

# The Export Imperative



A Regus study into the link between export activity and business performance

January 2012

  
Work your way

# Abstract

Evidence is presented in this report indicating that companies operating internationally are producing better financial results than their domestic counterparts in the current economic environment.

Companies are concerned about 'place' and 'people' when contemplating foreign expansion. Foreign workspace has to be flexible with only very short-term commitments. Opinion is divided over whether foreign operations should be overseen by local managers or whether a boss should be shipped in from the home country. This decision probably rests on the level of direct customer interaction that the firm envisages in the foreign market.

The report concludes that the more companies expand and diversify outside their domestic markets, the more productive they are likely to be, making a significant contribution to the vibrancy and stability of the global economy.

# Management summary

- Companies operating in international markets are generally reporting better results (revenue, or profit, or both) than those concentrating on their domestic market
- The only exception is China, where state-sponsored infrastructure investment and development is providing disproportionate domestic market opportunity for Chinese firms
- These findings indicate that foreign expansion is good for business and should be considered by domestically-focused companies
- There is a gulf between the attitude of companies already operating internationally – where 80% intend to expand still further – and those solely operating in home markets – where only 42% intend to expand abroad over the next few years
- ‘Property’ and ‘People’ are key perceived obstacles to foreign expansion
- 34% of firms say the biggest obstacle to overseas expansion are the challenges of setting up a physical office presence in a foreign country
- 63% of companies also say that property commitments have to be very short term when setting up a foreign operation, as they do not know how quickly or slowly they will grow
- Flexible workspace solutions are therefore perceived as essential to cross-border business development
- Opinion is split over where senior management for overseas operations should hail from, with 53% favouring a manager from the company’s country of origin, and 47% opting for a local manager
- A similar division occurs over management language skills, with 48% of respondents demanding local language fluency

# Introduction

Export-led growth is of immense economic importance to countries around the world, and indeed to the general health of the world economy. This is as true for the rapidly growing BRIC economies (Brazil, Russia, India, China), as it is for mature western economies currently struggling to recover from the slowdown of the last few years. In fact, were the rapidly emerging economies of the world to impose protectionist measures and not allow other countries to export to them, their own development would come to a grinding halt – protectionism effectively strangles the ability of foreign markets to afford a country's exports.

Firms in more open world markets tend to be more productive

There is little doubt that economic openness and export-led growth have brought significant benefits to a wide range of nations, most notably in Asia and the Far East.<sup>1</sup> No country in the past half century has maintained high levels of growth and significantly increased income per capita without greatly expanding its imports and exports.<sup>2</sup> There is now largely consistent and mainly uncontested evidence that firms in more open world markets tend to be more productive, and experience faster productivity growth.<sup>3</sup> Trade policies remain in support of export and free market activity to help promote economic growth and raise living standards, and some have argued that this has contributed to the resilience of the world trading system to the extreme shock of the global financial crisis and accompanying trade slowdown. For instance, although the volume of products affected by G20 temporary trade barriers such as antidumping increased by 25% between 2007 and 2009, this ended up affecting only 0.3% of actual total trade.<sup>4</sup>

In fact, the fastest growing economy in the world – China – is striking a balance between export and import growth, revealing a mature view of the importance of open markets. According to statistics released by the General Administration of Customs,<sup>5</sup> China's quarterly trade balance turned red for the first time in 2011, the country's first quarterly trade deficit in six years. Interestingly, there are some unexpected beneficiaries of this Chinese import boom. For instance, South Africa's economic development has been largely export-led (running at around 2% per quarter in 2011),<sup>6,7</sup> with China having recently become the top destination for South African exports.<sup>8</sup>

<sup>1</sup> American Journal of Scientific Research, Safdari, Mahmoodi, Mahmoodi, The Causality Relationship between Export and Economic Growth in Asian Developing Countries, ISSN 1450-223X Issue 25(2011), pp.40-45

<sup>2</sup> Vox EU, Mona Haddad Ben Shepherd, Export-led growth: Still a viable strategy after the crisis? 12 April 2011

<sup>3</sup> Pavcnik, N (2002), "Trade Liberalization, Exit, and Productivity Improvement: Evidence from Chilean Plants", Review of Economic Studies, 69(1):245-276.

