



THE INSTITUTE
OF CHARTERED
ACCOUNTANTS
IN ENGLAND AND WALES

GLOBAL ENTERPRISE SURVEY REPORT 2008

PROVIDING A UNIQUE PICTURE OF THE OPPORTUNITIES AND THREATS
FACING BUSINESSES ACROSS THE GLOBE



WELCOME

TO THE 2008 GLOBAL ENTERPRISE SURVEY REPORT



The ICAEW annual *Enterprise Survey*, now in its twelfth year, draws upon the expertise of our members working at the heart of business. Respondents are mainly chief financial officers, finance directors, or other directors in businesses of all sizes, from major quoted companies to smaller businesses. This year, for the first time the survey includes responses from chartered accountants in three key global regions – continental EU, the Far East* (Hong Kong, Singapore and Malaysia) and the US – in addition to the UK. While taking account of the nature of companies in the global regions employing chartered accountants – typically larger than the UK companies surveyed and highly represented in the financial services sector – this survey allows us to make insightful global comparisons on the international economic environment.

The survey looks into the impact of the turbulence in financial markets – the credit crunch, changes in global commodity prices and the effects of changes in consumer demand together with major exchange rate movements. In particular we examine the impact on businesses' growth plans and on their plans for continued expansion into new markets.

Our findings show that the credit crunch has had a widespread impact across all four regions, with around 60% of respondents citing a negative or very negative impact. Most respondents see the effects of the credit crunch lasting into late 2009, or possibly into 2010. However, this will be influenced by the scale of the response from both investors and financial authorities to the September 2008 market instability.

* For the purposes of this report we have grouped Hong Kong, Singapore and Malaysia under the broad term Far East.

Respondents in all four regions identify a surprisingly large number of barriers to international growth. This finding, in light also of the failure of the Doha trade talks, suggests that politicians need to be mindful that international trade – a key driver of political and economic stability – will need help to continue to thrive. The prominence of staff issues – deemed to be a significant barrier to international expansion – indicates that governments have to do more to improve skills if they are to make their countries an attractive location for inward investment.

Governments will also need to consider how to respond to concerns about the regulatory and taxation environment in their country. Slightly fewer than half of businesses in the UK (45%) and in the continental EU (48%) say that their own regulatory and taxation environment is business-friendly. This contrasts with the US where 66% describe the environment as business-friendly and the Far East where 87% are of that opinion.

We believe the detailed findings in the attached report will be of relevance to policy makers, governments and all those involved in international trade.

A handwritten signature in black ink that reads "Michael Izza". The signature is written in a cursive, flowing style.

Michael D M Izza
Chief Executive

KEY FINDINGS...

UK BUSINESSES

- Are the most likely to perceive a negative effect on their business this year from the credit crunch and changes in global commodity prices and consumer demand.
- Are the most likely to feel adversely affected by increased short-term borrowing costs and the least likely to have recognised opportunities from the credit crunch.
- Are the least optimistic about an early easing of the impact of the credit crunch, with nearly a quarter expecting it to affect their organisation for more than another two years.
- Have more modest growth plans, with fewer than one in three expecting annual turnover growth in excess of 10%, compared with more than 40% of businesses in other regions.
- Have a less global outlook than those surveyed in other regions, reflecting the different nature of the organisations represented.
- Are the most likely to consider their home regulatory and taxation environment not to be business-friendly and to see most aspects of regulation and taxation to be a hindrance to their operation and development.

OTHER EU BUSINESSES

- Generally feel a little less impacted by the credit crunch than those in other regions and are less likely to report many of the negative effects on their organisation.
- Show the highest level of global engagement (94%), and in particular are most likely to have customers outside their own country (93%), reflecting the comparative ease of trading across borders.
- Are more likely than those in other regions to look to increase both trading and outsourcing in other countries over the next five years.
- Share with the UK a perception that their domestic regulatory and taxation environment is not business-friendly, feeling particularly burdened by employment tax and legislation.

...AT A GLANCE

US BUSINESSES

- Are similar to the UK in reporting the negative impact of the credit crunch on their organisation and are more likely than those in other regions to say that it has reduced their ability to finance acquisitions and have reduced their planned staffing levels.
- Generally are less likely than others to expect negative effects this year from changes in global commodity prices or exchange rates.
- Are a little more likely than others to see increasing profitability as their key business objective over the next two years.
- Have slightly lower levels of global engagement than those in the EU or Far East, but they are the most likely to outsource outside their own country in an administrative or commercial capacity (50%), especially to India (35%).
- Feel their domestic regulatory and taxation environment to be more business-friendly than those in Europe, however they are the most likely to consider financial reporting and corporate governance requirements to be a hindrance to their operation and development.

FAR EAST BUSINESSES

- Are as likely as those in other regions to report the negative impact of the credit crunch on their business. However, they also perceive some benefit to have come from it. More than in any other region, they see increased opportunities for acquisitions and sales and anticipate a less negative impact this year from changes in consumer demand.
- Predict an earlier end to the impact of the credit crunch, with as many as 40% not expecting it to affect their organisation for more than a year.
- See more serious barriers to their growth, however more of them are aiming for turnover growth than in any other region. Apart from increasing profitability, increasing shareholder rewards is a key driver.
- Are more likely than others to say that their business has been affected by recent exchange rate movements and changes in raw material costs, and see more serious barriers to their international expansion. Nevertheless, they are far more likely than those in other regions to regard continued globalisation of markets as having a positive impact on their business (81%).
- Describe their domestic regulatory and taxation environment as business-friendly (87%).
- Are more likely than those in other regions to regard many aspects of regulation and taxation as a help rather than a hindrance to their operation and development.

CONTENTS

EXECUTIVE SUMMARY	7
ECONOMIC ISSUES	10
Impact of financial market instability	10
Impact of economic events on businesses in 2008	13
GROWTH	15
Business growth	15
Business objectives	16
Barriers to business growth	16
GLOBALISATION	18
Global engagement	18
The impact of globalisation	19
Strategy for global markets	20
Barriers to international expansion	21
Economic influences on global engagement	22
Businesses' global footprint	23
REGULATION	26
The regulatory and taxation environment	26
TECHNICAL APPENDIX	30
ACKNOWLEDGEMENTS	31

EXECUTIVE SUMMARY

This year, for the first time, the Institute's annual *Enterprise Survey* has been mirrored by a parallel survey among members based in other key regions of the world – other EU countries, the US and the Far East (specifically, Hong Kong, Singapore and Malaysia). The results provide a revealing and timely benchmark of how businesses around the world are responding to the globalisation of markets and, in particular, to the economic upheaval of the past 12 months.

A year of upheaval in the global economy

The upheaval in world financial markets, now known generally as the 'credit crunch', has had a major impact on markets globally over the past 12 months. However,

the pressures it has placed on businesses worldwide have been exacerbated by increases in oil and other commodity prices, increased inflation in many economies and changes in exchange rates.

THE IMPACT OF THE CREDIT CRUNCH

The credit crunch has adversely impacted on businesses around the world

The relative uniformity of impact on businesses in all four regions in our survey confirms that the credit crunch has been a worldwide phenomenon. Around 60% of businesses in all four regions – the UK, the rest of the EU, the US and Far East – say that it has had a negative effect on their organisation. For 15%-20% in each region this has been 'very negative'. Very few businesses claim a positive effect, with those in the Far East slightly more likely to do so than others (10%).

The most significant effects of the credit crunch on businesses

Around 80% of businesses in each of the four regions agree that the credit crunch has affected their organisation in some way. Among the widespread effects, across all regions, a majority of businesses affected say that it has made forward planning more difficult, reduced revenue growth, and increased short- and long-term borrowing costs. For many, this has resulted in increased difficulty in financing acquisitions, reduced capital investment, reductions in planned staffing levels, and increased difficulty in financing day-to-day operations.

However, businesses in the Far East and the US are more likely than those in Europe to report compensating opportunities in weakened competition, in sales and acquisitions opportunities and in relation to the availability of suitably-skilled staff. Those in the Far East are almost twice as likely as those in any other region to have recognised increased sales opportunities (37%).

Another one to two years of economic turbulence

The turbulence in financial markets, changes in global commodity prices and changes in consumer demand are all expected to adversely affect most businesses' performance in 2008. UK businesses are generally the most pessimistic, with those in the Far East least negative – indeed, some even expecting some benefit from these economic events.

