

Small Business advice seeking behaviour – technical report

An analysis of the 2018 small business legal need survey

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Which characteristics of small businesses and the legal issues they face have the biggest influence on whether and how they seek advice on those issues?

Giorgio Castellano, Research Analyst, Legal Services Board

Introduction:

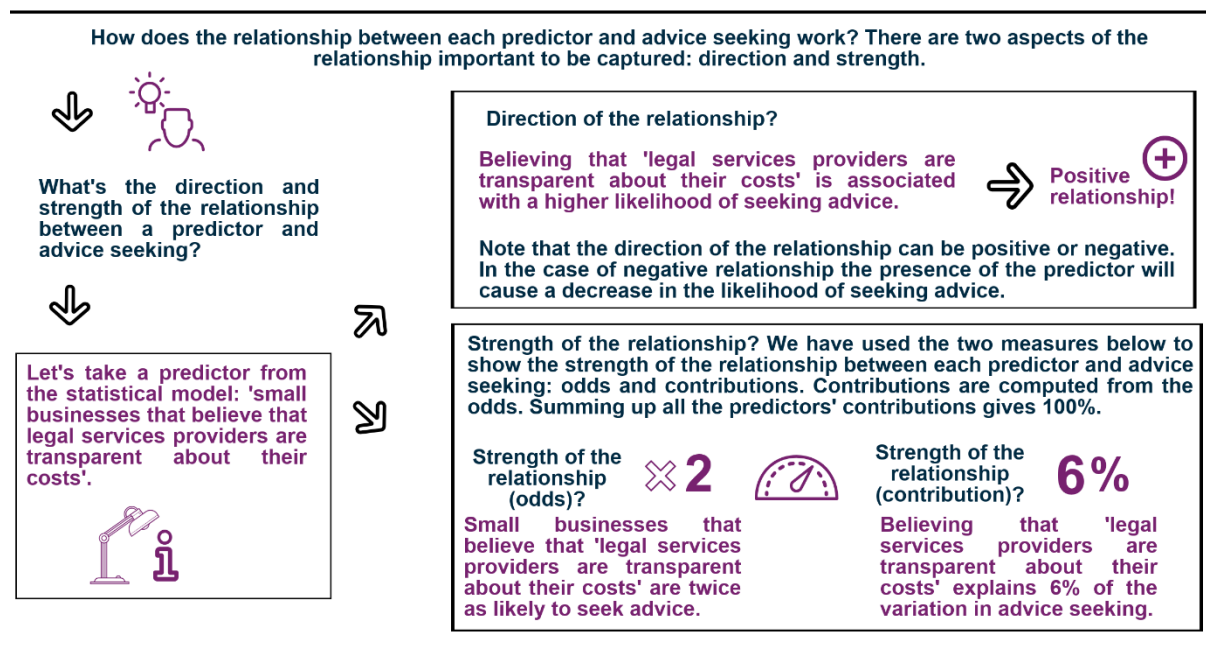
Around a third of small businesses had a legal problem in 2017 and around half who reported a legal issue said it had a negative impact. Total annual losses to small businesses due to legal problems was estimated to be £40bn, and over one million individuals in small businesses suffered ill health. Further, consistent with previous waves of our small businesses research, engagement with legal service providers remained limited – half of small businesses handled their legal issue alone and only a quarter sought professional advice. Therefore we decided to explore in more depth which characteristics of small businesses in England and Wales, and the legal issues they face, have the biggest influence on whether and how they seek advice on those issues.

Objective:

The objective of this analysis was to quantify the effects and relationships of the main characteristics of the business that impact on advice seeking (our outcome). This was done through a multivariate logistic regression model. We looked at 'predictors', in other words the variables that were studied and modelled against the outcome. We have taken into account the features of the firms (e.g. size, type of clients, whether they have on-going contracts with any legal services providers), the nature of the problem and the stage the business is at in dealing with the problem. This covers the early stages of the problem to its conclusion passing through different aspects such as the type of problem, the character of the problem (e.g. legal, social, bureaucratic) and the problem's consequences, just to give few examples.

The primary purpose was to build an optimum model able to detect the direction of the relationship between each predictor and the outcome. This will allow us to state whether there is a positive or negative relationship between advice seeking and the predictors¹.

Figure 1. The strength and direction of relationships



¹ In other words, whether there is a direct or inverse correlation between each predictor and advice seeking

Model and results:

The results of our statistical modelling ⁱ.

