

# European Union

## International Business Report 2008 – Regional focus

The Grant Thornton IBR 2008 reveals that privately held businesses (PHBs) in most countries remain optimistic about economic prospects for the year ahead. For the fifth consecutive year, India tops the league table as the most optimistic country with an optimism/pessimism balance<sup>1</sup> of +95 per cent with the Philippines joining India at the top for the first time (also +95 per cent), whilst Japan is still at the bottom this year with a balance of -49 per cent. Meanwhile, PHBs in the United Kingdom are significantly less optimistic about 2008 (+10 per cent) than they were about 2007 (+43 per cent).

Levels of optimism have fallen amongst European Union (EU)<sup>2</sup> businesses. This year a balance of +34 per cent of EU businesses are positive about their country's economy compared to a balance of +46 per cent in 2007. However, levels of optimism vary extensively throughout the EU countries 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 EU economy

The eurozone economy expanded by just 0.4 per cent in the fourth quarter of 2007, after a strong performance in the third. Versus a year earlier, growth slowed to 2.1 per cent, bringing growth for the full year to 2.6 per cent. Economic activity was buoyed by another strong quarter for exports, despite the slowdown in the United States.

However, domestic demand slowed significantly in the fourth quarter, with the consumer sector, in particular, showing renewed signs of weakness. Household spending, in real terms, actually contracted and was up by only 1.1 per cent on a year earlier. This was largely down to the exceptionally poor performance in Germany. With consumers the key to avoiding a sharp slowdown, Europe's famously cautious households will have to raise their game considerably if headline growth is not to be hit even more by the global slowdown.

On a more favourable note, gross fixed investment, while slowing, remained comparatively strong. The two largest eurozone economies slowed significantly in the fourth quarter. Growth in Germany was hit by a sharp contraction in consumer demand while it was net trade that was the drag on growth in France. Italy did not report results, raising concerns about growth in the third largest economy.



<sup>1</sup> the balance is the proportion of businesses reporting they are optimistic less those reporting they are pessimistic.  
<sup>2</sup> 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.

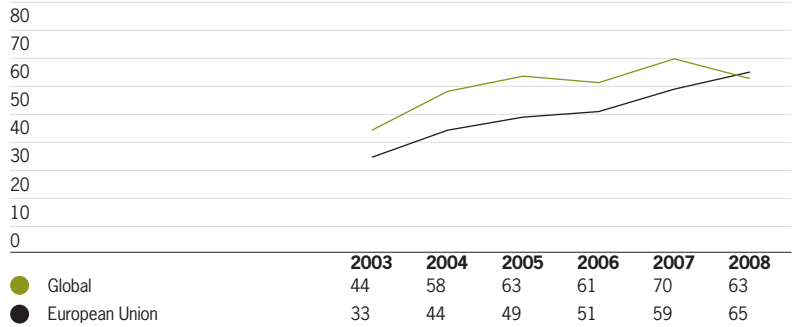
### Business expectations/revenue

- EU businesses are more optimistic about revenue prospects (+65 per cent) compared to 2007 (+59 per cent).
- Levels of optimism regarding turnover performance remained slightly above the global average (+63 per cent).
- EU businesses are slightly less optimistic about profitability (+36 per cent) than global businesses as a whole (+41 per cent), although both figures have fallen from 2007.

### Employment

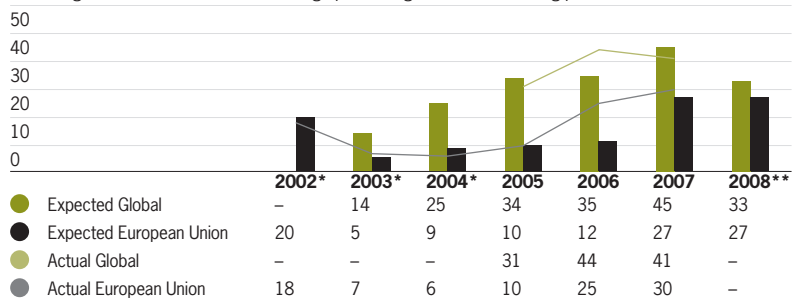
- EU businesses expect employment growth in 2008 to be at the same level as that expected in 2007.
- Businesses globally expect employment in 2008 to decrease from the actual level reported in 2007.
- In 2007, actual EU employment growth was marginally higher than expected – a balance of +27 per cent expected employment to increase, whereas a balance of +30 per cent actually increased employment in this period.

