

Welcome to the first **International Business Owners Survey** which charts the attitudes and plans of business owners across the globe and builds on trend data collected...

Grant Thornton 



...in Europe over the last eleven years.

As the only survey of its type, the International Business Owners Survey (IBOS) covers 19 countries and over 6000 companies worldwide. It is a valuable source of global business information covering issues from investment, exporting and expansion to employment, funding and ownership. It also looks at topical business issues and with corporate governance high on the boardroom agenda this year, we asked businesses about the expected impact and the plans they have in place.

If you would like to find out more about how Grant Thornton works with entrepreneurial businesses around the world, please contact the IBOS partner in your country, listed at the back of this report, or Sue Palmer, International Director of Marketing Communication on +44 (0)870 991 2692. Alternatively visit our website [www.grantthorntonibos.com](http://www.grantthorntonibos.com).

# Foreword

The contribution of independent, entrepreneurial businesses to the development and dynamism of the world economy is widely recognised. They play a significant role in generating employment and driving economic growth and are uniquely placed through their flexibility to respond quickly to changing market demands and to foster economic change.

Our survey of these businesses was conducted in September/ October 2002, a time of great political and economic uncertainty. It was becoming clear that the global economic recovery was losing momentum. The US, on which global growth prospects depend heavily, was experiencing an uneven recovery; in the eurozone, a promising upturn had petered out; and in Asia, two economies, Japan and Hong Kong, continued to suffer from chronic deflation. At the same time, heavy stock market falls from their 2000 peaks and fears of further terrorist attacks weighed down business and consumer confidence. The consequences of a possible war in Iraq were also featuring strongly in perceptions about the business environment and confidence in the corporate sector was affected by high profile corporate collapses and the possibility that further accounting scandals could emerge. Despite this setting, business owners expressed cautious optimism for the year ahead.

The report investigates business owners' views on economic and business trends such as employment, growth and international trade. It also highlights some important topical issues – constraints on expansion; the possible impact of rules and regulations introduced in the wake of the corporate accounting failures; sources of funding and their adequacy in supporting business plans; and ownership changes.

Drawing on research findings from our European Business Survey, which we conducted from 1993 to 2002, we have been able to include an eleven year view of changes in key areas of the business environment in the European Union (EU).



**David McDonnell**

Chief Executive Worldwide

Grant Thornton

# Introduction

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Over the past decade, Grant Thornton has undertaken a major annual survey of small and medium sized enterprises in Europe. The results from this work have provided a unique insight into a variety of key business issues, including exporting, investment, expansion and ownership. Moreover, for each year since 1993 our report on the research findings, the European Business Survey, has tracked the changing health and prospects for this key part of Europe's economy.

Building on the success of this research, we are expanding the coverage from this year to provide a global insight into the views of business owners across medium sized enterprises. Accordingly, the new name for our research in this key market segment is the International Business Owners Survey.

Many benefits have been secured by this decision to extend the coverage of our research. In particular, by including countries from the Americas, Asia Pacific and Africa we are now able to undertake a much wider range of cross-country comparisons. In addition we are now able to make regional comparisons between the European Union (EU), the North American Free Trade Agreement (NAFTA) countries and the Far East. Furthermore, in due course we will be able to add global business tracking to our existing capability to monitor the changing face of European businesses over the past ten years.

In common with all of Grant Thornton's research reports, the results from the International Business Owners Survey are reported using "best practice" analysis techniques. In particular the "balance" statistic – which measures the difference between the number responding positively to a question and those responding negatively – is used extensively in this report to summarise the otherwise rather complex findings that are provided by the survey results.

# Key findings

## 1 Economic prospects

- Business owners cautious about economic prospects
- US businesses among most optimistic
- Canada and Mexico also quite buoyant
- Widespread pessimism in EU
- Japanese and German respondents extremely pessimistic

## 2 Business expectations

- Turnover expectations buoyant in many countries but Japan, Germany, Hong Kong and Singapore very pessimistic
- Investment expectations positive in most countries but Japan, Hong Kong and Singapore expect to decrease investment in buildings
- Exports generally expected to increase
- South Africa firmly optimistic about export prospects; Singapore very pessimistic
- South Africa, Russia, Australia and Sweden most optimistic about selling prices...
- ...joined by Greece, US, UK and India in terms of optimism regarding profitability
- Far East and Germany pessimistic about selling prices/profitability

## 3 Employment

- Businesses in most countries increased employment last year
- South Africa followed by Spain, UK and Russia, show largest increases
- Most businesses expect employment to increase over coming year
- US, South Africa, and UK show most positive balances about employment prospects
- Germany and Japan very pessimistic about employment prospects

## 4 Growth and constraints

- Organic growth is main source of expansion
- Competitive environment is main constraint on expansion, followed by red tape and availability of skilled workforce

## 5 The global market

- About one third of businesses export
- In Singapore, Spain, Hong Kong and Greece over half of businesses export, but in Japan only 14%

- Exports provide important source of revenues, particularly in Hong Kong and Spain
- Branding is crucial for success for EU and North American businesses, but pricing is more important elsewhere
- Businesses perceive no major constraints to international expansion
- International free trade agreements have greatest impact on smaller economies

## 6 Business management

- More than half (56%) of businesses expect to be affected by new regulations and many are taking or planning action
- 13% of companies feel new regulations on corporate accounting practices would have serious impact on business
- But one third of businesses in Mexico and the Netherlands thought impact would be serious
- Majority of businesses have tightened, or plan to tighten, internal controls

## 7 Funding the business

- Majority of businesses confident that current sources of finance will support business plans over next three years
- However, a significant proportion of businesses in Russia (28%) and Mexico (26%) are not optimistic about obtaining adequate funding
- German businesses use more external funding than any other country
- A quarter of businesses expect ownership change in next ten years
- Sweden has highest proportion of businesses expecting change
- Merger and passing business to next generation most likely change
- Russian companies have shortest invoice payment periods, followed by Australian companies
- Spain and Italy have longest payment periods

## 8 EU business trends

- Expectations about turnover, exports, employment and profitability continue to fall from 2001 peak
- Businesses more optimistic than during recession of early 1990s
- Ease of access to larger markets and larger pool of labour considered to be main implications of EU enlargement
- Half of UK and 90% of Swedish businesses would like their countries to adopt euro

## Overview of findings

### 1 Economic prospects

#### Key findings

- Business owners are very cautious about economic prospects for the coming year
- US respondents are among the most optimistic, despite the currently weak US economy
- The remaining NAFTA countries are also quite buoyant, in contrast to widespread pessimism in the EU
- Japanese and German respondents are extremely pessimistic, reflecting the deep-seated problems facing their respective economies

“US businesses are cautiously optimistic that the economy will rebound over the next year. Our clients see the need to remain flexible and adjust their planning based on the changes in the economy as they develop.”

#### Ed Nusbaum

Chief Executive Officer,  
Grant Thornton, United States

#### Business owners are generally cautious about economic prospects for their countries over the next 12 months

With increasing concern that the world economic recovery had lost momentum, and amid significant tensions and risks, our first international survey of business owners was conducted at a time of great uncertainty about business prospects for 2003. Respondents' attitudes were inevitably affected by this bleak picture. Overall, business owners are cautious about economic prospects for their countries. Across all 19 countries surveyed, the overall optimism/pessimism balance<sup>1</sup> is +3%, signalling very subdued confidence in the economic outlook.

#### The US and the remaining NAFTA countries are however remarkably optimistic...

Respondents in the US are among the most optimistic about their own country's economic prospects for the next 12 months (figure 1). On the surface, this is a surprising result given the relative fragility of the US economy. However, it is worth noting that the same question in April 2002, in a separate survey conducted in the US, elicited a highly upbeat response, with a

balance of +78%. This has fallen sharply to +42% in the present survey, indicating more cautious optimism. While there are some signs of a slow economic recovery, the threat of war and terrorism may have made people nervous. Historically, the US has a track record of an optimistic bias in its responses, which partially explains its relative optimism.

Figure 1 also shows Canada and Mexico as reasonably optimistic. Indeed, as the remainder of this report shows, the countries that form NAFTA are markedly more optimistic than the global average on virtually every issue.

#### ...in contrast to EU pessimism

Business owners across the nine EU countries surveyed record an optimism/pessimism balance of -12%. By far the most pessimistic response (-37%) comes from Germany which faces a continuation of the slow growth of recent years and the possibility of deflation. In addition, businesses are concerned at the lack of progress in implementing reforms to the social and tax system, which are perceived as vital to move Germany to a higher growth path. Spain (-19%), Italy (-15%), Netherlands (-11%) and Ireland (-9%) also register negative balances. In the UK and France, balances are marginally positive. Greece with a balance of +14% is appreciably above the global average, an outcome consistent with the economy's robust growth despite the world slowdown.

<sup>1</sup> the balance, used throughout this report, is the difference between the proportion of businesses indicating optimism and those indicating pessimism or those indicating increase and those indicating decrease. Please see introduction for further explanation.



**Figure 1 – Level of optimism for the outlook of country's economy over the next 12 months (% balance\*)**

Bullish	Moderately optimistic	Neutral	Pessimistic	Bearish
50 Australia	25 India	4 United Kingdom	-11 Netherlands	-30 Hong Kong
42 United States	19 Sweden	2 France	-15 Italy	-37 Germany
41 Canada	17 Russia	-8 Singapore	-19 Spain	-71 Japan
34 South Africa	14 Greece	-9 Ireland		
28 Mexico				

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

**Figure 2 – NAFTA optimism contrasts with pessimism in EU and Asia**

**Outlook for the country's economy (% balance\*)**

<b>NAFTA average</b>				<b>42</b>
<b>Global average</b>				<b>3</b>
<b>EU average</b>				<b>-12</b>
<b>Hong Kong</b>				<b>-30</b>
<b>Japan</b>				<b>-71</b>

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

### Japan expresses deep concerns

The most dramatic response comes from Japan, which registers a massive -71% optimism/pessimism balance. This extremely pessimistic view is consistent with the serious problems faced by the Japanese economy since the early 1990s, including the fact that deflation has become firmly entrenched in the past three years. Pressure on companies is severe in this unfavourable environment.

Some countries with high trade dependence on the US and Japan also display appreciable pessimism, Hong Kong showing a balance of -30% and Singapore -8%.

At the other extreme are Australia and South Africa, where buoyant domestic demand has enabled the effects of the global slowdown to be largely overcome. Respondents in these countries, like those in NAFTA countries, are very optimistic about their country's prospects in 2003.

“As well as a concern about possible deflation, German businesses fear that reforms to the social and tax systems will not come soon enough to facilitate economic growth.”

**Dr Christian Kirnberger**

Partner

Grant Thornton, Germany

**ECONOMIC GROWTH?**

Yes  No

## 2 Business expectations for the year ahead

### Turnover (revenue)

#### Key findings

- Expectations about turnover are buoyant in many countries...
- ...but four countries – Japan, Germany, Hong Kong and Singapore – are highly pessimistic
- In the EU, turnover expectations have fallen to their lowest level since 1993, but there are major exceptions to the bleak picture

**The uncertain international economic outlook appears to have had little effect on expectations of turnover in many countries.** South Africa, Greece, US, India, and Russia are particularly optimistic regarding turnover over the next 12 months (figure 3). This reflects the high degree of confidence in short term prospects for the economies of their own countries.

At the other extreme are four countries which for varying reasons are highly pessimistic. Singapore and Hong Kong are heavily reliant on the US market, and business owners are understandably cautious about their ability to increase turnover in the face of a possible further US downturn. In Japan and Germany, business expectations are dampened primarily by the weak environment in their domestic economies.

Expectations of turnover growth fell in the EU for the second survey in a row, but the fall was far from general. While UK and Sweden are appreciably more optimistic than they were last year, there are big falls in optimism in France and Germany and moderate falls in Italy and Spain. This dragged down optimism in the EU as a whole to its lowest level since the recession of the early 1990s (figure 4).

