

United Kingdom

International Business Report 2008 – Country focus

The Grant Thornton IBR 2008 reveals that privately held businesses (PHBs) in most economies remain optimistic about economic prospects for the year ahead. For the fifth consecutive year, India tops the league table as the most optimistic economy with an optimism/pessimism balance¹ of +95 per cent with the Philippines joining India at the top for the first time (also +95 per cent). Japan is still at the bottom this year with a balance of -49 per cent. Meanwhile, PHBs in the UK are far less optimistic about 2008 (+10 per cent) than they were about 2007 (+43 per cent).

Levels of optimism have fallen amongst European Union (EU)² businesses. This year a balance of +34 per cent of EU businesses are positive about their economy compared to a balance of +46 per cent in 2007. However, levels of optimism vary extensively throughout the EU economies with Denmark recording the highest balance with +74 per cent optimistic, while Spanish PHBs are most pessimistic about their economy over the next year (-5 per cent).

The UK economy

Real GDP growth slipped below its long-term trend rate for the first time in over a year during the last quarter of 2007. Consumer spending grew by just 0.2 per cent, while investment fell by 0.5 per cent. Net trade provided the main support to growth, though this was only due to imports falling to a greater extent than exports.

Output from manufacturing was flat over 2007 and all measures of house price inflation have continued to weaken. A pickup in consumer spending had underpinned the expansion in 2007, but monetary conditions remain relatively tight. This is compounded by the impact on confidence and lending from the credit crunch, a rapidly cooling housing market and sluggish growth in real wages. The credit crunch has also limited the availability of funds to the private sector for capital spending.



The Grant Thornton IBR contact for the United Kingdom is:

Grant Thornton UK LLP
Alysoun Stewart
T +44 (0) 20 7728 3060



¹ the balance is the proportion of businesses reporting they are optimistic less those reporting they are pessimistic.
² for the purposes of IBR, the term 'EU' refers to those EU economies covered by our survey – Belgium, Denmark, France, Germany, Greece, Ireland, Italy, the Netherlands, Poland, Spain, Sweden and the United Kingdom.

Business expectations/revenue

- UK businesses are slightly more optimistic about revenue prospects (+66 per cent) compared to 2007 (+64 per cent).
- Their levels of optimism regarding revenue performance remained marginally above the EU regional average (+65 per cent).
- UK businesses are much more optimistic about profitability (+54 per cent) than the EU as a whole (+36 per cent), although both figures have fallen from 2007.

Employment

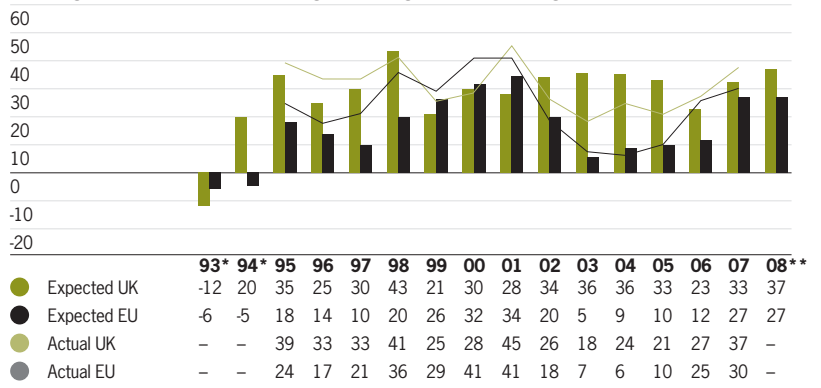
- UK businesses expect employment growth to be at a higher level than that expected in 2007.
- EU businesses as a whole expect employment to be at the same level as 2007.
- In 2007, actual UK employment growth was marginally higher than expected – a balance of +33 per cent expected employment to increase, whereas a balance of +37 per cent actually increased employment in this period.