In all regions, most businesses expect the effects of the credit crunch to be felt well into 2009 or 2010, if not later. Those in the UK are a little more likely to see it lasting for more than two years (23%). Businesses in the Far East are more optimistic for an early recovery – 40% anticipate recovery within a year, compared with only around a quarter in other regions.

BUSINESS GROWTH PLANS

Even though the credit crunch has affected most businesses, growth ambitions are high for the next two years

In spite of the undoubted impact of the credit crunch, more than 80% of businesses in all four regions are planning growth over the next two years. Almost half in some regions are targeting annual growth rates in excess of 10%, and a minority 30% and above.

Businesses in the Far East, and particularly Singapore and Malaysia, lead the way, with almost all businesses (96%) planning some growth, more than three-quarters (77%) of 6%+ annually and nearly half (47%) of more than 10%. The lowest growth rates are planned in the UK, with 84% planning growth, fewer than 60% of 6%+ and fewer than one in three (32%) of more than 10%.

Increasing profitability is the key business objective for around half of businesses in all four regions. The second key objective is generally to increase rewards for shareholders or owners, but this is a stronger driver

in the Far East and US, while businesses in Europe are more cautious at a time of economic uncertainty, placing more emphasis on increasing cash balances and paying down debt.

Barriers to growth

However, as they survive the credit crunch, businesses planning growth face a number of other barriers, of which competition remains the strongest, cited by a majority of businesses in all four regions as a 'critical' or 'strong' barrier to their growth. Other particular concerns relate to the availability of key human resources to enable businesses to grow and compete, with many (particularly in the Far East and US) seeing the availability of specialist and technical skills (45% on average) and of exceptional leadership talent (44%) as substantial barriers to growth. In spite of their apparent optimism elsewhere, businesses in the Far East generally place more weight on the perceived barriers that they face in achieving their objectives.

GLOBALISATION

Businesses in the three regions outside the UK show high levels of global engagement

Around 90% of businesses in the other three regions are 'globally engaged', ie, have customers, operations or outsource outside their own country. This compares with little more than 60% in the UK. This does not necessarily mean that UK businesses are falling behind, but rather reflects the nature of businesses employing chartered accountants in these markets – they are generally larger businesses, with a particular focus on the financial services sector.

Businesses in the Far East embrace increasing globalisation more fully than those in other regions

Over 80% of businesses in the Far East believe that the continuing globalisation of markets will have a positive impact on their business over the next five years, compared to just over 60% of those in the US and the rest of the EU and just over 40% in the UK, again largely reflecting their lower level of global engagement.

A majority of businesses in these other regions are looking to take advantage of global opportunities

through enhancing their product offering – by increasing their focus on value-added products or services and adapting products to other markets – and increasing the number of countries they sell to.

Barriers to trading in overseas markets

The main barriers to international expansion for businesses in all markets are political, legal and administrative and regulatory. Other main barriers are again human resource availability and skills – particularly, the availability of local management, the skills of the local workforce and the availability of internal resources. In spite of their general optimism, those in the Far East are especially likely to perceive significant barriers to international expansion.

Many businesses in all four regions – particularly again the Far East – say that exchange rate movements and

changes in raw material costs have had a significant effect on their global pattern of suppliers, the international markets they target and the location of their global operations.

Nevertheless, just over 80% of businesses in the rest of the EU (83%) and the Far East (81%) have plans to expand into or increase market share in regions outside their own home market, compared with just under three-quarters (74%) in the US and around half (51%) in the UK. The focus for building business tends to be on markets close to home, or where there are strong traditional trading links – notably between Europe and the US. However, many also see opportunities in the fast-developing economies of Asia, with China and India a strong target for businesses in all regions.

REGULATION

European businesses may be struggling to compete against those in more business-friendly regulatory and taxation environments in the Far East and US

Two-thirds of US businesses and approaching 90% of those in the Far East describe their home regulatory and taxation environments as business-friendly. This contrasts with fewer than half of UK and other EU businesses, who may consequently find themselves disadvantaged on the global stage.

Employment tax and legislation top the list of hindrances on European businesses

A majority of UK and other EU businesses say that employment tax and employment legislation are a hindrance to the operation and development of their business, with employment tax representing the greatest cost to their business. UK businesses generally feel more over-burdened than those in other regions by regulatory and taxation conditions, whereas those in the Far East (particularly Singapore and Malaysia) are more likely to see them as a help to their business development. US businesses feel more constrained than those in other regions by the demands of corporate governance and financial reporting.

ECONOMIC ISSUES

The *Enterprise Survey 2008* was conducted following a year of turbulence in world financial markets that has become widely known as the 'credit crunch'. It is a worldwide phenomenon, but how have businesses in different regions been affected by the credit crunch? To what extent do experiences, behaviour and expectations differ between businesses in the four regions in our survey?

IMPACT OF FINANCIAL MARKET INSTABILITY

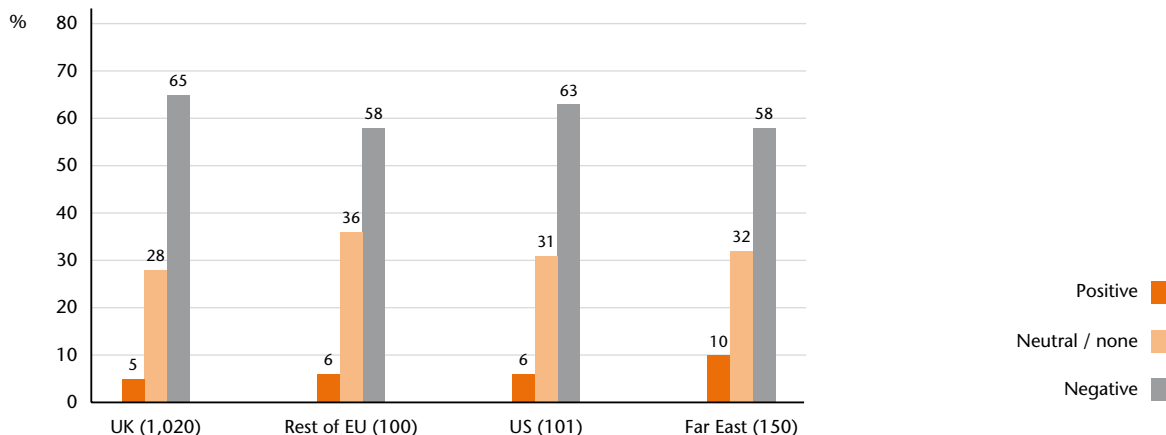
The credit crunch has adversely affected businesses in all four regions

The majority of businesses surveyed say that the unusual turbulence in global financial markets since late 2007 has had a negative effect on their organisation, with a relatively consistent pattern across all four regions. Around 60% in each region report a negative effect, although this is more prevalent in the UK (65%) and US (63%) than in the rest of the EU or the Far East (both 58%). In all regions, between 15% and 20% record

a 'very negative' effect. Very few businesses claim a positive effect of the credit crunch, with those in the Far East slightly more likely to do so (10%) than those in other regions (see chart 1).

Although based on a relatively small sub-sample (34), businesses in New York are more likely to have been negatively affected by the credit crunch (79% negative, including 29% very negative) than those elsewhere in the US (55% and 10% respectively) or, indeed, elsewhere in the world. [CHART 1](#) ▼

CHART 1: EFFECT OF THE CREDIT CRUNCH – BY REGION



Base: All respondents

The credit crunch has increased borrowing costs and reduced revenue growth and most businesses affected find forward planning more difficult

In all four regions covered in the survey, around 80% of businesses say that the credit crunch has affected their organisation in some way. Among these businesses, more than two-thirds on average say that it has increased the difficulty they have in planning ahead (see chart 2), with those in the US and UK most likely to give this response. The more direct impact that it has had on their business is on their financing arrangements – a majority of those affected in all four regions say that it has reduced revenue growth (63% on average) and increased the cost of short-term borrowing (57%). Those in the UK are particularly likely to have been affected by short-term borrowing costs (64%).

