



TALKING POINTS

Survey of European Business Leaders:

'European Business in the wake of Global Recession'

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Survey of European Business Leaders: European Business in the wake of Global Recession

Overview

On April 7, the Westin Excelsior in Rome hosted the 2009 European Business Awards to honor the achievements of leading European companies.

As part of the event, RSM International (a sponsor of the European Business Awards) conducted a survey to gauge the views of participants on the European business environment in the wake of the global recession. This report summarises the results of that survey.

The survey is based on the responses of 100 European business leaders representing a wide range of industries, including biotechnology, consumer electronics, environmental management, food and beverages, information technology, renewable energy, telecommunications, transportation, and financial services.

Survey participants were asked questions covering three themes: European Responses to the Downturn, Growth Industries in Europe, and Geographic Markets of European Companies. The compiled results are displayed in the eleven exhibits shown at the end of the report.

European Responses to the Downturn

The first section of the survey probed the views of business leaders on the prospects for recovery of the European economy. 71 percent of respondents anticipate that Europe will rebound from the downturn in 2010. 10 percent expect the recovery to begin in the fourth quarter of 2009. 16 percent of respondents believe Europe's rebound won't occur until 2011, while 3 percent place economic recovery in 2012 or beyond (**Exhibit 1**). These results follow the consensus view of economists that Europe's recovery will lag that of the United States, where the recession started earlier (December 2007) and where current indicators signal a resumption of GDP growth in the fourth quarter of 2009.

Respondents offered their views on methods of financing in the European business community (**Exhibit 2**). Retained earnings emerged as the most common financing mechanism (44 percent). Despite the credit crunch afflicting Europe's

commercial banking sector, nearly a third of respondents identified bank loans as the dominant form of enterprise financing. Commercial paper, private equity, and public share issues registered significantly smaller shares, indicating persistent weakness in non-bank financing in Europe.

Survey participants were asked about the responses of European manufacturers to the economic downturn (**Exhibit 3**). Echoing recent reports on the recession's impact on the manufacturing sector, nearly half of respondents said that European manufacturers are reducing output. Only 13 percent reported that European manufacturing companies are utilizing the downturn to develop new products, while just 2 percent indicated that European manufacturers are exploring new markets.

Respondents offered a more sanguine view of Europe's services sector (**Exhibit 4**). 41 percent cited "improving operational performance" as

the most common response of European service companies to the recession. 23 percent indicated that European companies are developing new services to strengthen their competitive positions amid the downturn.

A number of the business leaders recognised at this year's European Business Awards reported that their own high-performing companies are seizing the opportunity of the economic downturn to invest in human capital. But this forward-thinking approach to human resource management in tough times is not typical of the broader European business community. 46 percent of survey respondents identified work force reduction as the dominant response of European companies to the recession. Minor shares of respondents cited "opportunistic hiring of talented persons" and "boosting worker productivity" as the favoured approach to human capital management amid the downturn (11 and 12 percent respectively). Only 15 percent said that European companies were investing in employee development (**Exhibit 5**).

Growth Industries in Europe

The second part of the survey assessed the views of business leaders on growth industries in Europe (**Exhibit 6**). As noted above, participants at the Rome meeting expressed concern over the short-term prospects of the European economy and uncertainty over the timing of Europe's recovery. But they conveyed a high degree of optimism over Europe's long-term growth prospects, reflecting the fact that the survey participants included many of Europe's most innovative, technologically adept, and growth-oriented companies.

60 percent of respondents rated the future growth prospects of Europe's sustainable energy industry as strong. This finding illustrates the investor community's heightened interest in green technologies, the impact of the European Union's CO2 emissions mandate, and the negotiation of a successor to the Kyoto Protocol at the forthcoming

UN Climate Change Conference in Copenhagen. Respondents indicated a similarly favourable view of the growth trajectory of the environmental management industry, a sphere that includes water treatment, soil remediation, and waste-to-energy and that offers important revenue/profit opportunities for European companies both inside and outside the region.