Figure 1: Revenue expectations for the United Kingdom and the European Union average 1993-2008
Percentage balance of businesses indicating optimism against those indicating pessimism

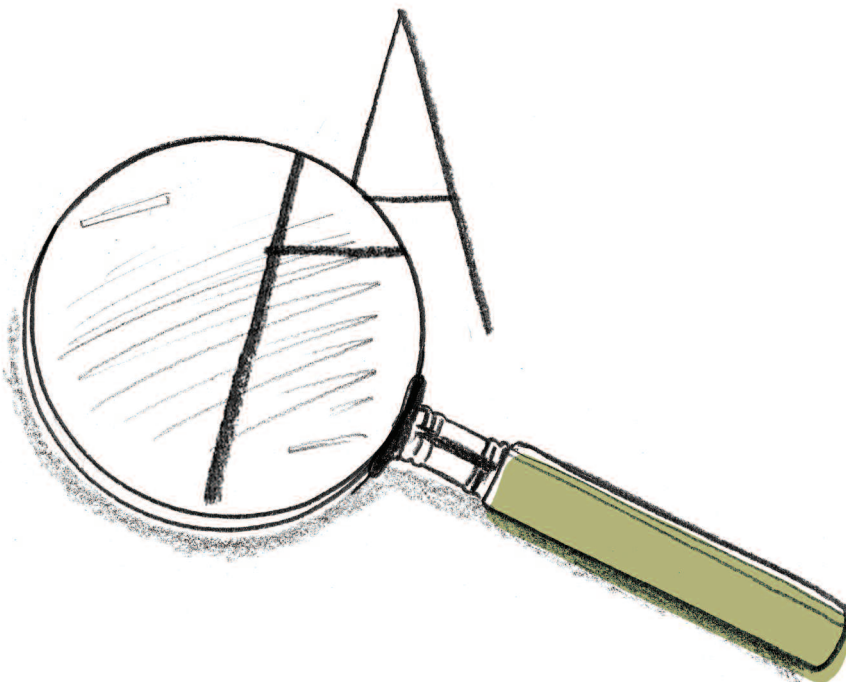


Source: Grant Thornton IBR 2008

Figure 2: Employment history of the United Kingdom and the European Union average 1993-2008
Percentage balance of businesses indicating optimism against those indicating pessimism



*no data available
**2008 data will be documented in IBR 2009
Source: Grant Thornton IBR 2008



Constraints

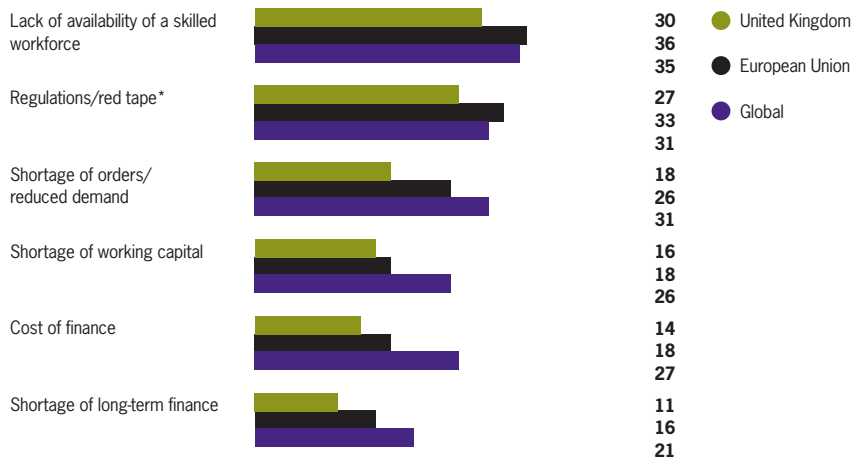
- Regulations/red tape (27 per cent) and a lack of availability of skilled workforce (30 per cent) are major constraints on expansion for UK businesses, although both figures have fallen since last year.
- Cost of finance is far more of an issue for global businesses (27 per cent) than for UK businesses (14 per cent).
- Shortage of orders/reduced demand is more of an issue with EU businesses as a whole (26 per cent) than with UK businesses (18 per cent).

Emerging markets

- The most important factor to UK (as well as to EU and all) businesses when determining whether to invest internationally is market size and growth potential, cited by 45 per cent of UK businesses.
- The number of UK businesses which export (36 per cent) is lower than both the EU (53 per cent) and global (39 per cent) averages.
- 42 per cent of UK businesses import, higher than the global average (39 per cent) but lower than the EU average (57 per cent).
- PHBs in the UK see their primary competition coming from similar sources to businesses globally.

