162
Business Services	62	38	121,826	1,059
Education, Health and Social Work	50	50	7,086	228
Other Community, Social and Personal Activities	55	45	28,789	274
Location of ownership				
UK-owned	58	42	280,908	3,631
Foreign-owned	44	56	19,455	411
Technology base				
Hi-tech	63	37	64,596	968
Medium-tech	57	43	131,579	1,922
Lo-tech	43	47	101,246	1,128

Source: London Annual Business Survey, 2003
Base: all businesses

12.3 Satisfaction with business advice services

Accountants receive the highest satisfaction ratings (mean score 4.13) followed by Business Consultancies (4.01), Chambers of Commerce (3.99) and Business Link for London (3.88).

Chart 12.4 Satisfaction with business advice sources used in the last 3 years

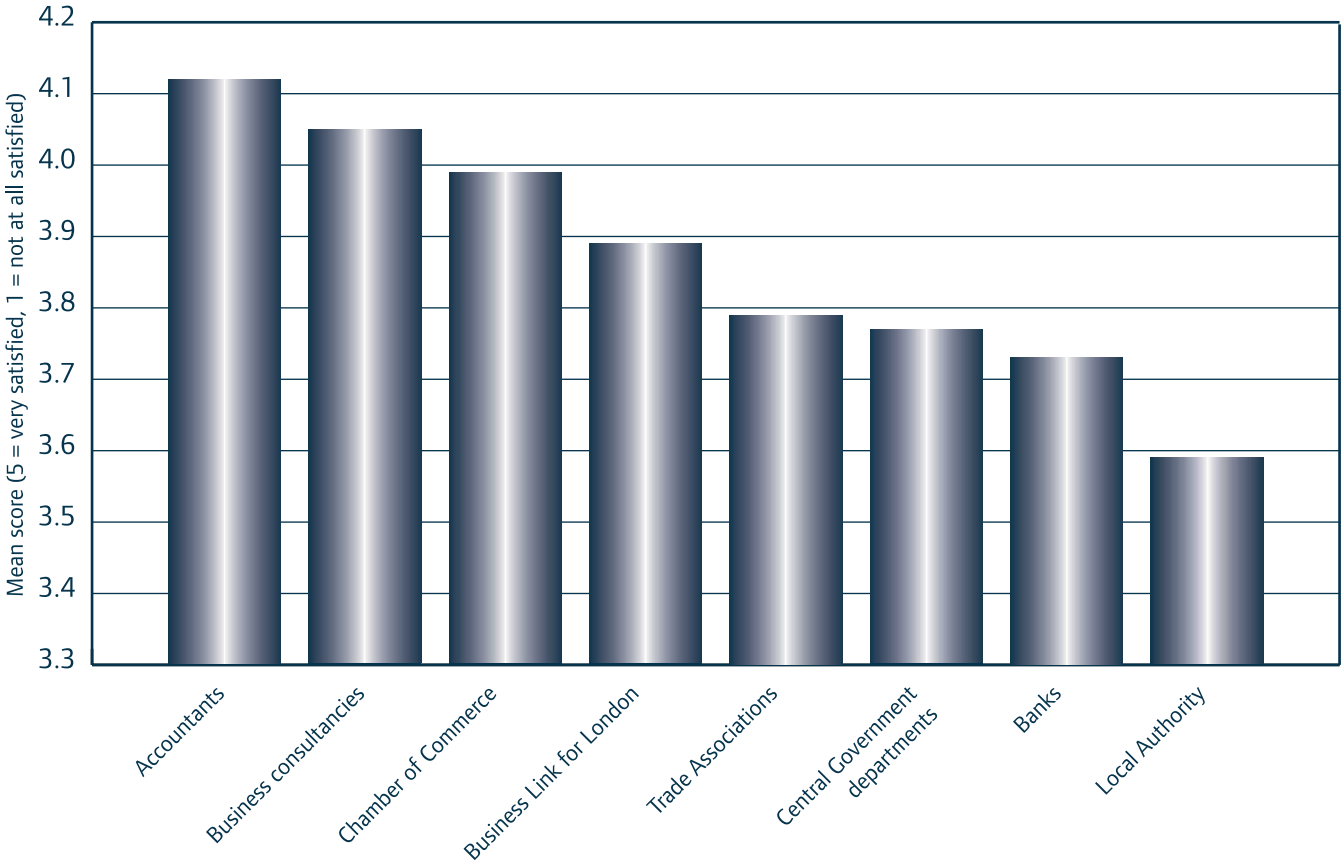


Table 12.3: Satisfaction with business advice sources used in the last 3 years

	Not at all satisfied	Fairly dissatisfied	Neither	Fairly satisfied	Very satisfied	DK	Mean scores	Wtd base	Unwtd base
	%	%	%	%	%	%	n	n	n
Accountants	2	5	11	41	37	5	4.13	130,835	1,580
Business Consultancies	*	3	17	49	24	8	4.01	22,324	363
Chamber of Commerce	1	4	19	35	29	12	3.99	13,394	179
Business Link for London	4	5	16	39	27	9	3.88	25,233	336
Trade Associations	3	5	22	41	21	8	3.79	26,239	337
Central Government departments	5	9	12	47	23	4	3.77	11,089	165
Banks	7	7	16	40	24	7	3.73	105,104	1,290
Local Authority	7	8	22	38	19	6	3.59	15,178	231

Source: London Annual Business Survey, 2003
Base: all businesses

12.4 Summary

Over half of London businesses have used external business advice services in the last 12 months. This is encouraging, especially given the range of issues and potential problems highlighted earlier in this report. Small firms are more likely to use external business advice services, as are UK-owned and hi-tech businesses and those in the Publishing, Financial Services and Professional Services sectors.

The main advice sources are accountants and banks, as would be expected, as the vast majority of businesses will have an on-going relationship with these two types of organisation. Satisfaction with advice sources used is generally high.

13. DISCUSSION AND CONCLUSIONS

13.1 Introduction

In this final section we discuss the implications of the findings of the data, both that produced by this survey and that from elsewhere, for the competitiveness of London's businesses.

13.2 Overall performance of London's economy

London's economy is predominantly a service-based economy. Nearly nine out of ten of London's businesses are based in the services sector, compared to three-quarters in the rest of the UK. The overall balance of the economy has been shifting to a more service based economy over the last 30 years, and is forecast to continue to do so over the next ten. By 2016 less than 10% of London's employment will be in Production-based activities.

