

International Business Report 2007

Global overview

Grant Thornton 

Intelligent Business Reading

Interviews

7,200

32

Economies

1

International
Business
Report

Welcome

The expansion of the number of countries in our survey to 32 provides a truly global perspective of business performance and expectations among our respondents – privately held businesses. This group plays a major role in the global economy, generating employment and driving growth, helped by their ability to respond rapidly to changing market demands.

I would like to thank all those who took part in the survey; without their support this vital research project would not be able to continue. I hope it makes interesting reading for businesses worldwide.

Alex MacBeath

Global leader – privately held business services
Grant Thornton International

Contents

2	New economic landscape	27	Women in business
4	Prospects	30	Constraints
10	Performance	36	Change in ownership
16	Emerging markets	40	Business risk
20	Environment and energy	46	Summary and conclusions
24	Stress	48	Contacts

New economic landscape

Dependence on the US
to propel international

growth

is greatly reduced. The large
dynamic economies of Asia
are now acting as regional
and global economic growth
drivers.

The International Business Report (IBR) 2007 was conducted against a very favourable economic background. The global economy is enjoying its strongest and most sustained expansionary phase since the early 1970s, on course for its fifth year of vigorous growth. One of the reasons for the sustainability of the current expansion is that dependence on the US to propel international growth is greatly reduced. The large dynamic economies of Asia are now acting as regional and global economic growth drivers. So even though the US has encountered problems in the wake of its housing crisis, and growth is set to slow markedly this year, healthy global expansion can still continue.

Significantly, every region in the world is participating in this success – with expansion in Asia at 9%, Central/Eastern Europe and Africa nearly 6% and Latin America around 4%. Among the advanced Organisation for Economic Co-operation and Development (OECD) economies a 3.1% growth rate featured healthy

expansion from Japan and the eurozone as these economies at last emerge from the doldrums.

Apart from the encouraging growth backdrop, other key elements of healthy business performance are in place – inflation is generally under control, energy prices are off their peaks and international trade volumes are booming, up 9% in 2006.

Operating in this robust environment is a real boost to businesses worldwide. The IBR survey confirms this, with widespread optimism in key performance indicators such as turnover, profitability and exports. Inevitably, risks to this rosy scenario persist, and political uncertainties in some key countries have dimmed the picture. Nevertheless, buoyancy in many areas of business operations is at an all-time high in this year's survey, the 15th including its predecessors, the European Business Survey (EBS) and the International Business Owners Survey (IBOS).

“Business performance is continuing to benefit from an exceptionally healthy economic backdrop this year, featuring strong international trade growth and robust consumer spending across a wide range of countries.”

Alex MacBeath

Global leader – privately held business services
Grant Thornton International



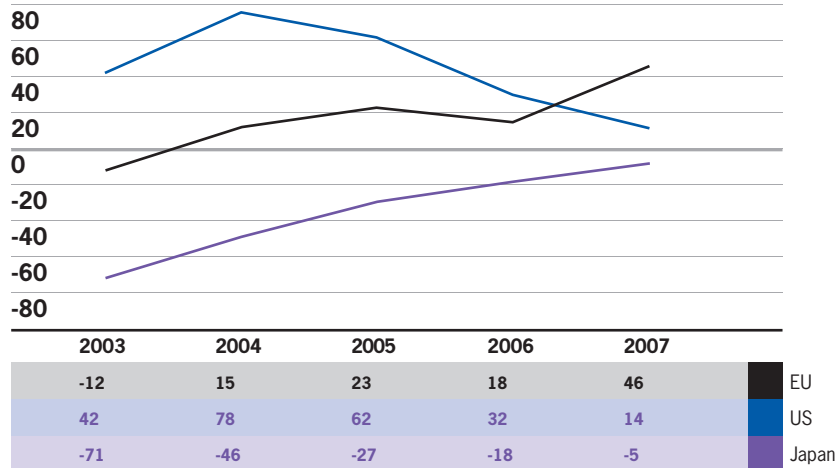
1 Prospects

Business optimism

Our survey shows that medium to large privately held businesses around the world are optimistic about the prospects for their economies in 2007. Four years of boom conditions in the world economy and easing energy prices have generated a positive mood in most economies, with the global optimism/pessimism balance appreciably higher than in 2006. This has occurred despite a decline for the third year in a row in sentiment in the US, which has suffered from slowing economic growth and political uncertainty. The US optimism/pessimism balance fell from +32% in 2006 to +14% this year, having reached +78% in 2004.

The impact of the decline in the US, which has a large weight in the calculation of the global figure, has been outweighed by a surge in optimism in the European Union (EU). For the first time in five years, EU optimism is higher than in the US (see figure 1.1). The growing mood of confidence in the EU reflects a much improved economic growth performance last year in the eurozone, underpinned by a revival in domestic demand. Germany has exhibited one of the sharpest upturns, and is now in the “extremely optimistic” category (see figure 1.2) having moved up steadily from “pessimistic” as recently as 2004.

Figure 1.1: Business optimism/pessimism in key regions/countries 2003-07 (% balance*)



* the balance is the difference between the proportion of businesses indicating optimism and those indicating pessimism
Source: Grant Thornton International Business Report 2007

Figure 1.1 also shows that businesses in Japan, while still pessimistic, are much less so than in recent years as the economy shows encouraging signs of emerging from its long period of weakness.

Economic prospects

India’s business owners have consolidated their position as the most positive regarding their country’s economic prospects. The optimism/pessimism balance in India reached +97%, an exceptionally high balance reflecting the rapid progress achieved by the Indian economy in recent years. Spurred by the economic reforms of the 1990s and the liberalisation of international trade, the Indian economy is now among the most dynamic in the world. Business owners have taken full advantage of these reforms and remain confident that they will continue to drive the economy.



Hiroyuki Hamamura, Grant Thornton, Japan

“Businessmen in Japan are not yet fully convinced about the durability of the recent economic revival, but confidence is picking up gradually as evidence accumulates that long-standing problems are being overcome.”

Figure 1.2: Outlook for the economy over next 12 months (% balance *)

Extremely optimistic	Optimistic	Fairly optimistic	Neutral	Pessimistic
97 India	60 Canada	30 France	0 Turkey	-3 Taiwan
88 Philippines	57 Armenia	30 Thailand		-5 Japan
86 Mainland China	57 Russia	27 Greece		
86 Netherlands	49 Luxembourg	21 Italy		
84 Singapore	47 Brazil	14 US		
82 Ireland	43 Spain			
74 South Africa	43 UK			
69 Hong Kong	42 New Zealand			
68 Argentina	42 Poland			
67 Sweden	41 Botswana			
66 Germany	41 Malaysia			
62 Australia				
62 Mexico				

* the balance is the difference between the proportion of businesses indicating optimism and those indicating pessimism

Source: Grant Thornton International Business Report 2007

Three other Asian economies – the Philippines, mainland China and Singapore – also display strong optimism, with balances over +80%, as their economies continue to make rapid progress. They are joined in the over 80% group by two Western European countries – the Netherlands and Ireland. The success of Ireland’s economy in the past 15-20 years provides a strong platform for businesses to grow and its customary appearance near the top of the optimism table is no surprise. But the Netherlands’ emergence as one of the most optimistic economies, in joint third place with mainland China, is striking given a generally disappointing growth performance in recent years.

Figure 1.2 highlights the positive sentiment against a buoyant global economic backdrop. We have 13 economies in the “extremely optimistic” category, well over one third of the 32 countries/territories in the survey. A further 16 are “optimistic” or “fairly optimistic”.

Apart from the significant improvement in optimism in the EU mentioned above, there were some other healthy increases. Botswana, which registered a surprisingly pessimistic outturn last year given the buoyancy of its economy, posted an increase from -12% to +41%; Russia’s energy boom supported an upturn from +21% to +57%; and the UK recovered from last year’s dip occasioned by an abrupt slowdown in consumer spending to post a balance of +43%, up from +8%.

In three economies the mood is neutral or pessimistic.

- Business owners in Japan remain generally downbeat about economic prospects, but the economy is picking up and the balance of -5% shows a continuing improvement from the huge -71% recorded in 2003.
- Taiwan continues to suffer from increasing competitive pressures in the region and businesses remain mildly pessimistic about prospects. However, the economy is expanding at a healthy pace and the optimism/pessimism balance is well above last year’s -19%.
- Turkey experienced a massive drop in confidence from +58% to 0% as frustration at the lack of progress in EU accession talks and uncertainty ahead of crucial presidential elections take its toll.

Long-term perspective:

1. Muted US sentiment keeps global figure below 2004 and 2005 peak

The analysis of trends over the past five years shows that the boom in the global economy has kept business optimism strongly positive since 2004, but the muted US response this year has prevented the overall balance reaching the highs of 2004 and 2005 (see figure 1.3).

2. Improving eurozone economy boosts EU sentiment

Among the global regions, the most significant development has been the steady upturn in sentiment recorded by the EU. This reflects the emergence of the eurozone economy from a particularly weak period between 2002 and 2004 when only Greece, Ireland and Spain showed satisfactory growth (figure 1.4).

The upsurge in eurozone sentiment in recent years is in sharp contrast to a persistent decline in North American Free Trade Agreement (NAFTA) countries. This was highlighted in figure 1.1, which showed the EU overtaking the US in this year's survey. Given the weight of the US in the calculation, this meant that the EU also overtook NAFTA, although optimism in both Canada and Mexico remains much higher than in the EU. The depressed NAFTA figure is entirely due to the weakness of the US optimism/pessimism balance in recent years, reflecting the impact on sentiment of natural disasters (the hurricanes of 2005) the Iraq war, political uncertainty and more recently slowing economic growth.