The effect of this, for many businesses, is to reduce their ability to finance acquisitions (45% of those affected on average), to invest in capital expenditure (43%), or to finance day-to-day operations (36%). US businesses are particularly likely to feel that their ability to finance acquisitions has been adversely affected (51%). Many businesses also say they have been forced to reduce planned staffing levels (40% on average), especially those in the US (47%) and Far East (45%).

The credit crunch may have put businesses in all regions under pressure and forced a degree of restraint, but for many of them it has also opened up opportunities – we saw above that a few do believe that the credit crunch has had an overall positive effect on their organisation. Certainly, there are some positive outcomes reported.

In particular, just over half of those businesses affected (53% on average) agree that the credit crunch has weakened their competitors. This effect is reported a little more by businesses in the US and Far East than those in Europe.

It may be the businesses in the Far East that are best positioned to take advantage of weakened competition, and they are more likely to have recognised the positive effects of the credit crunch. Half of businesses in the Far East (50%), and particularly those in Malaysia and Singapore (59%), note increased opportunities to acquire businesses, and more than one in three (37%) businesses in the Far East also report increased sales opportunities. Businesses in the UK and the rest of the EU lag behind in both respects.

Twice as many businesses in the US (41%) and Far East (38%) than in the EU say that the credit crunch has increased the availability of staff with the skills they require, although this may reflect local market conditions, as these are also the regions most likely to have been forced to reduce planned staffing levels.

[CHART 2 ►](#)

CHART 2: EFFECTS OF THE CREDIT CRUNCH ON ORGANISATIONS – BY REGION

	Average all regions %	UK (826) %	Other EU (80) %	US (81) %	Far East (119) %
Increased difficulty of planning ahead	69	72	61	74	68
Reduced revenue growth	63	64	55	64	67
Increased cost of short-term borrowing	57	64	56	52	55
Increased cost of long-term borrowing	52	53	55	48	51
Reduced ability to finance acquisitions	45	44	43	51	40
Reduced ability to invest in capital	43	45	38	42	45
Reduced planned staffing levels	40	37	31	47	45
Reduced ability to finance day-to-day operations	36	39	36	36	34
Weakened competitors	53	51	48	57	56
Increased opportunities to acquire businesses	41	32	38	42	50
Increased sales opportunities	24	18	18	21	37
Increased availability of staff with skills required	29	16	21	41	38

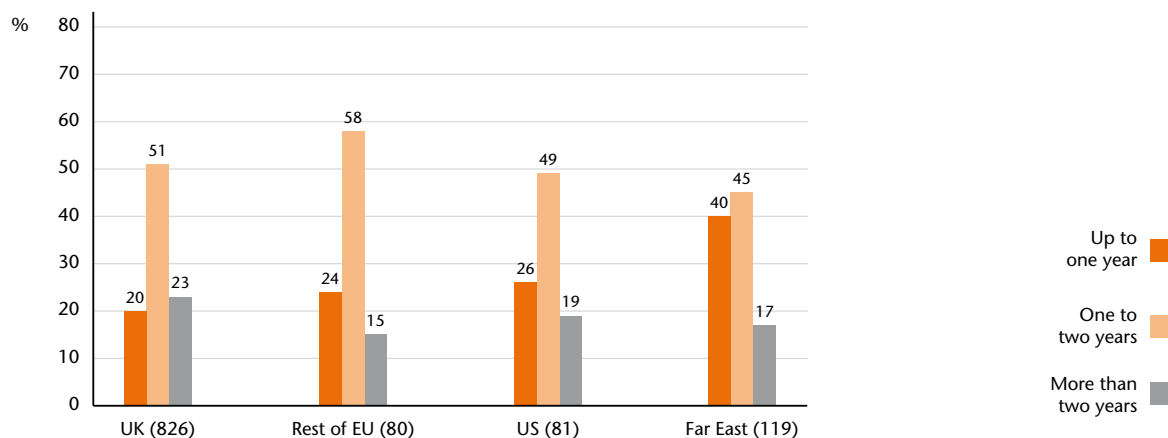
Base: All businesses affected by the credit crunch, 1,106
(Light orange shaded squares represent those where figure is 6 points or more above average)

Most businesses affected expect a further one to two years or more of financial market instability although those in the Far East are more likely to see an earlier end

Those businesses that have been affected by the credit crunch are most likely to anticipate that its impact will continue to affect their organisation for at least another one to two years – ie, into the latter part of 2009 or 2010 (see chart 3). Just over half in the UK, 58% in the rest of the EU and just under half in the US and

Far East give this response. Very few (4-5%) expect to see an end during 2008, but some did suggest that its impact may only last into the middle of 2009 (ie, within a year of the survey). Those in the Far East were far more optimistic for an earlier end than those in other regions (40% within a year, compared with only one in five in the UK and one in four in the US and the rest of the EU). In contrast, those in the UK are more likely to anticipate a longer term effect (23% expecting more than two years). [CHART 3](#) ▶

CHART 3: HOW LONG THE IMPACT OF THE CREDIT CRUNCH IS EXPECTED TO AFFECT ORGANISATIONS – BY REGION



Base: All businesses affected by the credit crunch, 1,106

IMPACT OF ECONOMIC EVENTS ON BUSINESSES IN 2008

Most businesses in all four regions expect the turbulence in financial markets to impact negatively on their business in 2008

As we have seen, the credit crunch – and, with it, a combination of other economic factors – has had a significant impact on world markets in 2008. The majority of businesses in all four regions say that the turbulence in financial markets will have a negative impact overall on their business in 2008, and close to half believe this of the changes in consumer demand and global commodity prices. On top of this, around 40% believe that changes in exchange rates will also

have a negative impact. Businesses in the UK are the most pessimistic about the impact of both the credit crunch and the changes in global commodity prices.

Relatively few perceive any positives in these events, although just over one in five businesses in the Far East do expect a positive effect from changes in consumer demand, compared with only one in ten in other regions (see chart 4). Businesses in the US and Far East are also slightly more optimistic than those in Europe about the impact of changes in global commodity prices.

Within the areas covered in the Far East, it is principally those businesses in Hong Kong, rather than Singapore and Malaysia, that are the more positive, especially in respect of the effects of turbulence in financial markets

(net -35%, vs -71% in Singapore and Malaysia), changes in global commodity prices (net -18% vs -47%) and changes in consumer demand (net -11% vs -36%)

CHART 4 ▼

CHART 4: EFFECTS OF ECONOMIC EVENTS ON ORGANISATIONS – BY REGION

	Average all regions %	UK (1,020) %	Other EU (100) %	US (101) %	Far East (150) %
Turbulence in financial markets:					
Positive	7	6	5	7	11
Negative	65	71	62	62	63
Net (Positive – Negative)	-58	-65	-57	-55	-52
Changes in global commodity prices:					
Positive	12	5	8	18	17
Negative	50	59	44	46	49
Net (Positive – Negative)	-38	-54	-36	-28	-32
Changes in consumer demand:					
Positive	13	9	10	10	21
Negative	52	56	52	56	45
Net (Positive – Negative)	-39	-47	-42	-46	-24
Changes in exchange rates:					
Positive	14	8	15	17	17
Negative	41	41	39	37	45
Net (Positive – Negative)	-27	-33	-24	-20	-28

Base: All respondents

(Light orange shaded squares represent those where figure is greater than 5 points more positive than average; dark grey shaded squares represent those where figure is greater than 5 points less positive than average)

GROWTH

Following a year of growing economic uncertainty, how are businesses in key global regions facing the future? Are they looking for growth? What are their plans and what do they see as the principal barriers they face in seeking to grow?

