

International Business Report 2007

Regional focus

Grant Thornton 

European Business

Interviews

7,200

32

Economies

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International
Business
Report

Welcome

Since 1993, Grant Thornton International has undertaken a major annual survey of independent business enterprises in the European Union. The contribution of such businesses to the development and dynamism of the economy is widely recognised, stemming from their flexibility, ability to respond rapidly to changing demands and employment-creating potential. The views of the entrepreneurs who manage such companies provide a valuable source of information on investment intentions, funding and ownership, and give a unique insight into a variety of key business performance issues, including turnover, profitability and exporting.

The research spans over a decade and a half that has seen major changes in the economic landscape of Western Europe. Not least the expansion of the EU from 12 to 27 countries and the realisation of ambitious plans to create a major single currency area. After a sluggish start, the eurozone is now seeing healthy growth and a more positive business environment, which will provide a solid platform for further expansion of companies operating in the area.

I wish this project every success for the future as it continues to monitor these exciting developments.



Hervé Carré
Director-General of Eurostat

EU business trends

The Grant Thornton

International Business Report (IBR)

has its origins in 1992 when we inaugurated an annual survey of private businesses in Europe called the European Business Survey (EBS). This provided a unique perspective of key business issues and has provided Grant Thornton International with a 15-year history of business conditions in the EU. This will form the second section of this report, before reporting on these findings we will reflect on how the EU has evolved since the launch of EBS in 1992.

1 November 1993

The Maastricht Treaty comes into effect, establishing the European Union (formerly the European Community) and rules for progress to monetary union.

1 May 1999

Treaty of Amsterdam came into force, including establishment of the Schengen passport-free zone.



15-years of change

The European Union (EU) has experienced two momentous changes since the start of EBS in the early 1990s. Firstly the 12 member states then comprising the EU have expanded to 27 through a series of enlargements, and secondly a single currency – the euro – has replaced various national currencies of 13 countries participating in the monetary union project forming the eurozone.

These are significant achievements that highlight the success of the EU in the run up to the celebrations of the 50th anniversary of its founding treaty. However, the union has not been without its setbacks, notably the lack of progress on reforming the constitution and the lacklustre economic growth experienced in most member states during the first half of this decade.

The euro – currency for the EU (or most of it)

The launch of the single currency area at the turn of the century was a major step forward for the EU, but the early years were difficult with generally anaemic economic performance from its inception in 2002 until 2005. The core countries in the monetary union (notably France, Germany and Italy which together account for two thirds of eurozone GDP) performed weakly. One of the reasons was that Germany entered at a high exchange rate and the resultant slow growth dragged down performance of its major trading partners. Since then, German competitiveness has improved sharply, with export growth reviving the German economy as a whole and subsequently boosting growth in the rest of the currency area.

It is encouraging that the Euro is now proving successful, highlighted by increasing numbers of participants, solid economic growth and strength against other major currencies. Participants have a guarantee of currency stability with principal trading partners in addition to frontier-free entry to a huge market and as the last two years have shown, strengthening demand.

1 January 2002

The euro becomes the official currency in 12 member states to form the eurozone: Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal and Spain.

1 May 2004

Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia accede to join the EU in the largest single enlargement – taking the total member states to 25.

1 January 2007

Bulgaria and Romania join the EU – taking the total member states to 27 and total population to 490 million.

1 February 2003

Treaty of Nice comes into force, reforming the institutional structure to withstand enlargement of the union.

Grant Thornton International Business Owners Survey (IBOS) launched.

29 October 2004

The Treaty establishing a Constitution for Europe is signed, providing more majority voting rules.

2007

Grant Thornton International Business Report (IBR) launched.

2001

2002

2003

2004

2005

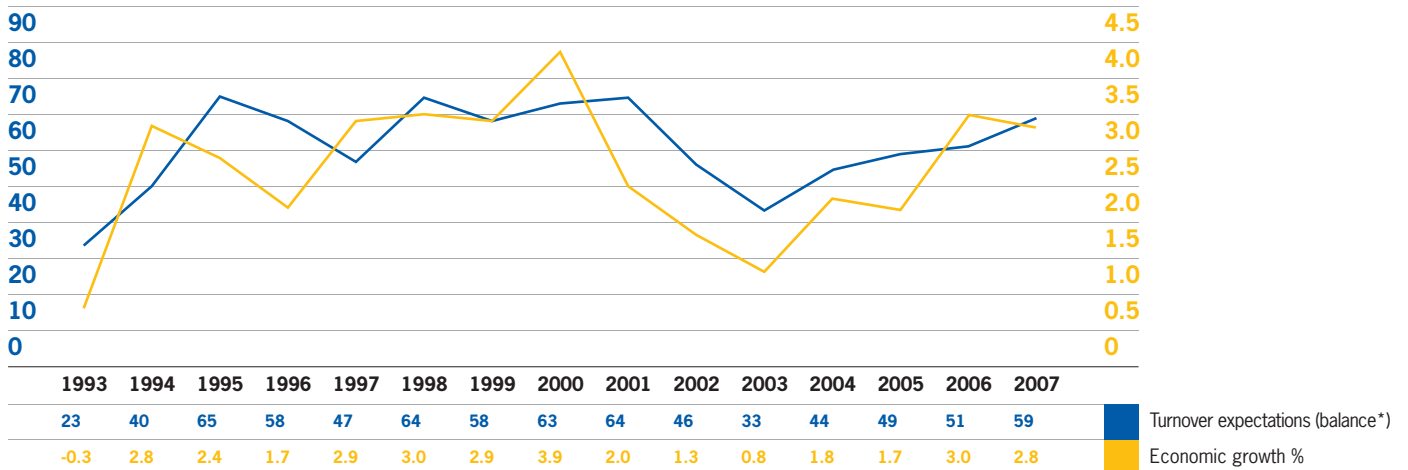
2006

2007



European Business

Figure 1: EU economic growth and turnover (revenue) expectations since 1993



* 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

A historic perspective

The 15-years of available data from the Grant Thornton International Business Report (IBR), and its predecessors, enables us to monitor the relationship between the economic background and expectations of turnover, profits, employment and investment. Trends such as payment periods, presented later in the chapter, are determined by legal factors, local custom and the availability of working capital, rather than macroeconomic developments.