Figure 3: Largest constraints on growth for businesses in the United Kingdom compared to the European Union and the global average

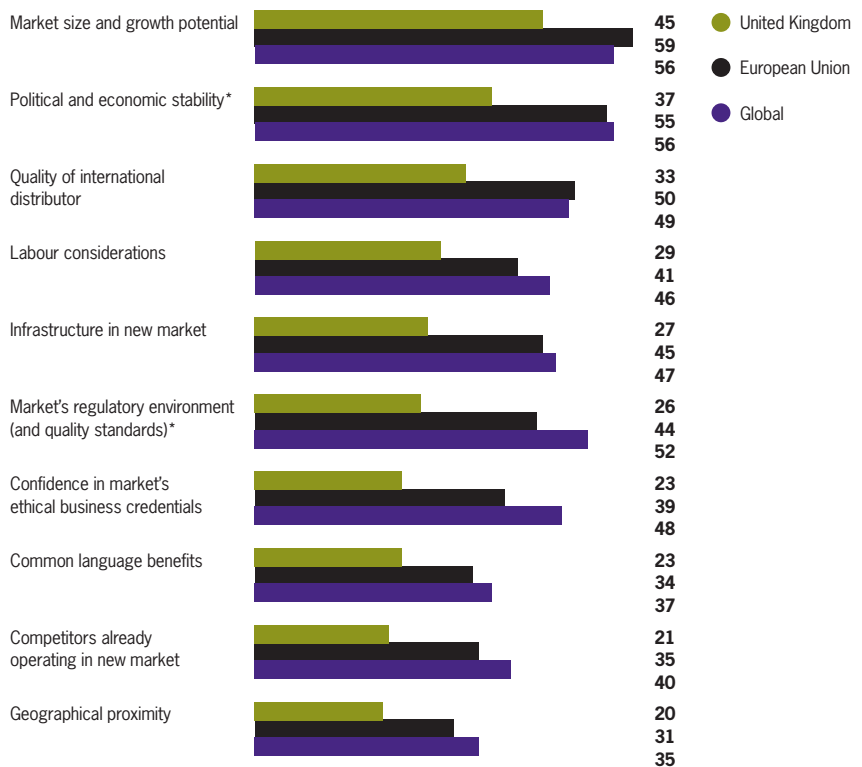
Percentage of businesses rating constraint 4 or 5 on a scale of 1 to 5 where 1 is not a constraint and 5 is a major constraint



*excluding mainland China
Source: Grant Thornton IBR 2008

Figure 4: Importance of factors determining foreign investment

Percentage of businesses rating level 4 or 5 on a scale of 1 to 5 where 1 is a low priority and 5 is a high priority