<sup>4</sup> Bown, C and HL Kee (2011), "Developing Countries, New Trade Barriers, and the Global Economic Crisis", in M Haddad, and B Shepherd (eds.), Managing Openness: Trade and Outward-Oriented Growth after the Crisis, World Bank.

<sup>5</sup> China Daily, China steps away from export-led growth, 11 April 2011

<sup>6</sup> Trading Economics, South African GDP, 2011

<sup>7</sup> The Brookings Institution, J. Mutenyo, Driving Africa's Growth through Expanding Exports, 2011

<sup>8</sup> African Economic Outlook, 22 June 2011

# Introduction

Rapid export-led growth has enabled China to surge ahead of all other developing economies in recent decades, to become the global factory. China and India have followed similarly impressive growth trajectories in recent decades. While China began to open its economy to market forces and foreign investment in 1978 - more than a decade before India - both countries have enjoyed years of rapid trade-led growth that has lifted millions out of poverty. Their exports increasingly comprised sophisticated manufactures and services, rather than simple, labour-intensive products. Yet, a number of analysts are projecting that India's growth rates will soon outpace China's, maybe as early as 2013.<sup>9,10</sup> The experience of India with IT enabled services has encouraged countries to emphasize the export of services (that are less capital intensive but more skill intensive).<sup>11</sup>

In the United States, analysts have been berating the current administration for not paying enough attention to export stimulus. Many have recognised the pivotal role of manufacturing exports creating the vast majority of U.S. GDP in recent quarters, as well as propping up the labour market.<sup>12</sup> The more astute voices have also noted that emerging markets such as Brazil have not entirely decoupled from the advanced economies, as exports slow and markets rumble. Yet emerging economies are regarded by U.S. commentators as holding the keys to global recovery. Armed with capital, they will probably play a role on the Eurozone solution; and by stimulating demand at home, they are likely to help galvanize export-led growth in the United States.

In Europe, export activity has also been shielding most countries from the severest effects of economic shock. In Northern Europe, the UK<sup>13</sup> seems to be faring least well in export terms, although the official figures find it hard to capture the enviable status of Britain as Europe's financial hub, as well as the value of other 'invisible' exports such as marketing, creative and consultancy services. Germany is the icon of export-led success in mainland Europe, with healthy export growth and a substantial trade surplus every quarter.<sup>14</sup> Nevertheless, even Germany has to keep a keen eye on export stimuli and support, with the Bundesbank noting<sup>15</sup> that Germany's economy is facing a "lean period" as the euro zone's ongoing debt crisis weighs on exports. Export activity has also helped the smaller economies of Netherlands and Belgium weather the economic crisis, although export earnings have scaled back slightly in the last six months.<sup>16</sup>

<sup>9</sup> CFO Connect, China is ahead but India can catch up, says Ganeshan Wignaraja

<sup>10</sup> The Economist (October 8, 2010)

<sup>11</sup> World Bank Institute, S.Yusuf, The Past and Future of Export-led Growth, 24 February 2010

<sup>12</sup> Foreign Policy, Can Trade Save Obama?, 1 November 2011

<sup>13</sup> European Commission, Economic & Social Affairs, European Economic Forecast – Autumn 2011

<sup>14</sup> Statistisches Bundesamt Deutschland

<sup>15</sup> Wall Street Journal – MarketWatch, Bundesbank: German economy faces 'lean' winter, 19 December, 2011

<sup>16</sup> European Commission, Economic & Social Affairs, European Economic Forecast – Autumn 2011

# Introduction

Japan has been dependent on export earnings since the beginnings of its post-war development. As such, global uncertainty is the enemy. Japan needs the Eurozone crisis to get sorted out as soon as possible so that EU economies can return to 'hoovering up' Japanese exports and fuel economic recovery.<sup>17</sup> In the same region, Australia faces a different challenge. With a relatively smaller domestic economy, GDP growth is mainly stimulated by overseas sales. In fact, developed Asia Pacific nations continued to face headwinds to export growth.<sup>18</sup> With factory output across the world slowing down, economies ranging from Japan to Australia started witnessing pressure. As exports still act as the backbone for many of Asia's developed countries, any global softening in manufacturing causes concerns.