Figure 1.3: Outlook for the economy over next 12 months* (% balance**) 2003-07

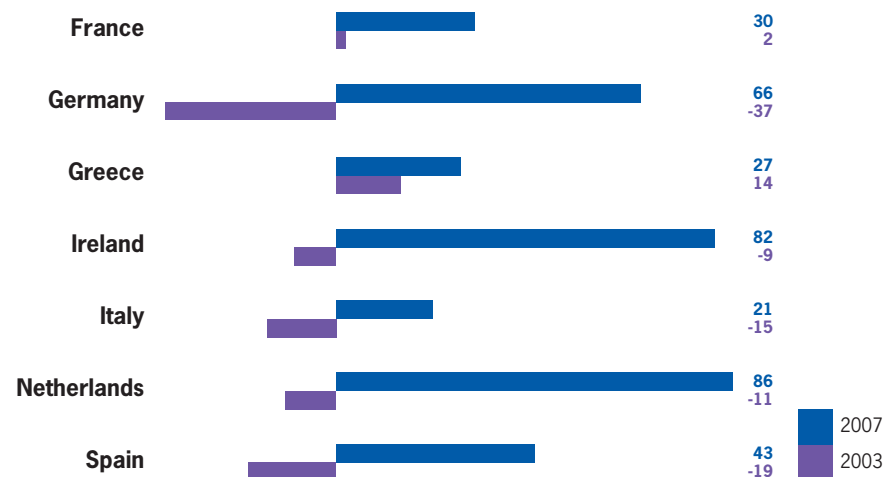


* not including mainland China for comparison reasons as it has only featured in the past two surveys

** the balance is the difference between the proportion of businesses indicating optimism and those indicating pessimism

Source: Grant Thornton International Business Report 2007

Figure 1.4: Eurozone outlook for the economy over next 12 months (% balance*) 2003 and 2007 compared



* the balance is the difference between the proportion of businesses indicating optimism and those indicating pessimism

Source: Grant Thornton International Business Report 2007

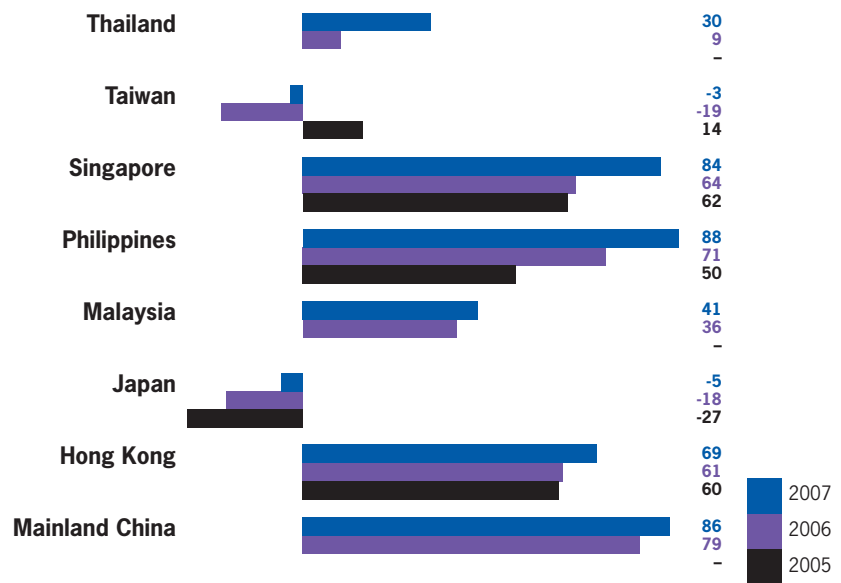
3. East Asia: a mixed picture

East Asia continues to present a very mixed picture, with optimism/pessimism balances ranging from +88% in the Philippines to -5% in Japan in the current survey. Moreover, trends since 2004 vary, with most economies seeing improved sentiment in line with the positive economic backdrop, however Taiwan, moving in the opposite direction, reflects strengthening competition from mainland China. Figure 1.5 highlights the divergence in sentiment but shows that most countries/territories in the region have a very positive and improving view of the economic outlook. Japan and Taiwan are the major exceptions, but sentiment is becoming less downbeat as the economic background shows encouraging signs of improvement.

Justified optimism?

The high level of economic optimism in our survey expressed by businesses in both developed and emerging economies is turning out to be fully justified. This year is fulfilling the expectation that the global economy will continue to flourish, despite the setback in the US stemming from a sharp downturn in the housing market. World economic growth is proceeding at a pace only slightly below that posted during the 2003-06 boom, continuing to support healthy business performance through robust expansion in domestic sales and exports.

Figure 1.5: East Asia: Outlook for the economy (% balance *)



* the balance is the difference between the proportion of businesses indicating optimism and those indicating pessimism

Note: Thailand, Malaysia and mainland China did not participate in the 2005 survey

Source: Grant Thornton International Business Report 2007

This year is fulfilling the expectation that the global economy will

**continue
to flourish,**

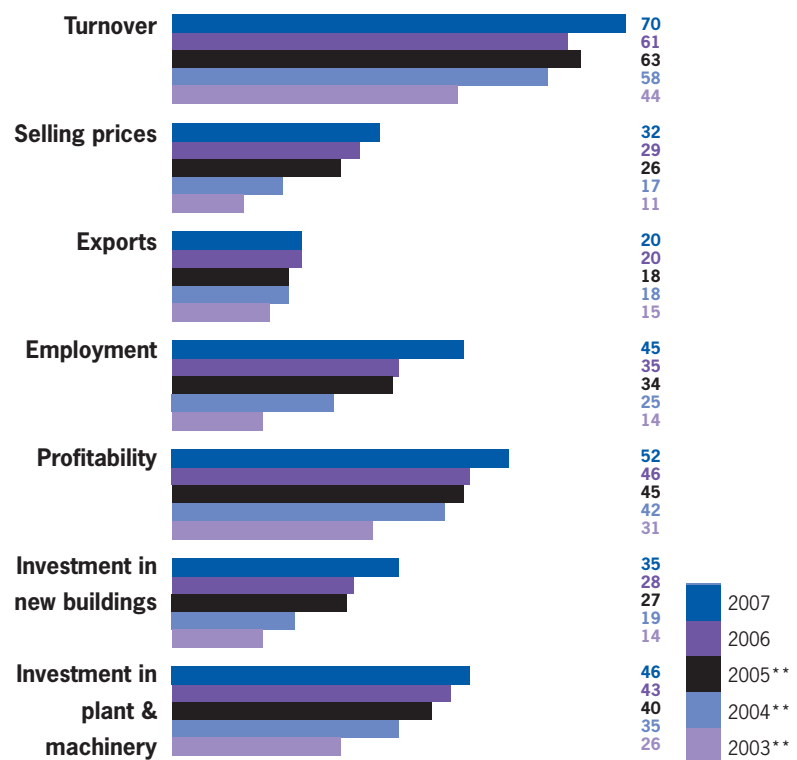
despite the setback in the US stemming from a sharp downturn in the housing market.

2 Performance

Performance prospects

The economic background at the time of our fifth international survey was very positive. The global economy was in its fourth year of robust expansion, and although short-term risks were evident, they were not regarded as likely to derail continued healthy progress. The favourable environment means that businesses generally remain very upbeat about key indicators of performance for the next 12 months. Expectations for turnover, selling prices, exports, employment, profitability and investment are buoyant. All indicators have sustained the strong positive balances of the past few years (figure 2.1) and in the case of turnover, employment, profitability and global investment expectations are the strongest on record.

Figure 2.1: Global business performance expectations (% balance*)



* the balance is the difference between the proportion of businesses indicating optimism and those indicating pessimism

** not including mainland China who did not participate during these years

Source: Grant Thornton International Business Report 2007

Figure 2.2: Top and bottom five economies in key business performance expectations (% balance*)

Turnover	Selling prices	Exports	Employment	Profitability	Investment in new buildings	Investment in plant & machinery
92 India	71 Botswana	40 Hong Kong	74 India	81 India	69 Mainland China	74 Armenia
88 Mainland China	62 India	34 Malaysia	70 Philippines	78 Mainland China	57 Armenia	72 Poland
83 Armenia	60 Netherlands	31 Greece	67 Armenia	68 Brazil	50 India	66 Mainland China
82 South Africa	60 Russia	31 Italy	58 Mainland China	66 Ireland	43 Brazil	65 Argentina
79 Argent, Singap	60 South Africa	30 Germany	54 Brazil	65 Philipp, Thailand	41 Malaysia	64 Russia
70 Global average	32 Global average	20 Global average	45 Global average	52 Global average	35 Global average	46 Global average
53 Germany	26 France	12 Brazil	18 Japan	27 France, Germany	15 France	32 Lux, Neths
51 France	23 Armenia	9 Russia	17 France	19 Luxembourg	14 Germany	26 Japan
47 Luxembourg	23 US	8 Botswana	17 Taiwan	6 Argentina	14 Sweden	23 Singapore
31 Japan	10 Taiwan	7 Thailand	14 Italy	6 Taiwan	13 Taiwan	19 Taiwan
31 Taiwan	-6 Japan	4 Japan	13 Luxembourg	2 Japan	9 Singapore	9 Thailand

* the balance is the difference between the proportion of businesses indicating optimism and those indicating pessimism

Source: Grant Thornton International Business Report 2007

In figure 2.2, we highlight the economies with the strongest and weakest expectations over the next 12 months across the range of key business performance indicators.

The two largest, strongly growing developing economies of Asia – India and mainland China – feature prominently in this table. They both appear among the top economies in most indicators of business performance, and lead the rankings in four of them. The dynamic economic backdrop in these countries/territories underpins vigorous growth in domestic sales. Strong exports also provide a boost to turnover, although export prospects are viewed more positively in this year's survey in several other economies. With turnover rising rapidly in India and mainland China, employment growth and profitability

are expected to be strong and the rapid pace of expansion is stimulating investment spending. Latin America's sustained economic upturn is reflected in the appearance among the top five of Brazil and Argentina in several performance measures. Armenia also stands out as a booming performer in this table, although respondents are surprisingly downbeat about selling prices. The country is experiencing a period of extremely rapid growth, averaging around 10% in recent years, suggesting perhaps that a change in economic policy may be needed to prevent over-heating risks.

The economies expecting a weak business performance in our 2005 and 2006 surveys – Japan, Taiwan, France and Singapore – still dominate this part of the table, but the outlook in all cases is not as bleak. Expectations for

turnover are significantly higher, and the marked negative balances regarding profitability expectations recorded by Japan and Taiwan last year have been replaced by marginally positive expectations this year. In France, expectations for selling prices, employment and profitability are all much improved this year. In Singapore, investment intentions remain quite weak but are noticeably stronger than in the 2005 and 2006 surveys.

Turnover (revenue)

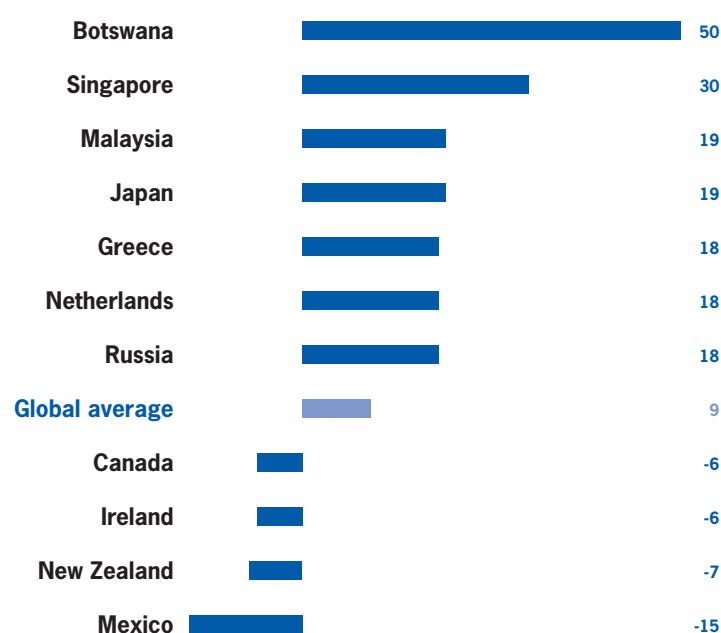
Although US respondents have become steadily less optimistic in recent years about the domestic economic background, business expectations regarding turnover have risen this year to the healthy figure of +77%. In conjunction with the exceptionally strong expectations in the two large Asian developing economies and improving sentiment in the EU and Japan, this has boosted the global average for turnover expectations to a record +70%. As shown in figure 2.3 there were also sizeable gains in Botswana, Singapore and Malaysia. Some declines were also seen, but these were modest except in Mexico where lower oil prices and the US slowdown seem to have depressed sentiment this year.