BUSINESS GROWTH

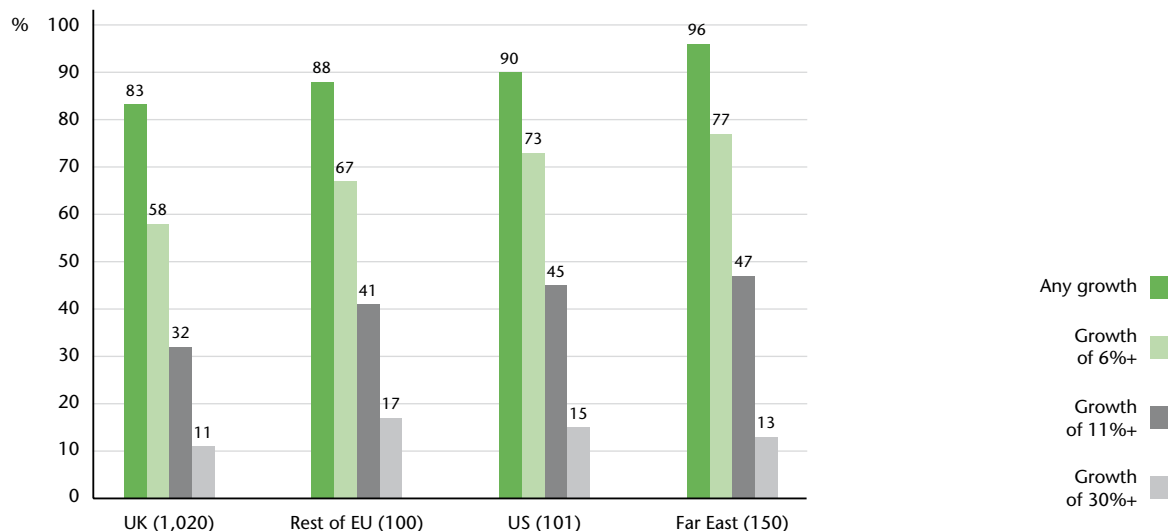
In spite of current economic uncertainty, growth ambitions for the next two years remain high

Even in the present difficult economic environment, most businesses still plan to grow – more than 80% in all four regions say that their business objective is to grow turnover in the next two years. Almost half in some regions are targeting annual growth rates of more than 10% and a sizeable minority are planning more than 30% a year (see chart 5).

The UK trails other world regions in this respect. Just under one in three UK businesses plan annual growth rates of more than 10%, but more than 40% say this in the other three regions – as high as 47% in the Far East (and 51% in Singapore and Malaysia). Among those planning to grow businesses in the UK, the average growth targeted is 12.4% per annum, compared with 13.9% in the Far East (14.9% in Singapore and Malaysia), 14.3% in the US and 14.7% in the rest of the EU.

CHART 5 ▼

CHART 5: PLANNED TURNOVER GROWTH – BY REGION



Base: All respondents

BUSINESS OBJECTIVES

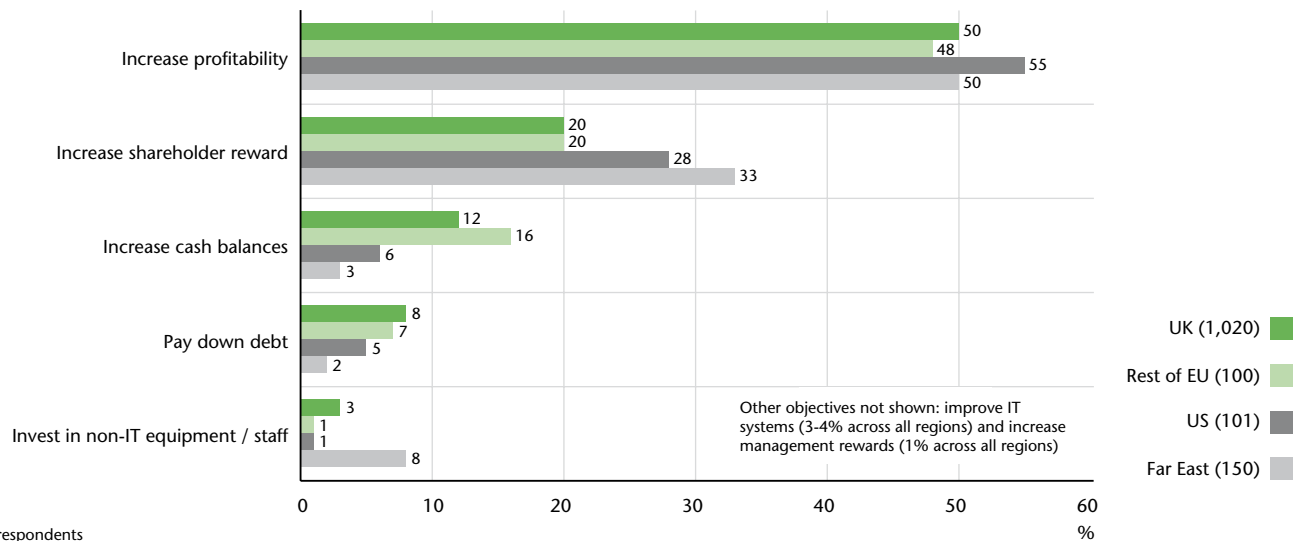
Increasing profitability is the key business objective for businesses in all regions

Increasing profitability remains the one key business objective over the next two years for around half of businesses in all four regions (see chart 6). The second most often cited key objective in all regions is the need to increase rewards for shareholders or owners.

However, this is more to the fore in the Far East and US than in Europe, where more emphasis is placed on the need to increase cash balances and pay down debt, enabling businesses to increase liquidity and reduce borrowings in an environment where financing has become more difficult and there is more caution for future prospects.

CHART 6 ▼

CHART 6: KEY BUSINESS OBJECTIVE OVER THE NEXT TWO YEARS



Base: All respondents

BARRIERS TO BUSINESS GROWTH

Competition in the marketplace is the strongest barrier to growth faced by businesses in all four regions, but many feel they are held back by lack of necessary leadership talent and technical skills

A majority of businesses in all four regions (59% on average) agree that competition in the marketplace

presents them with a 'critical' or 'strong' barrier to their growth (see chart 7). While a negative for businesses, governments in all four regions might view this finding as an indication of a successful competition policy.

However, many businesses in all four regions also feel that they are constrained by human resource issues –

in particular, the availability of specialist and technical skills, exceptional leadership talent and general management skills, and staff retention issues. Other particular barriers are product and service quality issues and regulatory changes and enforcement. All of these factors are mentioned as a 'critical' or 'strong' barrier by one in three or more on average.

These barriers are perceived more strongly by businesses in the Far East (and particularly Singapore and Malaysia), with the availability of exceptional leadership talent (62%) more or less comparable with market competition (63%) as a significant barrier. Regulatory changes and enforcement are also mentioned more by

those in the Far East than in other regions, even though we see later that these businesses are the most likely to consider their regulatory and taxation environment to be business-friendly. The cost of premises is also a more important issue for businesses in the Far East (especially Hong Kong) than in any other location.

The availability of specialist and technical skills, and of exceptional leadership talent, and retention issues tend to be seen as less of a barrier to growth for businesses in the EU (including the UK) than in either the Far East or US, whereas, at a lower level, businesses in the EU are more concerned about transport issues and the level of overall business taxation. [CHART 7 ▼](#)

CHART 7: MAIN BARRIERS TO FUTURE GROWTH – BY REGION

	CRITICAL OR STRONG BARRIERS TO GROWTH				
	Average all regions %	UK (1,020) %	Other EU (100) %	US (101) %	Far East (150) %
Competition in marketplace	59	59	59	54	63
Availability of specialist / technical skills	45	38	37	47	57
Availability of exceptional leadership talent	44	33	36	43	62
Product / service quality issues	39	32	41	36	45
Staff retention	37	30	30	38	48
Availability of general management skills	37	27	37	33	49
Regulatory changes / enforcement	36	38	34	31	42
Cost of labour	33	34	35	23	38
Funding / access to finance	31	29	30	32	32
Basic skills of employees	20	18	18	20	25
Transport issues	19	20	23	17	16
Level of overall business taxation	18	19	23	14	15
Cost of premises in desired location	17	14	11	13	28

Base: All respondents
(Light green shaded squares represent those where figure is 6 points or more above average)

GLOBALISATION

The rapid growth of developing economies such as China and India to a global scale and the significant impact of the newer EU countries on the European stage are strong indications of the continuing globalisation of world markets. How are businesses in different regions of the world responding, what opportunities do they see, and what strategies do they have for dealing with globalisation? What are the barriers that might be constraining international expansion? How does their global footprint and focus vary according to where they are based? How have changing economic circumstances affected their activities and aspirations?