As in Australia, exporting is vital to Canada's economy and has accounted for close to 40 percent of Canada's gross domestic product (GDP) in recent years.<sup>19</sup> Exports are a recognised driver of economic growth and are strongly correlated with real GDP growth. Furthermore, exporting is a strategically important means of growing a firm by expanding its market beyond the confines of Canada's relatively small domestic market.

Finally, on the other side of the United States, Central and South America are in rapid growth mode. Brazil, the region's giant, has been the subject of many studies showing the correlation between export vibrancy and economic health, post international trade liberalisation.<sup>20</sup> The same is true of Mexico,<sup>21</sup> greatly supported by its proximity and close ties to the USA.

In summary, we can see that economists, governments and pundits seem to largely agree on the importance of exports to economic development. But what does that mean at the individual company level? Do companies with international markets do better in a slow economy? Is there a fundamental difference of attitude between domestic and international players? What are the obstacles to foreign expansion? Do locals or ex-pats make the best managers of foreign operations? What language skills are required?

This latest Regus research report has gathered views from over 12,000 companies around the world on these issues. The results are summarised in the next section.

<sup>17</sup> The Guardian, Japan needs European recovery to boost exports, 17 October 2011..

<sup>18</sup> Developed Asia Pacific, Economic Review, September 2011

<sup>19</sup> Industry Canada, Canadian Small Business Exporters, June 2011

<sup>20</sup> PoliEcon, R.A.Araujo and C.Soaes, 'Export Led Growth' x 'Growth Led Exports': What Matters for the Brazilian Growth Experience after Trade Liberalization?, 2011

<sup>21</sup> Cuadernos de Economia, P Maneschiöld, A Note on the Export-led Growth Hypothesis: A Time Series Approach, 2008

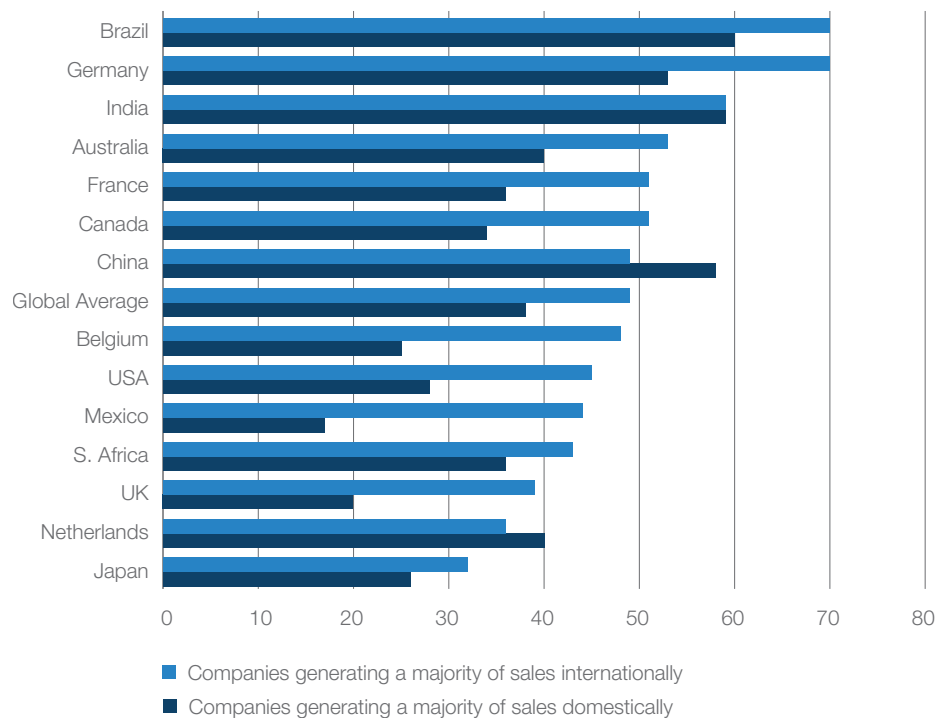
# Key results

## Go abroad, do better

The first key result shown by our survey is that in most countries of the world, companies with international markets are performing better than those that focus on their domestic ones. Organisations with cross-border sales show a clear lead over their domestic market counterparts in terms of revenues, profits, or both.