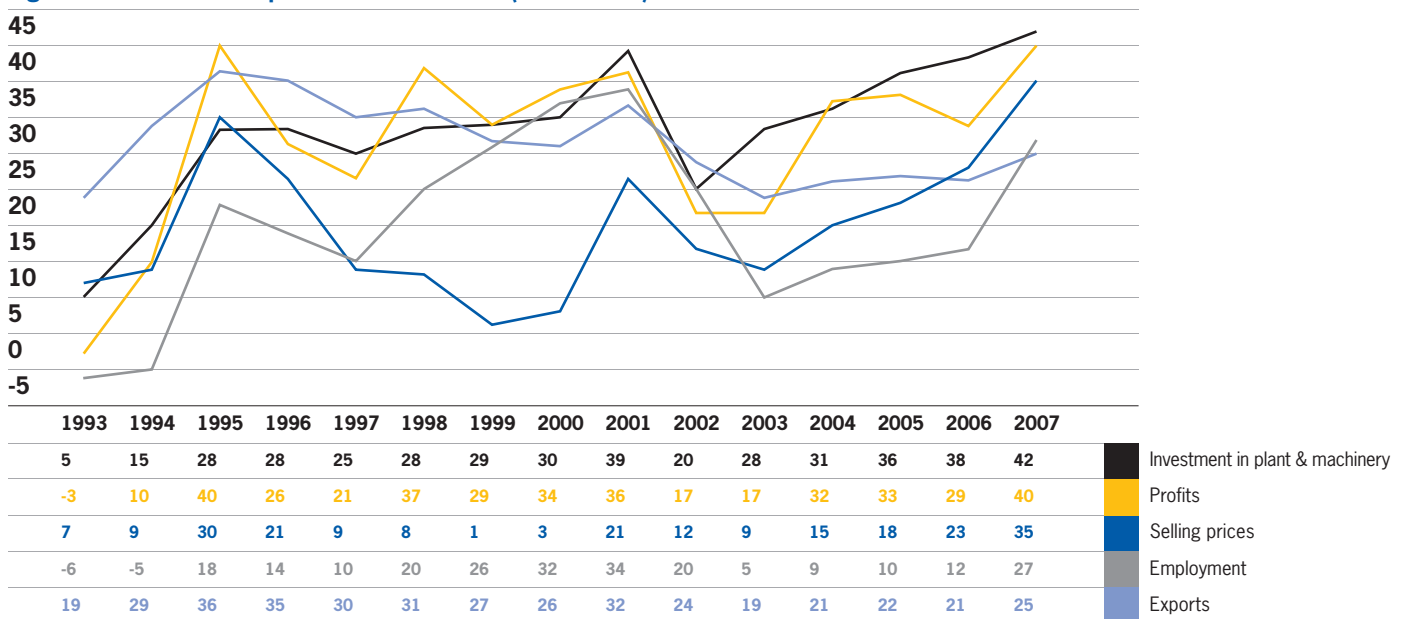
Business expectations

The data highlights a close correlation between economic growth and turnover expectations. Figure one shows a comparison between economic growth in the EU and turnover expectations.

Over the whole period, the balance of responses regarding expectations of business turnover in the year ahead has closely followed actual growth achieved. For example, turnover expectations in the 1993 survey (conducted in the final months of 1992) were extremely subdued and this was followed by a recession in 1993 in the EU economy.

More recently, the upturn in turnover expectations in our 2004 survey foreshadowed a year of stronger economic growth in the EU. The latest IBR survey shows a solid upturn in turnover expectations for 2007, pointing to a year of economic expansion at almost 3%, though not perhaps matching the 2006 outturn, which contained an element of bounce from the unexpectedly muted 2005 performance.

Figure 2: EU business expectations since 1993 (% 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

All other key indicators show an improvement, marked in most cases, in line with the expected continuation of healthy growth in the eurozone after four years of weakness. The renewed mood of confidence in the region is reflected in the fact that several indicators are at an all-time high, as shown by figure two.

Selling prices

- Expectations for selling prices show a continuation of the upward trend evident since the turn of the century. This upturn coincided with the upswing in the global and eurozone economy associated with the “dot-com boom”. The exceptional increase in 2001 was followed by some easing in line with the global slowdown in the early years of the

decade. The continued growth in the world economy coupled with the eurozone’s recovery since 2005 has increased expectations on selling prices. Following the sharp rise in this year’s survey, price expectations are now well above their previous peak reached in our 1995 survey, when profit and selling price expectations were recovering strongly following the sharp recession in the early ‘90s.

- Export expectations show an encouraging rise from the depressed levels of recent years, but remain well below those of the second half of the 1990s, perhaps reflecting a more competitive global environment, a still patchy eurozone upturn and the strength of the euro against the US dollar.

- In the case of profits, competition both domestically and internationally is strong but expectations show a sharp rise, and have regained their 1995 peak.
- Investment intentions in plant & machinery are now above their all-time high, suggesting that businesses are increasingly confident about longer-term prospects and recognise the need to raise productivity by investing in new plant & machinery.
- Employment also shows an encouraging trend and with a current balance of +27%, standing well above the depressed 2003 level of +5%.



Gearoid Costelloe, Grant Thornton, Ireland

“Business confidence throughout the EU has been rekindled as the eurozone at last participates in the global economic boom. The outlook is looking increasingly bright.”

Performance

The relatively weak economic performance of the eurozone in the early years of this decade is highlighted in figure three, which compares the eurozone participants in our survey with two non-eurozone members, Sweden and the UK¹. As the chart illustrates, the performance gap against the UK was eliminated last year as the economic performance in the eurozone picked up robustly.

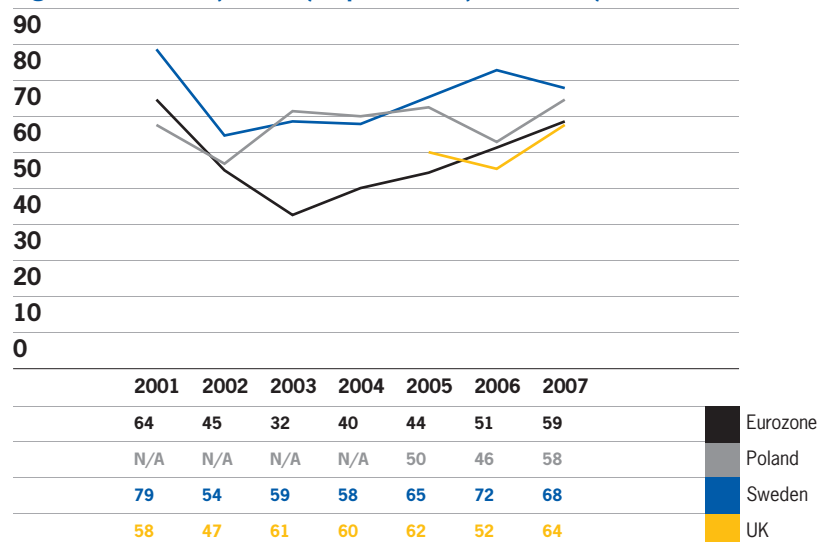
The relatively strong economic performance of Sweden and the UK is reflected in much more positive expectations in the early 2000s regarding turnover and employment expectations than in the eurozone (see figures four and five). But the revival in the eurozone's fortunes in the past two years has narrowed the gap markedly, except in the case of spending on plant & machinery (see figure six), where Poland's stage of development demands much greater outlays than the rest of the EU.