**Figure 1: Revenue expectations for the European Union and the global average 2003-2008**  
Percentage balance of businesses indicating optimism against those indicating pessimism



Source: Grant Thornton IBR 2008

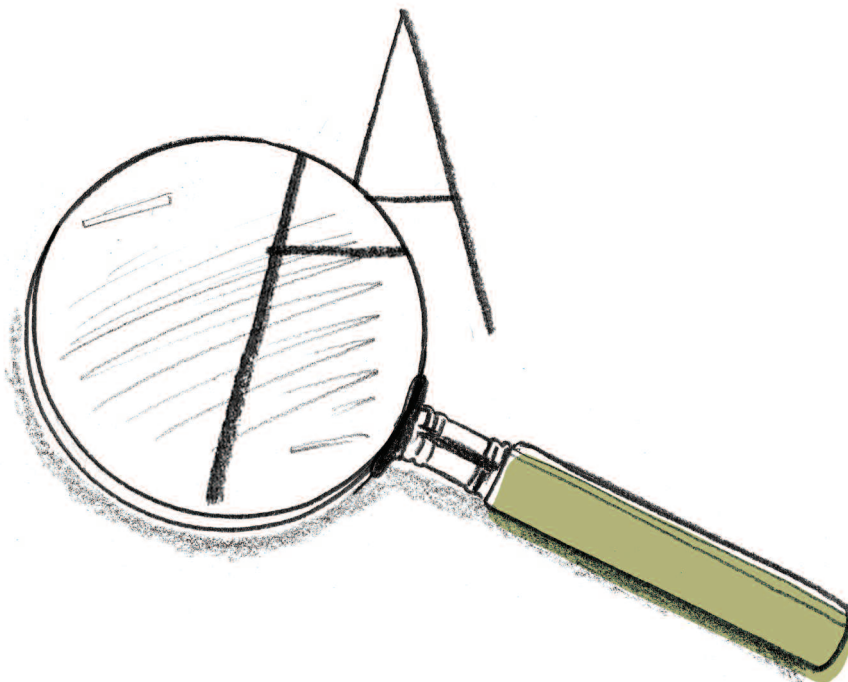
**Figure 2: Employment history for the European Union and the global average 2003-2008**  
Percentage balance of businesses indicating optimism against those indicating pessimism



\*no global data available

\*\*2008 data will be documented in IBR 2009

Source: Grant Thornton IBR 2008



## Constraints

- Regulations/red tape (33 per cent) and a lack of availability of a skilled workforce (36 per cent) are major constraints on expansion for EU businesses. Whilst regulations/red tape have fallen from last year, the lack of availability of a skilled workforce has become a more prominent constraint.
- Cost of finance is far more of an issue for businesses globally (27 per cent) than for EU businesses (18 per cent).
- Shortage of working capital is also more of an issue with global businesses as a whole (26 per cent) than with EU businesses (18 per cent).

## Emerging markets

- The most important factor for EU businesses (as well as to businesses globally) when determining whether to invest internationally is market size and growth potential, cited by 59 per cent of EU businesses.
- The number of EU businesses which export (53 per cent) is higher than the global average (39 per cent).
- 57 per cent of EU businesses import, higher than the global average (39 per cent).
- PHBs in the EU see their primary competition coming predominantly from international and from national sources rather than local sources.