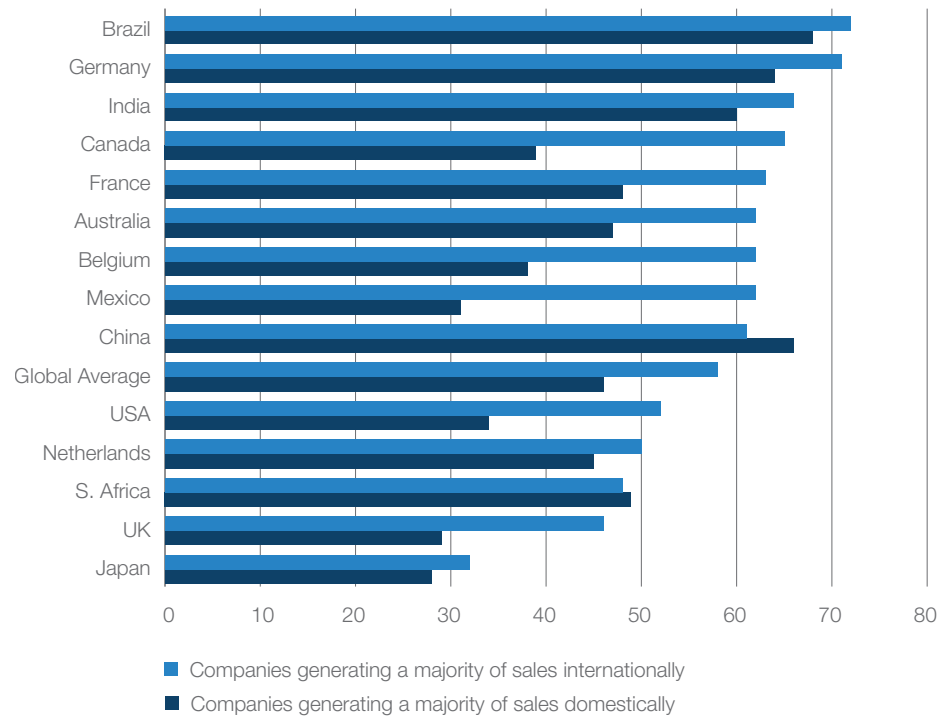
There is one notable exception to this rule - in the form of China. However, this is easily explained. China is making massive investments in developing its national infrastructure. Every week a new power station is built. And between 2009 and 2011, China invested \$123bn in the first stage of its healthcare infrastructure reform plan. So infrastructure is creating such strong home marketplaces (for the next few years) that purely domestic suppliers are playing in an incredibly vibrant environment.