GLOBAL ENGAGEMENT

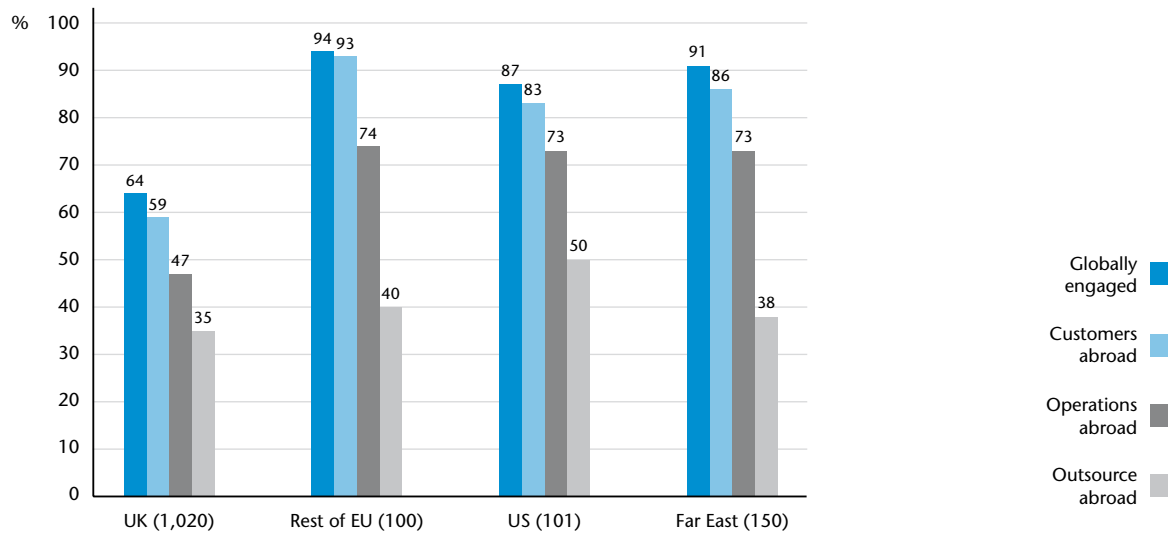
In the three main regions outside the UK, nearly all businesses represented in the survey are 'globally engaged'

In our survey of chartered accountants working outside the UK in major global regions, around 90% of businesses in each region are globally engaged, contrasting with around 60% of UK businesses (see chart 8). This does not necessarily mean that UK businesses are falling behind their global competitors, but is more likely to reflect the nature of companies in these regions employing chartered accountants – typically larger than UK companies surveyed and highly represented in the financial services sector (see technical appendix for details). Global engagement is defined here as businesses having customers, running operations, or outsourcing outside the UK.

Among those surveyed, businesses in the rest of the EU tend to have the highest level of global engagement, driven by their large number of customers outside of their home country (94%) and reflecting the comparative ease of trading across borders within Europe.

Around three-quarters of businesses in each region run operations in other countries, compared with just under half of UK businesses. However, there is less difference in the incidence of outsourcing in an administrative or commercial capacity outside of the home country – the UK (35%) is only slightly behind the rest of the EU or the Far East in this respect. US businesses in the sample show the highest incidence of outsourcing outside their own country (50%). [CHART 8](#) ►

CHART 8: GLOBAL ENGAGEMENT – BY REGION



Base: All respondents

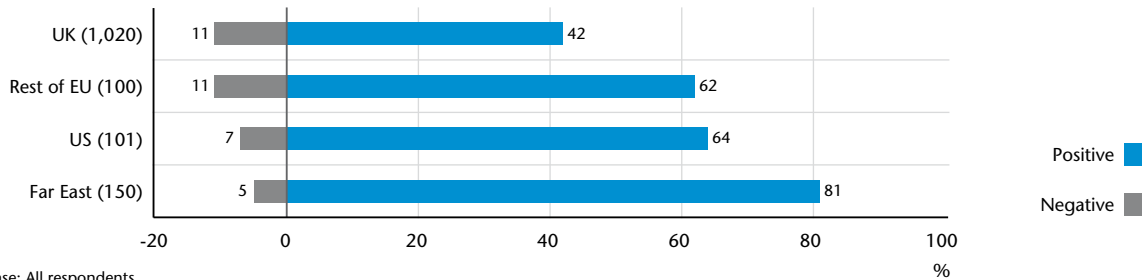
THE IMPACT OF GLOBALISATION

The continued globalisation of markets is generally welcomed, especially by businesses in the Far East

Most businesses in the EU (outside of the UK), the US and Far East say that the continuing globalisation of markets will have a positive impact on their business (see chart 9). Over 60% give this response in the EU (excluding the UK) and the US, and over 80% in the Far East – around half of these say that it will have a ‘strong positive impact’ (32% in rest of EU, 30% in the US and 39% in the Far East). Relatively few anticipate that it will impact negatively on their business, the highest proportion being in the UK and rest of EU (both 11%).

UK businesses appear less welcoming of increasing globalisation than those in other regions, with little more than 40% positive (17% strongly positive). However, again, this is likely to reflect in large part the different characteristics of the businesses represented: as we saw above, the businesses in other world regions that employ chartered accountants are generally more globally engaged than the businesses represented in the UK survey. Over half of the globally-engaged businesses in the UK are positive about the impact of globalisation, but, even then, this figure (59%) is slightly lower than seen overall in the rest of the EU or US. [CHART 9](#) ►

CHART 9: ANTICIPATED IMPACT OF GLOBALISATION – BY REGION



STRATEGY FOR GLOBAL MARKETS

In an environment of increasing global competition, businesses in competing regions are seeking to develop and enhance their product offering and extend their global trading footprint

Over the next five years, embracing increasing globalisation of markets, a majority of businesses in regions outside the UK are looking to enhance their product offering to compete more effectively in world markets: around two-thirds say that they plan to increase or start ‘the provision of higher value-added products or services’, and around half plan the ‘adaptation of products or services to markets in other countries’ (see chart 10).

Other key strategies include market expansion – a majority plan to increase ‘the number of countries we sell to’ and many plan ‘acquisitions in other countries to enhance our market presence’.

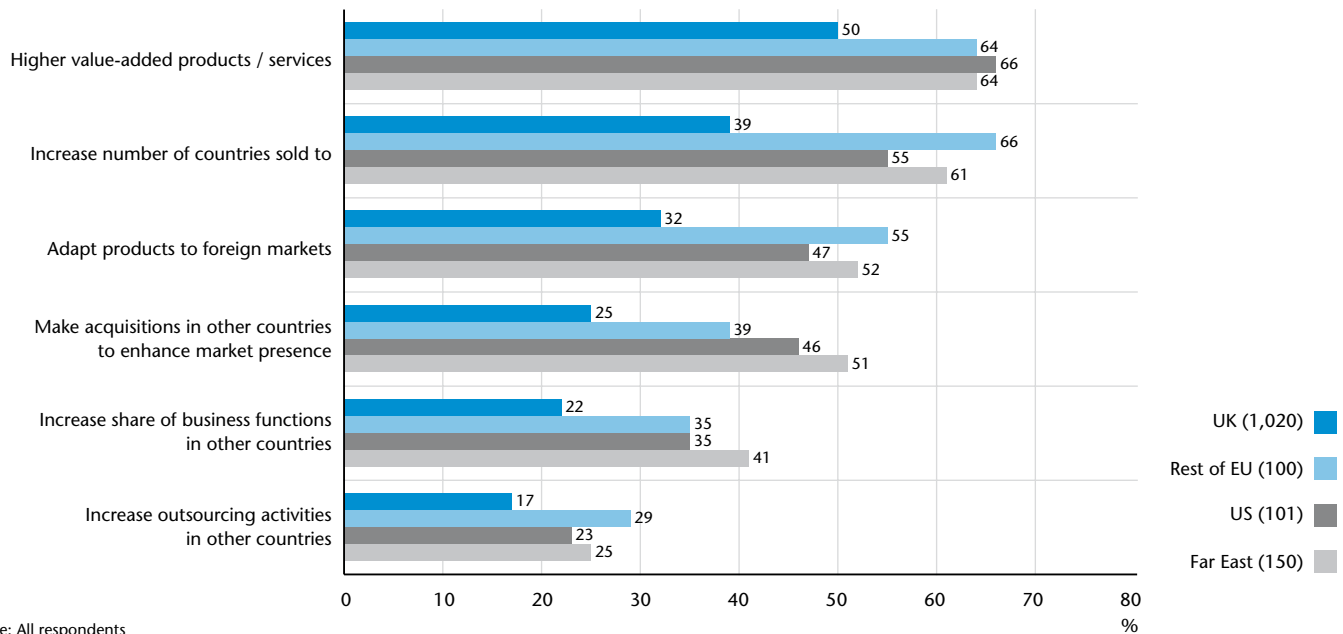
A third element within the strategic mix is to move aspects of the business process offshore: more than

one in three plan to increase ‘the share of our business functions that take place in other countries, eg, internal accountancy or sales order processing’ and around a quarter plan to increase or start the ‘outsourcing of business activities, eg, manufacturing or component supply, to companies in other countries’.