**“The pessimism in Hong Kong and Singapore reflects a dependency on the US market as well as a reliance on export and external markets as a whole.”**

#### Kevin O’Shaughnessy

Partner

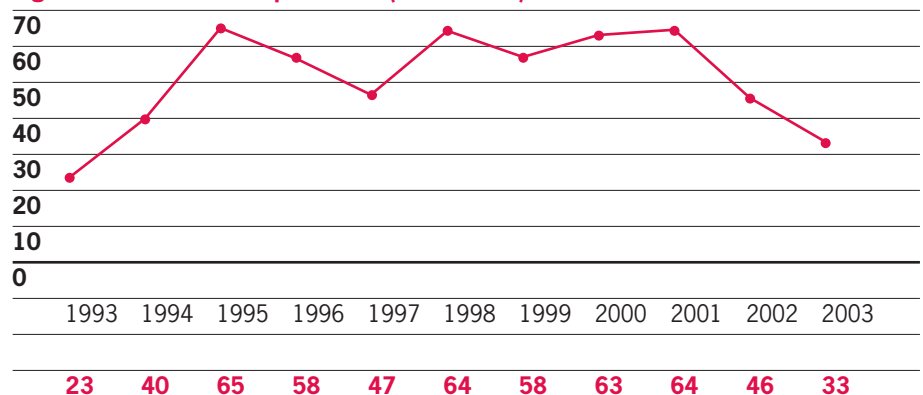
Grant Thornton, Hong Kong

Figure 3 – Turnover expectations (% balance \*)

South Africa	80
Greece	72
United States	72
India	71
Russia	65
United Kingdom	61
Australia	59
Sweden	59
Mexico	51
Ireland	48
Italy	46
Global average	44
Netherlands	43
Canada	39
Spain	31
France	24
Germany	5
Japan	-2
Singapore	-3
Hong Kong	-7

\* the balance is the difference between the proportion of businesses indicating an increase and those indicating a decrease

Figure 4 – EU turnover expectations (% balance \*)



\* the balance is the difference between the proportion of businesses indicating an increase and those indicating a decrease

# Investment

## Key findings

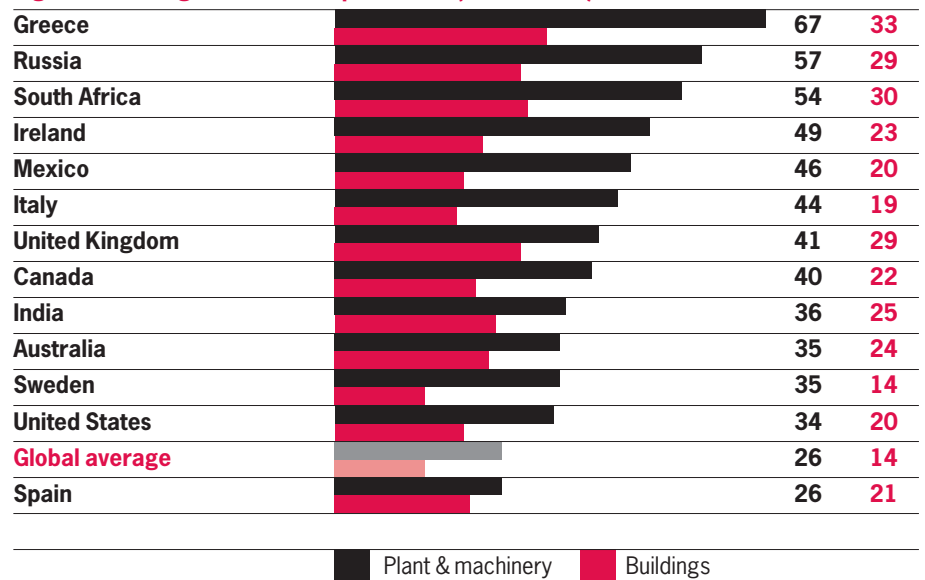
- Expectations about investment are positive in most countries...
- ...but three countries – Japan, Hong Kong and Singapore – expect to decrease investment in buildings
- In the EU, expectations have improved from last year's depressed levels

**Expectations for investment in new buildings and plant and machinery are positive in most countries** and strongly so in several cases (figure 5). The balance of businesses expecting to increase spending on plant and machinery is invariably larger than that for new building investment, but the two move in line. Those countries with the strongest intentions regarding plant and machinery – Greece, Russia and South Africa – are also in the forefront in terms of buildings.

Three countries (figure 6), all in the Far East, stand out from the generally buoyant picture. The balance of businesses in Japan and Singapore expects a decrease in both types of investment, while Hong Kong businesses expect to decrease investment in new buildings.

Expectations in the EU have increased after a significant decline last year (figure 7) and investment plans are appreciably more buoyant than at the trough of the previous cycle a decade ago.

**Figure 5 – Strong investment expectations (% balance \*)**



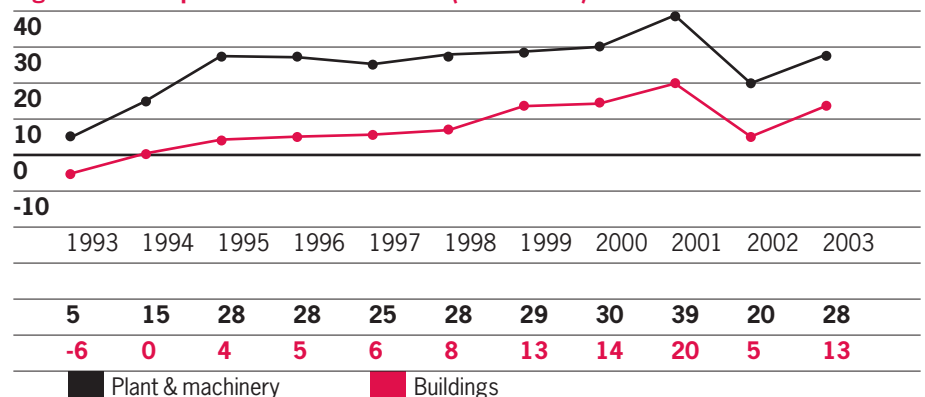
\* the balance is the difference between the proportion of businesses indicating an increase and those indicating a decrease

**Figure 6 – Moderate/negative investment intentions (% balance \*)**



\* the balance is the difference between the proportion of businesses indicating an increase and those indicating a decrease

**Figure 7 – EU Expectations for investment (% balance \*)**



\* the balance is the difference between the proportion of businesses indicating an increase and those indicating a decrease

# Exports

## Key findings

- Exports are expected to increase but modestly in most countries
- South Africa is firmly optimistic about its export prospects
- Expectations in Japan and Hong Kong are subdued and Singapore is very pessimistic
- In the EU, export optimism fell to its lowest level since the early 1990s

### Businesses expect exports to increase over the next year.

Globally, a balance of +15% of companies predicts a rise. However, in most countries, the balance of business owners indicating higher exports is modest, a view consistent with the subdued global outlook at the time of the survey. The bleak outlook, coupled with increasing competition from low cost neighbouring countries, has had a very marked impact on businesses in Singapore, with a balance of -14%. In some countries, however, the balance is firmly positive (figure 8). The most optimistic country regarding export prospects, and by quite a wide margin, is South Africa. This reflects the ongoing boost from last year's rand depreciation and expectations that commodity based exports will do well as the global economy picks up and that gold will benefit from global uncertainties.

Mexico and India are also optimistic, along with two of the strongest performing countries of the EU, Greece and Ireland. These countries are appreciably more buoyant about export prospects than France, Germany and the Netherlands. For the EU as a whole, optimism fell further to a level equal to the low of the early 1990s (figure 9). Nevertheless, globally the picture is not discouraging, with eight countries showing an export optimism balance of over +20% (figure 8).

Figure 8 – Export expectations (% balance \*)

South Africa	36
Mexico	28
Greece	28
Ireland	27
India	26
Sweden	24
Spain	22
Germany	21
Italy	19
United States	17
United Kingdom	17
Netherlands	17
France	16
Australia	16
Global average	15
Canada	15
Russia	10
Hong Kong	7
Japan	1
Singapore	-14

\* the balance is the difference between the proportion of businesses indicating an increase and those indicating a decrease

Figure 9 – Export expectations in the EU 1993 to 2003 (% balance \*)

1993	19
1994	29
1995	36
1996	35
1997	30
1998	31
1999	27
2000	26
2001	32
2002	24
2003	19

\* the balance is the difference between the proportion of businesses indicating an increase and those indicating a decrease

“South Africa has experienced a general increase in manufactured exports, further expansion into African markets and a tourism boom. Despite a recent strengthening of the currency, South African business owners expect these trends to continue.”

**Leonard Brehm** National Chairman, Grant Thornton Kessel Feinstein, South Africa

# Selling prices and profitability

## Key findings

- South Africa, Russia, Australia and Sweden are most optimistic about selling prices...
- ...and are joined by Greece, US, UK and India in terms of optimism regarding profitability
- The Far East and Germany are very pessimistic about selling prices and profitability
- In the EU, selling price and profitability expectations remain muted

The link between higher selling prices and increased profitability is clearly illustrated in figure 10. This shows that those countries which are most confident about the possibility of raising prices over the coming year are also the most buoyant regarding profitability. This is an obvious connection, but the fact that a broader picture needs to be considered is highlighted by the results from six countries, Greece, US, UK, India, Mexico and Ireland. The balance of responses in this group regarding selling price rises is moderately positive. However, these countries are highly optimistic about profitability, reflecting perceptions of a more positive environment for productivity improvements and cost containment.

South Africa, Russia, Australia and Sweden have strong expectations about both selling prices and profitability. At the other extreme are the Far Eastern countries and Germany which, as we have seen, are particularly pessimistic about the economic situation and turnover. The balance of respondents in these countries expects selling prices to decrease, with adverse implications for profitability.

In the EU as a whole, selling price and profitability expectations are muted (figure 11), but are rather more optimistic than during the downturn ten years ago.

**Figure 10 – Selling price and profitability expectations (% balance \*)**

<b>South Africa</b>		<b>71</b>	<b>47</b>
<b>Russia</b>		<b>54</b>	<b>50</b>
<b>Australia</b>		<b>40</b>	<b>49</b>
<b>Sweden</b>		<b>39</b>	<b>43</b>
<b>Canada</b>		<b>28</b>	<b>33</b>
<b>Greece</b>		<b>25</b>	<b>64</b>
<b>Italy</b>		<b>24</b>	<b>12</b>
<b>Mexico</b>		<b>23</b>	<b>39</b>
<b>United States</b>		<b>23</b>	<b>57</b>
<b>United Kingdom</b>		<b>21</b>	<b>46</b>
<b>Ireland</b>		<b>20</b>	<b>31</b>
<b>India</b>		<b>18</b>	<b>45</b>
<b>Spain</b>		<b>18</b>	<b>9</b>
<b>Netherlands</b>		<b>17</b>	<b>12</b>
<b>Global average</b>		<b>11</b>	<b>31</b>
<b>France</b>		<b>4</b>	<b>4</b>
<b>Germany</b>		<b>-13</b>	<b>5</b>
<b>Japan</b>		<b>-24</b>	<b>0</b>
<b>Singapore</b>		<b>-24</b>	<b>-25</b>
<b>Hong Kong</b>		<b>-52</b>	<b>-27</b>

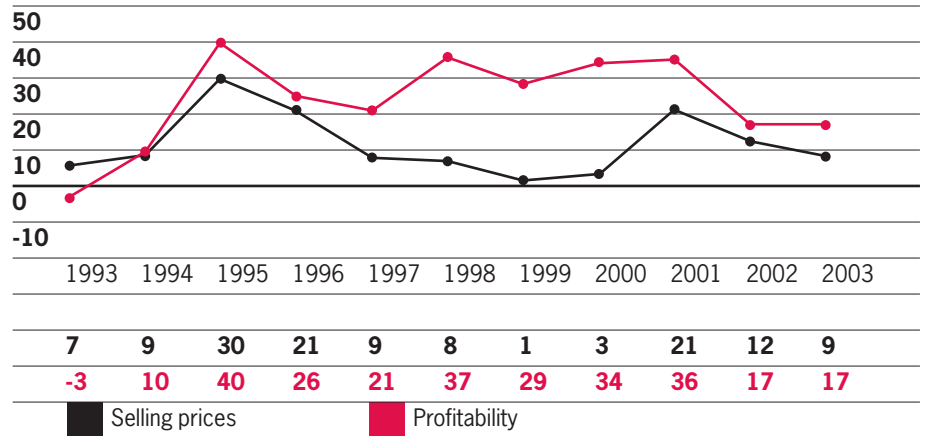
\* the balance is the difference between the proportion of businesses indicating an increase and those indicating a decrease

**Selling prices and profitability by sector**

The service sector is more confident about its ability to increase prices over the coming year than manufacturing, except in Asia (Japan, Hong Kong and Singapore), where prices are expected to fall by a balance of -30% (figure 12) of respondents (with a mere 4% expecting a rise). This is not just a reflection of Japanese deflation; in Hong Kong, a balance of -47% of respondents also expects a decline.

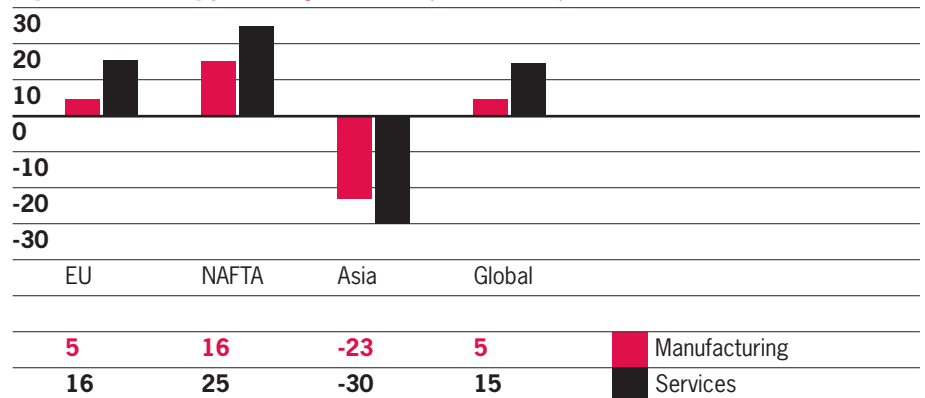
There is much less divergence between manufacturing and service expectations of profitability in the year ahead than in the case of selling prices, as shown in figures 12 and 13.

