

Global

International Business Report 2008 – Regional 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 them 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.

The Global economy

Global² economic growth slowed to 3.7 per cent in 2007, down from four per cent in 2006. The growth rate in high income economies contracted sharply in the final quarter of 2007 following the financial market strains originating in the US ‘sub-prime’ sector and associated losses on bank balance sheets. Indicators in the US showed weakening of manufacturing and housing sector activity, employment, and consumption, whilst confidence indicators have deteriorated in the European Union (EU)³ and Japan.

Growth in developing economies remained somewhat more robust at 7.8 per cent. Despite a slowdown in export growth as a result of financial crisis in the West, India and China especially have benefited from the strong momentum of domestic demand, more disciplined macro-economic policy frameworks and from high food and energy prices for commodity exporters.

Headline inflation has been on the increase since mid-2007 in both high income and developing world economies. The Federal Reserve System repeatedly cut interest rates in response to low consumer activity whilst high food and energy prices are cutting into levels of disposable income in the developing world and overheating is more of a concern.

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 ‘global’ refers to those economies covered by our survey – Argentina, Armenia, Australia, Belgium, Botswana, Brazil, Canada, mainland China, Denmark, France, Germany, Greece, Hong Kong, India, Ireland, Italy, Japan, Malaysia, Mexico, the Netherlands, New Zealand, Philippines, Poland, Russia, Singapore, South Africa, Spain, Sweden, Taiwan, Thailand, Turkey, the United Kingdom, the United States and Vietnam.

3 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.



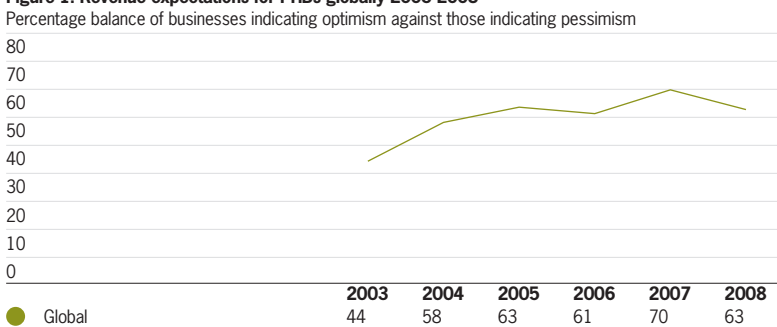
Business expectations/revenue

- Optimism regarding global revenue has declined since last year, falling from +70 per cent to +63 per cent.
- Expected exports have also declined to +18 per cent this year, down from +20 per cent the previous year.
- Optimism levels regarding profitability in 2008 (+41 per cent) have fallen by 11 per cent since 2007.

Employment

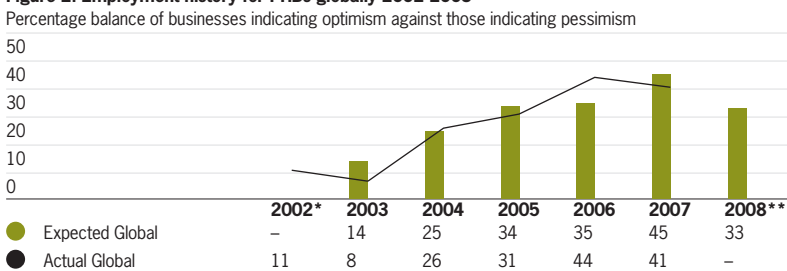
- +33 per cent of PHBs globally expect employment to grow in 2008. This is a significant decrease on last year's expectations (+45 per cent).
- In 2007, actual reported employment growth (+41 per cent) was lower than expected.