Broadly similar strategies are suggested by businesses in each of the regions outside of the UK. Within the Far East, those in Singapore and Malaysia tend to be more likely to follow these routes, especially providing higher value-added products/services (73%), increasing the number of countries sold to (72%) and increasing the share of business functions carried out in other countries (47%).

UK businesses lag behind their global competitors. While, again, this largely reflects the different nature of the businesses, even the globally-engaged UK businesses are a little behind those in other regions in most of these areas (see the main *UK Enterprise Survey Report 2008* for fuller detail). [CHART 10 ►](#)

CHART 10: PLANNED ACTIONS OVER THE NEXT FIVE YEARS



Base: All respondents

BARRIERS TO INTERNATIONAL EXPANSION

The main barriers to international expansion for companies in all regions are political, legal and administrative and regulatory

Those businesses that have operations or activities in other countries, or that have considered, are considering or are likely to consider them, cite 'the political environment', 'the existence of effective legal systems regarding commercial agreements' and 'administrative, regulatory or legal issues' as the strongest barriers to trading in a particular country: around half on average cite each as a 'critical' or 'strong' barrier (see chart 11).

Human resource issues provide other key barriers to international expansion, with many mentioning 'the availability of local management', 'skills of the local

workforce', 'the availability of internal resources' and 'local staff recruitment and retention' among the other top barriers identified.

'Corruption' and 'information on markets and competition' are among the other main barriers.

As with the barriers to growth considered earlier (see chart 7), although there is a fairly similar pattern across all regions, most of the barriers to international expansion are accorded greater importance by businesses in the Far East – particularly in Singapore and Malaysia – with the top five in chart 11 all considered a 'critical' or 'strong' barrier by more than half of those in the survey. [CHART 11](#) ►

CHART 11: MAIN BARRIERS TO INTERNATIONAL EXPANSION – BY REGION

	CRITICAL OR STRONG BARRIERS				
	Average all regions %	UK (559) %	Other EU (89) %	US (84) %	Far East (129) %
The political environment	50	43	49	48	59
Existence of effective legal systems	50	44	46	50	58
Administrative, regulatory or legal issues	49	48	48	45	53
Availability of local management	45	44	45	38	54
Corruption	44	35	43	46	52
Skills of local workforce	40	37	37	37	47
Availability of internal resources	39	33	39	36	46
Local staff recruitment and retention	38	35	43	31	43
Information on markets, competition	35	34	22	35	47
Cultural differences	24	23	21	23	29
Language issues	23	24	26	14	29

Base: All with or considering international expansion
(Light blue shaded squares represent those where figure is 6 points or more above average)

ECONOMIC INFLUENCES ON GLOBAL ENGAGEMENT

Exchange rate movements and changes in raw material costs have affected the global footprint of businesses across all regions

Many businesses in all regions claim that their global activities and plans have been affected by recent economic factors such as exchange rate movements and changes in raw material costs. Both of these factors have affected their global pattern of suppliers, the international markets they are targeting and, among those who have operations or activities outside their home country, the location of their global operations (see chart 12).

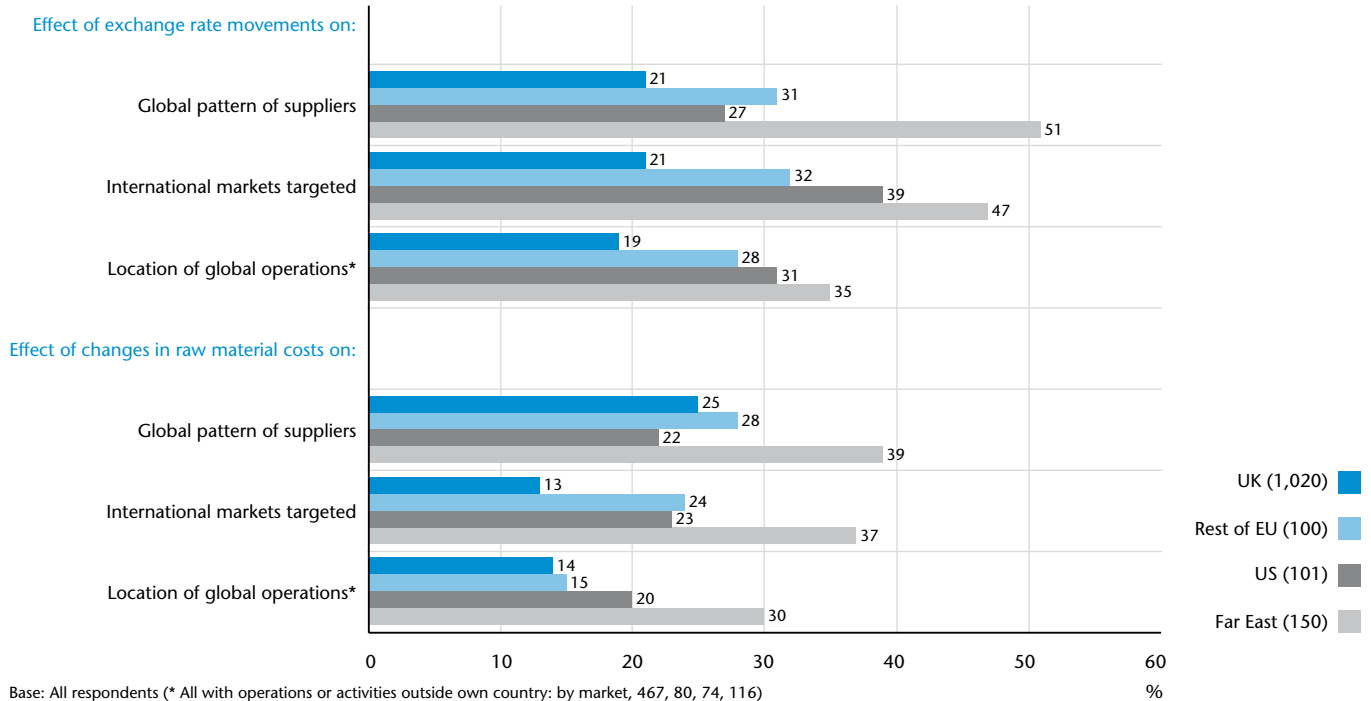
In many cases, the effects have been quite marked: around half of all businesses in the Far East – and especially those in Singapore and Malaysia – say that exchange rate movements have had a significant effect on their global pattern of suppliers and the international markets they are targeting. More than one in three in this region say that changes in raw material costs have also had a significant effect on the same two aspects of their business. This may suggest that businesses in the Far East are more vulnerable to such movements – although it may also indicate that they have been more responsive to world trends.

The impact of these economic factors is considered less strong in other regions, but many businesses in the rest of the EU and the US still report a significant effect of exchange rate movements and changes in raw material costs on their global supply patterns and targeting

of markets. Lower figures in the UK again reflect the different nature of the businesses, although still around one in four report a significant effect on their global supply patterns of changing raw material costs.