Figure 3: GDP growth, difference between Sweden/UK and eurozone (percentage points)



Source: Grant Thornton International Business Report 2007

Figure 4: Turnover (revenue) expectations (% 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

¹ Poland is not included given special factors operating as it completes its transition to a market economy.

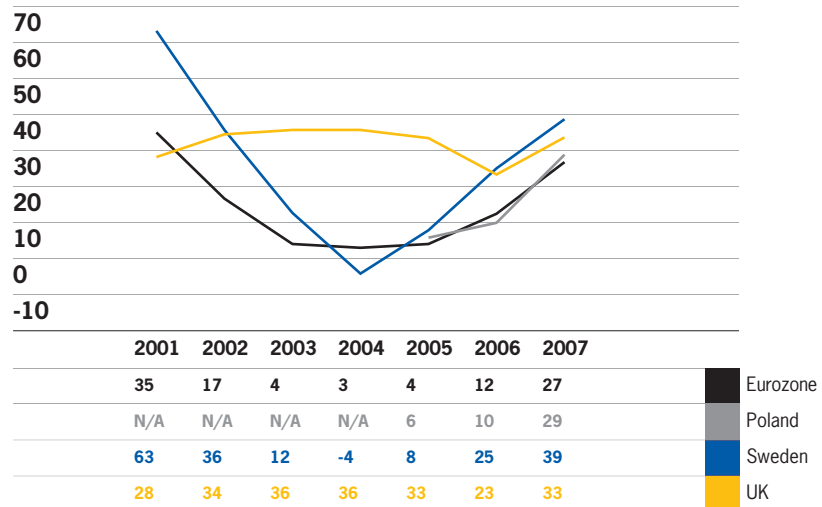
EU benefits

The expectation indicators show that the EU's single market, offering free movement of goods, services, people and capital, has been of significant economic benefit not only to countries within the eurozone, but also those outside. The enhanced political stability which the EU offers has also been a great stimulus to the enlargement process.

Half of EU member states participate in the single currency project with some non-participants not yet deemed economically ready to join the eurozone, while others, notably Sweden and the UK opting not to join.

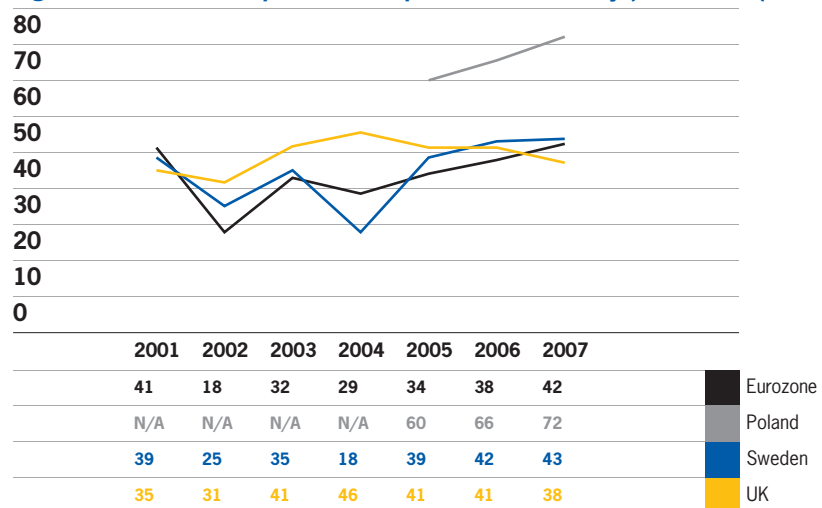
The euro is still in its relatively early stages and it is too early to judge whether it will produce the long-term benefits. For Sweden and the UK, the key arguments for and against are precisely the same as at the end of the last century when they opted not to join. On the positive side, to gain the stability of a fixed exchange rate with principal trading partners still sounds attractive, however the loss of monetary policy control continues to be the main drawback. Both countries have out-performed the eurozone in the past six years, with existing monetary policy framework providing a sound base for this success. In both cases the political and economic momentum to join has waned.

Figure 5: Employment expectations (% 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

Figure 6: Investment expectations in plant and machinery (% 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

M&A activity in the EU

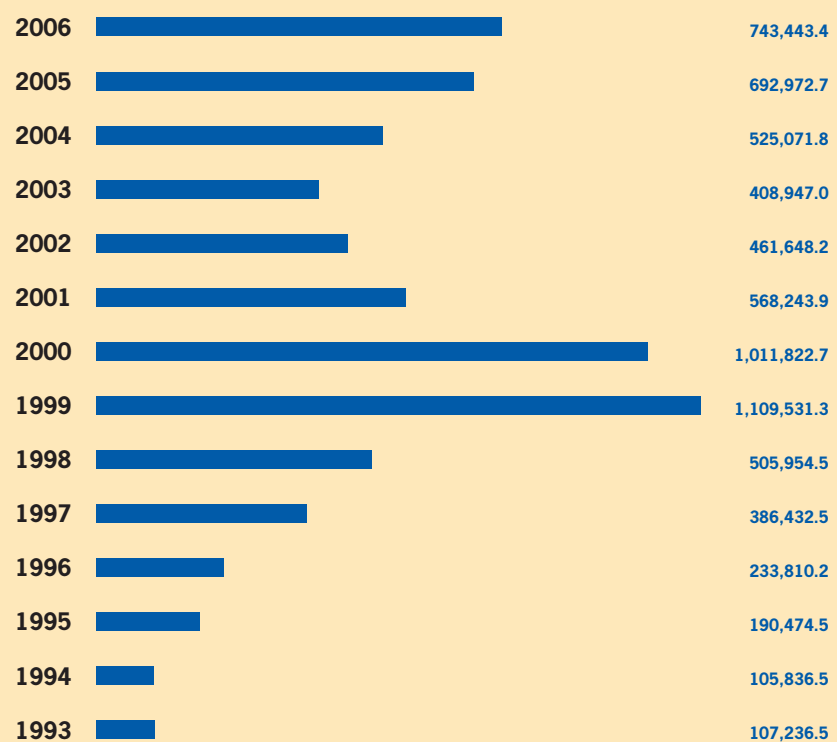
From 1993 to 1998 Merger and Acquisition (M&A) activity grew five-fold and then experienced explosive growth in 1999 and 2000 fuelled by the “dotcom boom”. From 2001 to 2003 deal volumes reduced as markets suffered the inevitable hangover.