Selling prices

Selling prices have been on a rising trend in recent years amid buoyant global demand. The balance expecting an increase rose steadily from +11% in 2003 to +29% in 2006. But there was no improvement on this balance in the 2007 survey, despite a widespread and strong upturn in expectations across the EU, with Germany and the Netherlands posting particularly marked rises. Japan too saw improved expectations, as an end to the long period of deflation raised the balance from -17% in 2006 to -6%, a striking increase from the -50% recorded in 2004.

These significant gains were, however, offset by less buoyant expectations about prices in the US, where the balance fell from +40% to +23% in line with a less positive outlook for economic performance in the year ahead.

Figure 2.3: Largest movements in turnover (revenue) expectations 2005 to 2006 (change in % balance*)



* the balance is the difference between the proportion of businesses indicating an increase and those indicating a decrease
Source: Grant Thornton International Business Report 2007

Exports

Expectations regarding exports have shown the least variation over the five-year period of our international survey. The global average has edged up from its 2003 low, but only from +15% to +20% this year. In line with the eurozone's improved economic performance and prospects of this being sustained into 2007, the EU saw widespread gains. There were also improvements in most East Asian economies, though the region's overall result was only marginally higher as Thailand's balance declined markedly, from +21% in 2006 to +7%. This may reflect increased competition from mainland China, identified in last year's survey as a key downside factor in the country's performance.

As in the case of selling prices, a fall in the US balance largely offset these gains, and a marked decline in the balances reported by Argentina and Mexico also contributed to the slight fall in export expectations this year.



Arnaldo Hasenclever, Grant Thornton, Argentina

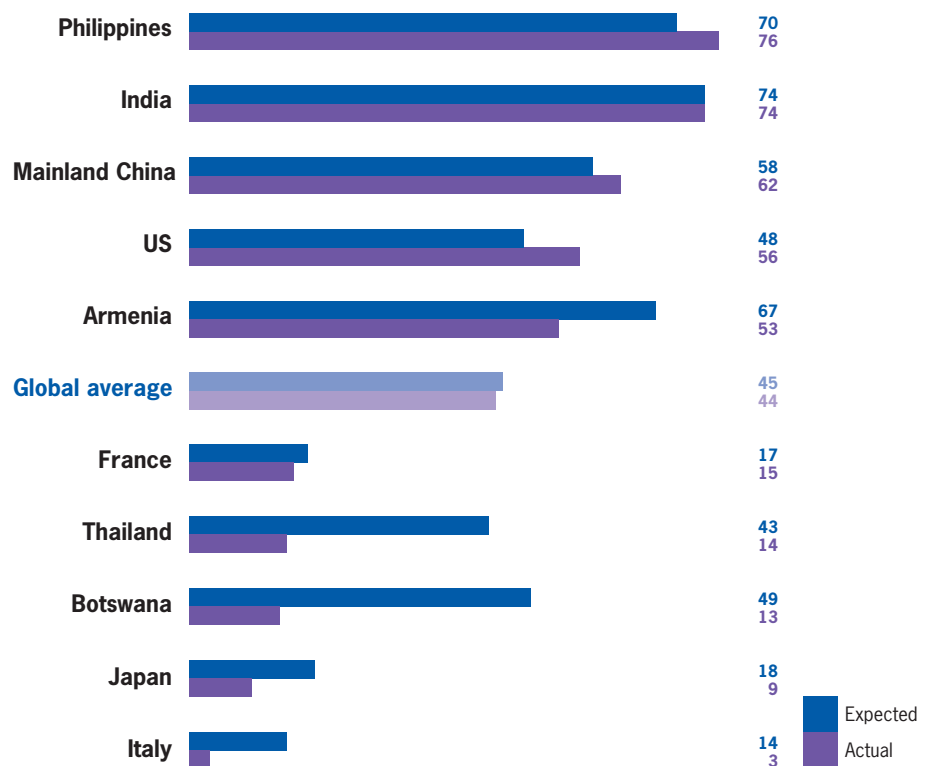
“Argentina’s recovery from the severe economic recession of 2001/02 has been broadly-based and exceptionally strong, underpinning the current upbeat mood among local businesses regarding business prospects for 2007.”

Employment

Global employment expectations (+45%) are extremely buoyant as the healthy pace of world output growth continues to support the creation of new jobs, suggesting that 2007 will be a strong year for employment creation. In the 2006 survey, a global balance of +35% expected employment to increase over the next 12 months. In the event, employment creation was even stronger, with a balance of +44% of businesses increasing their workforce (see figure 2.4). The fast-growing economies of Asia – the Philippines, India, and mainland China – led the way, with India in the top two places for the fourth year in a row.

Among the global regions, the weakest job creation last year was, as in 2005 and 2004, in the EU. But with economic activity picking up, the balance of +25% was significantly higher than in the past five years, with the gap against the global average narrowing. However, the gap against NAFTA widened slightly as the US registered strong employment growth, a balance of +56% lifted the US into fourth place.

Figure 2.4: Change in the number of people employed in the past year and expectations for 2006 (% balance*)



* the balance is the difference between the proportion of businesses indicating optimism and those indicating pessimism
Source: Grant Thornton International Business Report 2007

Despite the muted outlook among respondents for the US economy this year, employment prospects remain buoyant, with a balance of +48% expecting employment to increase in the year ahead, against 45% in last year's survey. Expectations for the next 12 months also show that India retains its position at the head of the employment creation league, boosted by a vibrant private sector and increased public spending. Other economies with expectations of very strong employment creation are the Philippines, Armenia and mainland China.

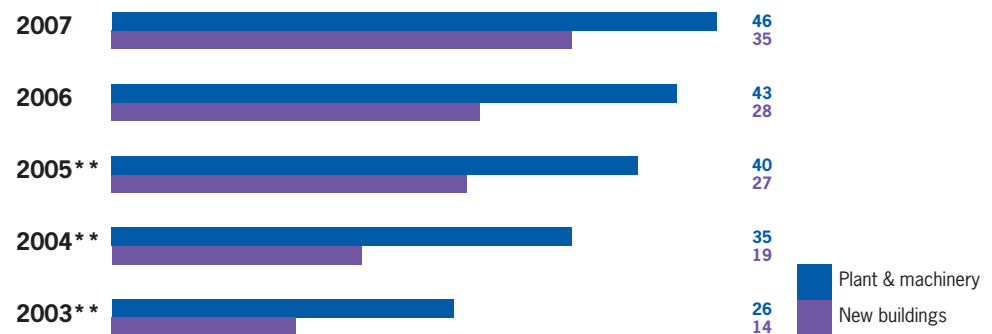
Profitability

Businesses are buoyant about the outlook for profitability, and more so than at any time in the past, despite the modest slowdown expected in the global economy after the recent boom. The global average is a record +52% in IBR 2007, against +46% last year. The strongest expectations are in those economies where turnover prospects are brightest – India and mainland China – a long way ahead of third-placed Brazil. At the other extreme, the outlook is much less bleak than in last year's survey, with a positive balance in both Japan and Taiwan (balances were firmly negative last year). This improvement partly reflects strengthening turnover expectations and less pessimism regarding selling prices in an extremely competitive environment.

Investment

Investment expectations for plant & machinery and new buildings have edged up further over the past year, continuing the upward trend evident since 2003 (figure 2.5). An upturn in new buildings intentions is also evident, after a decline last year stemming from an exceptionally muted US figure. These developments reflect widespread expectations that the global economy will continue to perform strongly, with additional capacity and space needed to meet growing demand.

Figure 2.5: Expectations of investment – global averages (% balance *)



* the balance is the difference between the proportion of businesses indicating optimism and those indicating pessimism

** not including mainland China who did not participate during these years

Source: Grant Thornton International Business Report 2007

The most positive investment expectations are evident in Armenia whose double-digit growth rate over the past few years has stimulated strong capital spending. It is in first place in terms of plant & machinery intentions and in second place for new buildings. Mainland China is also prominent for both types of capital spending due to labour shortages in the key centres of production, easing restrictions for converting land from agricultural to commercial usage and the economy's dynamic expansion underpinning strong investment spending. In Poland, the trend to substitute labour with machinery continues apace.

Singapore retains its position as the country with the weakest investment intentions for buildings, although the balance of +9% is well up on last year's +1%. Despite buoyant turnover expectations, Singapore also features near the bottom of the rankings for plant & machinery.

Confidence at a high

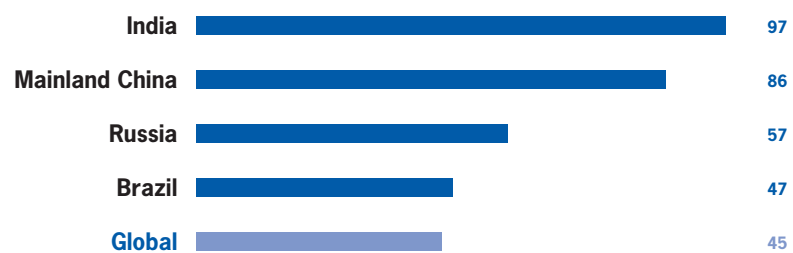
Buoyant consumer spending and international trade amid a thriving global economy are sustaining business prospects. This is boosting confidence and performance indicators, which in many countries are at record highs in the history of our survey. The dynamic economies of mainland China and India feature prominently in key performance indicators such as turnover, employment and profitability, but most of the 32 economies in our survey show considerable optimism. Even in a few cases where optimism is low, the position is markedly healthier than in recent years.

3 Emerging markets¹

Emerging economies now account for over half of world output, against one third in 1975. Mainland China has made a huge contribution to this increase. Its economic size and rapidly expanding share of world trade and investment means that it has a growing influence in regional and world economic affairs. Its ability to produce goods at low cost has had major consequences for international competition and trade. India too is emerging as an economic superpower, with particular strength in the service sector, although its industrial muscle is also impressive as is the case in many other emerging economies. As these economies continue to industrialise, improve their infrastructure and rapidly develop their service sectors, they will continue to change the world economic order. By 2050, it is likely that they will account for almost 78% of global output on realistic economic growth assumptions, provided that measures to limit climate change permit the realisation of these forecasts.

Within the emerging markets, four economies – Brazil, Russia, India and mainland China (BRIC) – are transforming the global economy in particular, and by 2050 will account for 44% of global gross domestic product (GDP).

Figure 3.1: Business optimism in the BRIC economies over the next 12 months (% balance*)



* the balance is the difference between the proportion of businesses indicating an increase and those indicating a decrease
Source: Grant Thornton International Business Report 2007

Optimism

Business owners in Brazil, Russia, India and mainland China are either optimistic or extremely optimistic for the outlook of their country's economy in the coming 12 months. Of the 32 economies in IBR 2007, India remains the most upbeat for the 4th year running with an extremely high optimism/pessimism balance of +97%. Figure 3.1 shows that optimism regarding prospects for the domestic economy is stronger in all the BRIC economies than the global economy on average (+45%).

In mainland China and India, confidence is very high as they continue their dynamic progress, featuring growth levels of between 8-10% a year. Muted perceptions of economic prospects in Brazil probably reflect the perceived impact of the US slowdown this year and the relatively weak long-term performance of the economy. The mood of business owners in Russia has improved significantly with 19% more respondents expressing optimism than the previous year as the economy undergoes a period of vigorous commodity-fuelled expansion.