Figure 1: Revenue expectations for PHBs globally 2003-2008



Source: Grant Thornton IBR 2008

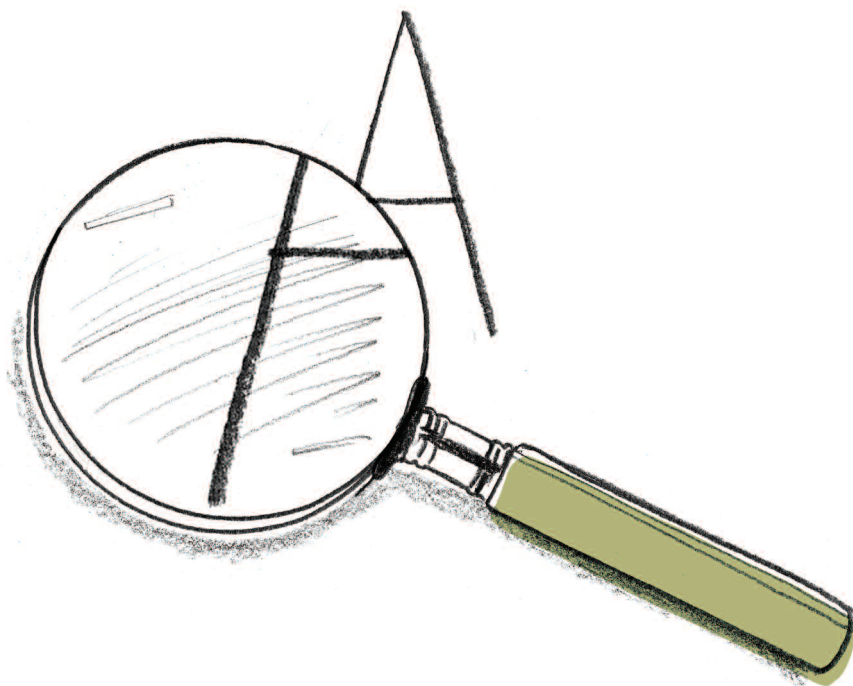
Figure 2: Employment history for PHBs globally 2002-2008



*no global data available

**2008 data will be documented in IBR 2009

Source: Grant Thornton IBR 2008



Constraints

- The largest constraint restricting expansion for PHBs globally is the lack of availability of a skilled workforce, cited by 35 per cent of PHBs.
- Regulations/red tape is still one of the greatest constraints to global business growth (+31 per cent) but this has fallen from 2007 (+38 per cent).

Emerging markets

- The most important factors determining foreign investment for PHBs globally is market size and growth potential as well as political and economic stability (both +56 per cent).
- 39 per cent of global businesses now export. This is up five per cent from last year.
- Only 22 per cent of PHBs globally see their primary competition as international. The majority of businesses feel that their competition is more likely to be national (+42 per cent).

Figure 3: Largest constraints on growth for PHBs globally

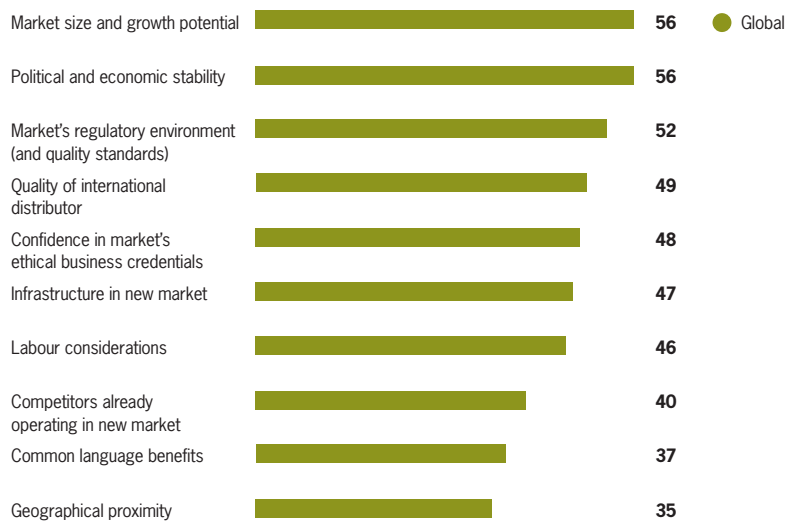
Percentage of businesses rating constraint 4 or 5 on a scale of 1 to 5 where 1 is not a constraint and 5 is a major constraint



*excluding mainland China
Source: Grant Thornton IBR 2008

Figure 4: Importance of factors determining foreign investment for PHBs globally

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

- Product/service quality is cited by PHBs globally as their main source of competitive advantage (70 per cent).
- Brand strength and ethical business practices are also cited as major sources of competitive advantage (both 58 per cent).

Corporate social responsibility (CSR)

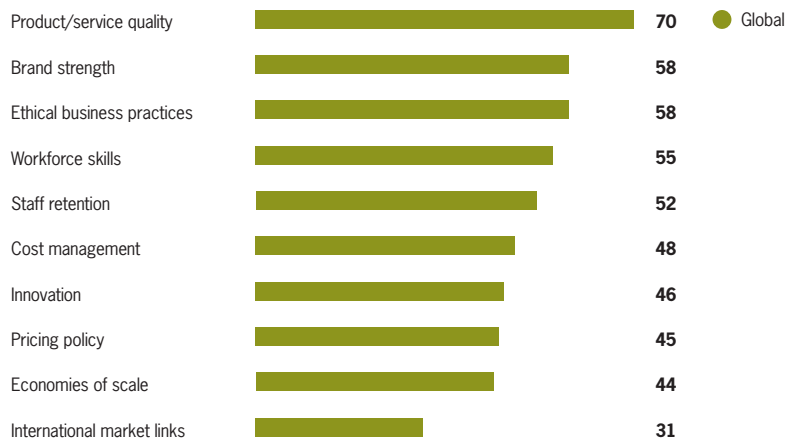
- PHBs globally view the recruitment/retention of staff as the most important driver to more ethical practices (+65 per cent).
- 71 per cent of PHBs globally actively promoted workforce health and well being last year.
- 56 per cent of PHBs globally have incorporated their policies into a written CSR document.