Since 2003, M&A activity has consistently increased. The reasons for this increase can partially be explained by a stable economy and low interest rates offering trade and private equity investors cheap capital and a generally favourable investment environment.

Private equity houses, with enormous funds to invest have become bolder, dealing in larger, more complex deals, often involving large international players.

There has also been an increase in deals involving companies from developing economies, such as the Tata deal to buy Corus and the takeover of Arcelor by Mittal steel company plus also significant increases in M&A activity involving eastern European states.

Figure 7: Value of M&A activity by EU businesses 1993-2006
(Deal value – euro mil)



Source: Thomson Financial

Countries in the eurozone also have benefited from increased price transparency and stability since the introduction of the Euro in 2002. This has helped deals remain at agreed prices from agreement to completion – something which was a problem before currency harmonisation. However standardised legislation across the EU has also helped deals not involving two eurozone countries such as Santander’s takeover of Abbey in the UK.

So when is the rise in activity that we have seen in recent years likely to stop (if at all) and what factors are likely to influence this? Certainly the EU have a role to play in the continued liberalisation of regulations, however the negative sentiment towards the private equity community is a concern. The EU have recently commented that they are looking to review the influence of private equity. There have also been concerns relating to price fixing in some more traditional EU markets.

Perhaps one of the greatest and most traditional issues likely to face M&A activity over the coming years is the continued threat of higher interest rates reducing the availability of cheaper capital coupled with uncertainty about the strength of the global economy.

Scott Barnes

Global leader – specialist advisory services
Grant Thornton International

Perhaps one of the greatest and most traditional issues likely to face M&A activity over the coming years is the continued threat of higher interest rates reducing the availability of cheaper capital coupled with uncertainty about the strength of the global economy.

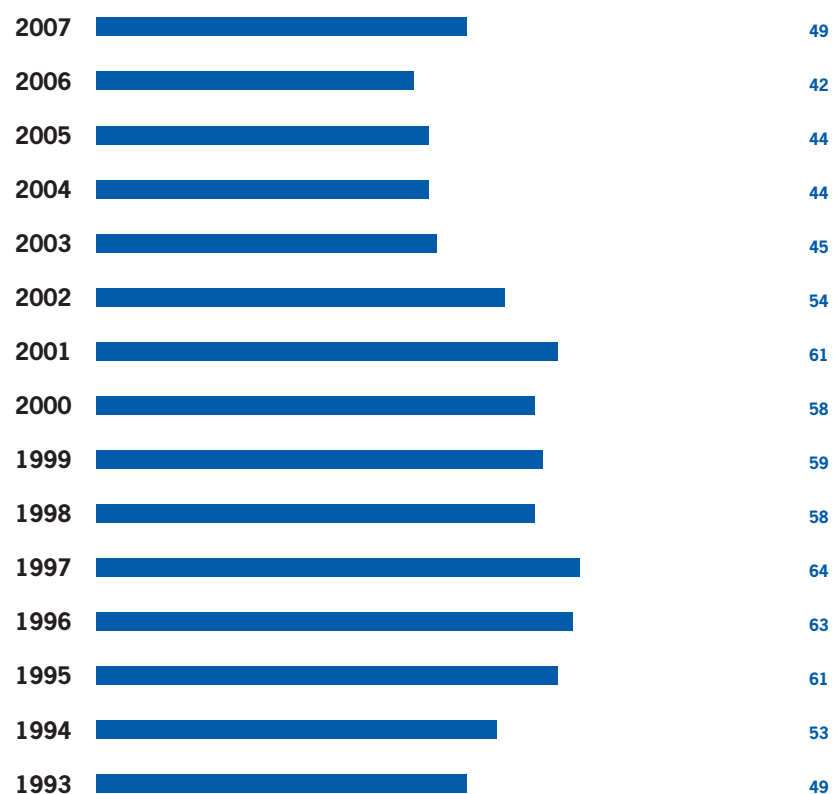
From a UK perspective, the government has consistently maintained that it would consider joining only if the economic case was clear. It is also worth noting that in recent years the pound has traded in a very narrow range against the euro, providing exporters with the currency stability that eurozone membership would provide, though of course this stability is not guaranteed to persist. It is against the US dollar that the strong appreciation has taken place suppressing UK export prospects, however, over the past 12 months the eurozone's recovery has boosted UK exports.

Exports

In 2007 the proportion of businesses in the EU exporting rose to 49%. While this figure is appreciably higher than the global average (34%) and is the highest EU figure since the 2002 survey, it remains well below the proportion exporting between 1994 and 2002 (see figure eight).

The peak year for EU exports was 1997, when 64% of EU businesses exported. Subsequently, export opportunities within the EU weakened, exacerbated by the EU's lacklustre economic performance between 2002-05. However, official data shows that EU export growth during 2006 was robust, and this is reflected in our survey, reinforcing the picture that emerged in figure eight of a reviving export performance, but one that still fails to match the late 1990s boom.

Figure 8: Proportion of EU businesses exporting (%)

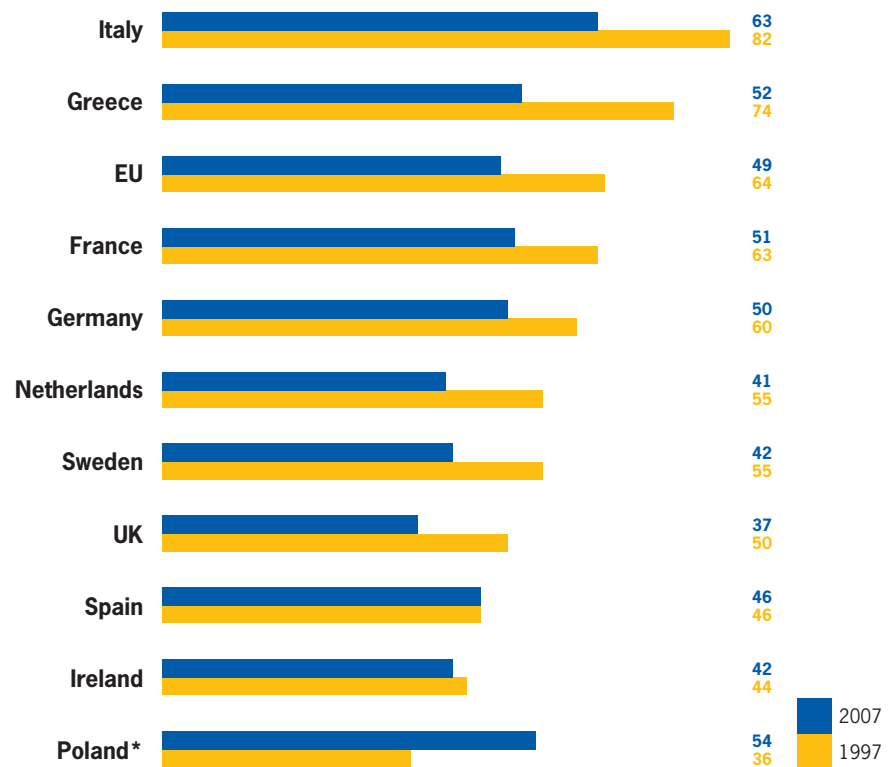


Source: Grant Thornton International Business Report 2007

Most EU countries have seen a decrease in the proportion exporting since 1997 (see figure nine). The major exception is Poland where the figure is significantly higher reflecting the benefits to the country's exports of EU accession. Spain has regained the proportion seen in 1997 following a strong rise in this year's survey. But elsewhere, notably in Italy, the Netherlands and Sweden, the proportion has dropped markedly (see figure nine).