Companies reporting rising profits 2011 International vs Domestic



# Key results

## Companies reporting rising revenues 2011 International vs Domestic

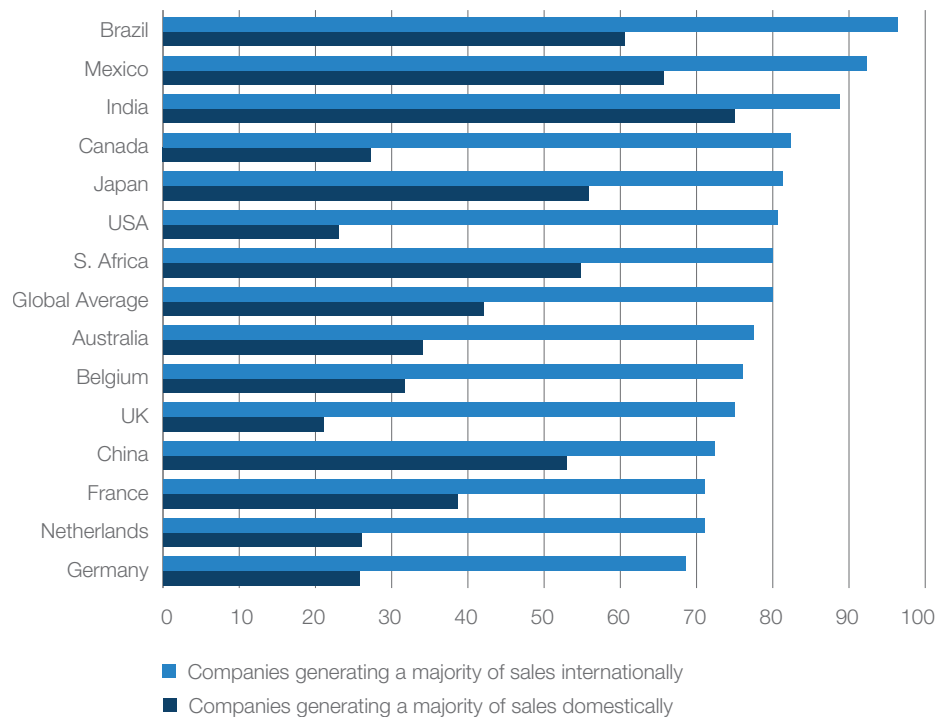


# Key results

## Already abroad? Expand further!

Having established that companies with international markets seem to be delivering better results in the current world economic climate, the research turned to foreign expansion intentions. Here the gulf between domestic and international companies became stark. On average, twice as many international companies intend to grow their overseas operations compared with domestic companies. In other words, companies with cross-border markets are so appreciative of the value delivered by those markets that they strongly wish to invest further in their overseas office presence. These statistics should perhaps act as a wake-up call for purely domestic companies, indicating that they are missing out on the rewards of foreign markets and suggesting that a change of attitude may be required in order to deliver enhanced business results.

### Intention to expand overseas operations over the next few years



# Key results

The polarity between domestic and international players is substantial throughout, but falls into clear bands. China, South Africa, Japan and India show a difference around 20 percentage points; this rises to approximately 30 percentage points in France, Mexico and Brazil; Germany, Netherlands, Belgium and Australia have a differential of around 40 percentage points; and in the UK and Canada, the differential between domestic and international companies' foreign expansion plans rises to over 50 percentage points.

There may be a number of obstacles, or perceived obstacles to overseas expansion for domestic firms. However, most products or services are translatable to additional geographies. Interestingly, the influential BDO Global Opportunities report notes that obstacles to overseas expansion may be largely perceptual rather than actual.<sup>22</sup> The report notes that most businesses act fast once they decide to open a new office abroad, with 56% of CFOs claiming that once a decision is made to open a new office, it will be active within a year. A further 26% will have opened an office within two years of making their decision and only 3% claim that it will take over three years once a decision is made.

Another recent report by PwC on the foreign expansion plans of US companies elicits their motivations for doing so. They are (in order):

- a. To broaden their customer base
- b. Serve global clients better
- c. Compensate for slow growth at home
- d. Being where competitors are
- e. To lower their cost base<sup>23</sup>

Returning to perceived obstacles, most studies highlight two key issues:- establishing a physical workspace presence; and whether to employ local or ex-pat staff and managers, particularly in the light of language capabilities. The Regus study aimed to capture evidence on the scale of these obstacles. Surprisingly, opinion over obstacles to foreign expansion was largely consistent between domestic and international companies.