**Figure 11 – Selling price and profitability expectations in the EU (% balance\*)**



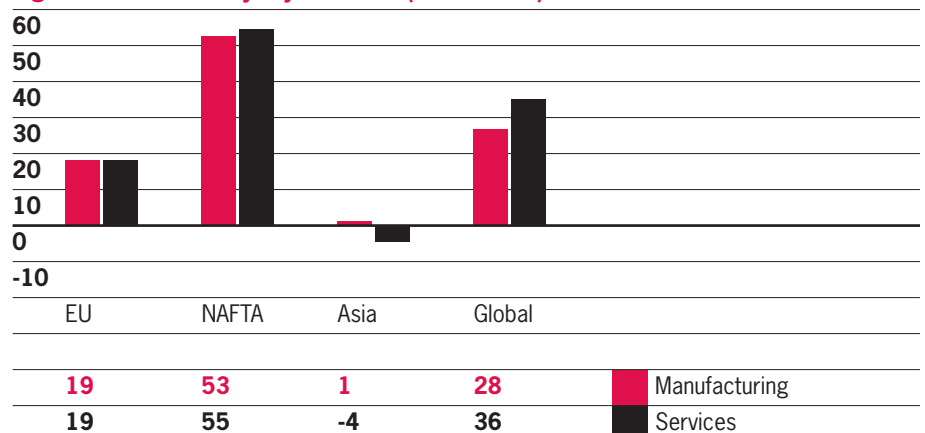
\* the balance is the difference between the proportion of businesses indicating an increase and those indicating a decrease

**Figure 12 – Selling prices in year ahead (% balance\*)**



\* the balance is the difference between the proportion of businesses indicating an increase and those indicating a decrease

**Figure 13 – Profitability in year ahead (% balance\*)**



\* the balance is the difference between the proportion of businesses indicating an increase and those indicating a decrease

## 3 Employment

### Key findings

- Businesses in most countries increased employment last year
- South Africa followed by Spain, UK and Russia show the largest increases
- Most businesses expect employment to increase over the coming year
- US, South Africa and UK show the most positive balances for the coming year
- Germany and Japan are extremely pessimistic about employment prospects
- Average EU employment expectations are at their lowest since 1994

Independent businesses are generally among the main creators of employment worldwide. Responses to this question therefore provide a useful indicator of economic health. Businesses in most countries increased employment in the past year but there are some significant exceptions. In the Far East, responses reflect the pessimistic tone from this region in the rest of the survey. The balance of companies reporting a fall in employment (figure 14) is -19% in Hong Kong, -18% in Japan and -12% in Singapore. Germany also reports a

negative balance (-4%), in line with the recession which hit the economy in the second half of 2001 and the subsequent weak upturn.

However, it is surprising to see Mexican business owners recording a negative balance (-5%), given the upbeat tone of their responses generally.

South Africa, consistent with the buoyant picture presented by other indicators in this survey, shows the sharpest increase. The balance of +49% is far higher than in the second country, Spain (+34%).

The employment outlook (figure 15) is strongly influenced by expectations of economic performance. The pattern among the various countries is similar to those seen for other key trends. Most businesses expect employment to increase in the year ahead but there are marked variations. US, UK and South Africa are very optimistic and the Far East and Germany extremely pessimistic. The malaise affecting the German and Japanese economies depresses expectations significantly. With a negative balance of -36% of business owners in Japan and -24% in Germany, employment is expected to decrease over the coming year.

The highest positive balance is registered by the US, mirroring the optimism expressed about the economic outlook. Following jointly with South Africa is the UK, an interesting outcome, given the muted optimism (a balance of just +4%) regarding the UK's economic prospects. However, as noted earlier, the UK was one of the strongest performers in the past 12 months in terms of the balance of businesses recording a rise in the labour force and many businesses clearly expect the factors underpinning this to continue.

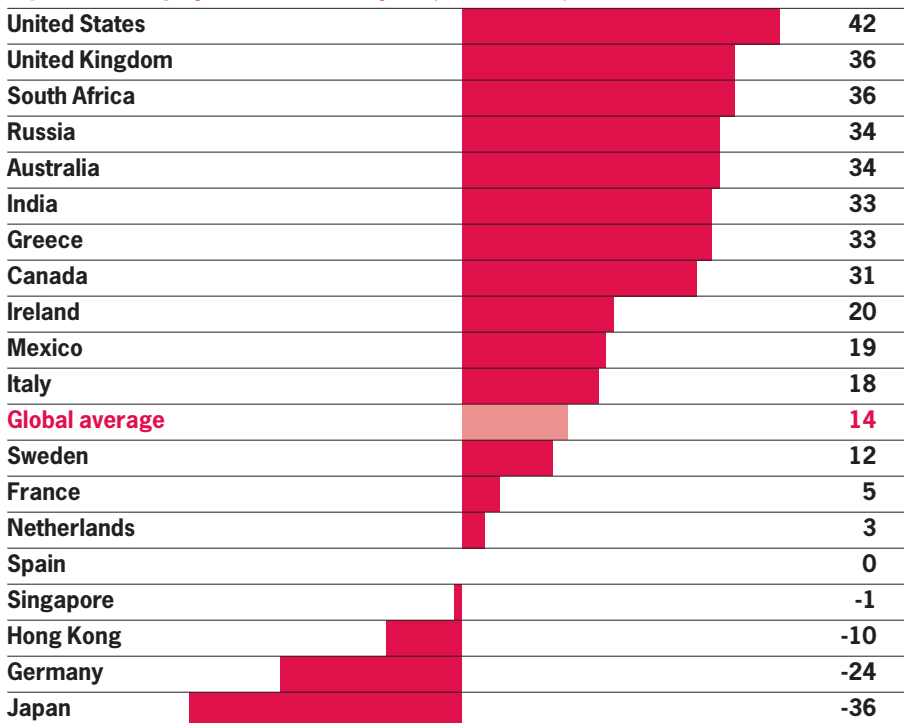
In the EU, businesses experienced an appreciable slowdown in employment growth in 2002, and for the first time in eight years, the outturn is below expectations, albeit only slightly. It is encouraging that despite the subdued economic backdrop, the balance of businesses in most countries is firmly

**Figure 14 – Change in the number of people employed in the past year (% balance\*)**

South Africa	49
Spain	34
Russia	26
United Kingdom	26
France	25
Greece	25
Netherlands	25
India	24
Canada	23
Italy	23
Australia	22
Sweden	21
Ireland	18
United States	17
Global average	11
Germany	-4
Mexico	-5
Singapore	-12
Japan	-18
Hong Kong	-19

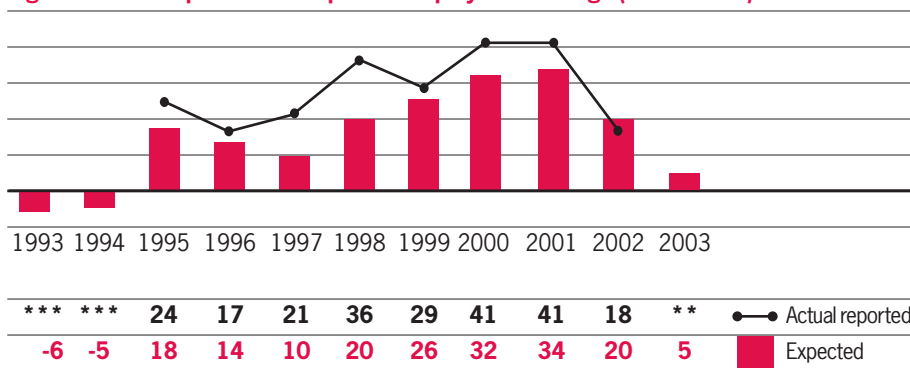
\* the balance is the difference between the proportion of businesses indicating an increase and those indicating a decrease

**Figure 15 – Employment in the next year (% balance \*)**



\* the balance is the difference between the proportion of businesses indicating an increase and those indicating a decrease

**Figure 16 – EU expected and reported employment change (% balance\*)**



\* the balance is the difference between the proportion of businesses indicating an increase and those indicating a decrease

\*\* 2003 data will be documented in the International Business Owners Survey 2004

\*\*\* no data available

“At a time when costs are under great scrutiny, it is surprising that UK businesses are so positive about employment levels. The continuing shortage of skilled labour could be driving this positive attitude.”

**Andrew Godfrey**

Head of International and European Services  
Grant Thornton, United Kingdom



positive regarding employment prospects. However, Spain and France have muted expectations and overall employment prospects in the EU are depressed by the large balance of respondents in Germany expecting employment in their business to shrink. The result, a positive balance of just +5%, is the lowest since 1994 (figure 16).

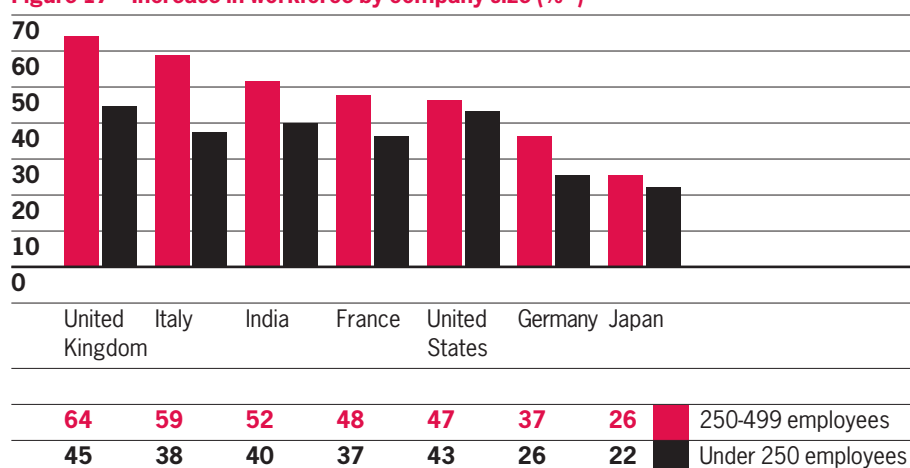
### Employment creation by company size and sector

An analysis of employment creation by business size shows that companies with between 250 and 499 employees are more likely to expand their workforce than smaller companies. The results are shown in figure 17. The UK and Italy relied most heavily on larger companies for employment creation last year. They show the highest proportion of larger companies expanding their workforce and the greatest gap between larger and smaller businesses in terms of employment creation.

Looking at employment creation in the manufacturing sector (figure 18), we find evidence of robust activity last year in several countries led by South Africa and Australia. We can also see the impact of the weak global economic environment on manufacturing in Hong Kong and Singapore and in Japan where the effect is exacerbated by subdued domestic demand. Mexico also shows a negative balance reflecting weak US demand.

The four countries in the table that enjoyed strong employment growth last year remain very positive about prospects for 2003. Manufacturing businesses in Greece and India expect

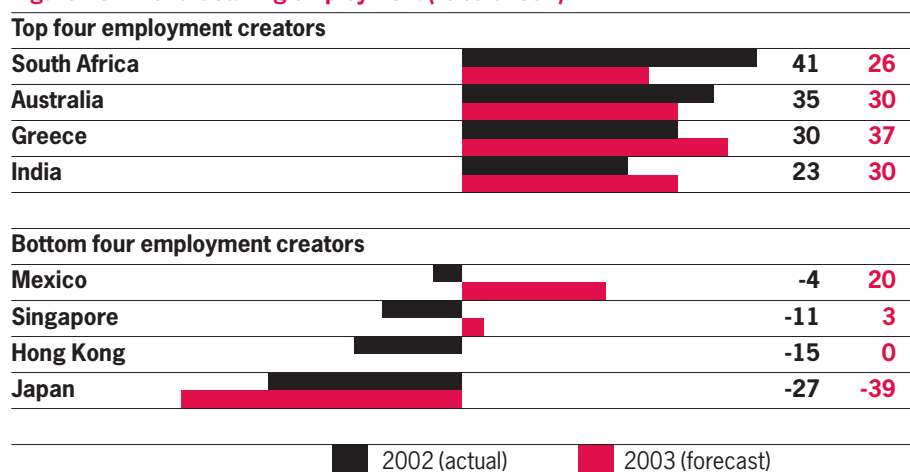
Figure 17 – Increase in workforce by company size (%\*)



Countries with at least 50 larger businesses (250-499 employees) included in the sample

\* based on % companies reporting an increase

Figure 18 – Manufacturing employment (% balance \*)



\* the balance is the difference between the proportion of businesses indicating an increase and those indicating a decrease

even stronger employment creation. At the other extreme companies in Mexico expect conditions to improve, but there is little change in Singapore and Hong Kong, while Japanese businesses expect further deterioration.

## 4 Growth and constraints

### Key findings

- Organic growth is the main source of expansion...
- ...except in Germany, where acquisition is regarded as more likely
- In South Africa, joint venture/strategic alliance is a particularly important source of growth
- The competitive environment is perceived as the main constraint on expansion, followed by red tape and availability of skilled workforce

Figure 19 – Expected source of growth (%)

Organic growth	59
Joint venture/strategic alliance	16
Acquisition	14
Merger	5

“The lack of new debt capital and pressure to reduce current bank debt makes organic growth difficult to finance.”

#### Dr Gernot Hebestreit

Managing Partner  
Grant Thornton, Germany

We asked businesses where they thought growth in their company would come from. Globally, organic growth is the clear favourite (figure 19). However, there are some interesting variations at the country level. In Germany, 40% of respondents expect growth to come from acquisition. This is a higher proportion than organic growth at 34%, the only country where this is observed. The acquisition route is of minor importance in Greece and Russia (1%) and in Spain (3%).

In South Africa, joint venture/strategic alliance is cited by 36% of respondents as the main source of growth, more than double the global average. This reflects the impact on the country’s economic scene of Black Economic Empowerment (BEE) aimed at creating broader and more meaningful participation in the economy by black people to achieve sustainable development and prosperity. Businesses involved in government contracts are required to demonstrate that they have a meaningful BEE programme, hence joint ventures and strategic alliances are popular options.

Globally, most companies do not perceive most of the issues we specified as major impediments to expansion, as shown in figure 20. Transport infrastructure and financial issues in particular are a minor concern to most businesses in this context.

But the results suggest that three constraints are a source of concern – availability of skilled workforce, red tape and the competitive environment – and this is strongly reinforced in figure 21.