[CHART 12 ▼](#)

CHART 12: IMPACT OF ECONOMIC FACTORS ON GLOBAL ACTIVITY



BUSINESSES' GLOBAL FOOTPRINT

Businesses focus exporting on closest and established trading partners

Proximity, established trading patterns, transport logistics and, perhaps increasingly, environmental factors mean that businesses are most likely to be trading in markets that are relatively close

geographically or where there are established trading patterns. Main markets for European businesses tend to be in Europe, for US businesses they are generally in the Americas – and for Far Eastern businesses they tend to be in the Far East. However, there is also a strong focus for US companies on Europe as for European companies in the US (see chart 13). [CHART 13 ►](#)

CHART 13: MAIN REGIONS WHERE BUSINESSES HAVE CUSTOMERS – TOP SIX NON-DOMESTIC MARKETS BY REGION

UK (1,020)	Rest of EU (100)	US (101)	Far East (150)
EU core 15 (51%)	EU core 15 (73%)	Canada (64%)	China (68%)
New EU 12 (39%)	UK (62%)	UK (64%)	Other Far East (62%)
US (37%)	New EU 12 (61%)	EU core 15 (59%)	Hong Kong (57%)*
Middle East (28%)	US (44%)	Central / South America (58%)	Australia (53%)
Other Far East (27%)	Middle East (37%)	China (51%)	UK (53%)
Australia (27%)	Australia (36%)	Other Far East (51%)	EU core 15/US (47%)

Base: All respondents (Home markets excluded. * Far East figure for Hong Kong based on Singapore and Malaysia only (base: 75))

To some extent, a similar picture is shown in terms of the regions where these businesses run operations (see chart 14), although businesses in the US have a more diverse geographical footprint in this respect and run operations in a greater number and broader spread of countries and regions. US businesses are the most likely to mention operations in more or less all regions, with the main exceptions of China (where Far Eastern businesses are stronger) and the newer EU states (where the rest of the EU is stronger).

On the other hand, India and China are significant global centres for businesses to outsource to in an administrative or commercial capacity: UK and other EU businesses and particularly those from the US are most likely to outsource to India (see chart 14), whereas those in the Far East are a little more likely to favour China.

Most businesses plan to expand into or increase market share in countries outside their home country

When discussing their strategy for dealing with globalisation, a majority of businesses in the three regions outside the UK said that they plan to increase the number of countries they sell to over the next five years while many also revealed plans to increase their share through product improvement or acquisitions (see chart 10). Overall, just over 80% of businesses in the rest of the EU (83%) and Far East (81%) say that they plan to expand into or increase market share in regions outside their home market: 74% of US businesses give the same response, but only just over half (51%) in the UK.

[CHART 14 ►](#)

CHART 14: MAIN REGIONS WHERE BUSINESSES RUN OPERATIONS AND OUTSOURCE – TOP FOUR NON-DOMESTIC MARKETS BY REGION

UK (1,020)	Rest of EU (100)	US (101)	Far East (150)
Run operations:			
EU core 15 (30%)	EU core 15 (43%)	EU core 15 (46%)	China (47%)
US (25%)	UK (35%)	Other Far East (46%)	Other Far East (46%)
New EU 12 (19%)	New EU 12 (34%)	UK (42%)	Hong Kong (31%)*
China (16%)	US (27%)	Central / South America (39%)	UK (31%)
Other Far East (16%)			US (31%)
Outsource to:			
India (13%)	India (20%)	India (35%)	China (19%)
EU core 15 (10%)	EU core 15 (12%)	China (17%)	India (15%)
New EU 12 (8%)	New EU 12 (12%)	EU core 15 (17%)	Other Far East (14%)
China (7%)	China (9%)	UK (17%)	Australia (6%)

Base: All respondents (Home markets excluded. * Far East figure for Hong Kong based on Singapore and Malaysia only (base: 75))

The focus for overseas expansion is still very much on the key markets we have seen earlier, with European businesses more likely to favour Europe, US businesses the Americas and Europe and Far Eastern businesses the Far East. However, overlaying this, it is apparent

that many see the opportunities in the fast-developing economies of Asia, with China and India positioned strongly as a target for businesses in all regions (see chart 15). The Middle East is also an important target for businesses in Europe and the Far East. [CHART 15 ▼](#)

CHART 15: MAIN REGIONS BUSINESSES PLAN TO EXPAND INTO OR INCREASE MARKET SHARE – TOP SIX NON-DOMESTIC MARKETS BY REGION

UK (1,020)	Rest of EU (100)	US (101)	Far East (150)
EU core 15 (35%)	EU core 15 (42%)	EU core 15 (41%)	Other Far East (49%)
New EU 12 (29%)	New EU 12 (41%)	Central / South America (38%)	China (47%)
US (22%)	China (32%)	Canada (37%)	Middle East (29%)
China (20%)	Middle East (28%)	UK (37%)	India (27%)
India (20%)	Other Far East (28%)	China (36%)	Hong Kong (24%)*
Middle East (20%)	India (27%)	India (33%)	Australia (22%)

Base: All respondents (Home markets excluded. * Far East figure for Hong Kong based on Singapore and Malaysia only (base: 75))

REGULATION

Are businesses in some countries or regions thriving through a more supportive regulatory and taxation environment and, conversely, do some struggle against a regime that does not support their efforts? Which aspects of regulation and tax most help or hinder businesses' operation and development? And what aspects represent the greatest cost in finance and resources?

THE REGULATORY AND TAXATION ENVIRONMENT

European businesses may be struggling against a less business-friendly environment than their competitors in the US and Far East

A favourable business environment is vital to the well-being and growth of businesses, and, in this respect, those businesses in the Far East believe that they are well-served. The large majority (87%) describe their domestic regulatory and taxation environment as 'business-friendly' – and a majority (53%) as 'very business-friendly' (as many as 63% say this in Hong Kong) – even though, as we saw earlier (see chart 7), they see regulatory changes and enforcement as a significant barrier to growth. Businesses in the US are also positive about their domestic regime – nearly two-thirds (66%) describe it as 'business-friendly' (see chart 16).

By contrast, businesses in Europe feel that they are less advantaged – slightly fewer than half of businesses in the UK (45%) and the rest of the EU (48%) say that their own regulatory and taxation environment is business-friendly, with a small majority (53%) in the UK saying it is not (very or at all) business-friendly.

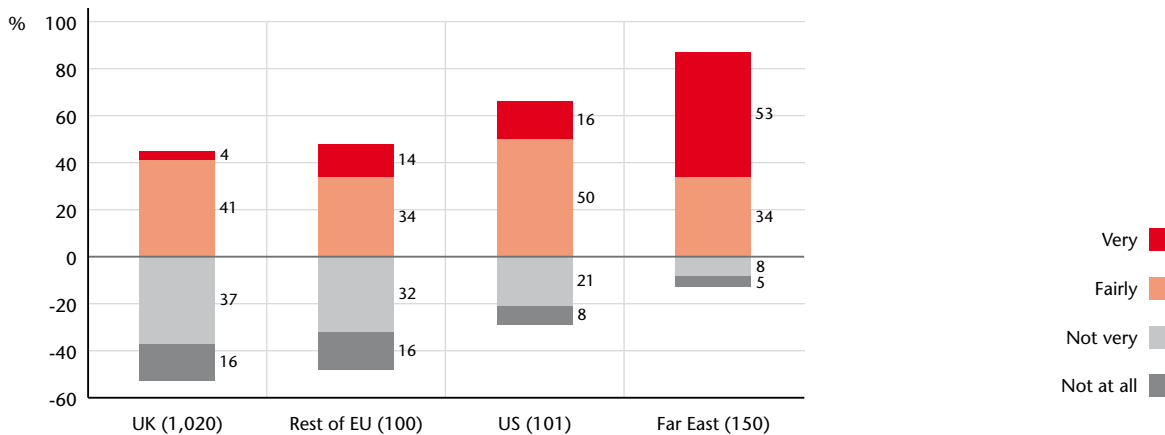
Employment tax, employment legislation and business tax changes are seen as the main hindrances to the operation and development of businesses worldwide

On average across the four regions represented in this survey, more than 40% of respondents say that they consider employment tax (48%), employment legislation (45%) and business tax changes (42%) to be a hindrance to the operation and development of their business (see chart 17), and many consider them to be a 'major' hindrance.

Other regulatory and taxation factors considered to be a significant hindrance by around one in three are financial reporting requirements (33%), planning regulations (32%) and corporate governance requirements (31%).

However, there are substantial differences between the views of the businesses in the four different regions, reflecting their different perceptions of the business-friendliness of their regulatory and taxation environments.

CHART 16: HOW BUSINESS-FRIENDLY IS YOUR COUNTRY'S REGULATORY AND TAXATION ENVIRONMENT?



Base: All respondents
Don't know not shown

Those in the Far East – and particularly Singapore and Malaysia – are more likely to be positive on all of the factors assessed, reflecting their assessment of their particular environment as being business-friendly. In most cases, they are more likely to see them as a help than a hindrance. In particular, more than 40% of businesses in the Far East describe corporate governance requirements (48%) and financial reporting requirements (41%) as a help to the operation and development of their business, and at least one in three say this of health & safety regulation (38%), employment legislation (33%) and business tax changes (33%).