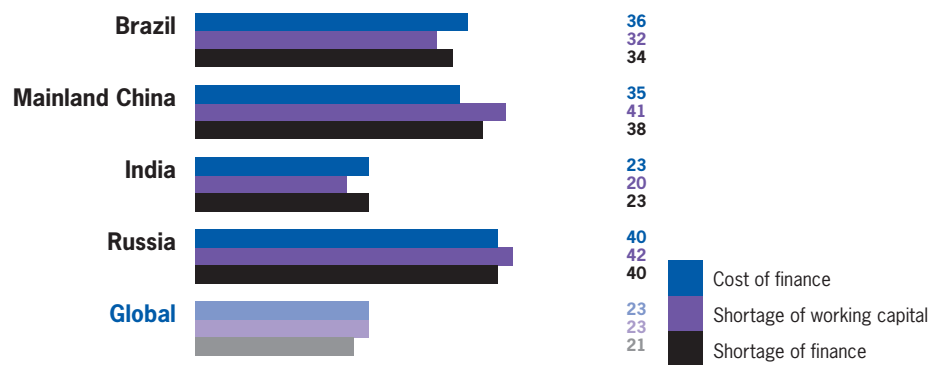
¹ For more detailed information on emerging markets please see: Grant Thornton International Business Report – Emerging markets, February 2007.

Finance shortage

Respondents in three out of the four BRIC economies (Brazil, mainland China and Russia) regarded the cost of finance, shortage of working capital and shortage of long-term finance as major factors in constraining business growth in the next 12 months (see figure 3.2).

Unlike the other emerging markets, business owners in India view financial constraints as less of a barrier to growth, particularly with regard to a shortage of working capital. Only 20% of respondents (3% less than the global average) consider this a major constraint on expansion.

Figure 3.2: Financial constraints on business expansion



* the balance is the difference between the proportion of businesses indicating optimism and those indicating pessimism
 Source: Grant Thornton International Business Report 2007

Business performance expectations

Expectations for business performance are generally buoyant and well above the global average for all the BRIC economies, particularly India and mainland China. India is in the top three countries in all business performance indicators except for exports and investment in plant & machinery (see figure 3.3). Turnover (+92%), employment (+74%) and profitability (+81%) expectations are all higher in India than anywhere else in the world.

Mainland China also appears among the top economies in most indicators and its business owners are the most optimistic across the globe when it comes to investment, particularly in new buildings (+69%). In terms of profitability, the top three are dominated by the BRIC economies with business owners in India, mainland China and Brazil all expecting profits to increase more powerfully than in any other economy.

Figure 3.3: Business performance indicators (% balance) and global position

Turnover		Selling prices		Exports		Employment		Profitability		Investment in new buildings		Investment in plant & machinery								
Pos.	%	Pos.	%	Pos.	%	Pos.	%	Pos.	%	Pos.	%	Pos.	%							
1	India	92	2	India	62	=10	Mainland China	26	1	India	74	1	India	81	1	Mainland China	69	3	Mainland China	66
2	Mainland China	88	=3	Russia	60	12	India	23	4	Mainland China	58	2	Mainland China	78	3	India	50	5	Russia	64
9	Russia	76	=17	Brazil	35		Global average	20	5	Brazil	54	3	Brazil	68	4	Brazil	43	9	India	56
11	Brazil	74	21	Mainland China	33	28	Brazil	12	=6	Russia	53		Global average	52		Global average	35	=13	Brazil	52
	Global average	70		Global average	32	29	Russia	9		Global average	45	18	Russia	50	=9	Russia	31		Global average	46

Source: Grant Thornton International Business Report 2007

Russia is the least optimistic out of the BRIC economies with regards to performance – expectations which are actually below the global average with respect to exports, profitability and investment in new buildings. For turnover, business owners in Russia are positive, with a balance of +76% of respondents expecting higher levels over the next 12 months. This is significantly higher than last year (+58%) and in line with improving sentiment about the domestic economy. Buoyancy regarding turnover levels supports expectations of selling prices, where Russia is only slightly behind India, and in third place globally.

Business owners in Brazil expect strong growth in employment (+54%). With selling prices expected to rise, the outlook for profitability is also significantly higher than the global average (+68%) for the year ahead. Only expected growth in exports (+12%) is below the global average, a reflection of the impact of the US slowdown on the Latin American market.

In terms of profitability the top three is dominated by the BRIC economies again with business owners in India, mainland China and Brazil all expecting profits to increase more strongly than in any other economy.

The future for the BRIC economies

The high growth rates of recent decades are unlikely to be sustainable in the long term. Nevertheless, the dynamic emerging economies led by the two large BRIC economies – mainland China and India – will continue to grow strongly, and our projections indicate that they will account for almost 80% of global output by 2050. We forecast a huge increase in spending on consumer durables and services such as travel as the BRIC economies enjoy income levels equal to, or higher than, the current US level.

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emerging markets,

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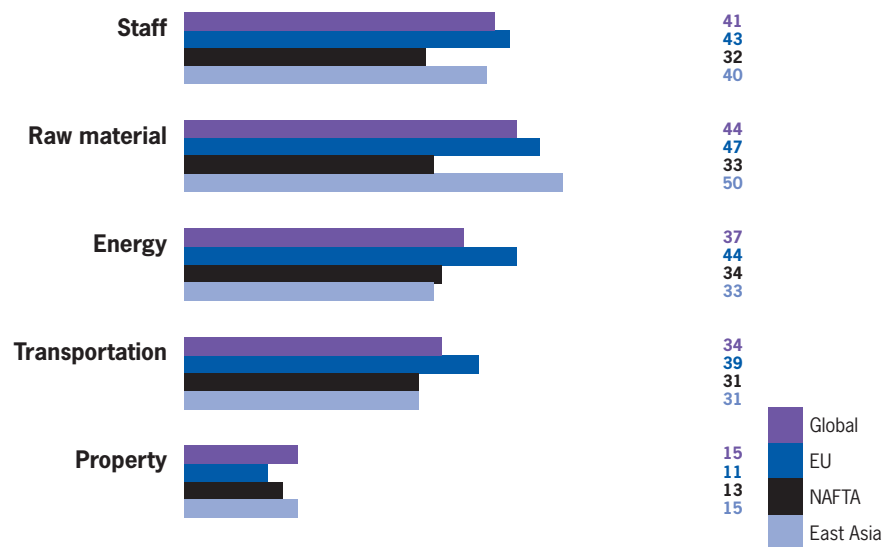
4 Environment and energy²

The fundamental incompatibility between continued rapid growth in the global economy and the sustainability of the environment has become a key issue for the 21st century. There is widespread agreement that global warming is a severe threat to future living standards. The prospect of continued environmental degradation threatens to prevent the global economy powering ahead with growth rates of 5%, or more, widely forecast. But the effects could be even more drastic than a mere slowdown in economic growth. Grave humanitarian issues are at stake with governments and consumers becoming more aware of the threat and, crucially, more willing to take action. IBR 2007 shows that business owners also recognise the dangers and the need to combat the causes of global warming and are committed to take firm action to limit its effects.

Cost pressures

44% of business owners in IBR 2007 expect raw material costs to have a major impact on cost pressures over the next 12 months. This was followed by staff costs (41%) and energy costs (37%). Given the predominance of services in the composition of the business sector in today's economy, the importance of staff costs is not that surprising. Interestingly this is even higher in the NAFTA region where one in two business owners (49%) see staff costs as having the biggest impact on cost pressures above any other factor.

Figure 4.1: Major impacts on cost pressures (% of businesses)



Source: Grant Thornton International Business Report 2007

The country breakdown in figure 4.2 reveals some interesting variations in business owner expectations. Staff costs are of greatest significance in Japan where 58% of businesses expect this factor will have the largest influence. In the Philippines and Thailand 37% of businesses see energy costs as more significant in terms of their impact on cost pressures than both staff costs and raw material costs. This reflects the energy-intensive nature of the manufacturing sector and availability of a relatively inexpensive workforce in both of these countries.

² For more detailed information on environment and energy issues please see: Grant Thornton International Business Report – Global issues, April 2007.

Raw material costs are hugely significant in East Asian economies such as Singapore (47%) and mainland China (44%), although interestingly also in some European countries including Germany (30%). In Germany, energy costs are also rated above staff costs, which, given the service-orientated nature of the German economy and the high cost of labour, is quite surprising. Among the global regions, it is business owners in the EU who rate energy costs as the most significant factor (21%).

Figure 4.2: Top factors impacting costs (% of businesses)

Staff costs		Raw material costs		Energy costs	
Japan	58	Singapore	47	Thailand	37
Greece	55	Mainland China	44	Philippines	37
Netherlands	55	Botswana	41		
New Zealand	54	Malaysia	41		
US	53	France	39		
Argentina	53	Italy	39		
Australia	50	Mexico	36		
Luxembourg	47	Russia	33		
South Africa	47	Germany	30		
Turkey	46	India	26		
UK	44				
Sweden	43				
Poland	42				
Ireland	41				
Hong Kong	41				
Canada	41				
Spain	40				
Brazil	39				
Taiwan	37				
Armenia	36				

Source: Grant Thornton International Business Report 2007

Saving energy

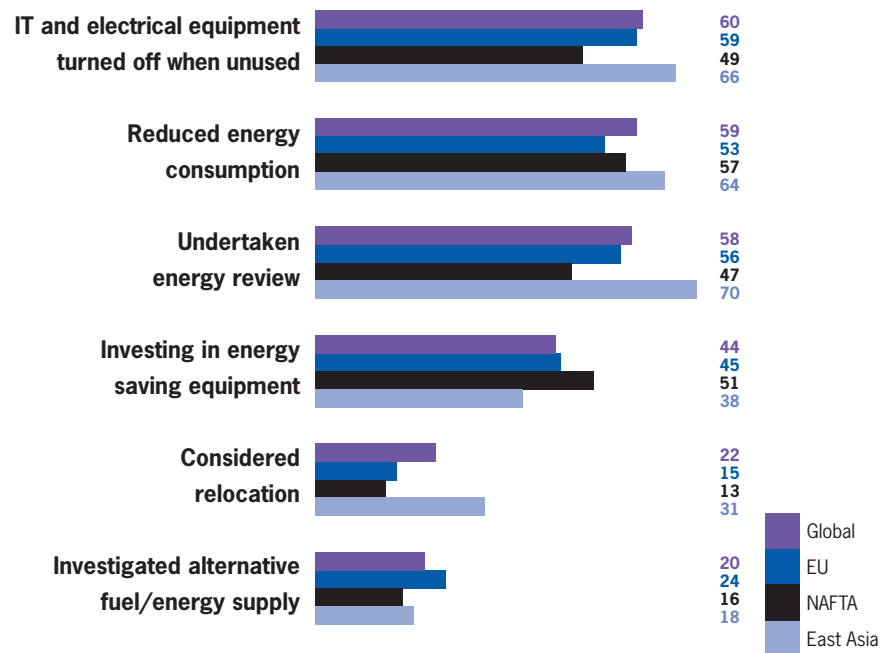
Methods preferred by businesses to effectively control energy usage and minimise associated costs are turning off all IT and electrical equipment when not in use (60%), reducing energy consumption from property (59%) and undertaking an energy review (58%). Methods such as investigating alternative fuel/energy supplies and relocating to reduce transportation costs are less favourable solutions (figure 4.3).