**Figure 20 – Minor constraints on expansion plans (%\*)**

Transport infrastructure	65
Shortage of long term finance	60
Cost of finance	58
Shortage of working capital	55
Availability of skilled workforce	40
Regulations/red tape	38
Competitive environment	23

\* % of respondents rating this 1 or 2 on a scale of 1 to 5, when 1 is not a constraint and 5 is a major constraint

**Figure 21 – Major constraints on expansion plans (%\*)**

Competitive environment	48
Regulations/red tape	35
Availability of skilled workforce	31
Shortage of working capital	24
Shortage of long term finance	22
Cost of finance	20
Transport infrastructure	11

\* % 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

**Figure 22 – Regulations/red tape as a major constraint on expansion (%\*)**

Germany	62
Russia	52
Singapore	48
South Africa	46
Netherlands	44
Italy	44
Hong Kong	40
United Kingdom	36
Mexico	36
Australia	36
Greece	35
Global average	35
Canada	34
United States	33
France	32
India	28
Japan	25
Ireland	22
Sweden	21
Spain	20

\* % of respondents rating this 4 or 5 on a scale of 1 to 5, when 1 is a low constraint and 5 is a major constraint

The main constraint on expanding the business is the competitive environment. Almost half of respondents globally rate this as a factor which seriously limits expansion prospects (see figure 21). Asian businesses are most concerned: the proportion scoring this 4 or 5 (where 5 is a major constraint) is 66%, compared with 54% in NAFTA countries and 30% in the EU.

The impact of regulations/red tape is the next most significant constraint. Over one third of respondents cite this as a major impediment to expansion, but in Germany the proportion is much higher, at 62% (figure 22). Three other countries are also particularly concerned at the burden of regulations/red tape – Russia (52% of respondents), Singapore (48%) and South Africa (46%). Interestingly, tight regulation is sometimes associated with successful economies, but not always. A prime example of a tightly regulated, successful economy is Singapore. By contrast, Russia's performance is still affected by the approach that characterised the economy pre-1989, although liberalisation is under way.

The impact of regulations/red tape as a constraint on expansion is of least concern in Ireland, Spain and Sweden where only around one fifth of respondents think this was a significant factor. French businesses seem less concerned about red tape than in previous years.

Availability of skilled workforce, although appearing rather less significant at the global level than regulations/red tape is nevertheless an important factor in many countries, led by South Africa (39% awarding a high rating), UK (38%), Russia (37%), US (35%) and France and Italy (both 33%). In Germany and Japan, consistent with slowly growing economies and easy labour markets, this is rather less of a problem. In Germany, only 25% rate this factor as a major constraint and in Japan 24%. However, there are some lower scores: 22% in Ireland and only 18% in Hong Kong and India.

The prime concerns of individual countries are highlighted in figure 23. Only four of the seven issues we raised are included, since no country identified cost of finance, shortage of working capital or transport infrastructure as a major constraint.

“The reduced concern this year about red tape may be the consequence of the real and partly successful attempts by the French government to reduce regulations, including making social laws more flexible and simplifying administrative procedures.”

**Hervé Gohin**

Partner  
Grant Thornton, France

**Figure 23 – Most important constraint on expansion (%\*)**

<b>Shortage of long term finance</b>	
<b>Mexico</b>	<b>42</b>
<b>Regulation/red tape</b>	
<b>Germany</b>	<b>62</b>
<b>Russia</b>	<b>52</b>
<b>South Africa</b>	<b>46</b>
<b>Italy</b>	<b>44</b>
<b>Netherlands</b>	<b>44</b>
<b>Availability of skilled workforce</b>	
<b>Canada</b>	<b>41</b>
<b>United Kingdom</b>	<b>38</b>
<b>France</b>	<b>33</b>
<b>Sweden</b>	<b>32</b>
<b>Competitive environment</b>	
<b>Japan</b>	<b>67</b>
<b>Singapore</b>	<b>60</b>
<b>Hong Kong</b>	<b>57</b>
<b>United States</b>	<b>57</b>
<b>Australia</b>	<b>46</b>
<b>India</b>	<b>39</b>
<b>Spain</b>	<b>38</b>
<b>Greece</b>	<b>36</b>
<b>Ireland</b>	<b>34</b>

\* % 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

**CONCERNED ABOUT  
REGULATION?**

Yes  No

## 5 The global market

### Key findings

- About one third of businesses surveyed export
- In Singapore, Spain, Hong Kong and Greece over half of businesses export, but in Japan only 14%
- Exports provide an important source of revenues, particularly in Hong Kong and Spain
- Branding is crucial for success for EU and North American businesses, but pricing is more important elsewhere
- Businesses perceive no major constraints to international expansion
- International free trade agreements have greatest impact on smaller economies

“Spain’s relatively high export levels are probably due to a very successful two decades of EU membership as almost 75% of our clients’ exports in the past year have been to the EU. Although exports to Mexico have remained stable, those to traditional Latin American markets such as Brazil and Argentina have declined due to their economic circumstances.”

### Alfonso López-Pelegrín

International Practice Partner  
Grant Thornton, Spain

Figure 24 – Proportion of businesses exporting (%)

Singapore	59
Spain	56
Hong Kong	54
Greece	51
France	50
Ireland	48
Germany	47
Sweden	44
Mexico	41
Italy	40
South Africa	39
India	39
Netherlands	38
Canada	37
United Kingdom	36
Global average	35
United States	35
Australia	33
Russia	20
Japan	14

### About one third of businesses export

35% of businesses export but the proportion is much higher in Singapore, Spain, Hong Kong and Greece (figure 24). Over half the businesses in these countries export. In the cases of Singapore and Hong Kong this clearly reflects their importance as import/export centres while the high proportion of Spanish businesses involved in exporting may well reflect the benefits of the Single European Market.

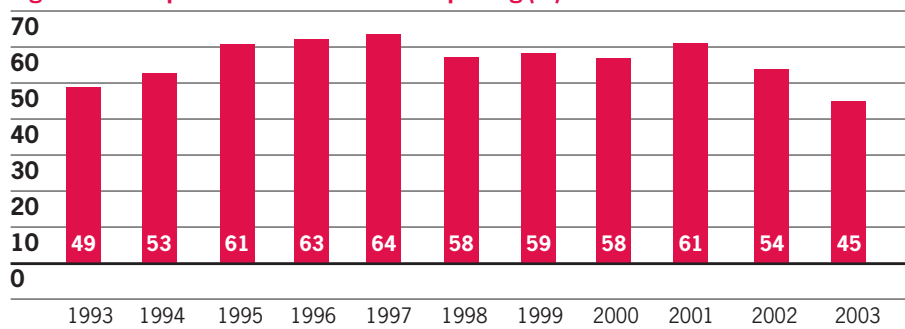


Japan stands out with a particularly low proportion (14%) of exporting businesses. The explanation for this low figure is that target respondents are businesses with 20-499 employees. Companies of this size in Japan tend to focus on domestic business and provide products or services to larger companies which do export.

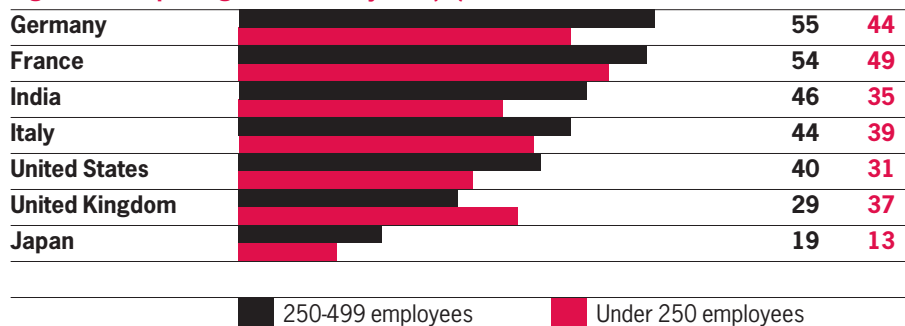
In the EU, the proportion of businesses exporting, at 45%, is above the global average but this figure is well down on the latest peak recorded in the 2001 European Business Survey. At that time, the global economy was expanding strongly and 61% of businesses reported that they exported (figure 25). The latest percentage is also lower than that in the recession of the early 1990s. This probably reflects the fact that the global economic slowdown of the last two years has been highly synchronized. In the early 1990s, by contrast, the US and Asia Pacific (excluding Japan) were already well on the road to recovery when the cycle in the EU reached its trough.

Larger businesses are more likely to export than medium sized ones, but the difference is not appreciable except in Germany and India. The UK stands out as having a higher proportion of medium sized than large businesses exporting (figure 26).

**Figure 25 – Proportion of EU businesses exporting (%)**



**Figure 26 – Exporting businesses by size (%)**



Countries with at least 50 larger businesses (250-499 employees) included in the sample

**“Many of these businesses may have previously been the leaders in the Japanese export market, but have lost their competing power due to strong yen and high labour costs. There are however many businesses indirectly involved in exporting by providing their products and services as subcontractors or parts suppliers to large companies.”**

**Shigeru Oe**

Partner  
Grant Thornton, Japan

**Intra-regional flows dominate trade**

Figure 27 shows that intra-regional trade dominates the global pattern. Thus in the US a higher proportion of businesses export to Canada than to Western Europe or South/Central America. However, it is worth noting that Asia Pacific ranks equally with Canada as an important export market for US businesses. Similarly, in the EU, 89% of businesses export to Western Europe, against 42% to the US and the Asia Pacific.

Following the intra-regional trade pattern, South Africa’s trade flows are dominated by the rest of Africa; and for Japan and Singapore, the Asian market predominates. However, Hong Kong

**Figure 27 – Pattern of export flows (%\*)**

	<b>Western Europe</b>	<b>Asia Pacific</b>	<b>Eastern Europe/Russia</b>	<b>United States</b>	<b>Canada</b>	<b>Sth/Central America</b>	<b>Middle East</b>	<b>Africa</b>
<b>Hong Kong</b>	54	75	16	69	29	19	15	10
<b>Japan</b>	33	93	5	45	14	14	9	3
<b>Singapore</b>	12	92	7	24	5	–	9	5
<b>Mexico</b>	18	10	8	74	20	54	8	2
<b>South Africa</b>	46	23	16	28	15	9	24	64
<b>United Kingdom</b>	87	37	30	50	25	21	30	26
<b>United States</b>	59	68	36	–	68	54	34	26
<b>EU</b>	89	42	44	42	25	28	31	28

\* based on % of exporting businesses

has a more even distribution, with the US and Western Europe featuring prominently alongside Asia Pacific, reflecting Hong Kong's role as a re-exporter of goods from China. Mexico's trade is focused on America, reflecting NAFTA membership and historic trade links between US and Latin America.

Figure 27 also highlights an interesting issue in relation to UK businesses. The UK features near the bottom of the table in terms of the proportion of businesses exporting (figure 24). This is not unexpected in relation to Latin America or Eastern Europe/Russia, but given the UK's history as a trading nation, this is perhaps surprising in other global regions. The EU, by contrast displays a greater propensity than the UK to export to all parts of the world except North America.

International trade has been a driving force in global expansion and, in line with this, EU businesses have become far more internationally oriented since we launched our European Business Survey a decade

ago. Figure 28 shows a significant rise in the proportion of businesses exporting to Eastern Europe/Russia and to North America. Details of trade with Asia Pacific were first sought in 1995, since this time there has also been a strong rise, including a sharp recovery from the global slowdown of 2001, reported in our 2002 survey.

### **Exports to China, India, Russia and South Korea**

In general medium sized companies do not become heavily involved in trading outside their traditional markets. However, they are alert to opportunities arising from trade liberalisation and the effects of globalisation. An examination of the extent to which four countries – China, India, Russia and South Korea – feature as significant export markets for the companies surveyed produces some interesting conclusions.

On market size criteria, these countries should feature prominently as export destinations. Counting the NAFTA countries as one market and the EU as another, China ranks as the world's fourth largest market, South Korea sixth,

India seventh and Russia ninth.

Figure 29 emphasises the contrast between the four countries in terms of their openness to imports. China is now a very important international trade partner, even for medium sized companies. Greater trade openness in recent years has been fostered by preparation for membership of the World Trade Organisation (WTO). China's first full year of WTO membership was 2002. In India, by contrast, global integration has much further to go. Although trade liberalisation is increasing, India lags behind the rest of Asia in terms of opening up its economy. The same applies to South Korea, which is also shown in the table given its economic size. Russia has low import penetration as a result of its virtual isolation from free market developments for many decades, but the picture is changing.

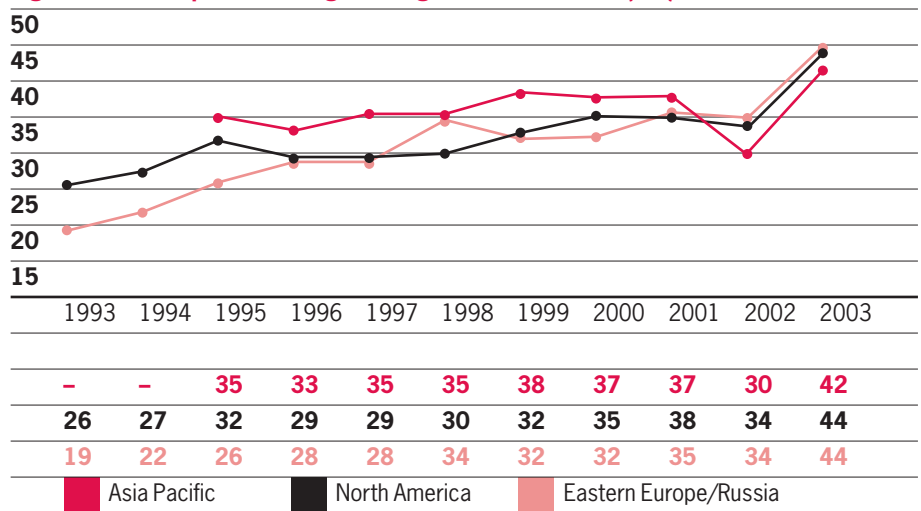
“The experience of my international clients in the UK is that exporting to China can be difficult. Clearly, the countries nearer to China have been able to open up markets more easily. It is very encouraging to see that many countries outside Asia Pacific are now increasing their exports to China.”