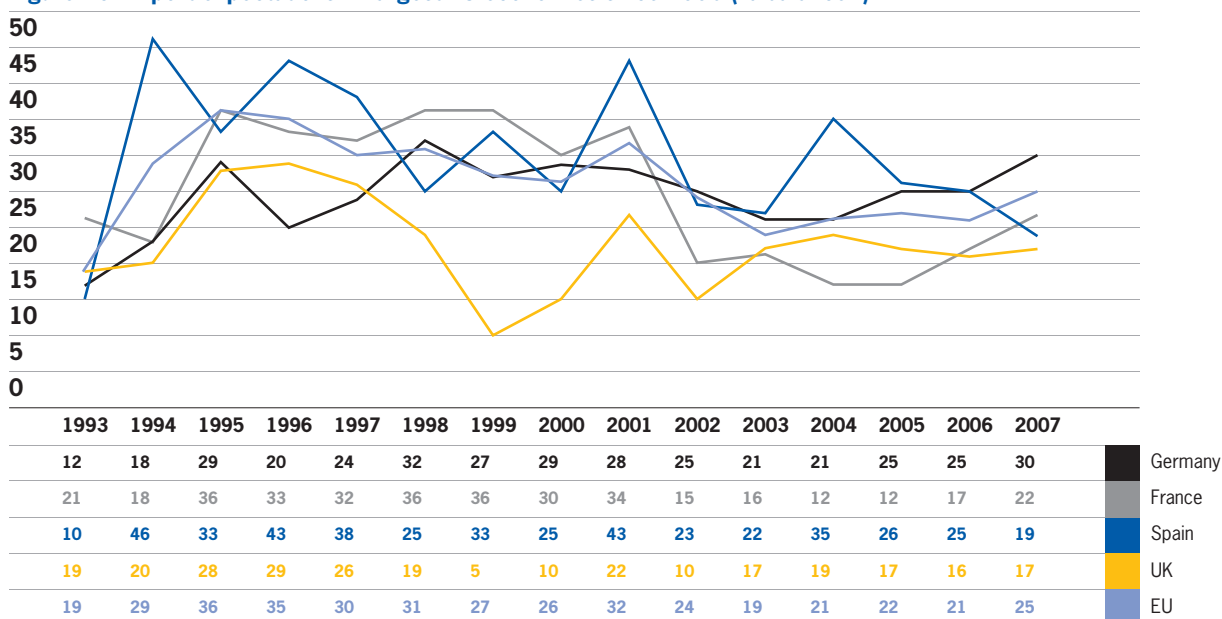
However, the overall EU position is improving as demand in Germany, the largest market in the EU, is picking up. This has been a major boost to businesses in its neighbour and close trading partner, France, where the proportion exporting has risen from 36% in the 2006 survey to 51%, dramatically narrowing the gap against 1997.

Figure 9: Proportion of companies exporting in EU countries (%)



* Poland's 1997 data is from 1998 as they did not participate in the 1997 survey
 Luxembourg, included in last year's survey for the first time, is not shown
 Source: Grant Thornton International Business Report 2007

Figure 10: Export expectations in largest EU economies since 1993 (% 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

An analysis by country of the EU-wide picture is still subdued but gradually improving exports, figure ten reveals some interesting variations. Expectations across a selection of EU countries, show marked differences with France and Germany having seen an encouraging upturn in expectations in recent years, with Germany approaching its all-time high in 2007 based on a strong revival of exports last year in line with much improved competitiveness.

By contrast, sentiment in Spain is waning as international price competitiveness continues to decline, reflecting a large inflation differential against the eurozone average. The mood in the UK too remains very subdued, with the lowest balance in the EU, as exporters struggle to maintain global market share against a strong pound and intense competition.

A positive outlook

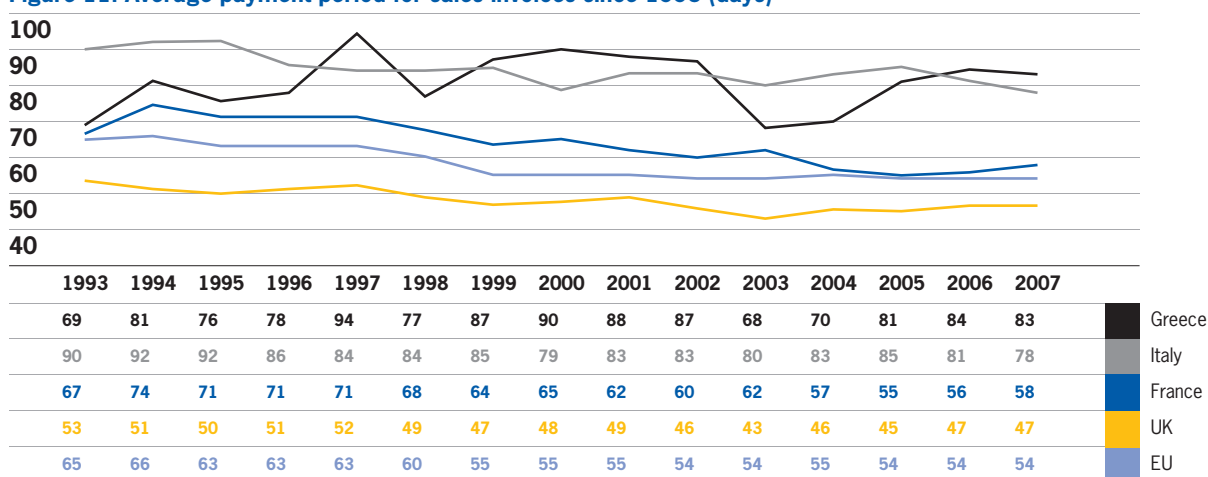
Businesses throughout Europe welcome the renaissance in German activity and the boost it has given to demand in the eurozone. Turnover expectations are at their highest level since 2001. There has also been a strong revival of exports in many European countries. Our survey shows the proportion of EU businesses exporting languishing at 45% or below from 2003-06, but picking up to 49% in this year's survey. Many businesses are gearing up for further expansion in the domestic market and for exports as it is now clear that the economic upturn in the eurozone has been sustained in 2007 with expansion at near 3% in prospect for the second year in a row. For many businesses this means stronger investment in plant and machinery than has been seen for many years.