**Figure 3: Largest constraints on growth for European Union businesses compared to 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

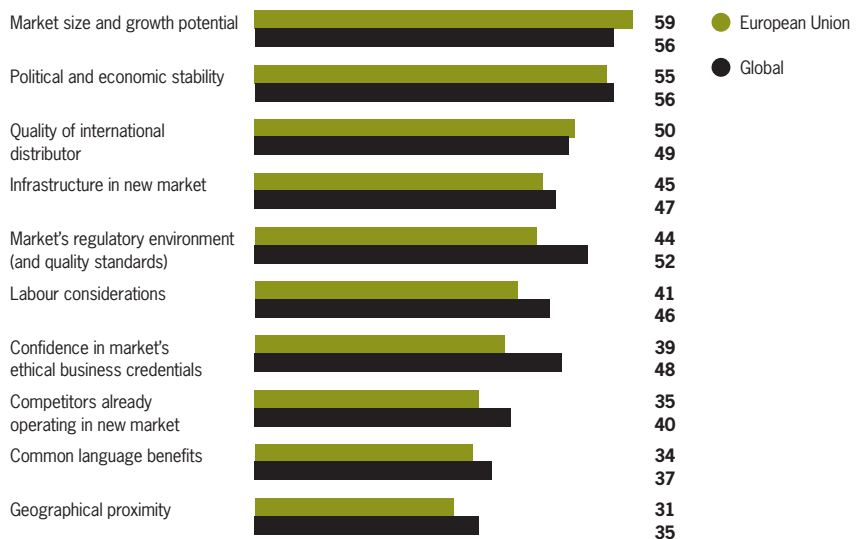


\*excluding mainland China

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



Source: Grant Thornton IBR 2008

## Competitiveness

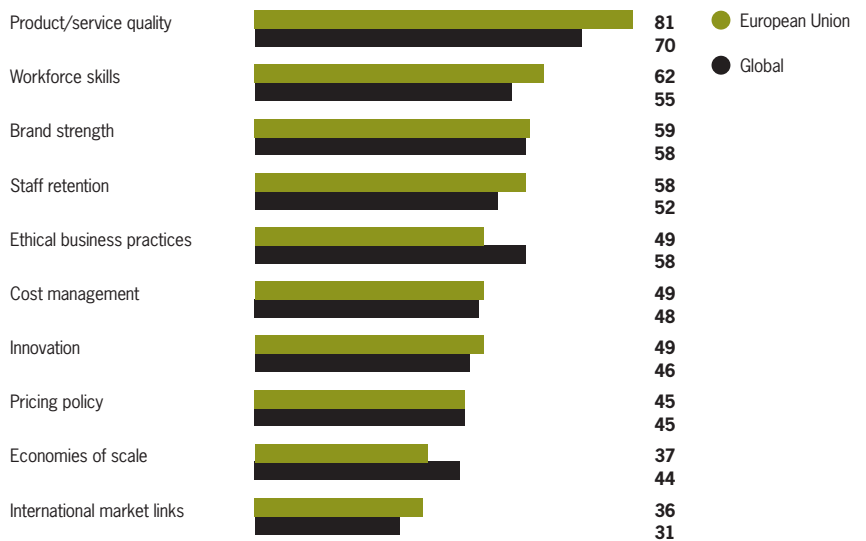
- EU businesses see their greatest source of competitive advantage as product service quality (81 per cent), as is also true of businesses globally (70 per cent).
- The factor diagnosed as the second most important to EU businesses was workforce skills (62 per cent), closely followed by brand strength (59 per cent) and staff retention (58 per cent).
- Ethical business practices are cited by 58 per cent of global businesses, but only by 49 per cent of EU businesses.

## Corporate social responsibility (CSR)

- The recruitment/retention of staff is viewed as the biggest driver towards more ethical practices by EU businesses (63 per cent), whilst only 27 per cent cite government pressure as opposed to 38 per cent of global businesses.
- 83 per cent of EU businesses have provided internships, apprenticeships and work experience in the past year, as opposed to 67 per cent of businesses globally.
- 45 per cent of PHBs in the EU have incorporated their policies into a written CSR document. This is below the global average (56 per cent).