Figure 4.4 shows how countries rank in terms of proportion of businesses undertaking these six energy management methods, designed to conserve energy and take action to prepare for ever increasing energy prices.

East Asian economies make up four of the top ten and four of the bottom ten countries in the table. Although certain countries from this region are better prepared and ready for future energy price increases than elsewhere, there appears to be a split emerging in anticipation of future energy challenges.

Business owners in the Philippines scored highest in three out of the six factors and appear to have put the most measures into place to manage their energy costs. Given that businesses in the Philippines were the most prominent in citing energy as having a major impact on costs, this does not come as a surprise.

Figure 4.3: Methods taken to manage energy costs (% of businesses)



Source: Grant Thornton International Business Report 2007

Figure 4.4: Management of energy and environmental issues league table*

Philippines	410
Brazil	360
Mainland China	341
Malaysia	307
Germany	306
Turkey	303
Poland	298
Hong Kong	292
Mexico	283
India	282
Armenia	271
UK	258
Ireland	253
Spain	248
Greece	243
Italy	235
Australia	233
Canada	233
South Africa	230
US	229
Russia	223
Netherlands	217
Luxembourg	214
Argentina	213
New Zealand	212
Sweden	208
Taiwan	207
Japan	205
Botswana	191
France	186
Thailand	178
Singapore	143

Source: Grant Thornton International Business Report 2007

*Respondents were measured by whether they had undertaken six energy and environmental initiatives:

- if they had undertaken an energy review
- reduced energy consumption
- put measures in place to turn off electrical equipment
- invested in energy saving equipment
- investigated alternative fuel/energy supplies
- considered relocating to reduce transportation costs.

With the exception of Singapore, Thailand and Taiwan, the newly industrialising countries have done more than the service-oriented economies of Western Europe and North America.

Germany is the highest ranked European country, in fifth position, with a large proportion of businesses having undertaken energy reviews to understand where they might be wasting energy. France is the lowest ranked European country in 30th position.

The green future for business

The global economy is in good shape and strong output growth is expected to continue, but living standards across the globe are at risk from global warming. Environmental degradation threatens at a global and long-term level that would prevent the global economy powering ahead as forecast. There is widespread recognition of this threat with global warming rising to the top of the political agenda, although recognition of the problem is one thing, translating it into action is another entirely. The response to climate change must be on a global scale, but this raises many difficult conflicts as countries seek to realise their economic aspirations.

Each country in IBR was given a score based on the percentage of businesses who had carried out each of the criteria. For each of the six criteria, the highest score a country could receive was 100, with a total maximum score for the management of energy and environmental issues league table of 600.

The “greening” of business is simply not just good for the planet – it is good for business. Bottom line profitability improvements are directly impacted by tight, well-planned cost management. Customers may well demand a “greening” of business, governments may introduce changes in legislation and regulation to green-spray their practices, but ultimately sound cost management is a primary driver for businesses to adopt a more “world-aware” perspective.

5 Stress

Figure 5.1: Stress level increases in 2006 and 2007 (% of businesses)



Source: Grant Thornton International Business Report 2007

A modest level of stress is arguably helpful in maximising the efficiency with which people carry out their work, however too much stress can have the opposite effect. High stress is an obvious risk for business owners, given the demands involved in running a business and the pressures that can arise in getting the right balance between work and leisure. The level of stress at the highest echelons of business is influenced by many factors, including the economic environment, strong and ever-increasing competition, cash flow problems, more demanding customer expectations and shortage of leisure time. IBR shows that in recent years a high proportion of business owners have felt more stressed than they did previously.

Increased stresses

IBR found that 56% of business leaders reported an increase in stress levels compared to one year ago. In relation to 2006, the proportion of respondents experiencing a rise in stress has actually fallen across the board (see figure 5.1) with over two thirds of all countries reporting a lower increase in stress than the previous year.

Growing strains

Figure 5.2 shows that the top ten countries reporting a stress level increase are dominated by the emerging markets. Three out of the four BRIC economies made it into the top four, with the highest proportion of business leaders experiencing a rise in stress levels coming from mainland China (84%).

European countries had the lowest proportion of business leaders indicating a rise in stress, with Sweden located at the bottom of the table (27%). In terms of the greatest slowdown in stress level increases since 2006, it is the Philippines (12%), with fewer respondents reporting a rise in stress levels than anywhere else.

Figure 5.2 Top ten and bottom ten economies reporting a stress increase in the last year (% of businesses)

1	Mainland China	84
2	Taiwan	82
3	India	79
4	Russia	76
5	Botswana	70
6	Singapore	69
7	Hong Kong	67
8	Malaysia	64
9	Philippines	64
10	South Africa	64
	Global	56
23	US	43
24	Australia	41
25	Spain	41
26	Poland	40
27	Canada	39
28	France	37
29	Netherlands	37
30	UK	37
31	Ireland	35
32	Sweden	27

Source: Grant Thornton International Business Report 2007



Peter Bodin, Grant Thornton, Sweden

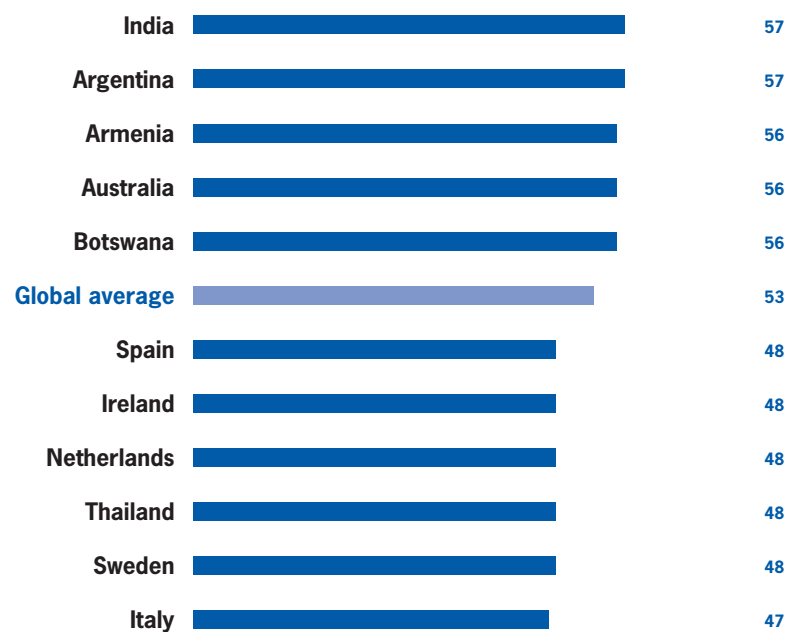
“Business leaders in Sweden are less stressed than those in other countries. A stable economy with good growth and profitability levels may make Swedish business leaders feel less stressed than their counterparts. Historically, exports are a key element of Sweden’s economy and businesses here view globalisation as an opportunity rather than a threat. This and a lively debate over work-life balance is most likely behind the low stress levels.”

Stress levels appear to be a reflection of the pace of growth in these economies and of the longer hours worked by business leaders as they strive to take advantage of domestic and global economic expansion. However, the Philippines seem to be setting the example by recording the greatest reduction in stress increases – yet still outperforming most countries in key issues such as business optimism, women in senior management and the management of energy and environmental issues.

Longer weeks

Business leaders on average work 53 hours a week with those in NAFTA countries working the longest (54 hours) and Europe the fewest (50). In India and Argentina, business leaders work on average 57 hours a week, more than in any other participating country, perhaps driven by their rapidly expanding domestic economies (figure 5.3). Italian business leaders work an average of 47 hours a week – the shortest working week worldwide and 10 hours less than respondents in India/Argentina.

Figure 5.3: Average hours worked a week – top and bottom five



Source: Grant Thornton International Business Report 2007

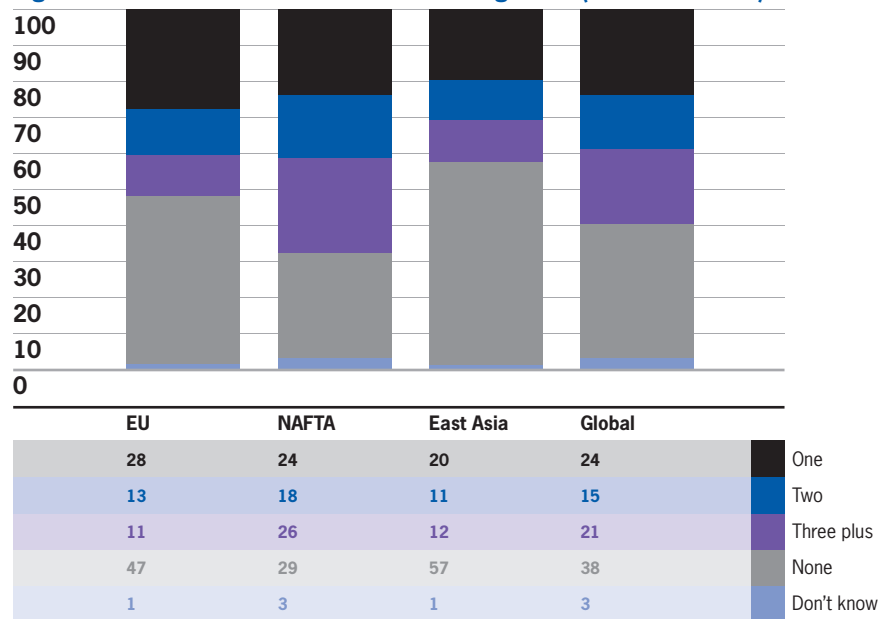
Effects of stress

Stress affects people throughout the organisation. Workers with repetitive, poorly rewarded jobs are just as liable to be affected by stress as managers responsible for the whole business, although as our survey shows, the factors causing stress among managers/owners are varied and can easily build up in a demanding job. Managers have a responsibility to recognise and address the problem at a company-wide level, but also have a responsibility to do so at a personal level. There is no universal remedy, but acknowledging personal stress and taking action to combat it by using the range of knowledge, ideas and products that now exist is in the best interests of any organisation.

6 Women in business

Although some progress has been made, and a number of high-profile examples can be cited, a “glass ceiling” persists with regard to the ability of women to attain senior management positions. Our survey shows that the proportion of women in senior management positions has grown slightly from 19% to 22% since 2004, although in many economies they account for over half of all professional and graduate qualifications. Many women have to make a choice in their family-work balance that men generally don’t. This forces many well qualified women to, at least for a while, leave their chosen career paths often at a time when their career demands are increasing. When returning to their jobs, many women have to work part-time to balance family commitments, sometimes disadvantaging themselves against colleagues who have worked continuously and can put in long hours and travel extensively. It appears that most businesses have not developed a system that fully caters for the family-work balance of the women they employ.

Figure 6.1: Number of women in senior management (% of businesses)



Source: Grant Thornton International Business Report 2007

Women in senior management

Almost 40% of business owners globally report having no women participating in the senior management of the business. This figure has remained unchanged since 2004; the last time this particular question was asked. Of the global regions, NAFTA has the highest proportion of businesses with women in senior management (68%).