<sup>22</sup> BDO Ambition Survey, Global Opportunities 2011

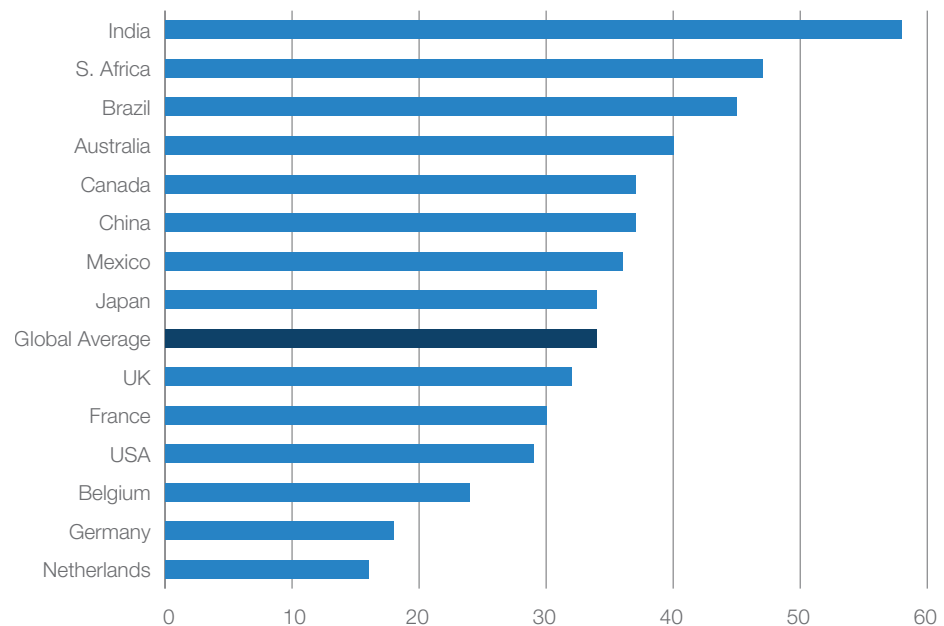
<sup>23</sup> PwC, Private Company Trendsetter Barometer, 2011

# Key results

## Addressing the workspace issue

On average, around one third (34%) of firms globally say that “the biggest obstacle to overseas expansion is setting up an office/workspace presence in a foreign country”. Amongst major economies, this ranges from 16% (Dutch respondents) to 58% (Indian companies). Almost two thirds of companies globally (63%) also say that “our property commitments have to be very short term when setting up a foreign operation, as we do not know how quickly or slowly we will grow,” ranging from 42% in Brazilian companies to 79% in South African companies.

The biggest obstacle to overseas expansion is setting up an office presence in a foreign country

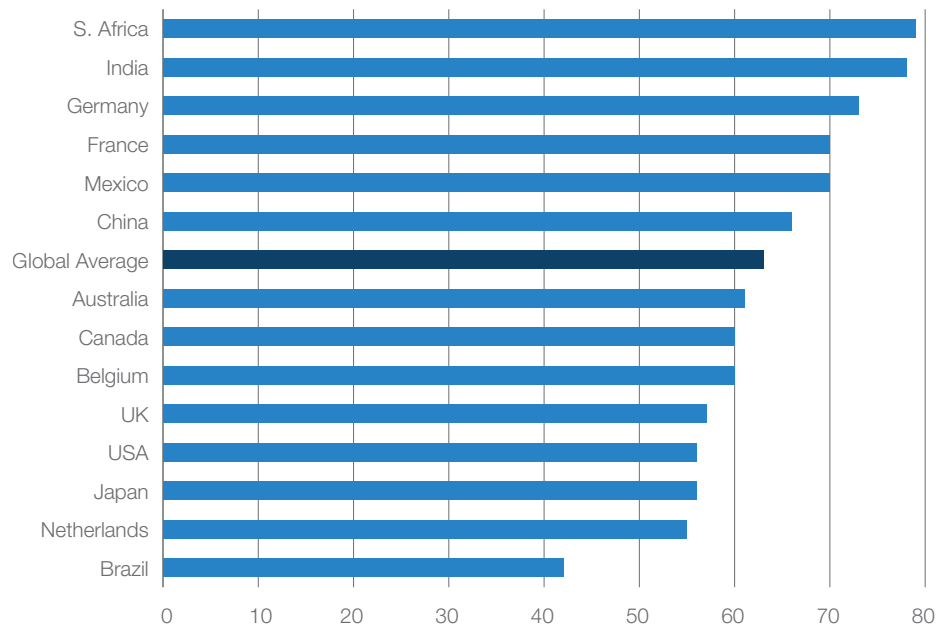


# Key results

These findings serve to highlight the importance of flexible workspace solutions for companies setting up foreign operations, or expanding their foreign office presence. Many companies have been caught out by inflexible office property commitments even in their domestic markets in the last few years, either saddling them with inappropriate costs, or stifling growth through an inability to scale their operations rapidly. How much more important, then, are flexible workspace facilities in foreign markets, where progress and growth may be even less predictable than at home?