*excluding mainland China
Source: Grant Thornton IBR 2008

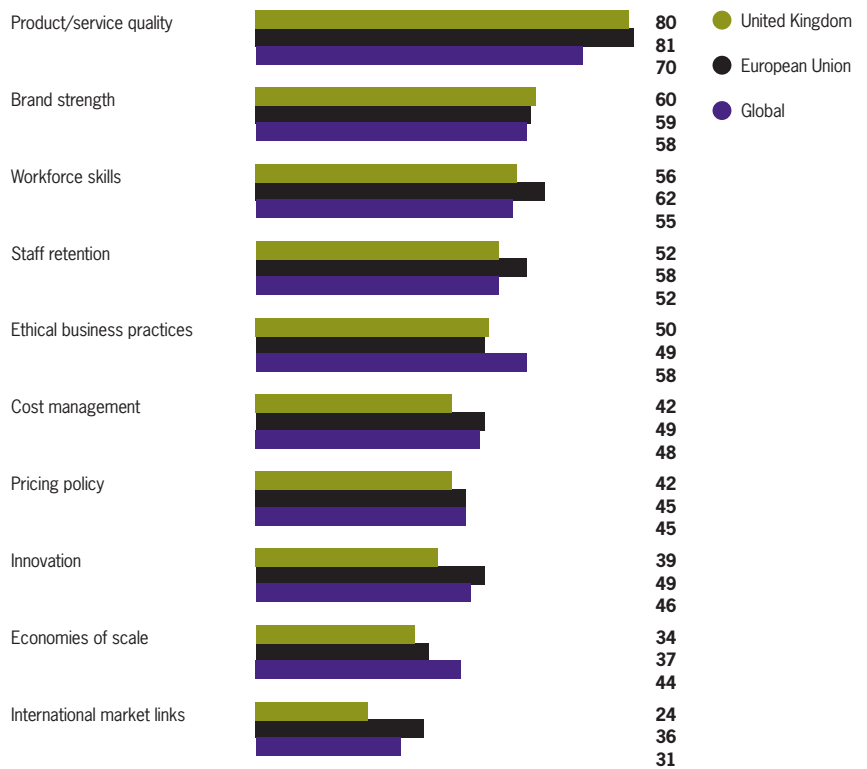
Competitiveness

- UK PHBs see their greatest source of competitive advantage as product service quality (80 per cent), as is true of EU (81 per cent) and global (70 per cent) businesses.
- Similarly to EU (59 per cent) and global (58 per cent) businesses the second most important source of competitive advantage for UK businesses is brand strength (60 per cent).
- International market links is cited by 36 per cent of businesses in the EU but only by 24 per cent of UK businesses.

Corporate social responsibility (CSR)

- The recruitment/retention of staff is viewed as the biggest driver towards more ethical practices by UK businesses, whilst only 22 per cent cite government pressure as opposed to 38 per cent globally.
- 83 per cent of UK businesses have improved waste management in the past year, as opposed to 71 per cent of EU businesses as a whole and just 59 per cent of businesses globally.
- Less than half of UK businesses have incorporated their policies in to a written CSR document, compared to 56 per cent of businesses globally.

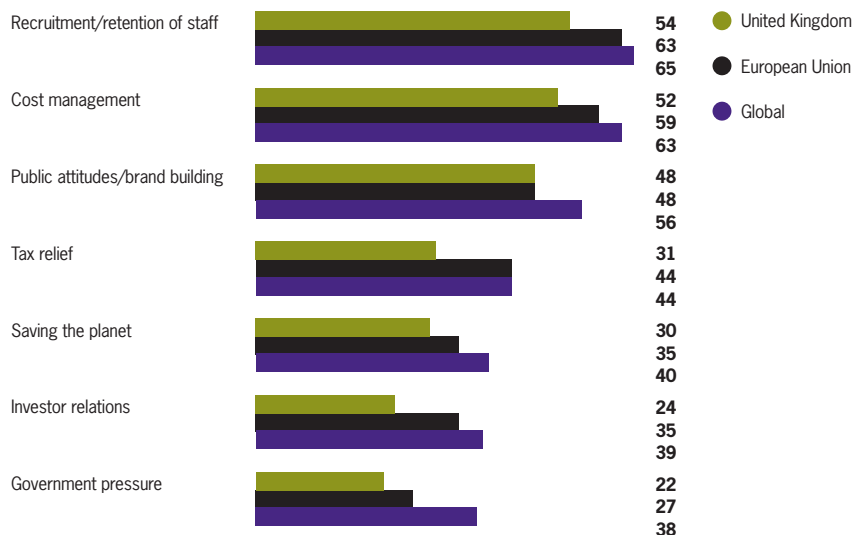
Figure 5: Main sources of competitive advantage for businesses in the United Kingdom compared to the European Union and the global average
Percentage of businesses rating strength of the advantage 4 or 5 on a scale of 1 to 5 where 1 is not very strong and 5 is very strong



Source: Grant Thornton IBR 2008

Figure 6: Importance of drivers to more ethical practices for businesses in the United Kingdom compared to the European Union and the global average

Percentage of businesses rating the importance 4 or 5 on a scale of 1 to 5 where 1 is a not very important and 5 is very important