Survey participants also expressed strong confidence in the growth prospects of biotechnology, a category that includes medical device and pharmaceutical manufacturers as well as companies active in genetic therapy, molecular engineering, and other specialised biotech markets. This result demonstrates the rising technological content of biosciences and the growing demand for advanced health care services by Europe's aging population.

The responses to survey questions covering other sectors of the European economy were less optimistic. One-third of the respondents rated the growth prospects of advanced manufacturing (nanotechnology, precision engineering) as "strong" and half as "medium". But one-fifth regarded the future of European manufacturing as weak or uncertain, signaling continuing concerns over a sector that is reeling under the impact of the global recession.

Survey participants indicated similarly mixed views about European professional services. A majority of respondents rated the growth prospects of that sector as medium and 20 percent as weak or uncertain. These findings mirror diverse trends within Europe's professional services sector, which includes both robust segments (e.g., IT services) and the beleaguered financial services industry (which is facing a painful restructuring in the wake of the financial meltdown).

Geographic Markets of European Companies

The third and concluding part of the survey gauged the perspectives of business leaders on the geographic markets of European enterprises.

Half of respondents specified the Baltics/Central and Eastern Europe as the region of the European market offering the best growth prospects in coming years, well surpassing the shares of Western Europe and Northern Europe/Scandinavia. This result is interesting in light of the financial turmoil roiling the Baltic/CEE region, which analysts have compared to the 1997-98 East Asian crisis and which has devastated several of the former socialist economies.

The responses to the survey question on growth opportunities in the Americas are also interesting. Nearly 40 percent of respondents named the United States as that region's most promising market. But an equal share identified South America as the region's most attractive market, indicating a geographical diversification of the American growth strategies of European companies traditionally anchored to the U.S. market.

The findings of the survey on Asia-Pacific validate the conventional wisdom that the developing/emerging Asian economies offer stronger opportunities than developed Asia. 53 percent of respondents identified Northeast and Southeast Asia as the region's strongest growth area, while less than 10 percent named Australia/New Zealand or Japan as growth drivers in the Asia-Pacific theater.

The survey of European views of Middle East/Africa presented a variegated picture. 37 percent of respondents identified the Persian Gulf as the region's strongest growth area. 22 cited North Africa, illustrating the salutary effects of the European Union's Euro-Mediterranean initiative. 28 of survey participants cited South Africa, illustrating the growing trade and investment links between Europe and that country. But just 5 percent regarded Sub-Saharan Africa as a promising growth area, demonstrating the persistent concerns of European companies over the commercial environment and political stability of that region.

The concluding question of the survey evaluated respondents' views on growth opportunities in the BRIC countries. 30 percent identified China as the most promising BRIC market of European companies, signaling high confidence in that economy's long-term growth trajectory. But nearly equal shares of survey participants cited Russia (which despite geopolitical tensions with the EU remains a major commercial player in the pan-European market) and India (whose recent foreign acquisitions in the EU signal a deepening of European-Indian relations). 17 percent of respondents cited Brazil as the most attractive BRIC market, indicating growing European interest in a richly endowed economy that has finally begun to realize its potential.

EXHIBITS

The following exhibits report the results of the Survey of European Business Leaders, which was conducted by RSM International at the European Business Awards in Rome on April 7, 2009. The sample size is 100. The exhibits show the percentage of respondents choosing the indicated answers to the questions indicated above the charts.

EXHIBIT 1
When Do You Anticipate the European Economy Will Begin to Recover From the Recession?