Interestingly the proportion of businesses in the EU with one-two women occupying senior management positions (see figure 6.1) is equal to the proportion of businesses in NAFTA (41% and 42% respectively). The major difference comes in the “three plus” category with a quarter (26%) of all businesses in the NAFTA group employing three or more women in senior management roles compared to only 12% in East Asia and 11% in the EU.

Figure 6.2: Women in senior management – top ten and bottom ten (% of businesses)

1	Philippines	98
2	Mainland China	91
3	Malaysia	85
4	Brazil	83
5	Hong Kong	83
6	Thailand	81
7	Taiwan	80
8	South Africa	78
9	Botswana	75
10	Russia	73
	Global	65
23	France	58
24	India	56
25	Turkey	53
26	Mexico	53
27	Argentina	47
28	Italy	42
29	Germany	41
30	Luxembourg	37
31	Netherlands	27
32	Japan	25

Source: Grant Thornton International Business Report 2007

The Philippines has the highest proportion of businesses with women participating in senior management (98%*) followed by mainland China (91%) and Malaysia (85%) as shown by figure 6.2.

Four out of five of the economies with the lowest figures are in Europe: however it is Japan with the lowest proportion; only a quarter of Japanese businesses presently have senior management positions occupied by women.

Since 2004, 22% fewer businesses in Mexico have women at a senior management level – the greatest decrease globally. Spain and India witnessed the largest increase (14% for both).

The percentage of women participating in senior management has risen globally from 19% in 2004 to 22% in 2007. 23% of senior management roles are occupied by women in the NAFTA region, however, the proportion is significantly less in both the EU (17%) and East Asia (14%). Since 2004 the change in these figures has varied in each of the three global regions, increasing in NAFTA (+3%), remaining the same across the EU and decreasing in East Asia (-3%).

The future

Women are under-represented in management. Our survey shows that this is true in the large majority of participating countries/territories, though it is more prevalent in some than in others. Companies in some economies have attempted to tackle the crucial issue – the life-work dilemma that many women face – by establishing work patterns and career paths that do not seriously disadvantage women. This involves making maximum use of flexible work arrangements such as telecommuting and reducing the stigma associated with career paths that do not conform to the conventional continuous full-time model.

* 26% of respondents in the Philippines did not respond to this particular question. Therefore, the results are based on a robust sample of businesses who provided a response to this question.

The proportion of

women in management

is still very low in most countries. Businesses should consider ways to establish viable career paths, leading to senior positions that cater for the life-work choice that many women face.

7 Constraints

In an environment in which, for a variety of reasons, business leaders may see a clear need to expand the scale of operations, the existence of a range of potential obstacles is very frustrating. The robust economic background of recent years has helped in regard to one of these obstacles – shortage of demand – though it still appears to be an issue in a surprisingly large number of economies. But the healthy economic climate is a mixed blessing. It also intensifies competition for scarce labour resources and consequently skill shortages have assumed greater significance as a constraint in recent years. Other constraints not subject to the business cycle also persist – shortage, cost and lack of availability of finance. Regulations and red tape head the list of obstacles in our survey for the fifth year in a row. Governments are constantly pledging to ease bureaucracy, but the position rarely seems to improve, and business owners remain frustrated.

Figure 7.1: Global constraints on expansion 2003 to 2007 (%*)

	2003	2004	2005	2006***	2007***
Regulation/red tape	35	37	36	35	37
Lack of availability of skilled workforce	31	23	28	30	34
Shortage of orders/reduced demand**	–	32	27	25	25
Shortage of working capital	24	22	20	17	20
Cost of finance	20	18	17	17	20
Shortage of long-term finance	22	19	18	17	17

* % of respondents rating this 4 or 5 on a scale of 1 to 5, when 1 is not a constraint and 5 is a major constraint

** this option was not surveyed in 2003

*** excluding mainland China for comparison with previous years

Source: Grant Thornton International Business Report 2007

Constraints on expansion

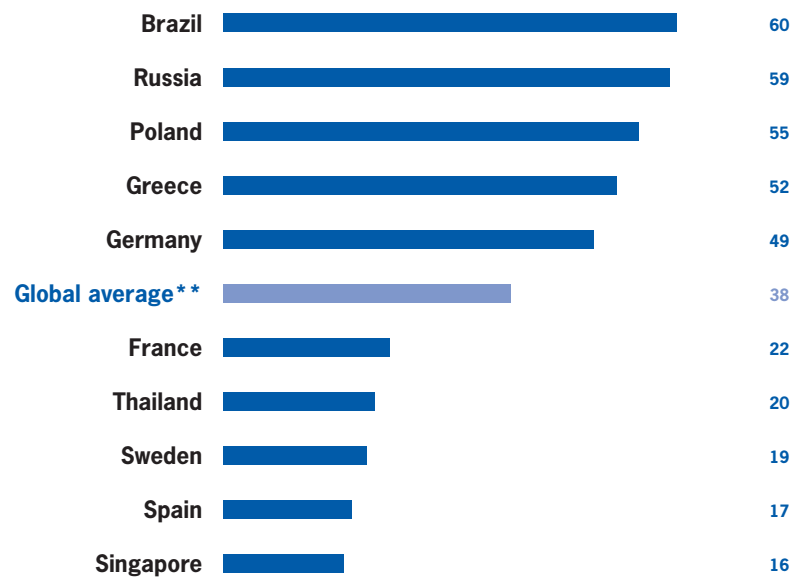
Lack of available skilled workers is a close second to regulations/red tape globally.

Skilled workforce shortages have assumed greater significance over recent years following four years of strong global economic growth. Shortage of orders/reduced demand is just as much of a constraint as it was last year, while availability of finance (shortage of working capital or cost of finance) has marginally grown as a factor and shortage of long-term finance has stabilised. However, these global averages mask significant differences among the various economies in IBR.

Regulations/red tape

The issue of increasing regulations and red tape hampering business operations is a mounting global issue with some marked divergences (see figure 7.2). In Europe, the issue is viewed as a much greater problem than in other global regions, with three EU countries and Russia occupying four of the top five places. Brazil leads the way with 60% of businesses citing this issue as a major constraint, with Russia second on 59%. Polish businesses are now less likely to cite this as a major constraint compared to two years ago suggesting that Poland's accession to the EU has improved the position. Significant movements in the other direction are seen in Taiwan and mainland China, and generally East Asian businesses are more concerned than last year about regulations/red tape.

Figure 7.2: Regulation/red tape as a major constraint on expansion plans – top and bottom five (%*)



Source: Grant Thornton International Business Report 2007

** this figure includes mainland China

Figure 7.3: Most significant constraint on expansion plans (%*)

Regulations/red tape	Lack of skilled workforce	Shortage of orders/reduced demand	Cost/availability of finance
60 Brazil	60 New Zealand	59 Japan	49 Botswana (cost of finance)
59 Russia	59 Australia	54 Thailand	46 Turkey (cost of finance)
55 Poland	58 South Africa	50 Mainland China	38 Armenia (shortage of long-term finance)
52 Greece	45 Canada	46 Taiwan	
49 Germany	43 Philippines	44 Italy	
48 Argentina	40 Netherlands	36 Hong Kong	
37 Mexico	39 Spain	32 France	
37 India	34 US (joint with regulations/red tape)		
34 US (joint with lack of skilled workers)	34 Malaysia		
32 UK (joint with lack of skilled workers)	32 UK (joint with regulations/red tape)		
32 Luxembourg (joint with lack of skilled workers)	32 Luxembourg (joint with regulations/red tape)		
	29 Sweden		
	25 Ireland		
	19 Singapore		

* % of respondents rating this 4 or 5 on a scale of 1 to 5, when 1 is not a constraint and 5 is a major constraint

Source: Grant Thornton International Business Report 2007

Skilled workers

Given the buoyancy of the global economy, it is not surprising that global workforce skill shortages have grown steadily over the past four years (see figure 7.1). The continuing economic upswing in 2006 increased the proportion of respondents citing this factor and it also raised the number of economies where this was the major constraint from seven to fourteen (see figure 7.3). New Zealand, Australia and South Africa lead the list of countries where workforce skill shortages is seen to be the biggest constraint on expansion (60%, 59% and 58% respectively). This is not surprising given the fact that not only have these

three economies experienced solid growth in recent years, but their talent pool is being eroded as they lose younger workers to greater challenges and more perceived opportunities in Europe and the US for example.

Businesses were also asked to identify the extent to which the movement of skilled workers to other countries has impacted their businesses (see figure 7.4). Globally, businesses have indicated that this has had a marginal negative impact (balance of -2%), however, there is a huge variance across different countries. Businesses in the Philippines (+46%), have seen this to have a positive impact. In total, only 13 of the 32 economies have cited the

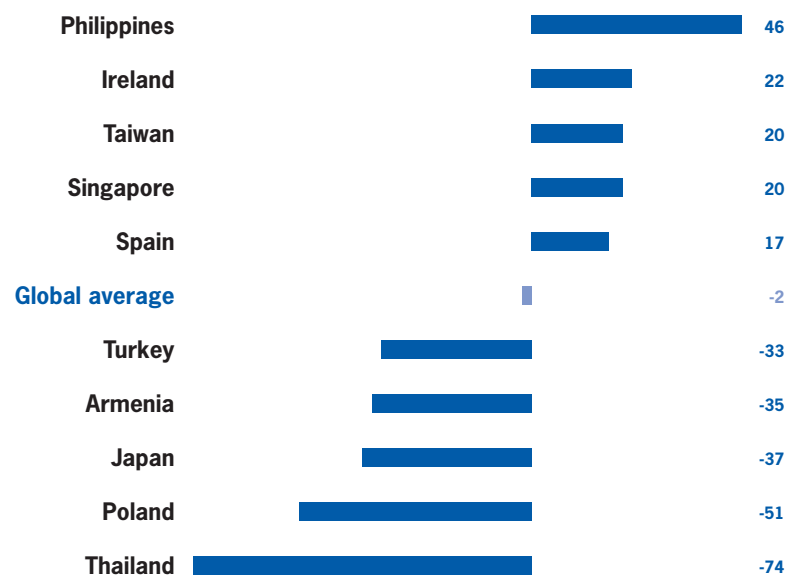
loss of skilled workers to other economies as having a positive impact on businesses. The majority have indicated the impact to be negative, especially in Thailand (-74%) and Poland (-51%).

Shortage of orders/reduced demand

Only seven economies cite shortage of orders/reduced demand as the main constraint (figure 7.3). Heading the list is Japan; though showing encouraging evidence of recovery from the weakness of the past 15 years, the Japanese economy still lacks strength and businesses are not yet confident that demand is sufficiently strong to underpin expansion.

Clearly, economic dynamism does not preclude economies from appearing in this group which contains a number of East Asian economies, including mainland China. But the proportion of respondents citing this as the main constraint is relatively low in some of these economies, and their appearance may simply reflect the absence of serious constraints on expansion, or that they have become accustomed to even faster expansion than they now perceive to be feasible.