Vassilis Kazas, Grant Thornton, Greece

“Payment periods in the EU have stabilised since 1999, after EU legislation brought about an encouraging reduction. A renewed initiative would help improve matters in this important area for firms’ cash flow.”

Figure 11: Average payment period for sales invoices since 1993 (days)



Source: Grant Thornton International Business Report 2007

Payment periods

The average payment period for sales invoices in the EU improved between 1993 and 1999 from 65 to 55 days, reflecting the success of EU legislation to speed up payments. In Greece, the impact of the legislation was particularly marked, reducing the average payment period to 68 days in 2003 (see figure eleven). However since 2003 the payment period has reverted to its previous level. More generally, the legislation appears to have effected an improvement until 1999, but since then, the figure has been remarkably stable remaining at 54 days for the third year in a row in this year's survey.

In a number of countries (notably Germany, Ireland, Poland, Spain and Sweden) there has been little annual variation in payment periods since our survey began in 1993. In the Netherlands, a marked improvement has been seen in recent years, with the average number of days falling from 47 in our 2004 survey to 39 this year.

Italy and Greece are the only countries in our survey where the average has been over 80 days, but Italy have posted a slight improvement in the past two years recording 78 days this year – an all-time low. The UK has seen a stable picture in recent years, and its record is better than the EU average though, like France, this is noticeably inferior to Germany's where the average payment period is 37 days.

Future cash flows

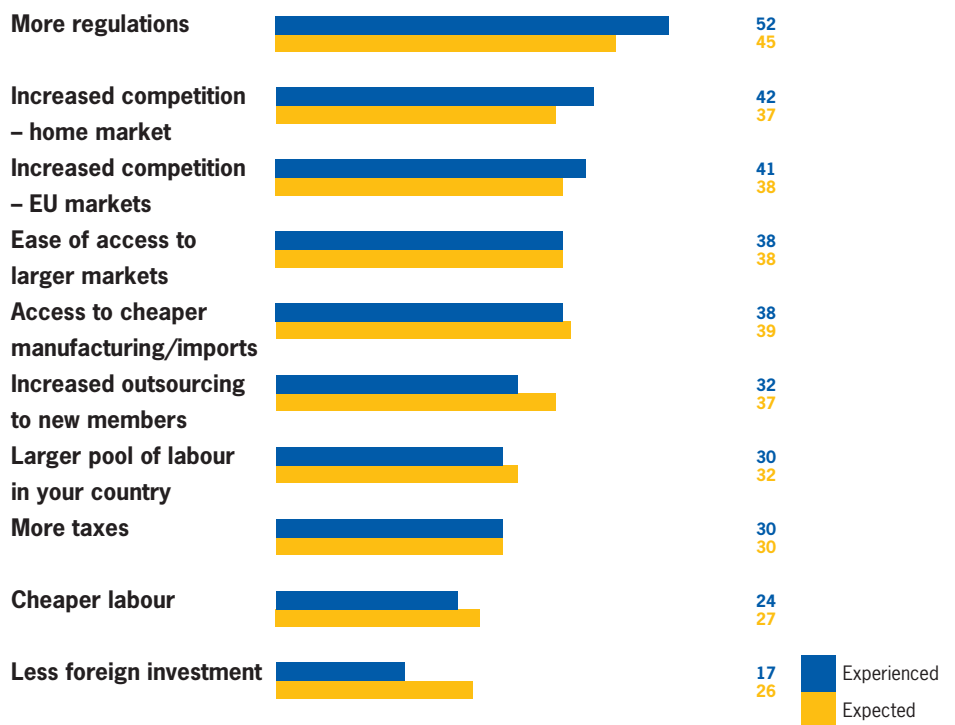
Cultural factors are the main determinant of invoice payment periods. They are firmly entrenched in business practice in various countries and are difficult to change. EU attempts in the early 1990s to influence them had an initial effect but there has since been a reversion, or little progress. The issue is very important for businesses' cash flow and perhaps the time is ripe for another initiative to bring the number of days down, although perhaps it is too much to aim for the impressive German average of 37 days.

EU enlargement

We asked businesses in the EU what impact enlargement has had on their operations. The main issues and concerns are highlighted below.

- Increased regulations emerged as the clear leader, cited by 52% already experiencing. Most affected was Poland, where 70% of respondents cited this issue, followed by Germany and Spain both 67%. Figure 12 shows that 45% expect the enlargement process to produce more regulations, with German businesses (77%) most concerned.
- The effect of enlargement on foreign inward investment in businesses' home country is not generally a major concern. Just 17% had already experienced less investment, however businesses in Greece (49%) and Spain (40%) appear to be experiencing the worst effects.
- Increased competition was experienced by 42% of businesses in the home market and 41% in EU markets. Germany is most affected with 54% in the home market and 58% in EU markets. The UK appears least affected with 20% citing increased competition in home market and just 12% in the EU market.

Figure 12: Effects of EU enlargement: already experienced and expected



Source: Grant Thornton International Business Report 2007

- Cheaper labour in the domestic economy as a result of employment mobility between new members and the “old” EU was cited as an effect already experienced by 24% of businesses, but this was a much more significant factor in Ireland (45%) and Greece (40%). As shown in figure 12, 27% of respondents expect this to occur in the future. The migration of labour into the old EU is an important issue for countries with tight labour markets, helping to keep wage costs down boosting

competitiveness and providing an additional skills base helping continue the momentum of recent healthy economic expansion. However, this new pool of labour gives rise to other issues, such as whether it will adversely affect wages and employment prospects in the host country. There is also the issue of exploitation of the migrant workers as employers find opportunities to avoid regulations in taking them on.