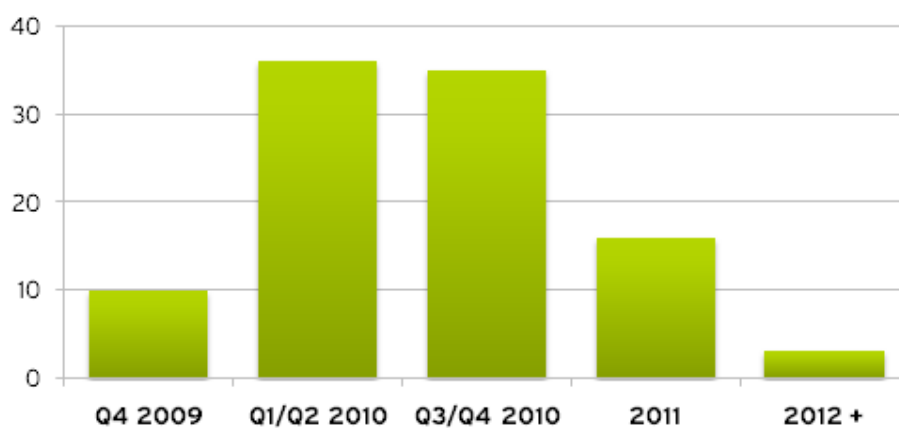


EXHIBIT 2
What is the Most Common Method of Financing for European Companies Amid the Global Credit Crunch?

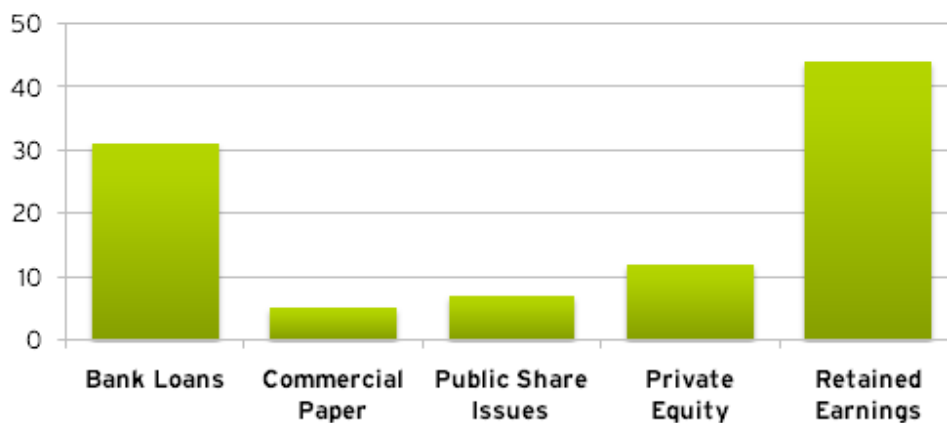


EXHIBIT 3
Which of the Actions Listed Below Best Describes the Responses of European Manufacturers to the Economic Downturn?

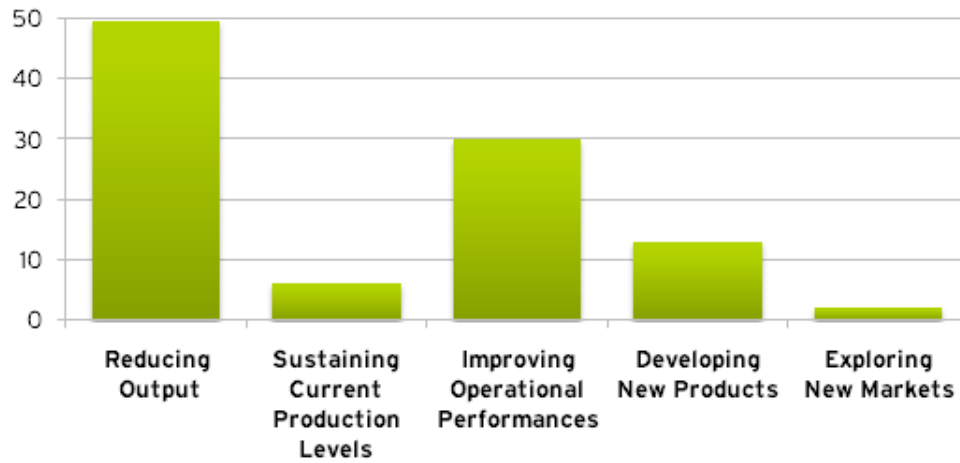


EXHIBIT 4
Which of the Actions Listed Below Best Describes the Responses of European Service Companies to the Economic Downturn?