**David Naylor**

Partner

Grant Thornton, United Kingdom

**Figure 28 – EU export flows to global regions 1993 to 2003 (%\*)**



\* based on % of exporting businesses

**Figure 29 – Exporting to selected countries (%\*)**

	China	India	Russia	South Korea
Australia	11	4	0	6
Canada	6	1	4	3
France	3	1	2	2
Germany	12	1	11	1
Greece	3	3	5	0
Hong Kong	37	1	2	7
India	5	1	3	3
Ireland	3	1	4	0
Italy	4	1	6	1
Japan	45	0	3	36
Mexico	0	0	0	0
Netherlands	2	0	0	4
Russia	15	4	0	4
Singapore	36	9	0	2
South Africa	3	1	2	0
Spain	5	0	3	1
Sweden	5	0	4	0
United Kingdom	3	2	1	1
United States	21	6	5	6
<b>Global average</b>	<b>15</b>	<b>3</b>	<b>4</b>	<b>6</b>

\* % of exporting businesses who indicated China, India, Russia or South Korea as one of their top three export destinations

**OPPORTUNITIES IN CHINA?**

Yes  No

The following issues are highlighted in figure 29.

- At the global level, as many as 15% of exporting businesses include China among their top three markets, but only 6% include South Korea, 4% Russia and just 3% India.
- Virtually all the 19 countries included in our survey have significant trading ties with China. The Far East and the US feature most prominently by a wide margin.
- Few countries can overcome the barrier posed by the fact that India is among the least globalised economies. Singapore stands out as the major exception, followed by the US. Russia also features quite prominently, probably reflecting close ties established during the Cold War. Greece is a surprise with 3% of businesses citing India as one of their top three export destination markets.
- German businesses stand out as having made the most of Russia's transition to a free market economy. 11% cite Russia as one of their top three markets, followed by Italian businesses (6%). Again Greece features as a surprise, in joint third place with 5%.
- Despite its size, South Korea is clearly a difficult market for businesses outside the Pacific Rim to penetrate. The fact that 36% of Japanese companies cite South Korea as one of their top three markets suggests that the market is not unduly restrictive towards imports. The Netherlands has made most headway among EU countries.

**Figure 30 – Proportion of companies where exports account for over one quarter of revenues (% of total respondents)**

Hong Kong	43
Spain	35
Sweden	25
Italy	24
Ireland	23
Netherlands	22
Singapore	22
Germany	21
France	20
India	18
Greece	18
Canada	18
Mexico	16
United Kingdom	14
South Africa	14
Global average	12
United States	9
Australia	8
Russia	3
Japan	2

### Exports provide an important boost to business revenues

35% of the businesses that were surveyed export (figure 24). Of these, more than one third indicate that exports account for over a quarter of turnover/revenues. This means that at the global level, 12% of businesses derive more than 25% of their revenue from exports (figure 30). The proportions are much higher in some countries – in Hong Kong exports account for more than a quarter of revenues among 43% of all businesses and in Spain the proportion is 35%. These two countries are well ahead of the rest, illustrating their relative vulnerability to a downturn in global

demand. At the other extreme are Japan and Russia, two countries where exporting does not play a substantial role in the activities of the type of business included in this survey.

### Success in exports – branding crucial for EU and North American exporters...

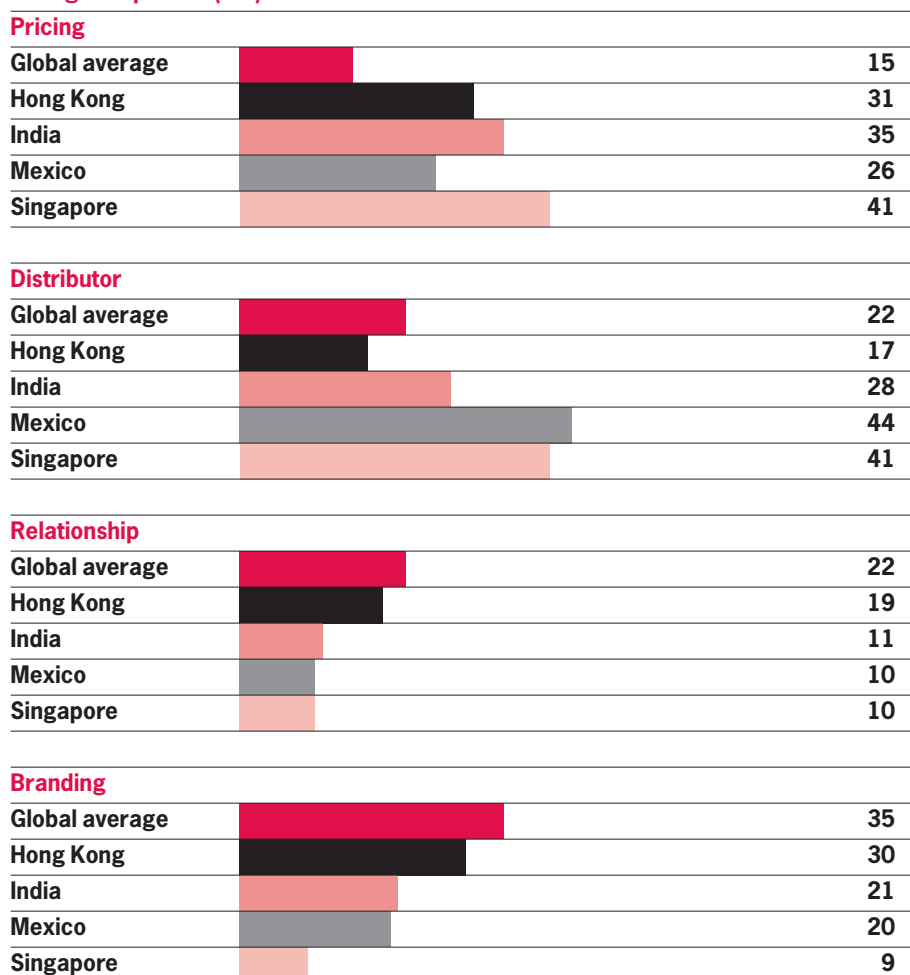
We asked businesses to consider where they had been especially successful in a specific international market and to identify the most important element contributing to that success (figure 31). Over one-third of businesses identify branding (brand recognition/differentiation) as most important. Pricing strategy is regarded as crucial by only 15% of respondents. The quality of their international distributor and personal relationships are cited as the key element by 22% of respondents.

Branding is the most important factor in all countries in the EU and North America with one exception. In Germany, the quality of the international distributor is regarded as the key element by quite a wide margin.

### ...but pricing is more important in Asia, South Africa, Mexico and Russia

When we move away from the economies of the EU and North America, pricing strategy assumes much greater importance. In four countries – Hong Kong, India, Singapore and South Africa – pricing is regarded as the most important contributor to success in specific international markets and in three others – Japan, Mexico and Russia – it is ranked second. Japan follows the pattern of the EU and North America in regarding branding as the main factor.

Figure 31 – Most important element of success in export markets: main divergences from global pattern (%\*)



\* % of respondents citing each factor. The four countries above stand out regularly as being different from the global average.

### Barriers to international expansion

The survey suggests that many businesses perceive no major impediments to international expansion. Figure 32 shows the results at the global level.

Bureaucracy, red tape and regulations are regarded as the main impediment to expansion internationally (figure 33), closely followed by lack of market knowledge and political and social instability. Businesses in Mexico are by a wide margin the most concerned with bureaucracy/red tape (figure 34). This reflects high levels of concern at the amount and complexity of documentation and legal/technical requirements. Hong Kong, the second most concerned country about bureaucracy, red tape and regulations, has a number of concerns among which other countries' trade tariffs feature prominently.

Figure 32 – Minor barriers to international expansion (%\*)

Transportation constraints	53
Financial constraints	49
Cultural/language issues	47
Political & social instability	40
Finding representatives	38
Lack of market knowledge	38
Bureaucracy	36

\* % of respondents rating this 1 or 2 on a scale of 1 to 5, when 1 is minor barrier and 5 is major barrier

Figure 33 – Major barriers to international expansion (%\*)

Bureaucracy	29
Lack of market knowledge	28
Political & social instability	28
Finding representatives	26
Financial constraints	21
Cultural/language issues	21
Transportation constraints	16

\* % of respondents rating this 4 or 5 on a scale of 1 to 5, when 1 is minor barrier and 5 is major barrier

Figure 34 – Bureaucracy as a major barrier to international expansion (%\*)

Mexico	54
Hong Kong	44
Singapore	40
Germany	40
Russia	39
South Africa	38
Australia	36
Japan	31
United States	30
Global average	29
Canada	27
Netherlands	25
Greece	24
Ireland	21
United Kingdom	20
India	19
Sweden	17
France	16
Spain	14
Italy	13

\* % of respondents rating this 4 or 5 on a scale of 1 to 5, when 1 is minor barrier and 5 is major barrier

“Whilst hindrances like bureaucracy, lack of market knowledge and transportation constraints can be resolved, instability of any form is a major concern to an investor in a foreign country.”

**Kon Yin Tong**

Managing Partner  
Foo Kon Tan Grant Thornton  
Singapore



**Figure 35 – Most important barrier to international expansion (%\*)**

<b>Financial constraints</b>	
India	28
<b>Lack of knowledge about markets</b>	
Japan	50
Ireland	22
Sweden	21
<b>Political &amp; social instability</b>	
Singapore	69
Hong Kong	44
Greece	32
Spain	20
Italy	16
<b>Finding representatives in other countries</b>	
Ireland	22
Sweden	21
<b>Bureaucracy, red tape &amp; regulations</b>	
Mexico	54
Hong Kong	44
Germany	40
Russia	39
South Africa	38
Australia	36
United States	30
Canada	27
Netherlands	25
United Kingdom	20
France	16

\* % of respondents rating this 4 or 5 on a scale of 1 to 5, when 1 is a minor barrier and 5 is a major barrier

Bureaucracy and red tape is regarded as the main barrier to international expansion by respondents in eleven of the countries in our survey, as shown in figure 35. Political and social instability is seen as a major barrier by respondents in five countries, in particular Singapore.

An analysis of responses by global region

regarding barriers to international growth shows that bureaucracy is a particular concern for the Far East (figure 36). In the EU, apart from Germany, the proportion of respondents expressing concern regarding bureaucracy is well below the global average. In North America, responses are in line with the overall picture.

### International free trade agreements – greatest impact on smaller economies

International trade is a key driving force for economic expansion. Much has been made of the liberalisation of trade under the auspices of the World Trade Organisation and the boost to trade from the establishment of regional trading blocs. We asked companies how much impact such developments had on their business. The response is quite surprising. Globally, only 23% of businesses note a positive impact, with a mere 6% strongly positive and 11% actually indicating a negative impact.

However, the overall results are undoubtedly depressed by the responses from Japan, US and Germany. These are large countries with well established trading patterns and a heavy weighting in calculating the overall results. In general, the main beneficiaries from global trade liberalisation are smaller or less advanced economies. This is illustrated in figure 37.

The percentage of positive responses from businesses in smaller countries such as Greece, Singapore, Ireland and Hong Kong is significantly above the global average. Hong Kong's inclusion probably reflects its close links with China, whose rapid development and increasing integration into the international economy has been an important influence. And in Canada and Mexico, which also feature as strongly positive in this table, there has been a boost to international trade from NAFTA membership.

Figure 36 – Bureaucracy as a barrier to international expansion (%\*)

EU	23
N. America	30
Japan	31
Hong Kong	44
Singapore	40

\* % of respondents rating this 4 or 5 on a scale of 1 to 5, when 1 is minor barrier and 5 is major barrier

— global average of 29

Figure 37 – Positive impact of international free trade agreements (%\*)

Hong Kong	50
Greece	49
Singapore	48
Mexico	48
Ireland	47
Spain	39
Canada	38
Sweden	36
Italy	28
France	28
United States	25
Germany	24
Global average	23
South Africa	23
India	23
Netherlands	18
United Kingdom	17
Australia	14
Japan	9
Russia	8

\* % of respondents rating this 1 or 2 on a scale of 1 to 5, when 1 is strongly positive and 5 is strongly negative

“Imports and exports have increased substantially as a consequence of NAFTA. It has had a positive impact on businesses in various sectors, particularly in manufacturing. Further trade agreements with the EU and Japan should also open up new opportunities and reduce economic dependency on the US.”

**Héctor Pérez**

Managing Partner, Salles Sáinz-Grant Thornton, Mexico

## 6 Business management

### Key findings

- More than half (56%) of businesses expect to be affected by any new regulations and many are taking or planning action
- 13% of companies feel new regulations on corporate accounting practices would have a serious impact on their business
- But in Mexico and the Netherlands, almost one third of businesses think the impact would be serious
- The vast majority of businesses have tightened, or plan to tighten, internal controls to protect shareholders and employees
- Around three in ten businesses have already appointed non-executive or independent directors (28%), introduced formal policies on directors' pay (29%) or formed an audit committee (34%)

### Impact of possible new regulations

Given the deep concerns regarding corporate accounting failures that surfaced during 2002, we asked businesses to what extent they thought possible new rules and regulations might affect them. The high proportion (56%) indicating that there would be a slight or serious impact is surprising (figure 38). The type of business we surveyed is unlikely to be directly affected yet by the new regulations, which will be initially aimed at public interest and listed companies.

Even more surprising, over 80% of business owners have already tightened up internal controls as a safeguard, or are planning action (figure 39). Businesses have introduced a variety of measures to enhance corporate governance, mainly through appointing non-executive or independent directors (28%), introducing formal policies on directors' pay (29%) or forming an audit committee (34%).