This has a positive effect for London's economy in that a smaller proportion of its businesses are based in sectors that are suffering from long-term structural decline and more are in sectors that are forecast to grow. Whilst businesses can prosper in sectors that are in long-term decline it is easier to succeed in growth markets. Perhaps as a result, even against a background of difficult market conditions, 39% of London's businesses had seen turnover increase over the last 12 months compared to 22% who had seen a decrease. Looking forward, 53% expect their turnover to increase in the next 12 months compared to only 7% who expect a decrease.

This may have partly contributed to London's success as an economy. London has consistently been the best performing region in the UK, with the highest Gross Valued Added per head of population, leading to the highest levels of average personal and household income per head. In terms of its position in the UK economy, London is successful and is increasingly becoming more so. However, this should not disguise the fact that there are serious issues regarding income inequalities in London, with the highest regional level of unemployment and significant pockets of deprivation, particularly in Inner London.

London has undoubtedly benefited from the overall improvements in UK competitiveness enjoyed over the last two decades. However, in the view of Porter[32], this successful phase of UK economic policy may be coming to an end. In the past, the UK competed as a relatively more efficient and less costly location than elsewhere in Europe. Today, UK relative wages are rising, whilst other European countries are reducing their inefficiencies. Competing on low input costs and an efficient business environment is no longer sufficient to achieve the levels of prosperity the country is aiming for. To achieve higher prosperity, UK and London companies need to:

- upgrade their productivity;
- produce innovative products and services;
- introduce changes in management behaviour.

[32] Porter M and Ketels C, UK Competitiveness: moving to the next stage, Department of Trade and Industry Economic Paper No. 3, May 2003

Below we examine each of these three areas.

Productivity

The London Annual Business Survey did not attempt to measure productivity: these measurements are notoriously difficult to make and are subject to a number of vagaries and data fluctuations. In the survey, we asked businesses whether the level of staff productivity had changed over the last 12 months. In one sense, the results are positive, in that the balance of those saying that productivity had increased over those who stated that it had decreased is positive (29% compared to 7%). However, this should not disguise that nearly two-thirds of London's businesses stated that their staff productivity had not changed over the last 12 months. This will be a key statistic to measure in future years.

Of concern is that the main reason for changes in productivity (both increases and decreases) is the change in demand for products and services. This suggests that the change in productivity is driven by external market conditions, rather than internal improvement processes.

Innovation

In terms of national statistics, London fares relatively poorly on measures of innovation, having the lowest regional relative spend on research and development and the lowest proportion of jobs in high-and medium-technology sectors.