Our model is able to explain 50% of the variation in advice seeking behaviour. The impact of each predictor on the outcome is estimated keeping all the other predictors constant. The main drivers of advice seeking are summarised below, ranked in order of importance:

1. Small businesses that ask for help from outside business friends and colleagues are 6.5 times as likely to seek advice. This driver explains 19% of the variation in advice seeking.
2. When small businesses face a tax problem they are 5 times as likely to seek advice. This driver explains 14% of the variation in advice seeking.
3. Small businesses that face a structural problem – e.g. problems such as break-up of partnership, take-over of another business, sale of the business – are 4 times as likely to seek advice. This driver explains 13% of the variation in advice seeking.
4. Small businesses that characterise the problem as legal are 4 times as likely to seek advice. This driver explains 11% of the variation in advice seeking.
5. Small businesses that have an on-going contract with any organisation to provide them legal services are 4 times as likely to seek advice when facing a legal issue. This driver explains 11% of the variation in advice seeking.

The above variables are the top 5 drivers observed in all the models run (both with and without outliers and before and after model optimisation) , not only in the final optimum models including and excluding the outliers, but also in the rest of the models run before designing the final optimum model.

6. When small businesses face 'inability to complete scheduled work' they are twice as likely to seek advice. This driver explains 7% of the variation in advice seeking.
7. Small businesses that believe that 'legal services providers are transparent about their costs' are twice as likely to seek advice when facing legal issues. This driver explains 6% of the variation in advice seeking.
8. Small businesses that have other businesses as their clients are twice as likely to seek advice when experiencing legal issues. This driver explains 5% of the variation in advice seeking.
9. Small businesses with 10 to 50 employees are 1.7 times as likely to seek advice when facing legal issues. This driver explains 5% of the variation in advice seeking. Although not statistically significant the variable was included in the model since it was significant or close to being significant in many models run before obtaining the final optimum.
10. When the monetary value of any negative consequence increases by 10% the probability of seeking advice increases by 2%. This driver explains 4% of the variation in advice seeking.
11. Small businesses with sole proprietors are 1.5 times less likely to seek advice when facing legal issues. This driver explains 2% of the variation in advice seeking. Although not statistically significant the variable was included in the model since it was significant or close to being significant in many models run before obtaining the final optimum model.

ⁱ See annexes for reference

12. When there is the perception that 'the other side had done something wrong, or were at fault', small businesses are 50% less likely to seek advice. This driver explains 1% of the variation in advice seeking ².
13. Small businesses that agree that 'when doing business, I generally trust the people that I come into contact with (e.g. suppliers, customers, employees etc.)' are 20% less likely to seek advice. This driver explains 1% of the variation in advice seeking.
14. Small businesses that owe money to any creditors that they have been unable to pay are 18% less likely to seek advice. This driver explains 1% of the variation in advice seeking.

A wide range of other variables were tested but did not significantly contribute to the model and were therefore excluded from the optimum model. Figure 2 shows the contribution of each of the drivers to advice seeking.

Policy Implications

This model uses the latest available and most comprehensive data on how small businesses respond to legal issues. It allows us to isolate the impact of key variables, while holding everything else constant. This analysis provides those wishing to increase advice seeking among small businesses with a set of key areas on which to focus.