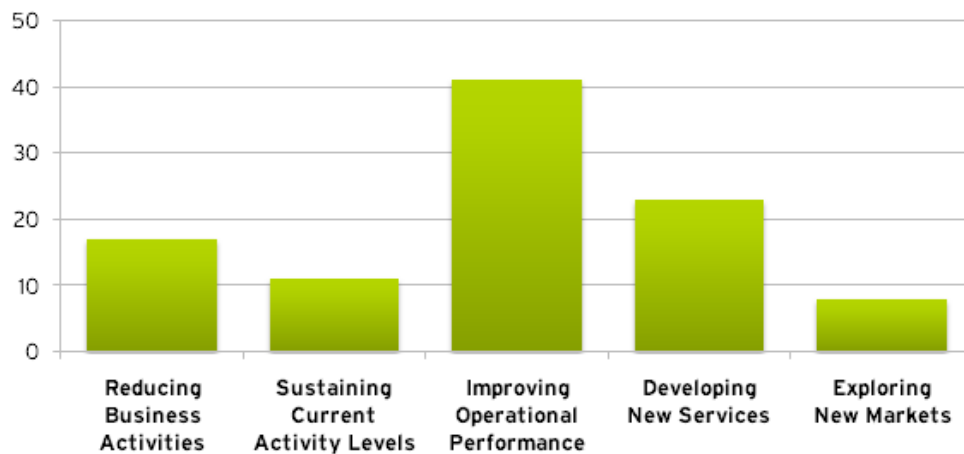


EXHIBIT 5
Which of the Following Best Describes European Companies' Approach to Human Capital During the Downturn?

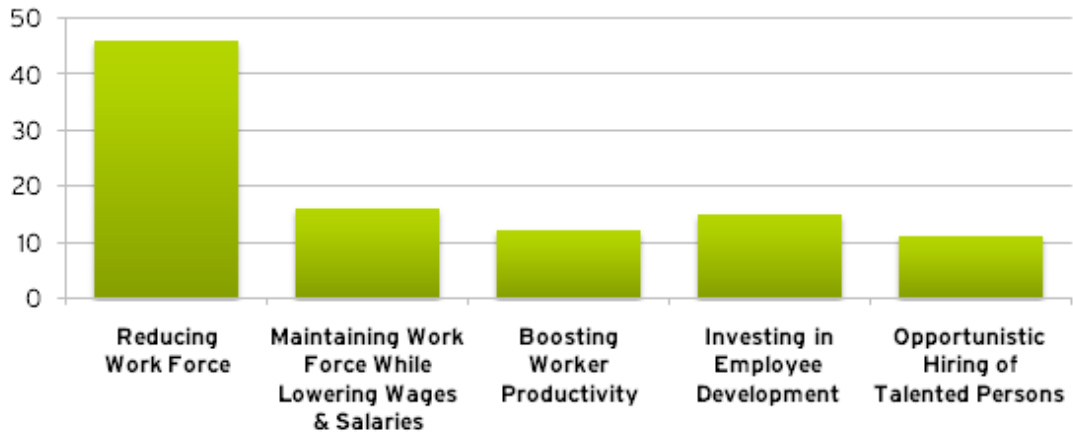


EXHIBIT 6
How Would You Rate the Future Growth Prospects of the Following Industries in Europe?