**Figure 5: Main sources of competitive advantage for European Union businesses compared to the global average**

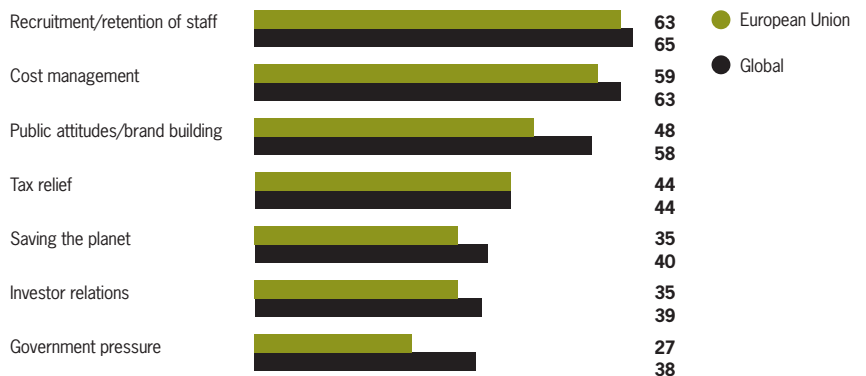
Percentage of businesses rating strength of the advantage 4 or 5 on a scale of 1 to 5 where 1 is not very strong and 5 is very strong



Source: Grant Thornton IBR 2008

**Figure 6: Importance of drivers to more ethical practices for European Union businesses compared to the global average**

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



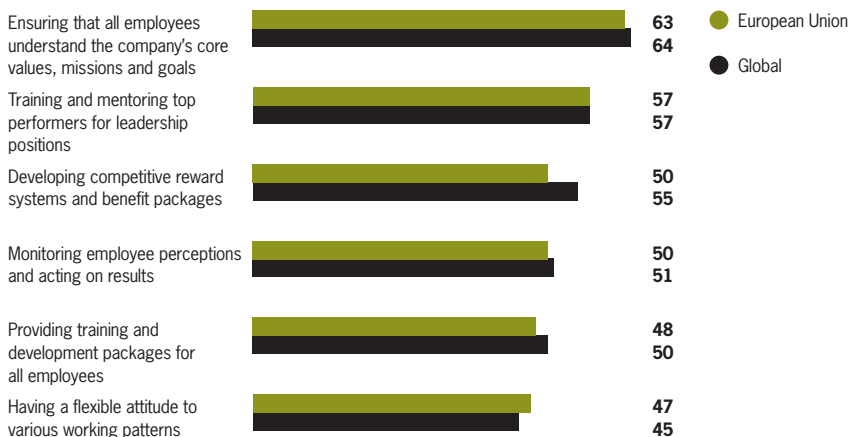
Source: Grant Thornton IBR 2008

## Recruitment and retention

- The balance of EU businesses more focused on retention than they were one year ago is +52 per cent, a significant increase from +30 per cent in 2005. In the same time the global average has risen from +44 per cent to +59 per cent.
- Similarly to businesses globally, 63 per cent of PHBs in the EU ensure that all employees understand the company's core values, mission and goals to aid recruitment/retention.
- Cited by 43 per cent of EU businesses, increased workload for remaining staff is viewed as the major problem staff retention issues have caused.
- It is costing 58 per cent of EU businesses significantly more to pay their staff than it was 12 months ago, although this is below the global average (63 per cent).

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

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



Source: Grant Thornton IBR 2008

# Outlook for the European Union economy

Growth in the eurozone economy is expected to slow significantly in 2008. The slowdown results from softer growth in both exports and investment activity, particularly as the external environment will be far less supportive of growth than in recent years. At 1.7 per cent real GDP growth will be below trend. Growth would slow more quickly if it were not for the supportive role that consumers are expected to play going forwards. Household spending growth is projected to remain at current levels, at 1.7 per cent in 2008.

The continued revival in consumer demand is driven by significant improvements in labour market conditions in key eurozone markets. In Germany, consumers are expected to raise their game significantly after spending contracted in 2007, owing mainly to the VAT rise earlier in the year.

However, the downside risks to this outlook are significant as the United States economy slows sharply, the euro strengthens and credit markets grind to a halt. Moves by the US Federal Reserve and the Bank of England are encouraging, but the European Central Bank (ECB) is still worried about inflation. While further rate hikes seem unlikely, there is a risk that the ECB might refrain from cutting rates at a time when consumers are ready to take on more credit to fund new spending.

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](http://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	



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