Figure 38 – Impact of possible new accounting regulations on your business (%)

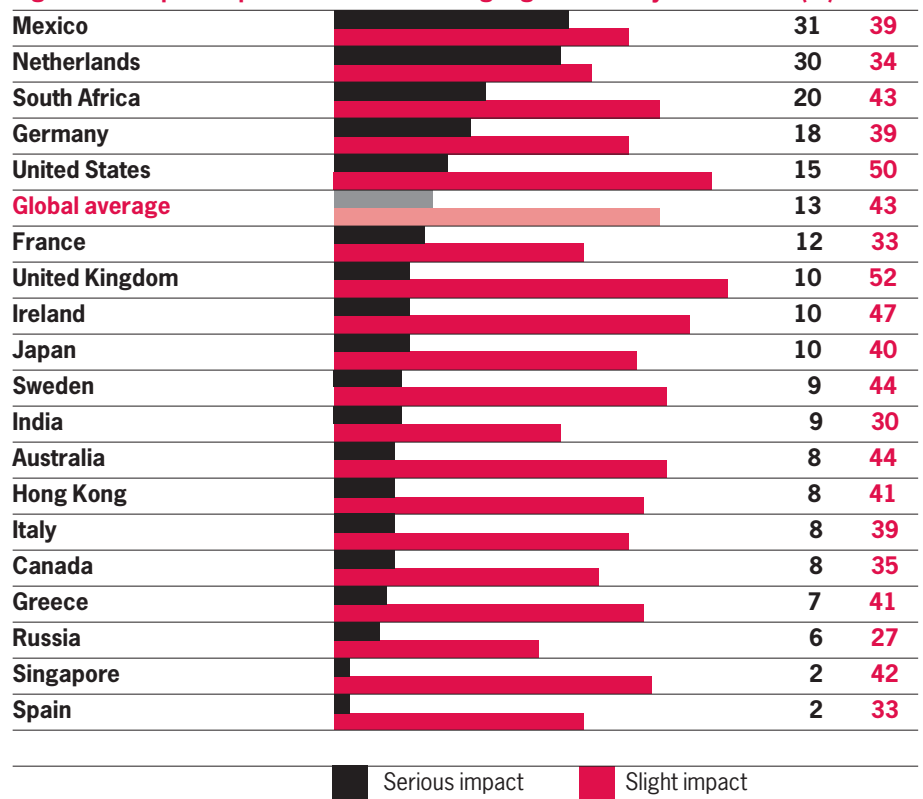
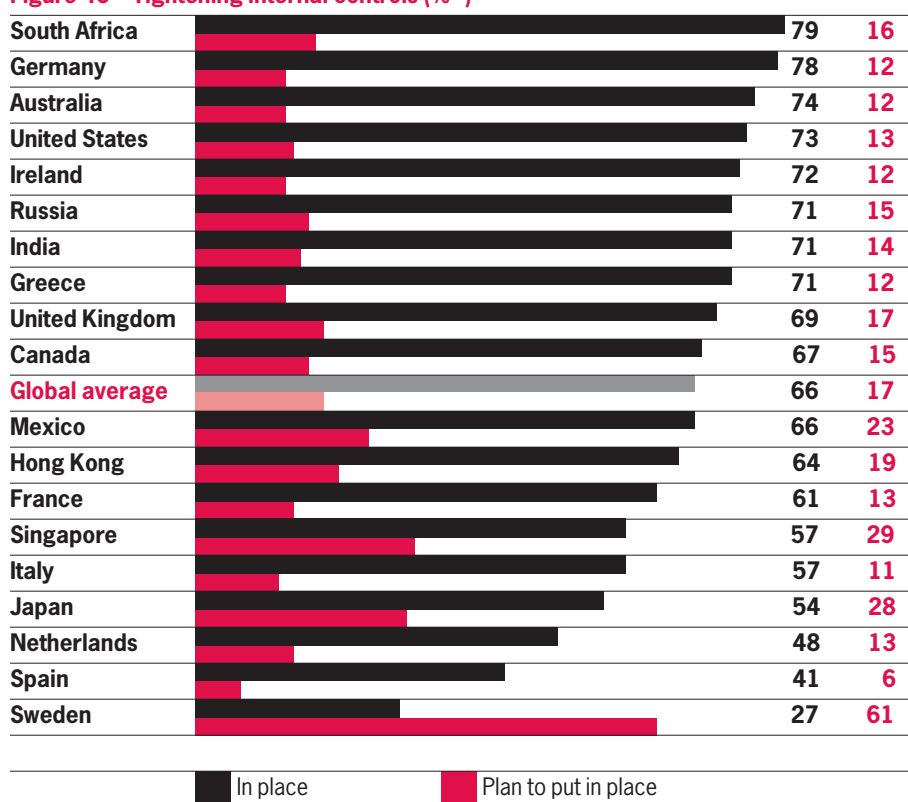


Figure 39 – Action taken or planned to protect shareholders and employees (%)

	In place	Plan to put in place	No plans
Tighten up internal controls	66	17	17
Appoint non-executive or independent directors	28	11	60
Introduce formal directors' remuneration policies	29	14	55
Form an audit committee	34	13	53
Appoint a supervisory board	23	11	63

Figure 40 – Tightening internal controls (%\*)



\* businesses who have acted or plan to act

### Shareholder and employee protection

Official and media attention has been directed recently at the scope and efficacy of procedures to protect shareholders and employees. We sought to establish to what extent internal systems are in place or are planned to enhance protection. We analysed five actions resulting in a wide range of conclusions. The results are shown in figure 39.

The majority of businesses (66%) have tightened up on internal controls and a further 17% have plans to do so (figure 39). This means a massive 83% of

businesses have taken action or plan to act in this area. However, the global average masks wide divergence (figure 40). At one extreme are countries where the proportion having tightened or planning to tighten controls is even higher (notably South Africa at 95%); while at the other are several countries where a large number of businesses have no plans to act. A further interesting point is that in Sweden relatively few companies, far fewer than in any other country, appear to have tightened internal controls, but as many as 61% have plans to act in this area.

“It is encouraging that so many business owners around the world have a healthy awareness of global sentiment and trends. These businesses are recognising the positive role that more professional governance procedures can play in making them stronger and in increasing shareholder value.”

**David McDonnell**

Chief Executive Worldwide  
Grant Thornton



Between one third and one half of businesses have plans to introduce other initiatives suggested (figure 39). There are some interesting national differences which are outlined below.

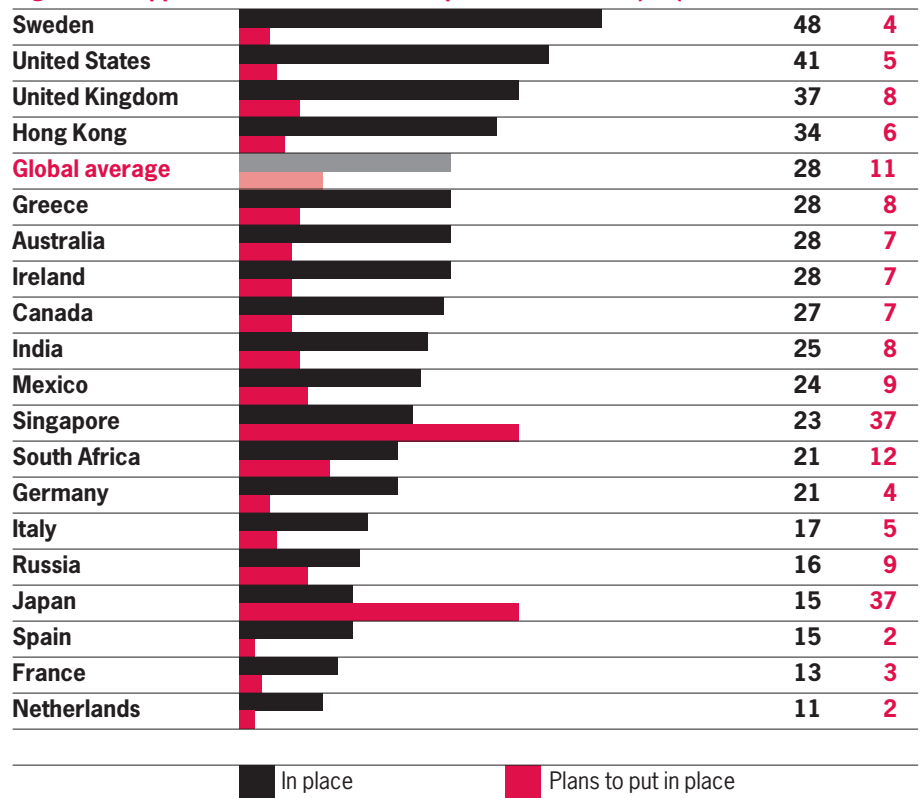
### Appoint non-executive or independent directors

Historically, relatively few independent businesses have appointed non-executive directors, yet close to 30% now appear to have done so. In Sweden (48%) and US (41%) the proportion is particularly high (figure 41). The proportions are very low in the Netherlands (11%) and France (13%). In Japan and Singapore the proportions are also low, but in both cases 37% of respondents said they planned to take action, a far higher percentage than in any other country (the next highest was South Africa with 12%).

### Introduce formal policies for directors' remuneration

In Russia, a majority of businesses (58%) already have policies in place. Sweden (43%), South Africa (41%) and Greece (40%) also have a substantial proportion of businesses with formal remuneration policies for directors. In Germany (10%) and Spain (13%) the proportions are particularly low and in both cases around 80% of respondents said they had no plans for change. A large number of respondents in Japan (47%) said they had plans to introduce policies in this area.

Figure 41 – Appoint non-executive or independent directors (%\*)



\* businesses who have acted or plan to act

## 7 Funding the business

### Key findings

- The vast majority of businesses (81%) are confident that current sources of finance will provide sufficient funding to support business plans over the next three years
- However, a significant proportion of businesses in Russia (28%) and Mexico (26%) are not optimistic about obtaining adequate funding
- German businesses use more external funding than any other country

“Banks still consider medium sized businesses as high risk clients. Interest rates are also relatively high and there are not many private investors and venture capitalists in Russia yet. Those with available funds prefer to invest in the Russian blue chip companies.”

### Sergey Aslibekian

Managing Partner  
Grant Thornton Trid, Russia



Figure 42 – Sources of external funding (%)

Loans under five years	59
Leasing/hire purchase	48
Loans over five years	42
Overdraft	36
Owners' funds	33
Factoring	18
Grants/awards	17
Equity (institutions)	14
Other equity	14
Family equity	9
Other	9

Figure 43 – Sources of external funding by country (%)

	Overdraft	Other short term finance*	Loans over five years	External Equity**
Germany	65	87	51	18
Greece	8	75	34	2
Hong Kong	31	49	12	24
Mexico	3	51	7	13
Russia	21	57	6	37
Spain	40	65	27	7
Sweden	16	27	27	25
<b>Global average</b>	<b>36</b>	<b>75</b>	<b>42</b>	<b>19</b>

\* includes loans under five years, leasing/hire purchase and factoring

\*\* equity from institutions and other sources outside the owner and family

### Sources of funding

Businesses draw on a variety of sources for external funding, as shown at the global level in figure 42. Loans under five years and leasing/hire purchase are the most common forms of funding.

Figure 43 highlights countries where the pattern of external funding in terms of propensity to borrow and structure differ markedly from the global average.

One of the most interesting divergences from the global pattern is

seen in Sweden. Recourse to loans appears to be much less prevalent than in any other country; usage of leasing/hire purchase is extremely low; and factoring/invoice discounting appears to be non-existent.

Germany by contrast has a much higher proportion of companies using the various sources of funding than at the global level – virtually across the board. It has the highest proportion of companies relying on external finance in

no fewer than five categories: loans over five years, leasing/hire purchase, equity from owners' personal funds, external equity from family members and external equity from employees. Germany also has the highest proportion of businesses obtaining grants and awards. However, it has a slightly lower percentage using external equity from institutions, a reflection of its relative failure to embrace the equity culture through the stock exchange or institutions.

Following are the key points from figure 43.

- Just 6% of respondents in Russia and 7% in Mexico use loans over five years (42% globally).
- Reliance on overdrafts is low in Mexico (3% of respondents) and Greece (8%).
- Greece (2% of respondents) and Spain (7%) have a very low usage of external equity.
- Hong Kong has relatively low usage of loans but higher reliance on external equity and also equity from owners/family (figure 46).

Usage of leasing/hire purchase in Sweden, as noted earlier, is remarkably low. Just 8% of reporting businesses indicate that this is a source of finance. At the other extreme are Australia and Germany, where 70% of businesses have recourse to this form of finance, as shown in figure 44.