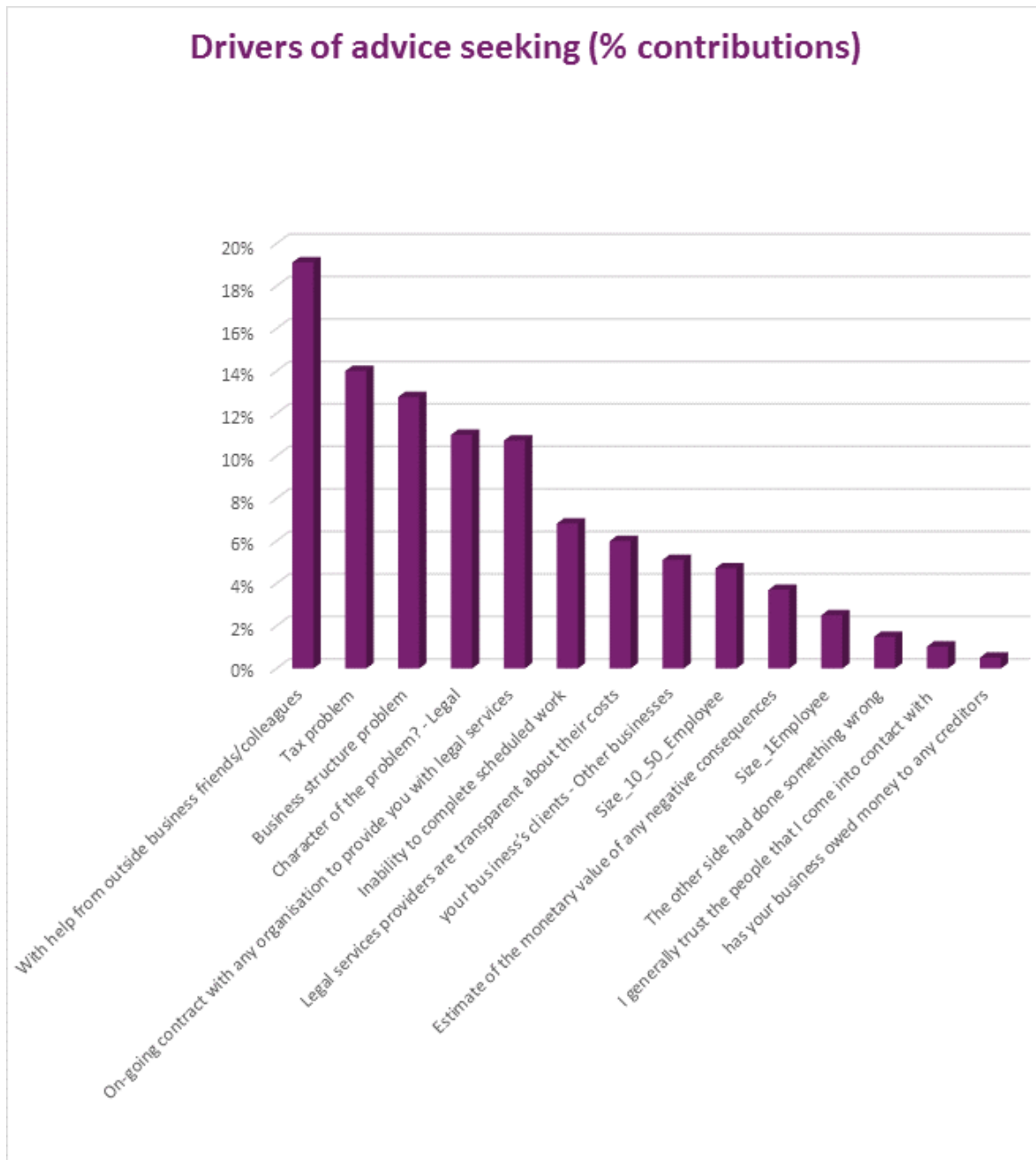
The model highlights the importance of business friends and colleagues in helping small businesses resolve their legal issues, but in a role that appears to act as a gateway to seeking more formal advice.

The relationship between perceptions of price transparency and advice seeking is important in the context of the Competition and Markets Authority recommendations on transparency. Our analysis suggests that greater price transparency should lead to an increase in advice seeking. However, while the monetary cost of the problem to the business is a key factor, there is no evidence of a simple relationship between this and advice seeking behaviour.

The influence of problem characterisation on advice seeking behaviour points to the market growth potential if better information on small business rights and the range of services on offer was available. This underlines the value of current work by the frontline regulators to enhance the Legal Choices website.

² Additionally we ran a crosstab to understand if the perception that the counterpart is at fault is associated with a favourable outcome, and in a good proportion of cases this perception was associated with a conclusion of the problem in favour or mostly in favour of the counterpart. Therefore the perception that the counterpart is at fault is not always associated with "ending the problem in my favour", suggesting no bias in responses to this question.

Figure 2. The contribution of each driver to advice seeking behaviour



Annexes

Annex 1

Statistical Model:

We use multivariate logistic regression. The dependent variable (which is the variable we want to explain with the model) is advice seeking.

In this model we measure advice seeking behaviour as whether the small business experienced a legal problem in the previous 12 months and then sought advice from one of the following: Accountant, Tax adviser, Financial adviser, Solicitors' firm, Barrister, Licensed conveyancer, Patent/trademark attorney, Patent/trademark filing agent, Invention promotion company, Costs Lawyer, Notary, Legal Executive, Membership or trade body service (e.g. FSB), A legal helpline (e.g. Business Support Helpline), Online document provider, Citizens Advice Bureau or similar independent advice charity, Debt collection/recovery service, HR/Employment service (includes outsourcing), ACAS (Advisory, Conciliation and Arbitration Service), An insurance service, Another legal service, Other business support service.