Innovation can take the form of external innovation, by introducing new products and services or internal innovation, by introducing new business practices or processes. In London, nearly two-thirds of companies have introduced no innovations in either of these areas. There is a positive relationship between the introduction of innovations and positive outcomes, so that 56% of those who have introduced both internal and external innovations have increased their turnover in the last 12 months compared to 31% of those who have not introduced any innovations.

The survey, as currently formulated, does not allow a detailed examination of different product and service types, although recent research[33] may provide a means by which this could be incorporated in the future. Organisations producing goods and services that are of greater value added are ones in which required skills are higher, in which skill needs are changing faster and in which higher levels of computerisation are used.

Management behaviour

There appear to be serious gaps in the management skills of London's businesses, with significant proportions lacking the rudimentary business planning processes. Half do not have a business plan, 58% do not have a sales and marketing plan and 79% do not have monthly management accounts. These are the basic building blocks of any managerial process and their absence across large proportions of the business community suggest, at best, that they are being run on an ad hoc basis.

The lack of such plans is particularly damaging when we further consider that the existence of a business plan is correlated with a business being more likely to:

- report increased levels of turnover in the last 12 months (47% compared to 31% of those without a business plan);
- report increases in productivity over the last 12 months (36% compared to 22% of those without business plans);
- report increases in the size of the workforce over the last 12 months;
- have increased spending on product and service development than those without a business plan (32% compared to 22% respectively);
- be innovators and changers. Three quarters of establishments which do not have a business plan have not introduced any new products or services or made any changes to business process and practices over the last year, compared to half (51%) of those with a business plan.

[33] F Green, K Mayhew and E Molloy, Employer Perspectives Survey, DfES Publications, 2003

There is a close relationship between the existence of such planning tools and size of the establishment: larger companies are more likely to have these than small businesses.

This highlights the fact that a major difficulty faced in encouraging a change in management behaviour is the structure of London's businesses. First of all, London's economy is huge, with over 300,000 private sector businesses. Secondly, the majority of establishments are small, with 88% having 10 or fewer employees and 47% having less than five. These businesses are fragmented and heterogeneous and it is difficult to create a critical mass, which is often necessary to have any meaningful impact.

Small businesses have a number of advantages, in that they can be more dynamic, entrepreneurial and able to react quickly to the changing external factors that we have seen are a key influence. However, they also have a number of disadvantages. They often lack professional human resources staff and knowledge; they also lack time, funds and staff cover to allow for development. Because of this, the large number of SMEs in London require relatively higher levels of support than larger companies.

The advantage London has in affecting a change in management behaviour is that the majority (83%) of London's business have their main decision-making base within the city: absentee managements are relatively rare. If seeking to change management behaviour, then at least the management we are seeking to change are in London, not based elsewhere.

13.3 Business advice

In the light of the findings regarding the existence of management procedures, it seems self-evident that there is an important role for business advice to be provided to employers in London. However, 43% of businesses have sought no business advice in the last three years from any source. When this is considered in the light of the fact that the majority (67%) of managers in London businesses have learnt their skills on the job within their current company and 24% lack formal management qualifications, there is evident ground for concerns that London businesses are not benefiting from sufficient external knowledge.

The majority of businesses in London are small, and often lack sufficient resources in terms of time and networks as well as money, to invest in external assistance. When, as shown in this report, they also often demonstrate weaker performance levels, it is sensible to conclude that much benefit could be extracted by this group from business support. This is not to forget, however, the importance of larger firms to London's economy, and the provision of business information and support also has a key role in assisting this group to maximise their competitive advantage.

In this light, the role of Business Link for London is evidently key. This survey lays down benchmark data on the proportion of businesses who have received information and advice, and the level of satisfaction with that assistance.

ANNEX 1: METHODOLOGY

A1: Overview

The main body of this report is based on data produced by a telephone survey of a sample of 4,000 private sector employers across London.

A2: Questionnaire development

The questionnaire was developed by the LDA and Business Link for London. The questionnaire was delivered by Computer Aided Telephone Interviewing (CATI) and was intensively piloted before use in the research.

In the event the questionnaire took an average of 28 minutes to deliver.

A3: Sampling and weighting

The design of the survey included all private sector businesses, excluding the self-employed who are not registered companies. In reality, some self-employed people who are not registered companies may have been included.

The sample was selected so that it was spread equally across each of the London sub-regions. Larger firms were over-sampled representative to their actual existence in the population to ensure that a robust sample of these was achieved.