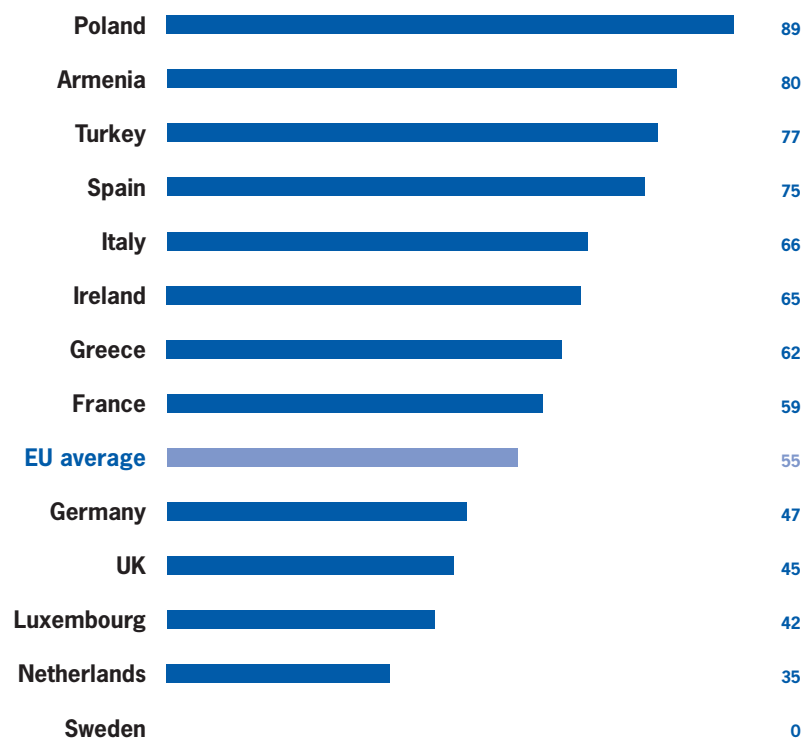
Responses to the question ‘Would you favour the EU enlargement process to continue or not?’ varied markedly among individual countries (see figure 13). Most positive was Poland, where the benefits of EU membership have been significant and further gains are seen from expansion eastward. In Armenia and Turkey, governments and much of the population are keen to join. However, businesses in Luxembourg, the Netherlands and in Sweden are less positive, although percentages are generally higher than in last year’s survey.

Although increasing competition for many businesses in both domestic and external markets, EU enlargement has also enhanced export opportunities and provided significant additional labour resources in tight labour markets, helping to control costs.

Impacts of future enlargement

With 27 member states, the EU now encompasses virtually the whole of western and central Europe. The Balkan states which are not yet members are either official or are recognised as potential candidates, however the impact of their future accession is likely to be small. Expansion to include Turkey, who are already an official candidate, is proving politically difficult, but their accession would have major impacts on the EU and specific members such as Germany.

Figure 13: Businesses in favour of EU enlargement continuing (%)



Source: Grant Thornton International Business Report 2007

Apart from the Balkans and Turkey, further EU expansion can only be eastward involving Belarus and the Ukraine. This is of great interest to Poland, given its proximity, and probably explains the enthusiastic response from Polish businesses when questioned on EU enlargement.

Realistically, the inclusion of Belarus and Ukraine, if it ever takes place, is decades ahead. Despite the positives of enlarging the EU by including Turkey, there is much opposition and even if this is overcome, entry is unlikely in the next decade.

Taxation trends

Since 1993 the world of taxation has changed significantly with the emergence of the internet having a profound effect on the way businesses go to market. It has opened up a global marketplace to small and medium-sized businesses who are no longer constrained by operating in a parochial environments. Businesses which have truly embraced the global internet marketplace have experienced huge changes in their business practices, having to deal with complex overseas tax regimes for the first time.

Businesses are also increasingly mobile, especially in the knowledge-based sector. Head offices, production facilities and design functions no longer have to be in the same country, let alone the same building and distribution channels are being broadened and lengthened to access new markets. In these circumstances, if there are commercial factors that favour locating the main office in an alternative country that also happens to have a more beneficial tax regime there may be incentives to move, for example Halliburton's move to the Middle East and closer to home, Kraft Food's move from Austria (in the EU) to the low-tax regime in Switzerland (outside the EU).

EU tax systems

The EU has traditionally had a common base for dealing with indirect taxes. One of the basic features of EU membership was the existence of a customs union so that goods and services could flow between member states on a duty-free basis. From the direct tax standpoint, 2008 will see proposals published for a Common Consolidated Corporate Tax Base (CCCTB). Even though the provisions will not apply before 2011, and will not become mandatory, this points to an increasing focus in Brussels towards the harmonisation of direct systems.

Many EU member states are also members of the Organisation for Economic Co-operation and Development (OECD) and follow its principles in their own tax treaties when dealing on a by-country basis with other tax jurisdictions – as do several countries not in the OECD. Transfer pricing rules, designed to ensure that goods and services transferred intra-group across borders are priced on a basis equivalent to a the transfer occurring between independent businesses, have a degree of commonality between tax jurisdictions because of the existence of OECD principles.

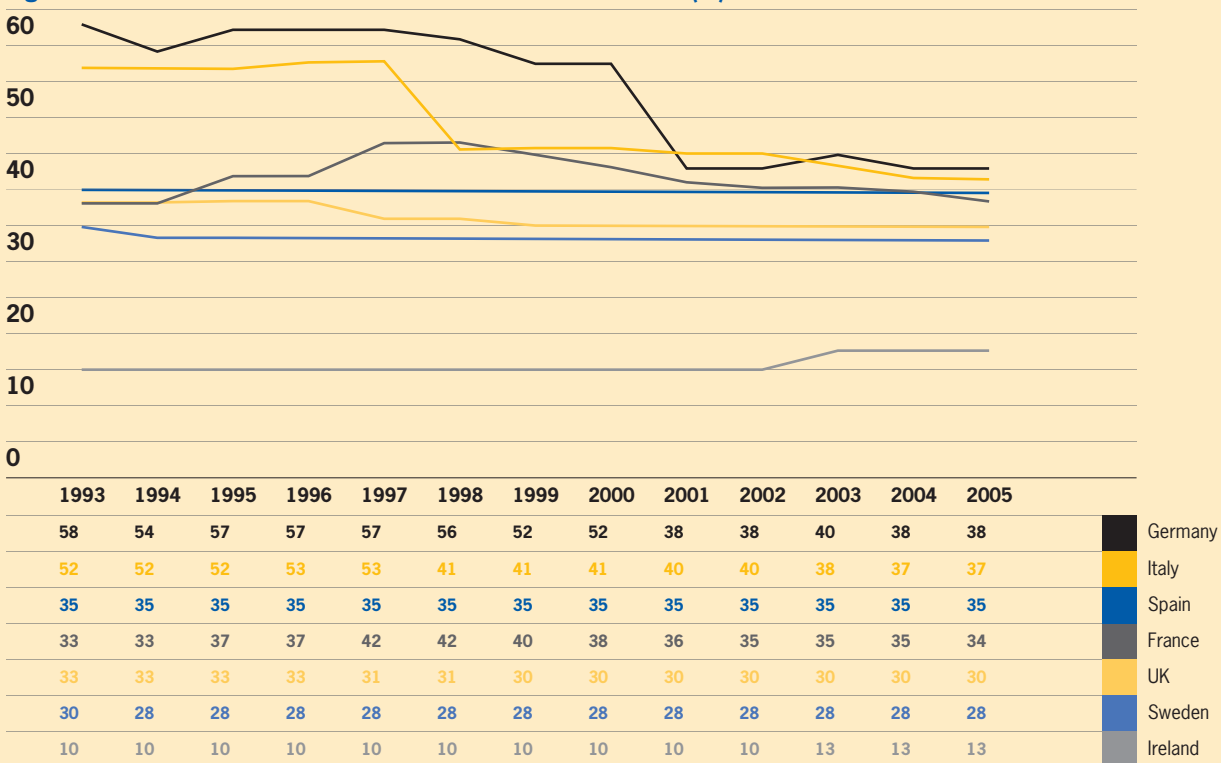
The other significant influence on EU businesses has been the European Court of Justice's (ECJ) law relating to how revenue bodies deal with businesses operating on a pan-European basis. Most revenue bodies tend to be protective of their tax sovereignty and have been reluctant to adopt the freedom principles that allow European businesses mobility within Europe.