The **rest of the variables included in the model** are those named **independent variables** or **predictors**, therefore the variables that are used to explain the dependent variable, in our case advice seeking. See below the list of **14 predictors** included in the model.

- 1) Which of these descriptions best indicate how your business went about sorting out the problem? - **With help from outside business friends/colleagues**. Possible answers: 0=No ; 1=Yes
- 2) Has your business experienced one of the following **tax problems** – e.g Liability for tax / amount of tax owed, Errors in your business tax return...- .? Possible answers: 0=No ; 1=Yes
- 3) Which, if any, of these descriptions best indicates the **character of the problem?** - **Legal**. Possible answers: 0=No ; 1=Yes
- 4) Do you have an **on-going contract with any organisation to provide you with legal services** – in general, or of a particular type - as your business requires? Possible answers: 0=No ; 1=Yes
- 5) Has your business experienced one of the following **structural problems** - E.G Break-up of partnership, Merger, Take-over of another business, Joint venture - ? Possible answers: 0=No ; 1=Yes
- 6) Did your business experience any of the following as a result of this problem? - **Inability to complete scheduled work**. Possible answers: 0=No ; 1=Yes
- 7) Could you indicate the extent to which you agree or disagree with the following statements? **Legal services providers are transparent about their costs**. Possible answers: 0=No ; 1=Yes
- 8) Thinking about **your business's clients**, how would you describe them? - **Other businesses**, Possible answers: 0=No ; 1=Yes
- 9) **Size of the firm – Sole proprietor**
- 10) **Size of the firm – 10 to 50 employees**
- 11) What would you **estimate the monetary value of any negative consequences** of the problem to be? Possible answers: Respondents had to insert a monetary estimate
- 12) Could you indicate the extent to which you agree or disagree with the following statements? - **When doing business, I generally trust the people that I come**

into contact with (eg. suppliers, customers, employees etc). Possible answers:
0=No ; 1=Yes

13) Thinking about the time **when this particular problem first started**, would you say -
The other side had done something wrong, or were at fault. Possible answers:
0=No ; 1=Yes

14) **In the last 12 months** has your business **owed money to any creditors** that it has
been unable to pay? Possible answers: 0=No ; 1=Yes

Annex 2

Methodology:

Data for the surveys were collected by YouGov, using their online panel. In total, 10,579 responses were received from owners and managers of small businesses. The definition of small business used in this analysis is small firms based in England and Wales with fewer than 50 employees. Data have been weighted to ensure that they reflect the composition of the small business population in England and Wales in terms of size and sector. Although the initial base size was 10,579 small businesses, when filtering for those that faced problems and answered all the relevant questions included in the regression model, and after removing outliers we ended up with 750 respondents in the final model.

The decision to run the analysis using a multivariate logistic regression model is due to the fact that it is a robust technique to study the relationship between two or more independent variables and an outcome that is dichotomous in nature (such as the presence or absence of an event), which has the characteristic that it is expressed as a probability. Comparing logistic regression with the more commonly used linear regression, an advantage of using the former is that the logistic model does not assume linearity in the relationship between the independent and the dependent variables. Further, it does not even require normally distributed variables. It also does not assume homoscedasticity (homoscedasticity describes a situation in which the error term is the same across all values of the independent variables), and in general has less strict requirements than linear regression models. In practice logistic regression is used in a wide range of applications leading to binary dependent data analysis. Considering that the dependent variable used in this analysis was binary where 0 represents the absence of advice seeking and 1 the presence of advice seeking from the small business, logistic regression provided the best approach.

The first step included an exploratory analysis of the data from the 2017 small business analysis, in terms of variables types and base sizes, along with correlations among predictors and between predictors and the outcome. Once the potential relevant predictors were selected, we undertook data transformation as necessary. For example a categorical variable with five answer options was transformed into four binary variables which were included in the model to detect relationships with the outcome and statistical significance. Multiple logistic regression models were then run. Coefficients, odds ratios along with p-values were used to evaluate the statistical significance of individual variables defined as $P \leq 0.05$ (95% confidence interval). In order to test the goodness and fit of the model different statistical indicators and tests were used such as “omnibus tests of model coefficients”, Nagelkerke R Square, Cox & Snell R Square, classification tables and Tolerance-VIF. Outliers were detected using Cook’s distance along with DFBETAS. The outputs of all the tests and indicators are reported in the results section. All statistical analyses were performed with SPSS software (version 25).