Traditional office leases are not the answer for foreign operations experiencing unpredictable growth where needs may change suddenly and rapidly. However, this should no longer be a real obstacle to cross-border growth with flexible workspace options now available through global networks.

Our property commitments have to be very short term when setting up a foreign operation, as we do not know how quickly or slowly we will grow

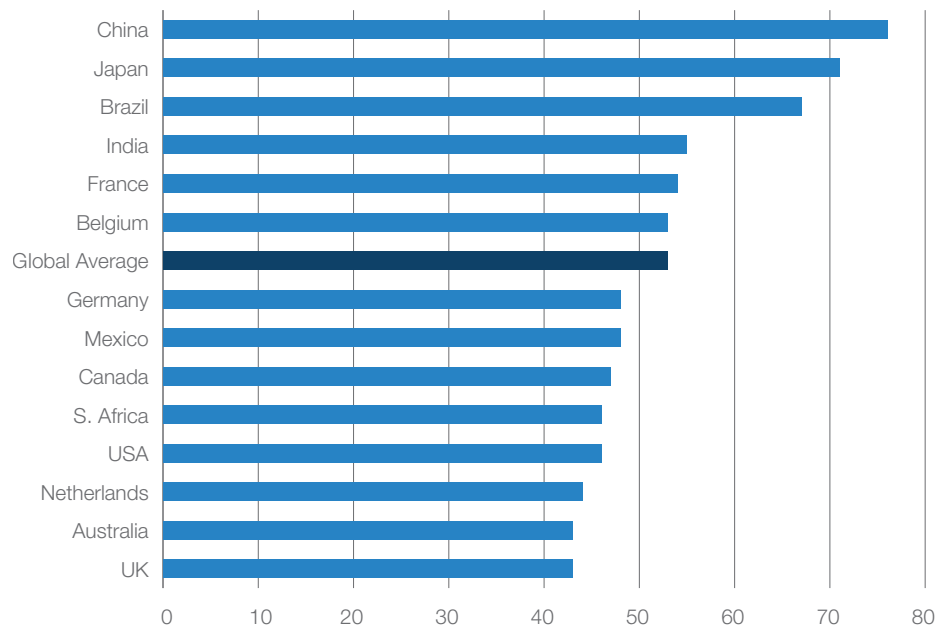


# Key results

## Local or ex-pat?

Whether to employ locally, or ship in ex-pats, is the other key perceived obstacle to foreign expansion. Almost two thirds (64%) of firms globally find it difficult to recruit foreign staff for their overseas operations, yet four fifths (81%) consider it essential to have them. Aside from the bulk of staff, opinion is split about senior management in their cross-border ventures. Half (53%) want to put in a manager from the home country, and half (47%) think local management to be the better option. This roughly equal division of opinion may well be coincidental – in other words simply a matter of judgement based on the available managers' personalities and skills, or whether the company has a policy of central control or local empowerment.

It is essential to put in a manager from my own country when setting up a foreign operation



# Key results

There is a similar split over English being the global lingua franca of successful business. Globally, 54% of companies believe that “you cannot be successful abroad by operating mainly in English, and must have fluency in the local language.” Of course, language fluency is not the whole issue. Cultural differences are just as important – how to behave, where to be seen, how to treat clients, and so on. Again, opinion is divided on the level of support required on this issue, with 58% of companies saying, “We brief our managers working abroad so that they are provided with the right places to eat, drink, network and be seen in their locality,” although this may well reflect the proportion of firms who favour installing a local manager who would not need to be guided on such issues.