However, within member states, ECJ decisions have affected the insular attitude traditionally adopted by national revenue bodies. These relate to:

- cross border tax losses
- withholding taxes on dividends from portfolio investments
- rules preventing tax relief on interest costs in high-debt situations
- deemed repatriation of profits from low-tax jurisdictions.

A result of the ECJ's ruling have caused some states to impose domestic constraints to ensure they are not deemed discriminatory, which in some cases has meant more complex and burdensome tax systems – the opposite of the ECJ's objective.

Figure 14: Selected EU countries' headline tax rates 1993-2005 (%)



Definition: For countries using different tax rates, the manufacturing rate is chosen. Local taxes (or the average across regions) are included where they exist.

Any supplementary taxes are included only if they apply generally.

Source: Institute for Fiscal Studies

Trends since 1993

The headline tax rates in western states of the EU from 1993, apart from Ireland which is a special case, have in recent years been converging between a 30% to 40% band from a 30% to 58% band-width.

Although headline tax rates are not necessarily good indicators of tax rates borne in practice by businesses, there are a number academic studies showing correlations between the two. A UK study published in June 2007 by the influential Institute for Fiscal Studies took two samples of OECD member countries and found that the average headline (statutory) rate declined from around 38% in 1991 to just above 30% in 2004. The effective average tax rate (after allowances for capital depreciation) during this period also declined from just above 30% to around 25%.

There is no reason to believe that this analysis should not apply to EU countries, particularly since 19 of the 27 OECD countries are EU members. In summary, whatever way you look at it the direct tax burdens borne by businesses in the EU have been steadily declining over the period of this review. The question is whether this trend is here to stay or will reverse at some point.

Business mobility – tax competition

The attractiveness of a country's tax regime can often be a factor for businesses when deciding on their location. However, this should not be the key driver as the appeal of tax regimes can change quickly. Nevertheless, businesses are increasingly considering moving head office functions, or coming under external pressure to do so.

EU rules are in place to prevent tax competition; however, some countries have operated with a low rate for some time (e.g. Ireland). Also, some new EU states such as Estonia show leanings to low flat tax regimes, as does Switzerland situated at the heart of the EU. Furthermore, whilst there are constraints which national finance

ministries must operate, this still leaves EU member states sufficient freedom to have business-friendly measures. These include those which allow a participation exemption under which foreign earnings are not taxed on repatriation to the Netherlands.

The future of EU tax

Tax rates borne by EU businesses have been steadily declining, with member states becoming increasingly more standardised in their approaches. Finance ministers are faced with powerful business lobbies that they cannot ignore and the prospect of business mobility is a concern for all financial centres. Whether EU governments like it or not, high business taxes look to be a thing of the past.

Competition for business is a key determinant – a factor undoubtedly behind the UK Chancellor's thinking on cuts in UK corporate tax rates from 30% to 28% and introducing a participation exemption.

With good reason to be confident that business tax rates will not increase in the EU, governments with high debt levels, ageing populations and unfunded pension liabilities will need to increasingly look to other methods of raising revenues – while continually staying competitive.

Ian Evans

Global leader – tax services
Grant Thornton International

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Challenges ahead

Manufacturing

EU businesses, except in a few new entrant countries, are having difficulties competing with emerging markets in basic manufacturing mass production with high labour input. The challenge for EU businesses is to continue to develop intellectual capital and progress along the technological chain, focusing on high value-added, non-labour intensive products. They must also consider outsourcing as a way to reduce expensive labour costs, especially in western Europe. This requires investment in plant and machinery to partly substitute expensive labour, and in education and training to provide skills and creativity to give a competitive edge. Research and development to encourage innovation and creativity and technological improvements are also crucial.

Service sector

In the service sector, emerging markets have a clear advantage over developed countries in labour-intensive call centres and back-office processing operations. However, in many areas of business such as financial services and communications, the expertise and specialist knowledge that EU countries possess, and the clusters of skills in key centres, will for some time ahead give businesses located in these countries an advantage. To fully exploit this, businesses need to get the most from their workforces by investing in information technology, supply targeted training and skills enhancement and provide continuous improvements to office environments and working arrangements to encourage creativity and innovation.

Leisure and tourism

In the leisure sector, there are many opportunities for EU businesses to compete with the rest of the world. Benefiting from a strong cultural heritage and historic interests, EU companies potentially have a natural competitive advantage in tourism, plus there are an increasing number of ageing citizens with disposable incomes for leisure activities. Businesses must ensure that they move up the value chain, providing excellent standards of accommodation, catering and recreational facilities.

Government assistance

Businesses can do much on their own initiative but need help from governments to provide healthy climates for doing business. Apart from the obvious infrastructural improvements, governments need to deregulate markets so businesses have the flexibility to adjust and respond to global change, as well as providing resources to boost education, environmental awareness and provide supportive taxation policies.

The future success

The companies that will be at the forefront of a highly competitive global marketplace will be located in a government-backed environment that actively encourages business enterprise. They will successfully harness innovation and exploit new ideas through investment in continuous research and development. There will be a major effort to attract good people, be environmentally conscious, invest in human resources and capture the commitment of employees to further corporate ambitions. They will be committed to cost containment through productivity improvements via investment in capital equipment and technological progress.

Contacts

This list represents the countries/territories where Grant Thornton International member and correspondent* firms currently have operations.

Antilles*	Czech Republic	Ireland	Netherlands	Sri Lanka*
Argentina	Denmark	Isle of Man	New Zealand	Sweden
Armenia	Dominican Republic	Israel	Nicaragua	Switzerland
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Austria	El Salvador	Jamaica	Norway	Tanzania
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