Figure 7.4: Impact of loss of skilled workers on your company – top and bottom five (%*)



*% of respondents indicating a positive impact minus % of respondents indicating a negative impact
Source: Grant Thornton International Business Report 2007

Financial constraints

Relatively few economies perceive this as a major constraint. In the majority of cases, around a fifth of business owners cited cost or availability of finance as an impediment to expansion. There are a number of important exceptions; in Argentina shortage of long-term finance was cited as the second main constraint by 47% of respondents, but cost and shortage of working capital also featured prominently. In Botswana and Turkey, cost of finance was considered the major constraint on expansion (see figure 7.3). Around four out of ten respondents in Botswana, mainland China, Turkey and Russia cite all three financial factors as constraints.

Payment periods

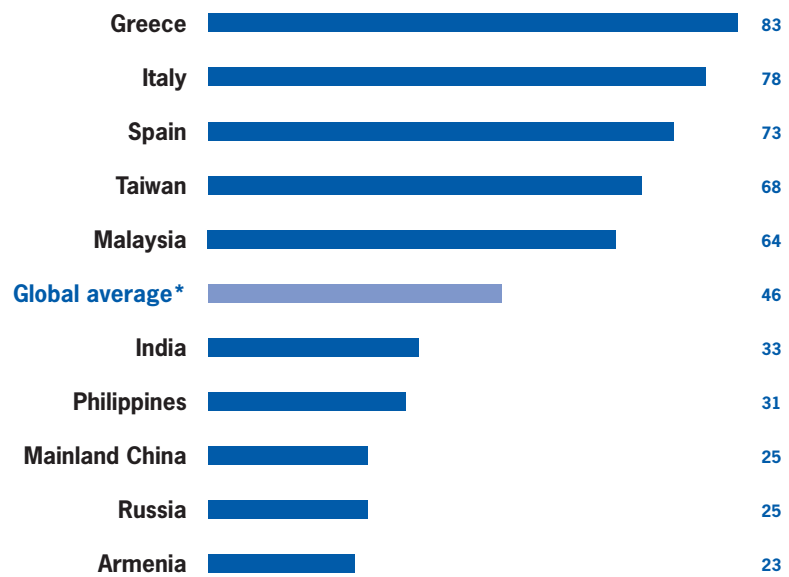
At a global level, (excluding mainland China for comparability) the average payment period has been remarkably stable at 46 or 47 days since 2003, but they vary significantly among the 32 economies in our survey. Armenia, with an average payment period of 23 days, edges just ahead of Russia and mainland China as the most prompt in effecting settlement (figure 7.5), reflecting the prevalence of cash on delivery where a high proportion of businesses receive payment in 1-7 days.

The slowest payers, as in earlier surveys, are Greece, Italy and Spain.

Implications for business

Constraints on expansion plans are a fact of business life. Businesses can do little to counter the effects of a downturn in the economic cycle, or the cost and availability of credit. Although many governments strive to simplify red tape they have been largely unsuccessful. In today's global marketplace, with increased pressures from emerging economies, governments are being caught unawares by businesses changing faster than they can legislate. Governments must endeavour to work with businesses to address future requirements before issues arise.

Figure 7.5: Average days for payment of sales invoices



Source: Grant Thornton International Business Report 2007

** this figure excludes mainland China

Actions to address labour shortages might be rather more effective through investment in plant, machinery and computers. But in a competitive environment, attracting and retaining the right people will always be a challenge. The key point is, however, that despite all these obstacles, successful and ambitious businesses do expand.



Robert Quant, Grant Thornton, Australia

“Government efforts to remove constraints on business expansion through liberalisation of international trade have proved very successful. Other obstacles caused by lack of skilled workers, red tape, bureaucracy and planning restrictions clearly need to be addressed.”

8 Change in ownership

A change in ownership can have a major impact on the strategy and operations of a business, affecting long-standing practices and employment patterns. The issue therefore merits careful consideration and planning.

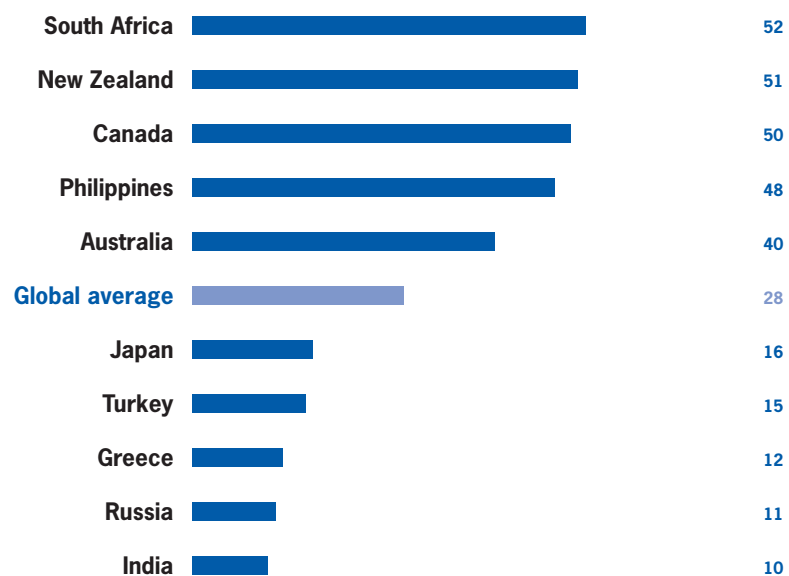
There is considerable diversity around the global average of 28% of businesses expecting a change of ownership over the next decade, ranging from 10% in India to over 50% in South Africa and New Zealand (see figure 8.1). The global average has not changed from 2005 suggesting that changing business conditions have not made business owners more/less likely to change the ownership of their business. Regionally, businesses in NAFTA are the most likely to change the ownership of their business in the next ten years (33%) with businesses in the EU least likely (25%).

Among companies expecting a change in ownership, a quarter of businesses globally expect this change to occur within the next two years. Businesses in East Asia are the least likely to change ownership within the next two years (21%) with little variation between businesses in the EU and NAFTA regions (27%), as shown in figure 8.2.

Type of change

Trade sale (sale of shares to another company) is the most likely method of change (cited by 25% of companies expecting a change). Bringing in private equity/bank investors is the second, with four others not far behind.

Figure 8.1: Expectations of ownership change in next ten years – top and bottom five economies (% of businesses)



Source: Grant Thornton International Business Report 2007

Figure 8.2: Expectations of when the change of ownership will take place (% of businesses)*

	Within 2 years	3-5 years	6-10 years
Global average	25	48	23
EU	27	45	25
NAFTA	27	47	20
East Asia	21	54	24

* % of respondents expecting a change of ownership in the next 10 years

Source: Grant Thornton International Business Report 2007

Among companies expecting a change
in ownership, a

quarter

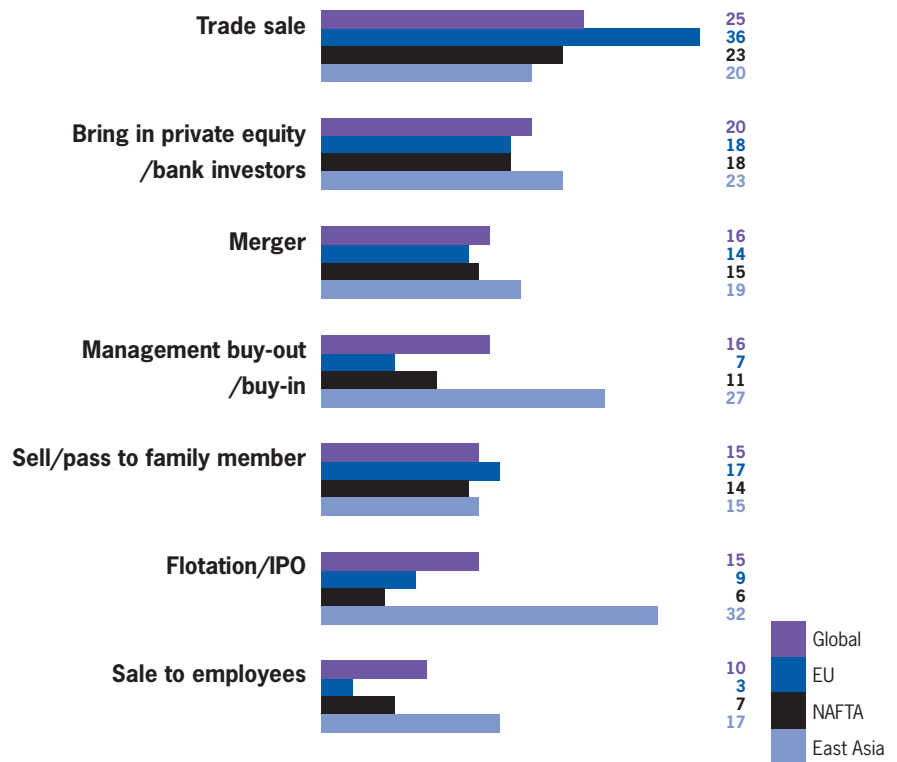
of businesses globally expect this change to
occur within the next two years.

There are distinct regional patterns between methods of ownership change, as illustrated in figure 8.3. Trade sale is much more likely in the EU than in NAFTA or East Asia. Bringing in private equity/bank investors, mergers, management buy-outs, flotation/IPO and sale to employees is significantly more likely in East Asia than the other regions. Keeping the business in the family, either through sale or passing it to a family member, is more evenly spread out but is most likely to happen in the EU.

Country specifics

- More than 50% of businesses in the UK and Sweden expect a change of ownership to be through a trade sale.
- 28% of businesses in mainland China and India expect to bring in private equity/bank investors.
- Over a third of businesses in mainland China expect to change ownership through a flotation/IPO (36%).
- A third of businesses in Canada expect to sell/pass on their business to a family member.
- South African businesses are the most likely to have a management buy in/out (35%) and are also the most likely to sell the business onto employees (45%).
- Over a fifth of businesses in Australia expect their change of ownership to take place through a merger (22%).

Figure 8.3: Type of change of ownership (% of businesses)*



Source: Grant Thornton International Business Report 2007

Business implications

Change of business ownership can be a very significant step and is often one that requires much thought, preparation and planning. There are a large number of factors that can influence this and “timing” is a key issue. Results from IBR 2007 indicate that a trade sale and bringing in private equity/bank investors are the most common methods of ownership change by mid to large privately held businesses. Both of these methods require careful thought and planning and businesses should bear this in mind as failure to plan effectively could be very expensive.



Johan Blignaut, Grant Thornton, South Africa

“South African business owners are fully aware of the need to plan for ownership change but many are unsure of the best approach. The success of the business is paramount, even if it means that control passes to new owners.”