It was decided to add the contributions for measuring the strength of the relationship between the predictors and advice seeking. This was due to the fact that in all the models

Please direct any comments or queries about this analysis to Giorgio.castellano@legalservicesboard.org.uk

run before finding the optimum model, we observed very similar drivers' ranks and contributions. The same top five drivers accounted for between 62-69% of the overall contributions on advice seeking, while the odds varied more. There are two drivers in particular that performed a relevant increase in the odds comparing the model with and without outliers, namely tax and structure problems (for which the odds almost doubled after removing outliers). Further, both drivers belonged to the top five drivers and contributions

were similar in the two models mentioned above. The overall conclusions drawn from the results obtained in all the models run were the same in terms of each driver's rank and contributions.

Annex 3

Results:

The section below includes all the results from the logistic regression model.

Variable	B	Wald	Sig.	Odds	Contribution
With help from outside business friends/colleagues	1.89	33.44	0.000	6.6	19%
Tax problem	1.61	28.51	0.000	5.0	14%
Business structure problem	1.48	14.55	0.000	4.4	13%
Character of the problem? - Legal	1.39	25.55	0.000	4.0	11%
On-going contract with any organisation to provide you with legal services	1.31	12.61	0.000	3.7	11%
Inability to complete scheduled work	0.85	6.13	0.013	2.4	7%
Legal services providers are transparent about their costs	0.63	4.45	0.035	1.9	6%
your business's clients - Other businesses	0.57	5.78	0.016	1.8	5%
Size_10_50_Employee	0.49	1.33	0.249	1.6	5%
Estimate of the monetary value of any negative consequences	0.24	17.03	0.000	1.3	4%
Size_1Employee	-0.15	0.35	0.552	0.9	2%
The other side had done something wrong	-0.67	8.72	0.003	0.5	1%
I generally trust the people that I come into contact with	-1.04	18.01	0.000	0.4	1%
has your business owed money to any creditors	-1.74	9.52	0.002	0.2	1%

Case Processing Summary

Unweighted Cases		N	Percent
Selected Cases	Included in Analysis	748	100.0
	Missing Cases	0	.0
	Total	748	100.0
Unselected Cases		0	.0
Total		748	100.0

Dependent Variable Encoding

Original Value	Internal Value
No Advice	0
Got Advice	1

Variables in the Equation

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 0	Constant	-.626	.084	54.923	1	.000	.535

Omnibus Tests of Model Coefficients

		Chi-square	df	Sig.
Step 1	Step	278.266	14	.000
	Block	278.266	14	.000
	Model	278.266	14	.000

Model Summary

Step	-2 Log likelihood	Cox & Snell R	Nagelkerke R
		Square	Square
1	520.981 ^a	.362	.500

a. Estimation terminated at iteration number 5 because parameter estimates changed by less than .001.

Classification Table^a

	Observed	Predicted		Percentage Correct
		C3650_Advice No Advice	C3650_Advice Got Advice	
Step 1	C3650_Advice No Advice	357	46	88.7
	Got Advice	83	132	61.4
	Overall Percentage			79.2

a. The cut value is .500

Variable	Collinearity Statistics	
	Tolerance	VIF
Which of these descriptions best indicate how your business went about sorting out the problem? - With help from outside business friends/colleagues	0.91	1.10
Tax problem	0.77	1.30
Which, if any, of these descriptions best indicates the character of the problem? – Legal	0.95	1.05
Have an on-going contract with any organisation to provide you with legal services	0.72	1.40
Structure problem	0.69	1.44
Did your business experience any of the following as a result of this problem? - Inability to complete scheduled work	0.95	1.05
Legal services providers are transparent about their costs	0.90	1.12
Thinking about your business's clients, how would you describe them? - Other businesses	0.93	1.08
Size: sole proprietor	0.77	1.30
Size 10 to 50 employees	0.81	1.24
Estimate of the monetary value of any negative consequences	0.88	1.13
Thinking about the time when this particular problem first started, would you say - The other side had done something wrong, or were at fault	0.96	1.05
I generally trust the people that I come into contact with	0.95	1.05
Has your business owed money to any creditors	0.71	1.41