**Figure 44 – Usage of leasing/hire purchase (%)**

Germany	70
Australia	70
Ireland	68
South Africa	67
United Kingdom	59
Netherlands	56
France	55
Italy	52
United States	49
Global average	48
Canada	41
Japan	40
Singapore	33
Russia	32
Spain	29
Greece	28
Hong Kong	26
Mexico	15
India	15
Sweden	8

**Figure 45 – Ratio between family/owner equity and institutional equity**

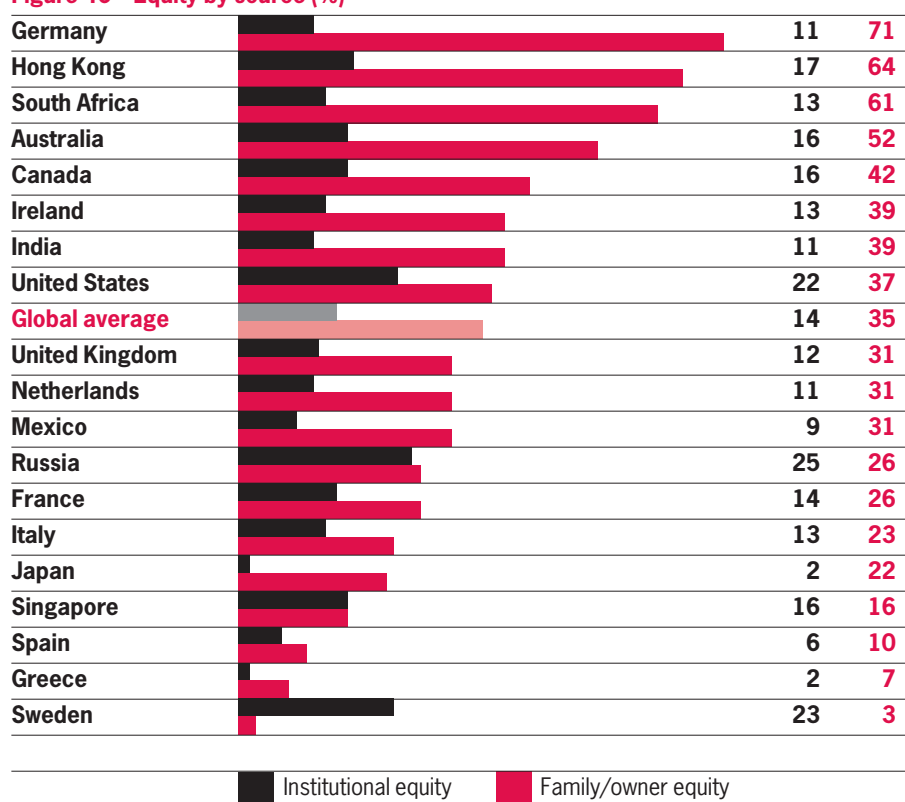
Japan	11.0
Germany	6.5
South Africa	4.7
Hong Kong	3.8
India	3.5
Greece	3.5
Mexico	3.4
Australia	3.3
Ireland	3.0
Netherlands	2.8
Canada	2.6
United Kingdom	2.6
Global average	2.5
France	1.9
Italy	1.8
United States	1.7
Spain	1.7
Russia	1.0
Singapore	1.0
Sweden	0.1

### Family versus institutional equity

We investigated the balance between equity from institutions and equity from owners or family, focusing on those countries where the ratio between these two equity sources diverges markedly from the global average.

Figure 46 shows that at the global level, 14% of respondents indicate that institutional equity forms part of their financing, against 35% with equity from owners or family. This gives a ratio of 2.5, and in figure 45 we examine the wide variation in this ratio across the countries in the survey. Japan has the highest ratio by far, due to extremely low institutional funding (just 2% of respondents). Germany stands out from figure 46 as having relatively low institutional equity and particularly heavy reliance on family/owner equity, giving a ratio of 6.5 and is followed by South Africa with a ratio of 4.7, reflecting a similar pattern. The US is one of a very few countries with a ratio below 2 on this measure, a reflection of its relatively high usage of institutional equity. In Russia and Singapore, levels of institutional equity equal family/owner equity, while Sweden has extremely low family/owner equity; a mere 3% of respondents, producing a correspondingly low ratio.

Figure 46 – Equity by source (%)



### Funding generally adequate but there are concerns in Russia and Mexico

The vast majority of businesses (81%) are confident that current sources of finance will provide sufficient funding to support business plans over the next three years. In some countries however responses indicate a high degree of uncertainty. Figure 47 looks at the proportion of companies in each country responding with concern that current sources will not support plans.

Russia (28%) and Mexico (26%) stand out as most vulnerable to a funding shortfall. Japan looks secure, with only 8% saying that current funding sources will not support plans, but a large number (20%) of respondents said they did not know or declined to answer.

Most of the countries with reservations about the adequacy of funding in figure 47 also contain a relatively high proportion of businesses which have experienced difficulty in obtaining loans in the past 12 months. Figure 48 shows the six countries with above average percentages. The main reasons underlying difficulty in obtaining loans are cited as increased security requirements (Germany and Russia); adverse attitudes to the company's sector (Mexico and South Africa); and tighter appraisal criteria (Hong Kong and Japan).

Figure 47 – Current sources of finance will not support business plans (%)

Russia	28
Mexico	26
Hong Kong	22
India	19
Germany	18
France	15
Italy	14
United Kingdom	13
South Africa	12
Greece	12
Global average	11
Ireland	10
Netherlands	10
Australia	10
United States	9
Canada	9
Singapore	8
Japan	8
Spain	6
Sweden	4

Figure 48 – Experienced difficulty in obtaining loans (%)

Global average	15
Japan	22
Russia	22
South Africa	22
Hong Kong	23
Germany	25
Mexico	29

# Ownership change

## Key findings

- A quarter of businesses expect an ownership change in the next ten years
- Sweden has the highest proportion (42%) of businesses expecting a change
- Merger and passing the business to the next generation are the most likely for effecting the change

Nearly one in four businesses expect a change in ownership in the next ten years. However, there are marked variations among the main global regions. The EU (26%) is near the global average of 24% but in NAFTA 29% expect a change, while in the Asian countries 15% expect a change.

There is a high degree of consistency within NAFTA, as shown in figure 49. The US and Canada have identical responses, above the global average, and Mexico is even further above the global figure. Asia also displays a consistent picture, with proportions at or below the world average. However, the EU average masks a wide variety of responses, ranging from only 6% in Spain expecting an ownership change in the next ten years to 42% in Sweden.

We asked businesses expecting a change of ownership what form the change might take. Merger and passing the business to the next generation of the family are the most likely, as shown in figure 50.

Responses reveal a wide variation among the various countries as to the form the expected business change might take – there is no regional pattern. Indeed, countries in NAFTA and the EU which in many other aspects of the survey show very similar responses, have markedly different expectations in this context. For example, only 13% of respondents in Canada expect the transition to take place via a merger, compared with 29% in the US.

**Figure 49 – Proportion expecting change in business ownership in the next ten years (%)**

<b>NAFTA</b>		<b>29</b>
<b>Mexico</b>		<b>36</b>
<b>Canada</b>		<b>29</b>
<b>United States</b>		<b>29</b>
<b>Asia</b>		<b>15</b>
<b>Hong Kong</b>		<b>24</b>
<b>Singapore</b>		<b>17</b>
<b>Japan</b>		<b>15</b>
<b>EU</b>		<b>26</b>
<b>Sweden</b>		<b>42</b>
<b>United Kingdom</b>		<b>33</b>
<b>Germany</b>		<b>32</b>
<b>France</b>		<b>28</b>
<b>Netherlands</b>		<b>19</b>
<b>Ireland</b>		<b>18</b>
<b>Greece</b>		<b>13</b>
<b>Italy</b>		<b>11</b>
<b>Spain</b>		<b>6</b>
<b>Other</b>		
<b>Russia</b>		<b>38</b>
<b>South Africa</b>		<b>25</b>
<b>Australia</b>		<b>23</b>
<b>India</b>		<b>12</b>

— global average is 24

“Mexico has a very large number of old established family businesses and they have traditionally transferred the administration and, in certain cases, ownership to the next generation. However, more than half of our family business clients are rethinking their plans and considering putting independent directors in charge.”

#### Héctor Pérez

Managing Partner

Salles Sáinz-Grant Thornton, Mexico



**Figure 50 – Expected changes in business ownership in the next 10 years (%\*)**

<b>Merger</b>	21
<b>Pass to the next generation</b>	16
<b>Trade sale</b>	14
<b>Bring in private investors</b>	13
<b>Flotation</b>	7
<b>Management buy-out</b>	7
<b>Sale to employees</b>	7
<b>Other</b>	12

\* % of those expecting a change

**Figure 51 – Expected changes in business ownership in the next 10 years (%\*)**

**Analysis by country where over a quarter of respondents expect a change**

	Trade sale	Bring in private investor	Pass to next generation	Merger	Other**
<b>Canada</b>	13	13	22	13	39
<b>France</b>	17	20	12	13	38
<b>Germany</b>	23	11	33	9	25
<b>Mexico</b>	15	15	33	17	21
<b>Russia</b>	4	33	4	20	39
<b>Sweden</b>	28	19	18	7	29
<b>United Kingdom</b>	40	6	8	9	37
<b>United States</b>	7	13	12	29	41

\* % of those expecting a change

\*\* includes flotation, management buy-out, sale to employees, don't know, and other. None of these in their own right is significant.

In figure 51, we analyse the type of ownership change in countries where over a quarter of respondents said they expected a change in the next ten years.

Following are the key points from figure 51.

- In the UK, a trade sale is the most widely expected way of effecting ownership change.
- In Germany and Mexico, one third of businesses plan to pass the business

on to the next generation of the family. This is regarded as less likely in Russia and the UK.

- In the US a merger is considered most likely.
- In Russia bringing in private investors is the most favoured method of transfer.

# Invoice payment

## Key findings

- Russian companies have the shortest invoice payment periods, followed by Australian companies
- Spain and Italy, followed by Greece, have the longest payment periods
- Over 10% of companies in the Far East and France only receive payment after 90 days

**Figure 52 – Payment of sales invoices**

	Average (days)	Under 30 days (%)	30 – 89 days (%)	Over 90 days (%)
<b>Russia</b>	<b>24</b>	<b>73</b>	<b>21</b>	<b>4</b>
<b>Australia</b>	<b>36</b>	<b>38</b>	<b>60</b>	<b>2</b>
<b>Germany</b>	<b>38</b>	<b>40</b>	<b>54</b>	<b>2</b>
<b>South Africa</b>	<b>38</b>	<b>37</b>	<b>61</b>	<b>3</b>
<b>Sweden</b>	<b>39</b>	<b>24</b>	<b>69</b>	<b>0</b>
<b>Canada</b>	<b>40</b>	<b>31</b>	<b>63</b>	<b>3</b>
<b>United States</b>	<b>40</b>	<b>29</b>	<b>66</b>	<b>1</b>
<b>India</b>	<b>41</b>	<b>46</b>	<b>42</b>	<b>10</b>
<b>Netherlands</b>	<b>42</b>	<b>27</b>	<b>69</b>	<b>0</b>
<b>United Kingdom</b>	<b>43</b>	<b>24</b>	<b>73</b>	<b>3</b>
<b>Mexico</b>	<b>44</b>	<b>38</b>	<b>54</b>	<b>8</b>
<b>Singapore</b>	<b>44</b>	<b>48</b>	<b>40</b>	<b>12</b>
<b>Global average</b>	<b>47</b>	<b>27</b>	<b>61</b>	<b>9</b>
<b>Hong Kong</b>	<b>49</b>	<b>29</b>	<b>54</b>	<b>13</b>
<b>Ireland</b>	<b>52</b>	<b>16</b>	<b>70</b>	<b>8</b>
<b>Japan</b>	<b>55</b>	<b>20</b>	<b>60</b>	<b>18</b>
<b>France</b>	<b>62</b>	<b>14</b>	<b>66</b>	<b>17</b>
<b>Greece</b>	<b>68</b>	<b>20</b>	<b>42</b>	<b>35</b>
<b>Italy</b>	<b>80</b>	<b>7</b>	<b>46</b>	<b>43</b>
<b>Spain</b>	<b>80</b>	<b>8</b>	<b>43</b>	<b>47</b>

## Average payment period for sales invoices

The average payment period for sales invoices is shown in figure 52, which also includes details of payments over three time periods. Russia is the clear leader in terms of quick settlement and Spanish and Italian companies have the longest payment periods.

The table shows that seven in every ten businesses in Russia receive payment for their invoices within 30 days, a much higher proportion than in any other country. A more detailed breakdown of responses shows that 37% of Russian businesses receive cash on delivery

(COD) or are paid within seven days. This is significantly higher than the second placed country, India, where the proportion is 16%. The Russian experience reflects the fact that COD is very common. Some suppliers still work only by COD though this practice seems to be less popular than several years ago, when almost everybody requested COD in the highly unstable situation prevailing at that time.

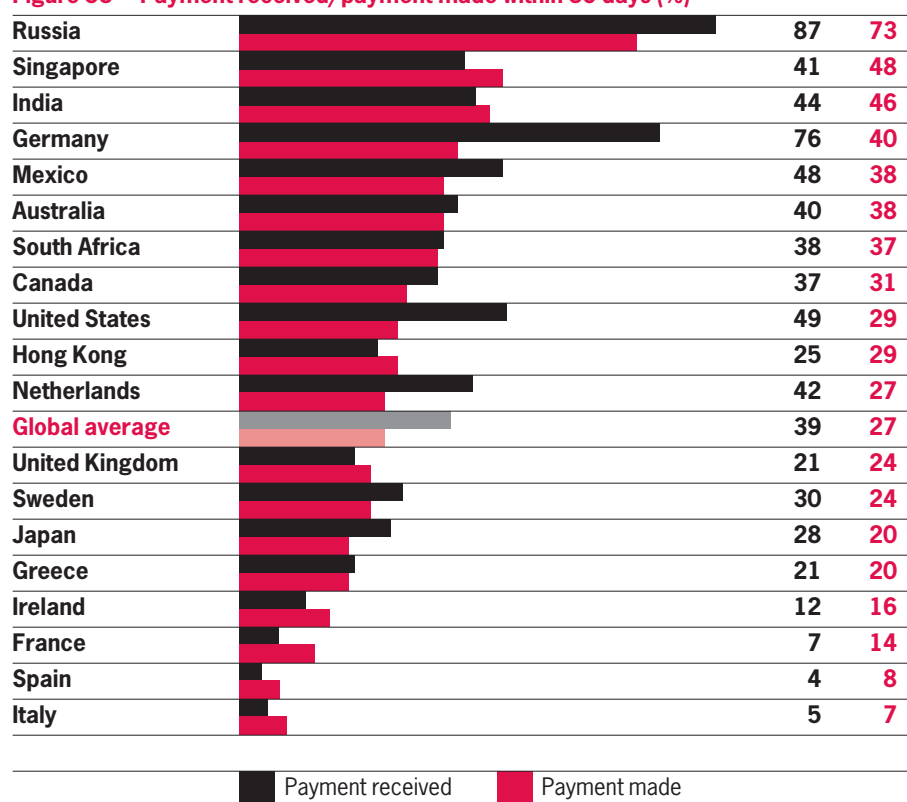
Figure 52 also shows that vast the majority of sales invoices are paid in less than 90 days, with however some notable exceptions. Almost half of Spanish businesses only receive payment

after 90 days, as do 43% of companies in Italy and 35% in Greece. Almost one fifth of businesses in Japan and France have to wait for over 90 days for payment of sales invoices.