Table A.1: Distribution of unweighted sample

	%
Area	
Central	864
East	801
North	801
South	803
West	804
Size (no. of employees)	
1 – 10	1,842
11– 49	1,379
50 – 249	664
250 – 499	126
500 +	62
Sector	
Primary & Utilities	13
Manufacturing (excluding Publishing)	314
Publishing	159
Construction	309
Wholesale and Retail Trade	987
Hotels and Restaurants	338
Transport, Storage and Communication	227
Financial Services	162
Business Services	1,059
Education, Health and Social Work	228
Other Community, Social and Personal Activities	274
Total	**4,073**

Source: London Annual Business Survey, 2003
Base: all businesses

The data from the survey has been weighted so that the employers surveyed (i) form their appropriate proportions with regard to size and sector and (ii) the total number of employers reflect the overall population numbers. This process is normally straightforward, in that data is taken from a suitable national data sources – usually the Annual Business Inquiry (ABI) for employer-based research and a weighting matrix is developed, based on size bands and sectors. In the case of this research, there was an additional complication in that the base of the survey is private sector establishments only. The ABI does not have a variable which allows identification of private companies vis-à-vis public sector or voluntary sector and so the data cannot be taken from there without some adjustment. Those sectors that are predominantly public sector (Public Administration and Defence, Education, and Health and Social Work) cannot be ignored because the privatisation of many previously publicly-delivered services has led to a growth of private sector establishments in these sectors.

[34] The London Employer Survey has been conducted annually by the London Skills Forecasting Unit since 1995 (although the 2002 survey is the last in the series). The research consisted of 9,707 telephone interviews across London, conducted between December 2002 and early January 2003 and covers a range of HR and competitiveness and business issues

To overcome this problem and in order to derive a weighting matrix we used the *London Employer Survey*. This has the advantages in that it is (i) large, (ii) recent and (iii) identifies whether the company is a private sector business, or a public or voluntary organisation. As it is weighted already to the 2001 ABI data, in essence we are simply adjusting the ABI matrix.

The disadvantage of using the LES is that it seems likely that this survey will not run in the future, so we will not have an updated source from this with which to weight future London Annual Business Surveys. However, the new *National Employer Skills* survey contains a similar question and there seems no reason why data from this survey could not be used in future years.

The data was weighted at a sub-regional level and then added together to form a regional weighting matrix. This is because the sample is split equally across the five areas and without weighting we would get an imbalance across the sub-regions. The weighting matrix for each of the areas is shown in Table A2.

Table A.2: Size, sector and local area weighting matrix of private sector establishments

Sector	Size of employer (number of employees)					
	1 – 10	11 – 49	50 – 199	200 – 499	500 +	Total
CENTRAL LONDON						
Production	392	0	0	0	2	394
Manufacturing	5,530	698	141	30	8	6,407
Construction	2,495	235	54	11	7	2,802
Wholesale & retail trade	16,892	1,726	347	70	17	19,052
Hotels & restaurants	5,896	1,754	374	42	6	8,072
Transport & comms.	2,531	621	150	67	31	3,400
Financial Services	2,485	658	138	48	20	3,349
Real estate	45,403	3,586	860	183	57	50,089
Public admin.	0	59	0	0	0	59
Education	421	341	81	11	2	856
Health & social work	841	257	21	5	3	1,127
Other community	11,759	751	184	40	9	12,743
Total	94,645	10,686	2,350	507	162	108,350
EAST LONDON						
Production	180	26	0	0	1	207
Manufacturing	3,836	640	130	26	12	4,644
Construction	4,892	323	65	12	0	5,292
Wholesale & retail trade	12,305	1,224	232	44	4	13,809
Hotels & restaurants	3,112	626	86	10	0	3,834
Transport & comms.	2,714	366	155	11	13	3,259
Financial Services	2,440	884	278	102	72	3,776
Real estate	20,544	1,495	403	107	34	22,583
Public admin.	42	12	0	0	0	54
Education	248	100	25	0	0	373
Health & social work	597	183	44	3	0	827
Other community	3,897	265	65	12	0	4,221
Total	54,789	6,144	1,483	327	136	62,879
WEST LONDON						
Production	0	51	5	0	0	56
Manufacturing	2,656	466	132	27	15	3,296
Construction	3,560	203	50	6	7	3,826
Wholesale & retail trade	10,268	1,142	246	51	6	11,713
Hotels & restaurants	2,339	530	87	10	5	2,971
Transport & comms.	2,609	405	140	72	0	3,226
Financial Services	728	149	34	10	1	922
Real estate	18,688	893	290	53	18	19,942
Public admin.	67	0	0	0	2	69
Education	256	116	39	0	0	411
Health & social work	633	249	58	10	2	952
Other community	4,817	231	55	0	3	5,106
Total	46,621	4,435	1,136	239	59	52,490
NORTH LONDON						
Production	310	19	0	0	0	329
Manufacturing	2,132	283	57	13	0	2,485
Construction	2,626	158	30	4	0	2,818
Wholesale & retail trade	7,625	699	99	30	0	8,453
Hotels & restaurants	1,388	237	30	0	0	1,655
Transport & comms.	1,070	111	57	20	0	1,258
Financial Services	489	110	0	0	2	601
Real estate	11,510	350	83	19	0	11,962
Public admin.	0	0	0	0	0	0
Education	169	39	19	3	0	230
Health & social work	455	201	52	3	0	711
Other community	2,328	102	22	0	0	2,452
Total	30,102	2,309	449	92	2	32,954
SOUTH LONDON						
Production	470	19	5	0	0	494
Manufacturing	2,678	338	90	18	3	3,127
Construction	4,056	275	41	9	3	4,384
Wholesale & retail trade	8,218	994	179	54	7	9,452
Hotels & restaurants	2,059	450	61	6	0	2,576
Transport & comms.	1,320	177	51	22	0	1,570
Financial Services	698	176	58	15	2	949
Real estate	16,158	799	235	46	12	17,250
Public admin.	36	0	0	0	0	36
Education	221	76	24	4	0	325
Health & social work	699	298	72	4	0	1,073
Other community	3,478	228	43	5	2	3,756
Total	40,091	3,830	859	183	29	44,992
ALL LONDON						
Production	1,353	114	11	0	3	1,481
Manufacturing	16,831	2,424	551	113	38	19,957
Construction	17,628	1,194	240	42	17	19,121
Wholesale & retail trade	55,307	5,786	1,103	249	35	62,480
Hotels & restaurants	14,795	3,597	638	68	11	19,109
Transport & comms.	10,244	1,681	553	192	44	12,714
Financial Services	6,840	1,977	508	175	97	9,597
Real estate	112,303	7,123	1,871	407	121	121,825
Public admin.	145	71	0	0	2	218
Education	1,316	672	188	18	2	2,196
Health & social work	3,225	1,187	247	25	6	4,690
Other community	26,261	1,577	369	57	14	28,278
Total	266,248	27,403	6,279	1,346	390	301,666