Recruitment and retention

- Ensuring that all employees understand the company's core values, mission and goals is the number one retention tool for PHBs globally.
- A balance of +59 per cent of PHBs globally are more focused on attracting and retaining key staff than they were 12 months ago. This is up from +44 per cent in 2005.
- PHBs globally cite the principal issue that staff retention issues have caused is an increased workload for remaining staff (+41 per cent).

Figure 5: Main sources of competitive advantage PHBs globally

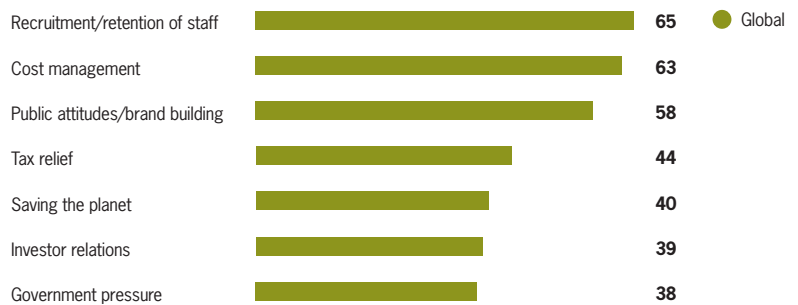
Percentage of businesses rating strength of the advantage 4 or 5 on a scale of 1 to 5 where 1 is not very strong and 5 is very strong



Source: Grant Thornton IBR 2008

Figure 6: Importance of drivers to more ethical practices for PHBs globally

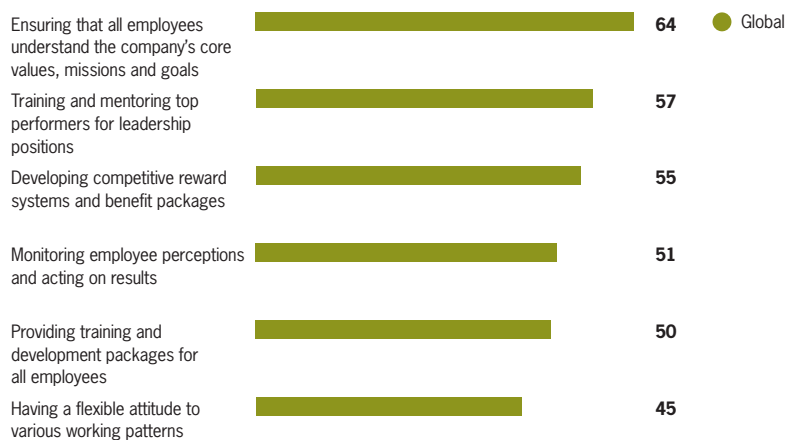
Percentage of businesses rating the importance 4 or 5 on a scale of 1 to 5 where 1 is not very important and 5 is very important



Source: Grant Thornton IBR 2008

Figure 7: Usage of recruitment and retention tools for PHBs globally

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 Global economy

The fallout from the US sub-prime crisis and the global credit crunch will continue until late 2008, which will be a challenging year for the world economy. With the US in recession and a crisis of confidence hitting global financial markets, the only debate is how sharply the world economy will slow. Growth is forecast to slow to 2.7 per cent in 2008 before picking up again to three per cent in 2009 and 3.4 per cent in 2010. Growth in the developed world is expected to fall to 1.6 per cent in 2008, whilst developing world growth is forecast to ease to 6.5 per cent.

The continued strength of domestic demand and imports in developing countries is helping to cushion the global effects of the slowdown in high-income countries. More than half of the growth in global import demand is now originating in developing countries and, as a result, the United States and, to a lesser extent, European exports have been booming – helping to moderate the extent of decline in their GDP growth and lessening the current account deficits which bodes well for longer-term prospects.

Emerging economies, that depend on foreign capital flows, are likely to experience a sharper slowdown. Moreover, despite strong production growth at the aggregate level, higher food and energy prices have caused real incomes to decline, significantly increasing the hardships faced by the very poor, particularly in urban centres. Growth in mainland China is forecast to slow to ten per cent in 2008, which should help ease inflationary pressures in the developing world.

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	



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