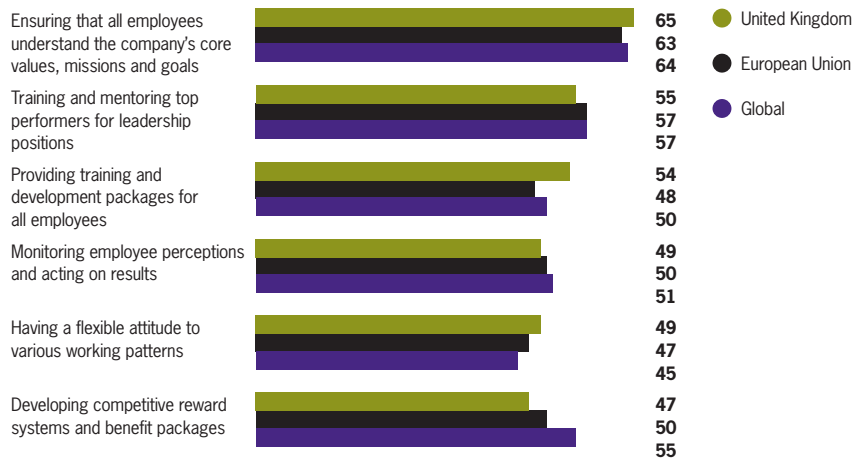
*excluding mainland China
Source: Grant Thornton IBR 2008

Recruitment and retention

- The balance of UK businesses more focused on retention that they were one year ago is 49 per cent, up from 44 per cent in 2005. In the same time the EU and global business averages have risen from 30 per cent to 52 per cent, and from 44 per cent to 59 per cent respectively.
- 65 per cent of UK businesses ensure that all employees understand the company's core values, mission and goals as a recruitment tool. This is fractionally higher than the EU average (63 per cent) and the global average (64 per cent).
- Cited by 46 per cent of UK businesses, increased workload for remaining staff is viewed as the major problem staff retention issues have caused.
- It is costing 47 per cent of UK businesses significantly more to pay their staff than it was 12 months ago, although this is below the EU average (58 per cent) and the global average (63 per cent).

Figure 7: Usage of recruitment and retention tools for businesses in the United Kingdom compared to the European Union and the global average

Percentage of businesses rating the level 4 or 5 on a scale of 1 to 5 where 1 is a not at all and 5 is a great deal



Source: Grant Thornton IBR 2008

Outlook for the UK economy

The recovery from the downturn will be slow, but over the longer term the UK is predicted to maintain its advantage over other large EU economies. The gap will be less pronounced than in the previous decade, but annual growth of 2.5-2.75 per cent a year is above the UK's historical trend.

Within this, the contribution of consumer spending is set to decline. Heavy indebtedness and low savings will limit the expansion and more modest job creation will also constrain the growth of incomes. With the economy close to full employment, productivity improvements will become increasingly important to growth prospects. Efficiency enhancements will be assisted by a stronger contribution from investment and exports.

Financial strains in the household sector will remain the key risk, most notably servicing the unprecedented debt burden and meeting the pension funding shortfall. If low interest rates are not maintained, adjustment could be far more painful.

The Grant Thornton International Business Report (IBR) 2008 examines the attitudes, plans and trends of 7,800 privately held businesses in 34 economies across six continents. The Grant Thornton IBR builds on data collected in previous surveys and boasts 16-year trend data for European Union (EU) countries and six year trend data for international economies.

To find out more about the Grant Thornton IBR and to obtain copies of reports, including focuses on emerging markets, corporate social responsibility and recruitment and retention, please visit www.internationalbusinessreport.com.

Focus reports are also available for each of the 34 participating economies, as well as regional and global summaries. You can also complete the questionnaire online and benchmark your answers against PHBs around the world by industry, size and geographical location.

Participating economies

Argentina	Hong Kong	Singapore
Armenia	India	South Africa
Australia	Ireland	Spain
Belgium	Italy	Sweden
Botswana	Japan	Taiwan
Brazil	Malaysia	Thailand
Canada	Mexico	Turkey
Mainland China	Netherlands	United Kingdom
Denmark	New Zealand	United States
France	Philippines	Vietnam
Germany	Poland	
Greece	Russia	



www.gti.org
www.internationalbusinessreport.com

© 2008 Grant Thornton International Ltd. All rights reserved.
Grant Thornton International Ltd (Grant Thornton International) and the member firms are not a worldwide partnership. Services are delivered independently by the member firms.