Source: London Employer Survey, 2002

The impact of selecting only private sector establishments:

- reduces the overall population size from 365,073 to 301,666 establishments, some 83% of the total;
- impacts, as would be expected, disproportionately on a limited number of sectors: the number of establishments in Public Administration falls from 2,745 to 218 (8% of the total), Education falls from 6,174 to 2,197 (36% of the total), Health and Social Work falls from 14,126 to 4,690 (33% of the total) and Other Community which falls from 42,421 to 28,277. Private sector establishments in all other sectors are between 84 and 95% of the total number of establishments; and
- impacts disproportionately more on larger establishments. Private sector establishments are 85% of all establishments for companies with 2 – 10 employees, 72% of those with 11 – 49 employees, 64% of those with 50 – 199 employees, 68% of those with 200 – 499 employees and 57% of those with 500 + employees. The overall population of the largest companies in the private sector, therefore, falls from 684 to the 390 shown in the table above.

There is no disproportionate effect for sub-regions, with private sector businesses being between 81% and 83% of all establishments in all five areas.

A4: Statistical reliability

The accuracy of all survey results depends on the size of the sample (not, except in extreme cases, the size of the population), the variation in the underlying data and the degree of confidence we wish to have that the results will lie within stated ranges of accuracy: the more confidence we wish to have then the wider the stated range of accuracy must be. The table following shows the accuracy of survey results for different degrees of confidence and for different levels of variation in the underlying data.

Table A.3: Guide to accuracy of survey results

	Variation in distribution of data		
Achieved sample size	**5**	**10**	**15**
99% degree of confidence			
50	+/- 1.8%	+/- 3.6%	+/- 5.5%
100	+/- 1.3%	+/- 2.6%	+/3.9%
500	+/- 0.6%	+/- 1.2%	+/- 1.7%
2,000	+/- 0.3%	+/- 0.6%	+/- 0.9%
4,000	+/- 0.2%	+/- 0.4%	+/- 0.6%
95% degree of confidence			
50	+/- 1.4%	+/- 2.8%	+/- 4.2%
100	+/- 1.0%	+/- 2.0%	+/- 2.9%
500	+/- 0.4%	+/- 0.9%	+/- 1.3%
2,000	+/- 0.2%	+/- 0.4%	+/- 0.7%
4,000	+/- 0.2%	+/- 0.3%	+/- 0.5%

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