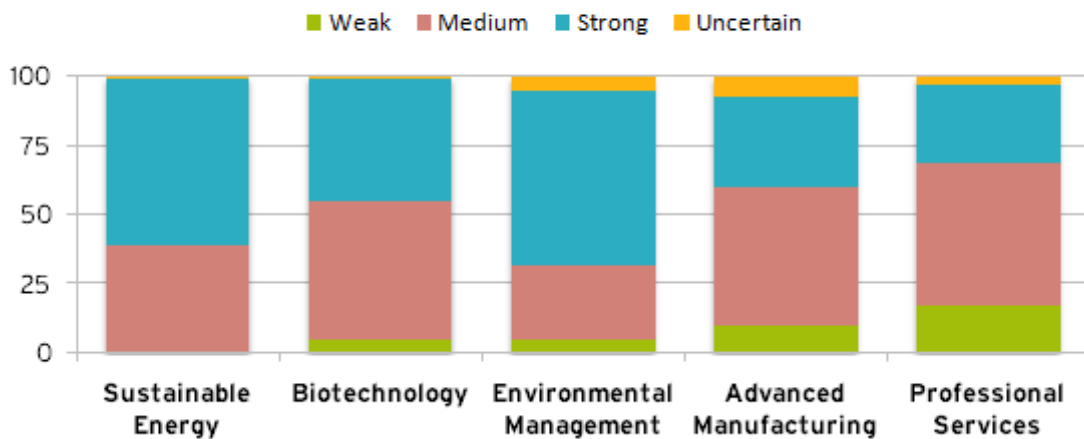


EXHIBIT 7
For European Companies Focusing on the European Market, Which of the Following Regions Offer the Best Growth Opportunities in Coming Years?

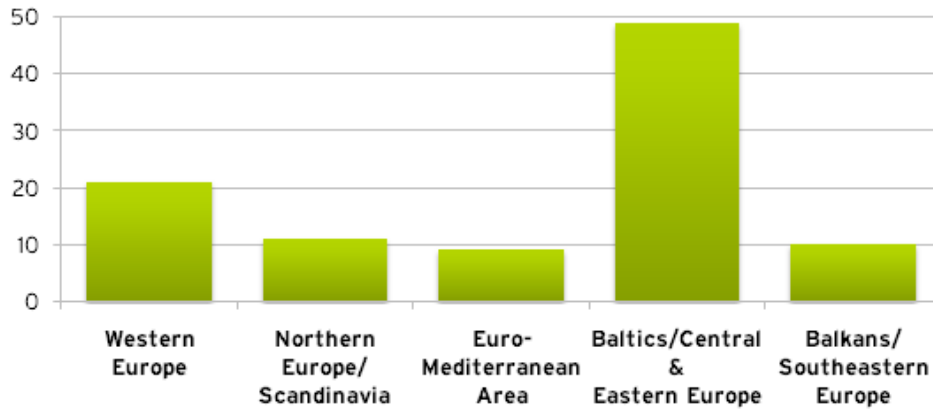


EXHIBIT 8
For European Companies Focusing on the Americas, Which of the Following Regions Offer the Best Growth Opportunities in Coming Years?

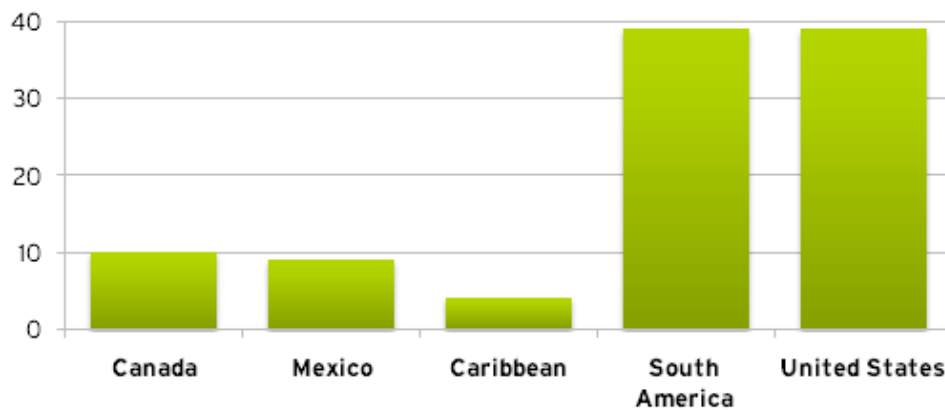


EXHIBIT 9
For European Companies Focusing on **Asia-Pacific**, Which of the Following Regions Offer the Best Growth Opportunities in Coming Years?