At the other extreme, UK businesses are more likely to feel overburdened by regulatory and taxation factors. In particular, a majority feel hindered by employment

legislation (57%), employment tax (56%) and business tax changes (55%), and more than 40% say this of health & safety regulation (49%), environment law (43%) and planning regulations (42%). In most cases, this is well ahead of even their EU neighbours, although those in other EU countries are as likely to feel hindered by employment tax (60%) and employment legislation (55%).

The other main exception to this pattern is a sense that reporting and governance requirements are a greater issue in the US – businesses there are the most likely to regard corporate governance requirements (47%) and financial reporting requirements (46%) as a hindrance to their businesses' operation and development.

CHART 17 ►

CHART 17: REGULATION AND TAXATION FACTORS SEEN AS A HELP OR A HINDRANCE – BY REGION

('Help' = 'major' or 'some' help; 'Hindrance' = 'major' or 'some' hindrance)		Average all regions %	UK (1,020) %	Other EU (100) %	US (101) %	Far East (150) %
Employment legislation	Help	17	12	11	13	33
	Hinder	45	57	55	46	22
Employment tax	Help	10	6	2	7	24
	Hinder	48	56	60	48	29
Business tax changes	Help	16	9	13	7	33
	Hinder	42	55	40	46	28
Health & safety regulation	Help	26	20	24	23	38
	Hinder	29	49	27	24	14
Environment law	Help	16	13	17	15	19
	Hinder	28	43	23	25	22
Planning regulations	Help	9	4	4	7	20
	Hinder	32	42	27	34	23
Financial reporting requirements	Help	21	13	15	16	41
	Hinder	33	38	29	46	20
Corporate governance requirements	Help	25	16	21	15	48
	Hinder	31	33	25	47	20
CSR reporting requirements	Help	17	13	12	14	27
	Hinder	24	30	26	24	16

Base: All respondents
(Pink shaded squares represent those where figure is 6 points or more above average)

Regional opinions vary as to the regulatory factor representing the greatest cost, but employment tax is most often singled out as representing the greatest cost to businesses in Europe

One in five UK businesses (20%) and, in particular, more than a quarter of businesses in the rest of the EU (29%) say that, of the aspects of regulation and taxation considered, employment tax represents the single greatest cost to their business in terms of finance and resources (see chart 18). This is followed in the UK by

health & safety regulation (16%) – a particular issue in this country – and employment legislation (15%), and in the rest of the EU, by business tax changes (18%).

US businesses highlight the costs associated with business tax changes (20%) and with financial reporting requirements (19%). Those in the Far East also select financial reporting requirements as most costly to their business (19%), although, reflecting their views on their business-friendly environment, more than one in five here do not identify any of these aspects as being a particularly heavy cost. **CHART 18 ▼**

CHART 18: REGULATION AND TAXATION FACTORS THAT REPRESENT GREATEST COST TO BUSINESS – BY REGION

	Average all regions %	UK (1,020) %	Other EU (100) %	US (101) %	Far East (150) %
Employment tax	19	20	29	14	11
Business tax changes	16	13	18	20	13
Financial reporting requirements	15	9	12	19	19
Employment legislation	12	15	11	12	9
Health & safety regulation	8	16	4	7	3
Corporate governance requirements	8	3	5	12	13
Planning regulations	5	10	3	2	5
Environment law	4	5	6	3	3
CSR reporting requirements	2	1	1	2	3
None / don't know	12	7	11	10	21

Base: All respondents
(Pink shaded squares represent those where figure is 6 points or more above average)

TECHNICAL APPENDIX

The *UK Enterprise Survey* is now in its twelfth year, but, with an increasing focus on globalisation of world markets and, this year, the impact of the worldwide credit crunch, 2008 is an appropriate time to take a broader global look at the following issues that impact upon businesses today, and comment on any regional differences and trends.

- The impact of the credit crunch and other factors affecting global business activity.
- Business growth objectives and barriers.
- The impact of globalisation on business.
- Regulatory and taxation issues and costs for business.

In June and early July 2008, 1,020 telephone interviews were conducted with a cross-section of ICAEW members working within industry in the UK. Broad quotas were set to ensure sufficient response in key sub-cells by region, industry sector and size of business and the data was subsequently weighted by company size (number of employees), industry sector and region so as to represent the UK profile of businesses by value in the economy (Gross Value Added). A detailed report has been published on the *UK Enterprise Survey 2008*.

At the same time, the *Global Enterprise Survey* was carried out with ICAEW members working within business in selected key regions. 351 interviews were conducted.

- 100 in a spread of **other EU** countries, representing Austria (1), Belgium (10), Czech Republic (2), Denmark (2), France (11), Germany (11), Greece (8), Hungary (1), Ireland (11), Italy (7), Luxembourg (5), Malta (4), Netherlands (11), Poland (6), Spain (10). 44 (44%) are SMEs (up to 250 employees), 56 in larger businesses.
- 101 in the **US**, of which 34 are based in New York and 67 in the rest of the US. 36 (36%) are SMEs, 65 in larger businesses.
- 150 in the **Far East**, comprising 75 in Hong Kong and 75 in Malaysia (40) and Singapore (35). 52 (35%) are SMEs, 98 in larger businesses.

The UK businesses sampled in our survey included a greater proportion (47%) of SMEs (small and medium-sized businesses). The average UK business employed 1,799 people, the Rest of EU 2,599, the US 2,933 and the Far East 2,397. Comparisons should therefore be treated with some caution.

Data based on sub-samples of less than 100 should be treated with caution.

ACKNOWLEDGEMENTS

DAVID BURTON ASSOCIATES

The *Enterprise Survey* was managed by David Burton Associates (DBA), an independent market research consultancy. It brings an effective mix of personal service, a practical and pragmatic approach and a high level of professionalism to help clients meet their marketing needs.

Its specialist focus is in the areas of corporate and stakeholder communication, business-to-business, financial and professional services and advertising/PR, in both UK and international markets. The company was established in 2004 by David Burton, who has more than 25 years' board-level experience in UK agencies, has worked regularly with accounting firms and with the ICAEW, and also worked on the *Enterprise Survey* series in its earlier years. Telephone fieldwork was conducted by DBA's associate, Critical Research.

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T +44 (0)20 7920 8667
E enterprise@icaew.com

The Institute of Chartered Accountants in England and Wales

Chartered Accountants' Hall PO Box 433
Moorgate Place London EC2P 2BJ UK
T +44 (0)20 7920 8100
F +44 (0)20 7920 0547
www.icaew.com

China Office

Room 706A Tower E1 Oriental Plaza
No.1 East Chang An Avenue Dong Cheng District
Beijing China 100738
T +86 10 8518 8622
F +86 10 8518 7980
www.icaew.com/china

European Union Office

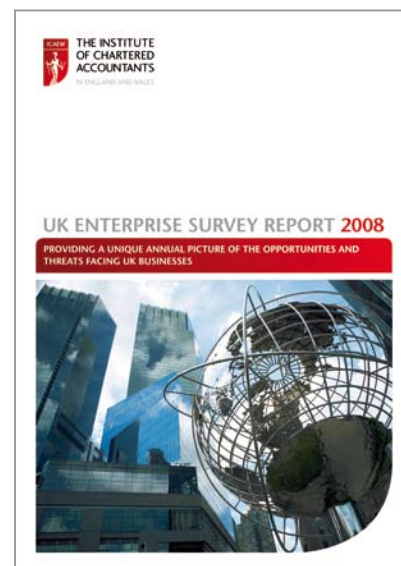
221 Rue de la Loi
B-1040 Brussels Belgium
T +32 (0)2 230 3272
F +32 (0)2 230 2851
www.icaew.com/europe

Hong Kong Office

27th Floor Wu Chung House
213 Queen's Road East
Wanchai Hong Kong
T +852 2287 7277
F +852 2575 8925
www.icaew.com/hongkong

Malaysia Office

Level 2 Chulan Tower 3 Jalan Conlay
50450 Kuala Lumpur Malaysia
T +6 (03)2171 6022
F +6 (03)2171 6025
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