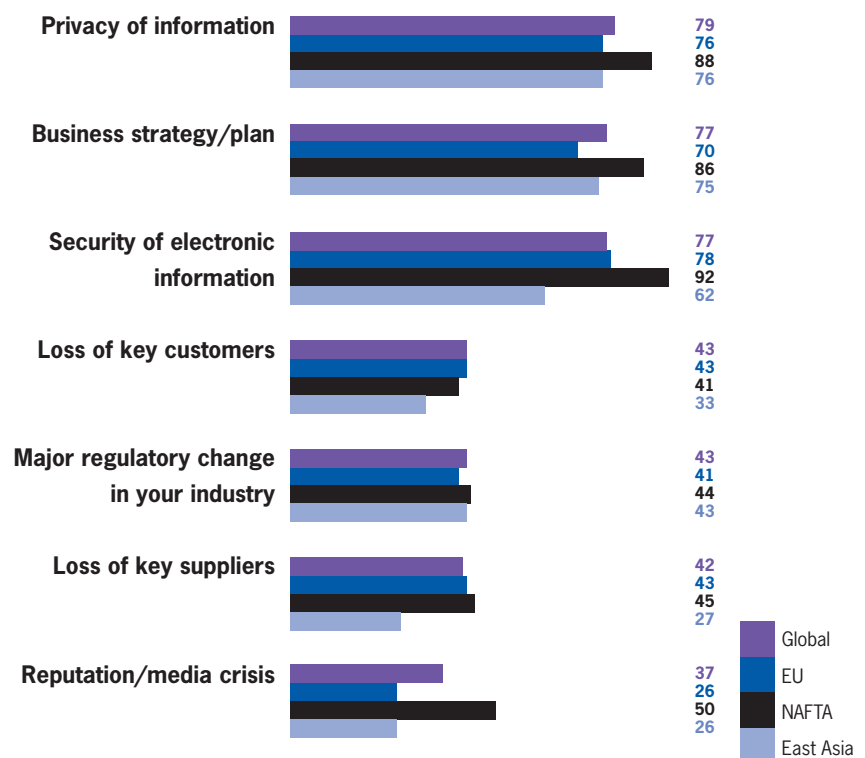
9 Business risk

The world economic background remains favourable, but this cannot significantly ease the many risks and uncertainties that are an inherent part of business life. Loss or destruction of property has throughout history been a major fear of business owners, and with an ever-present threat of terrorism, this issue remains high on the agenda. Although the effects can be partially countered through insurance, the disruptive implications of a loss of plant or buildings are worrying, and a formal mechanism for dealing with such an eventuality is in place among a high proportion of respondents. A more recent, but equally critical issue, stems from the technological innovations of the past few decades. For a high proportion of business owners, a formal mechanism for dealing with security and privacy of electronic information is perceived as essential.

Dealing with risk

IBR shows that the proportion of businesses globally* with formal documented processes in place has risen since 2004 in all business risk areas** except for major regulatory change that has remained unchanged (43% in 2004 and 2007). Over three quarters of businesses worldwide have a formal documented mechanism to deal with privacy of information, security of electronic information and business strategy/plan – the top three risk areas with mechanisms in place (see figure 9.1).

Figure 9.1: Formal documented mechanisms (top three and bottom three) in place to deal with business risks (% of businesses)



Source: Grant Thornton International Business Report 2007

* Excluding mainland China.

** All business risk areas that were asked in both the 2004 and 2007 surveys include: major IT failure, major regulatory change in the industry, loss of key personnel, loss of key customers, loss/destruction of property, loss of key suppliers, reputational and media crisis and succession planning.

Businesses' dependence on

new technology

means that a formal mechanism for dealing with security and privacy of electronic information is very important.

Figure 9.2: Businesses with a senior manager responsible for overseeing risk – top and bottom five (% of businesses)

1	Philippines	70
2	Australia	68
3	Hong Kong	65
4	Sweden	59
5	US	57
	Global	44
=27	Botswana	31
=27	Brazil	31
29	Poland	25
30	Armenia	22
31	Singapore	21
32	Russia	20

Source: Grant Thornton International Business Report 2007

Risk management

44% of respondents currently have at least one senior manager responsible for overseeing risk management for the business. In terms of the global regions, NAFTA has the highest proportion of businesses with a risk manager (56%). With the exception of India, the BRIC economies dominate the lower end of the table in figure 9.2 with mainland China (33%), Brazil (31%) and Russia (20%) having the lowest proportion of businesses. In contrast, at the other end of the table 70% of businesses in the Philippines have a risk manager, followed by Australia (68%) and Hong Kong (65%).

New accounting rules

The proportion of businesses globally that identified new accounting rules as impacting their business is nearly identical to the proportion in 2003 (57% compared to 56% – see figure 9.3), prior to their implementation. Distribution of expected and observed impact, however, varies significantly across the 32 countries/territories surveyed. The percentage of businesses in the EU that expected new accounting regulations to impact their business was less (by 6%) than the percentage that actually witnessed an impact four years later. By contrast in the NAFTA countries, the introduction of the new rules impacted nearly three quarters of all businesses (73%), 10% more businesses than the proportion expecting an impact in 2003.

Figure 9.3: Expected versus observed impact of new rules relating to business accounting practices (% of businesses)*



* % of respondents reporting a slight impact or serious impact
 Source: Grant Thornton International Business Report 2007

Businesses in the US (78%) were more affected than anywhere else in the world – 9% more businesses than the Philippines (69%) who ranked second (figure 9.4). Spain, Ireland, Thailand and Argentina were affected least, with the new rules impacting less than a third of businesses.

Figure 9.4: Impact of new rules relating to business accounting practices – top and bottom five (% of businesses)*

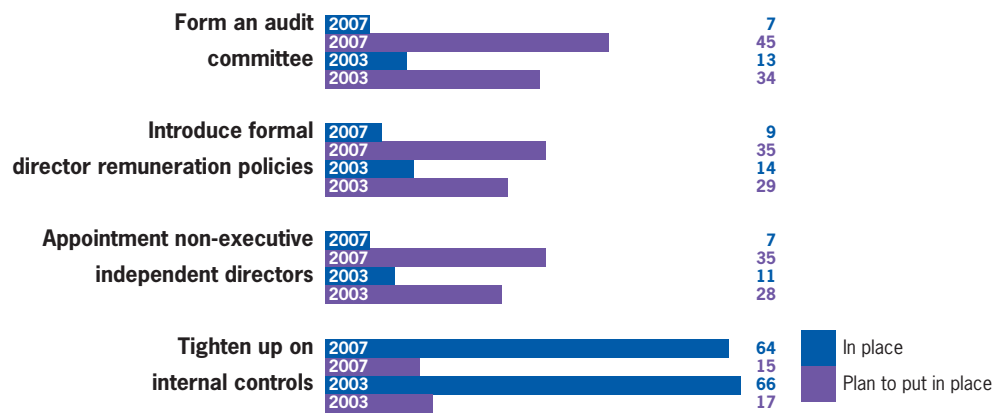
1	US	78
2	Philippines	69
3	South Africa	67
4	Netherlands	66
5	Russia	61
	Global	57
28	Luxembourg	34
29	Argentina	32
30	Thailand	32
31	Ireland	31
32	Spain	30

* % of respondents reporting a slight impact or serious impact
 Source: Grant Thornton International Business Report 2007

Internal controls

Compared to 2003, businesses have more actions in place to protect their shareholders, employees and other third parties. Figure 9.5 shows the actions taken by businesses relating to protection, and how the proportion of businesses undertaking them has increased since 2003. Only “tightening up on internal controls” has fallen, with 64% of businesses (compared to 66% four years ago) with this in place, although this is still the action most undertaken overall. The largest increase has been in the number of firms forming audit committees. 11% more businesses globally now have an audit committee in place protecting the interests of third parties. Compared to four years ago the proportion of businesses planning to undertake these actions in the future has fallen, not surprising now that more businesses have them in place compared to 2003.

Figure 9.5: Businesses globally* who have actioned or planned to protect shareholders, employees and/or other third parties (% of businesses)



* excluding mainland China

Source: Grant Thornton International Business Report 2007

Figure 9.6: Top five and bottom five countries that have taken actions to protect shareholders, employees and/or other third parties (% of businesses)

Tighten up on internal controls		Appoint non-executive or independent directors		Introduce formal director remuneration policies		Form an audit committee		
1	Botswana	89	1 US	59	1 Greece	56	1 US	71
2	Thailand	83	2 Greece	54	2 South Africa	54	2 Malaysia	61
3	South Africa	82	3 Philippines	49	3 US	53	3 Greece	60
4	Luxembourg	78	4 South Africa	45	4 Philippines	51	4 Turkey	60
5	Malaysia	77	5 Malaysia	37	5 Malaysia	43	5 Mexico	58
	Global average	66	Global average	34	Global average	36	Global average	41
28	India	56	28 Mexico	15	28 Germany	22	28 Germany	19
29	Sweden	53	29 Brazil	14	29 Botswana	16	29 Ireland	17
30	Russia	49	30 Thailand	14	30 Singapore	16	30 Russia	16
31	Germany	45	31 Singapore	12	31 Japan	10	31 Japan	14
32	Japan	37	32 Russia	7	32 Russia	2	32 Taiwan	13

Source: Grant Thornton International Business Report 2007

NAFTA economies come out top of all the global regions when protecting shareholders, employees and other third parties. Botswana has the highest proportion of businesses (89%) that have a plan in place to tighten internal controls, whilst the US has the highest proportion “appointing non-executive or independent directors” (59%) and with an audit committee in place (71%). Greece has the highest proportion of businesses (56%) “introducing formal director remuneration policies.” Germany is consistently in the bottom five with the lowest proportion of businesses taking such actions (see figure 9.6).

Business implications

The array of business risks is huge, but the means exist to cater at least to a degree for some of them. Insurance, hedging against unfavourable financial developments, and as our survey shows, having strong systems in place to cope when risks crystallise are all sensible actions. Most businesses adopt these procedures, but when all the possible safeguards are in place, a residue of unprotectable risk inevitably remains.

Summary and conclusions

Economic background Boom

conditions in the global economy in recent years have generated a positive mood in most economies. The strong performance of the world economy in 2007 is matching expectations.

Business performance outlook

Most economies are upbeat about key business performance indicators such as turnover, profitability and investment over the next 12 months. Even where the mood is less positive, it shows a marked improvement on the position in recent years.

Emerging markets High growth rates

in recent decades mean that emerging markets now account for over half of total global output. Although recent growth rates are unsustainable, these countries will continue to grow strongly. Our projections indicate that they will account for almost 80% of global output by 2050, and income levels in some will be equal to, or higher than, the current US level.

Environment and energy Living

standards across the world are at risk from climate change. Widespread recognition of the threat means that global warming has risen to the top of the political agenda. IBR shows that businesses are also taking firm action to address the issue.

Stress IBR shows that a high proportion of business owners feel more stressed than they did a year ago. Acknowledging stress and taking action to combat it by using the range of knowledge and ideas that now exists is in the best interest of all organisations.

Women in business Women are generally under-represented in senior management positions, although this is less prevalent in a few countries, notably the Philippines. Some companies are attempting to face up to the crucial issue – the life-work choice that many women face – in an effort to tackle the problem.

Constraints Among the range of constraints that businesses face as they seek to expand, regulations and red tape predominate. The healthy global economic background has eased shortage of demand as a constraint, but has increased the intensified competition for skilled workers.

Change of ownership This issue requires careful planning. Change of ownership can have a major impact on business operations and strategic direction. Failure to plan effectively can be expensive and painful.

Business risk Risk is inherent in business, but a degree of protection is possible, for example through insurance in the case of property. IBR shows that a formal mechanism for dealing with risks that crystallise is regarded as essential by many businesses.

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