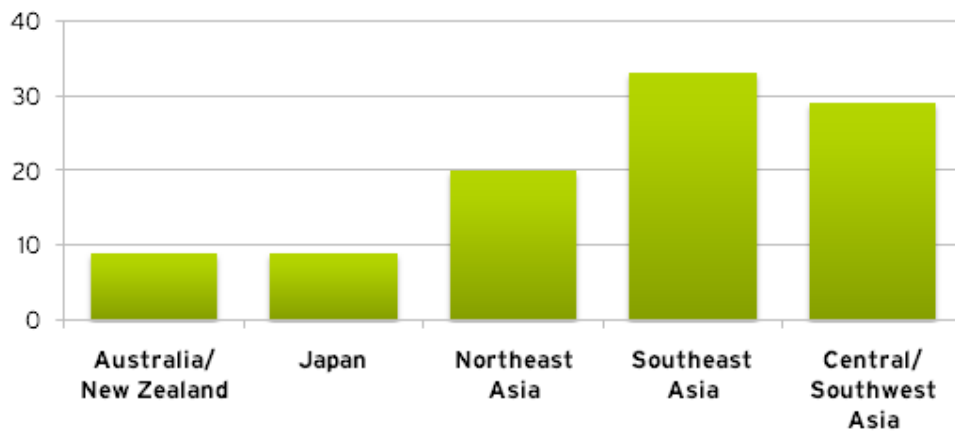


EXHIBIT 10
For European Companies Focusing on the **Middle East/Africa**, Which of the Following Regions Offer the Best Growth Opportunities in Coming Years?

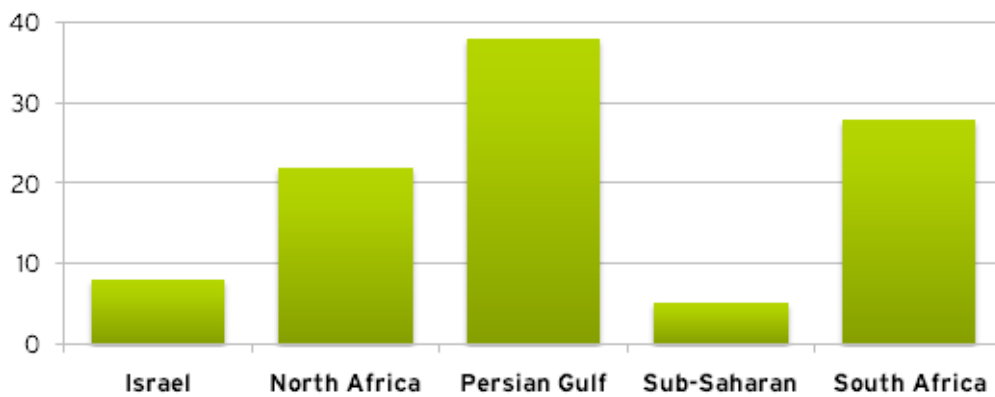


EXHIBIT 11
For European Companies Focusing on the **BRIC Countries**, Which of the Following Regions Offer the Best Growth Opportunities in Coming Years?



BIOGRAPHY

David Bartlett

David Bartlett, Economic Consultant, has over ten years' experience of consulting, researching and teaching on international corporate strategy. He specialises in international growth, global manufacturing, foreign sourcing and distribution and corporate risk management.

David's clientele includes multinational corporations and international financial institutions in North America, Europe, Asia-Pacific and the former Soviet Union.

Internationally recognised as an authority on financial sector development in Eastern Europe and the Soviet successor states, David is the author of a prize-winning book on the Hungarian transition and numerous articles on corporate strategy, international trade and investment and global finance.

David is Adjunct Professor of Strategic Management and Organization at the Carlson School of Management, University of Minnesota. He has also held faculty appointments at Vanderbilt University (USA), Yerevan State University (Armenia), and the University of World Economy and Diplomacy (Uzbekistan).

David has received a Fulbright Senior Scholarship, Salzburg Seminar Fellowship and other scholarly awards. He holds a PhD and BA from the University of California and an MA from the University of Chicago.

David has authored a number of articles on behalf of RSM International and most recently completed the RSM International Global Business Forecast.

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