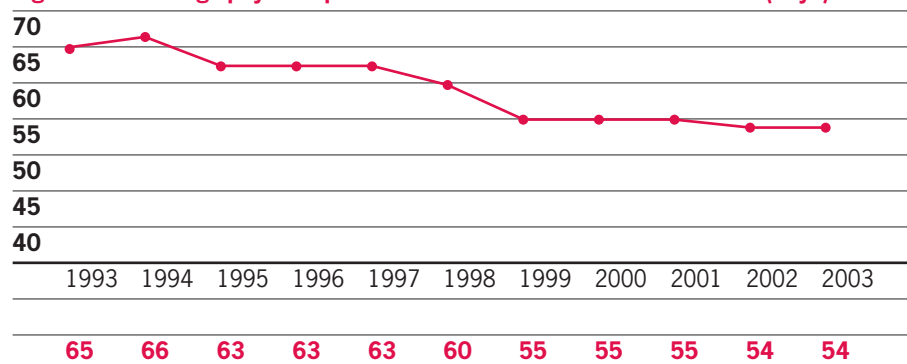
Figure 53 shows that in general, the picture is very similar whether we look at payments made to suppliers or receipts from those invoiced. This suggests that independent businesses are not being squeezed by larger companies. However, the detail shows some interesting differences. Businesses in a number of countries, notably Russia, Germany, US and the Netherlands, report greater timeliness in settling invoices than in receiving payment, but these are all countries where payment is generally quite prompt. It is interesting that the reverse is true in the four countries with the least prompt record on payments received.

The average payment period for sales invoices among companies in the EU has stabilised at 54 days, down from 65 days a decade ago (figure 54). The average period is also slightly lower than at the peak of the economic cycle, despite the inevitable additional pressure on company finances during the economic slowdown of the past two years. The downward trend seen in recent years in the average payment period reflects the success of considerable EU legislation aimed at speeding up payment.

**Figure 53 – Payment received/payment made within 30 days (%)**



**Figure 54 – Average payment period in EU 1993-2003 for sales invoices (days)**



## 8 EU business trends

### Key findings

- Expectations about turnover, exports, employment and profitability continue to fall from their 2001 peaks...
- ...but businesses are more optimistic than during the recession of the early 1990s
- Ease of access to larger markets and a larger pool of labour are considered to be the main implications of EU enlargement
- Half of UK and 90% of Swedish businesses would like their countries to adopt the euro

“Irish businesses have benefited greatly from membership of the EU over recent years. There is obviously concern that the levels of foreign investment Ireland has enjoyed will migrate elsewhere but this may be counter balanced by access to larger markets.”

### Jimmy Murphy

International Practice Partner  
Grant Thornton, Ireland

In the EU we have trend data for 11 years, enabling us to chart changes since 1993 in key areas of the business environment.

In looking at some of these trends, particularly those focusing on business expectations, it is useful to bear in mind the course of the economic cycle over the period. This is shown in figure 55, from which the close correlation with turnover expectations can be seen.

### Business expectations

The 2003 survey was conducted at a time of economic slowdown. As figure 55 shows, the same was true of the 1993 survey, although the economy was then in mild recession. We have selected four key indicators of expectations for the coming year (figure 56). It is interesting to note that while expectations are understandably much less upbeat than at the time of the cyclical peak in 2000-2001, they are generally more optimistic than during the early 1990s recession. This is the case with turnover, profitability and investment intentions; the exception is exports, where the balance of responses is identical to the 1993 figure.

### Effects of enlargement

Plans for the enlargement of the EU are on track. Following the Copenhagen Summit in December 2002, it seems likely that by 2004, the EU will comprise 25 countries, with the accession of ten new members, mostly from Eastern Europe and the Baltics. We asked EU business owners what effects they felt enlargement would have on their operations.

They feel that the most significant impact will be ease of access to larger markets. This was mentioned by 44% of respondents, with much higher percentages in Ireland (58%) and Germany (57%).

However, these two countries also highlight the prospect of increased labour supply. In Ireland, 74% of businesses expect a larger pool of labour in their own country. In Germany, the proportion was slightly lower, at 65%. However, German unemployment is double the Irish rate and a large influx of new labour could be difficult to absorb given the economy's very slow growth performance. In the UK and France the labour supply effects are much less of an issue (figure 57).

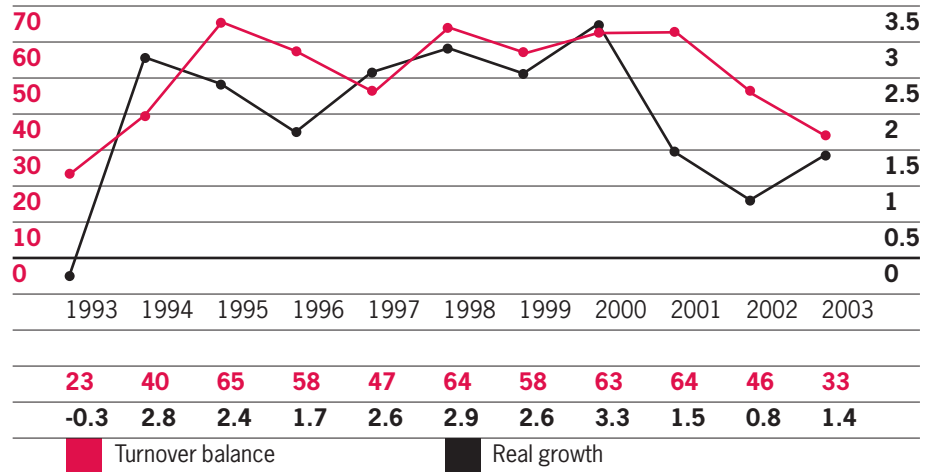


Of greater concern to the UK are tax and regulation implications. 67% of respondents (almost double the EU average) are concerned that enlargement will lead to increased regulation and 51% (against 30% in the EU as a whole) are concerned that there will be more taxes.

Ireland is also well above the rest of the EU in voicing concern about increased regulation and also features quite prominently in terms of fear of more taxes (figure 58). Germany also displays above average concern about taxation.

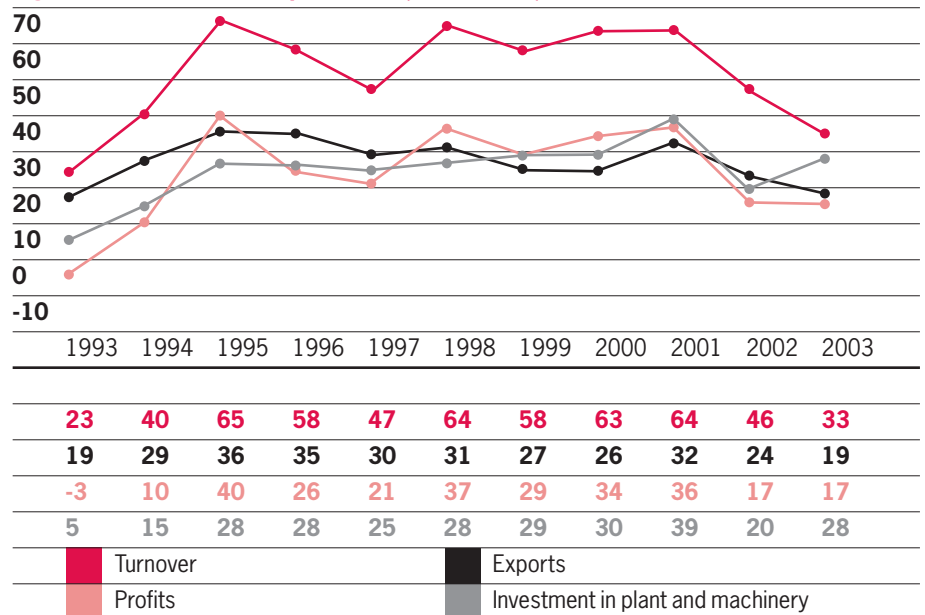
Businesses in these three countries stand out as particularly concerned at the constraint posed by regulation and taxation. But respondents across the EU have consistently identified these factors as significant constraints on expansion. In our European Business Survey conducted between 1993 and 2002, domestic legislation and taxes were generally perceived by between 26% and 30% of businesses as long term constraints and EU legislation by around 10% of respondents.

Figure 55 – EU economic cycle and turnover expectations (%)



\* 2003 figure is forecast

Figure 56 – EU business expectations (% balance \*)



\* the balance is the difference between the proportion of businesses indicating an increase and those indicating a decrease

### The euro

We asked Swedish and UK businesses – which are part of the EU but not in the eurozone – whether they would like their countries to adopt the euro. Sweden remains very enthusiastic about membership.

The UK is lukewarm, though responses are more positive than a year ago (figure 59). Businesses in Northern Ireland are most strongly in favour, with 70% saying they would like the UK to adopt the euro, while those in the South West and Wales are least positive, with only 40% in favour. Responses according to company size (20 to 249 or 250 to 499 employees) are virtually identical, but manufacturing is more positive than services and construction is firmly negative (figure 60).

Figure 57 – Expectations of a larger pool of labour (%)

Ireland	74
Germany	65
EU average	42
Italy	40
Greece	39
Sweden	39
Spain	38
Netherlands	31
United Kingdom	28
France	26

Figure 58 – Concern at more taxes and regulations (%)

United Kingdom	51	67
Ireland	33	59
EU average	30	38
Greece	22	36
Italy	18	35
Sweden	18	34
France	13	30
Netherlands	29	29
Germany	40	28
Spain	15	26

Taxes
  Regulations

Figure 59 – Saying yes to adopting the euro (%)

	2002	2003
Sweden	93	89
United Kingdom	43	50

Figure 60 – UK responses by sector (%)

	Yes	No
Manufacturing	53	40
Construction	40	53
Services	49	45

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### Australia

**Grant Thornton**  
Graham Watman  
T +61 (0) 2 8297 2550  
F +61 (0) 2 9299 4477  
E gwatman@gtsw.com.au

### Canada

**Grant Thornton LLP**  
John Holdstock  
T +1 416 366 0100  
F +1 416 360 4949  
E jholdstock@grantthornton.ca

### France

**Grant Thornton**  
Hervé Gohin  
T +33 (0) 1 53 02 42 70  
F +33 (0) 1 53 02 42 79  
E herve.gohin@grant-thornton.fr

### Germany

**Grant Thornton GmbH**  
Christian Kirnberger  
T +49 (0) 89 36 849 360  
F +49 (0) 89 36 849 369  
E c.kirnberger@susat.de

### Greece

**Grant Thornton S.A.**  
Apostolos Papadopoulos  
T +30 2 10 72 53 315  
F +30 2 10 72 53 317  
E gt-bc@otenet.gr

### Hong Kong

**Grant Thornton**  
Kevin O'Shaughnessy  
T +852 2218 3178  
F +852 2218 3678  
E kevin.oshaughnessy@gthk.com.hk

### India

**Grant Thornton India Private Ltd**  
Vishesh Chandiok  
T +91 11 5151 7202  
F +91 11 2341 8512  
E vcc@gt-india.com

### Ireland

**Grant Thornton**  
Gearoid Costelloe  
T +353 (0) 61 312 744  
F +353 (0) 61 317 691  
E gcostelloe@gt-limerick.com

### Japan

**Grant Thornton Japan**  
Shigeru Oe  
T +81 (0) 33 595 0525  
F +81 (0) 33 595 0529  
E soe@gtjapan.com

### Mexico

**Salles, Sáinz-Grant Thornton, S.C.**  
Juan Salles  
T +52 55 5424 6500  
F +52 55 5424 6501  
E jsalles@sstg.com.mx

### The Netherlands

**Arenthals Grant Thornton**  
Frank Ponsioen  
T +31 (0) 172 42 38 70  
F +31 (0) 172 42 38 90  
E frank.ponsioen@agt.nl

### Russia

**Grant Thornton Trid**  
Sergey Aslibekian  
T +7 (0) 095 258 9990  
F +7 (0) 095 291 6246  
E saslibekian@gtrus.com

### Singapore

**Foo Kon Tan Grant Thornton**  
Kon Yin Tong  
T +65 6331 2313  
F +65 6337 2197  
E konyintong@grantthornton.com.sg

### South Africa

**Grant Thornton Kessel Feinstein**  
Leonard Brehm  
T +27 (0) 11 322 4565  
F +27 (0) 11 322 4566  
E lbrehm@gt.co.za

### Spain

**Grant Thornton España**  
Narcis Carrió  
T +34 93 238 4164  
F +34 93 238 4165  
E narciscarrio@grantthornton.es

### Sweden

**Lindebergs Grant Thornton AB**  
Peter Bodin  
T +46 (0) 8 563 070 00  
F +46 (0) 8 563 070 01  
E peter.bodin@lindebergs.com

### United Kingdom

**Grant Thornton**  
Graeme Forbes  
T +44 (0)141 223 0603  
F +44 (0)141 223 0001  
E graeme.r.forbes@gtuk.com

### United States

**Grant Thornton LLP**  
John Desmond  
T +1 631 249 6001  
F +1 631 249 6144  
E john.desmond@gt.com

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