It is the contention of this report that staffing and language fluency requirements will be largely determined by the level of direct customer interface that the company envisages. Many firms will enter foreign markets through intermediaries, distributors, resellers and an extended supply chain. These companies will need an in-country team to negotiate deals and to manage and support their distribution channels. However, language fluency, local senior management and deep cultural understanding may be less important here compared to a firm that is dealing direct with customers in the foreign country.

## Conclusions

This latest research report from Regus provides hard evidence that companies with international markets are currently performing better than those concentrating on domestic sales. These findings may act as an incentive and inspiration for purely domestic operations to seek new foreign markets in the next few years, following the firm expansion plans of those already playing on an international stage. The result of more export activity would seem to be improved financial performance, as well as a level of protection from domestic market volatility, and therefore could make an important contribution to global economic growth and stability.

However, perceived obstacles seem to be holding some firms back from foreign expansion – namely concerns over establishing a physical office presence abroad, and hiring the right mix of local and ex-pat staff. Traditional office leases are obviously inappropriate for foreign operations where growth may be sudden and the organization may need to scale and develop rapidly. However, this should no longer be a real obstacle to cross-border growth with the range of flexible workspace options now being offered on a global scale. Getting the mix of foreign and home-country staff is a much more difficult decision, and will rest largely on the level of direct interaction with customers that the company envisages.

# Country highlights

## China

- China is the only country where organizations focusing on the domestic market are faring better than those focusing internationally.
- 37% of Chinese companies believe that the biggest obstacle to overseas expansion is setting up an office in a foreign country.

## India

- 58% of Indian respondents declare that “the biggest obstacle to overseas expansion is setting up an office/workspace presence in a foreign country”.
- 78% of Indian companies declare that “Our property commitments have to be very short term when setting up a foreign operation, as we do not know how quickly or slowly we will grow”.

## Belgium

- 62% of companies in Belgium aim to expand abroad over the next few years.

## The Netherlands

- 16% of firms in the Netherlands say that “the biggest obstacle to overseas expansion is setting up an office/workspace presence in a foreign country”.
- 51% of Dutch businesses brief their managers working abroad so that they are provided with the right places to eat, drink, network and be seen in their locality.

## Brazil

- 42% of Brazilian companies agree that “our property commitments have to be very short term when setting up a foreign operation, as we do not know how quickly or slowly we will grow”.
- 67% of Brazilian respondents feel that “it is essential to put in a manager from my own country when setting up a foreign operation”.

## Canada

- 60% of Canadian businesses say that their property commitments have to be very short term when setting up a foreign operation, as they do not know how quickly or slowly they will grow.

## Mexico

- 74% of Mexican businesses aim to expand abroad over the next few year.

## South Africa

- 79% of South African companies feel that “property commitments have to be very short term when setting up a foreign operation, as we do not know how quickly or slowly we will grow”.
- 47% of South African businesses declare that “the biggest obstacle to overseas expansion is setting up an office in a foreign country”.

# Country highlights

## Japan

- 77% of Japanese businesses say it is difficult to find the right staff when setting up an office presence in a foreign country.

## UK

- 75% of UK businesses declare that it is essential to have local staff when setting up a foreign operation.
- 57% of UK respondents confirm that “property commitments have to be very short term when setting up a foreign operation, as we do not know how quickly or slowly we will grow”.

## USA

- 76% of USA companies feel that it is essential to have local staff when setting up a foreign operation.
- 53% of USA respondents brief their managers working abroad so that they are provided with the right places to eat, drink, network and be seen in their locality.

## France

- 51% of French companies aim to expand abroad over the next few years.
- 51% of French respondents brief their managers working abroad so that they are provided with the right places to eat, drink, network and be seen in their locality.

## Germany

- 80% of German respondents think it is essential to have local staff when setting up a foreign operation.
- 63% of German business say that you cannot be successful abroad by operating mainly in English, and must have fluency in the local language.

## Australia

- 74% of Australian firms successfully conduct most of their foreign business in English, because it is accepted as the main global lingua franca of business.

# About Regus

Regus is the world's largest provider of flexible workplaces, with products and services ranging from fully equipped offices to professional meeting rooms, business lounges and the world's largest network of video communication studios. Regus enables people to work their way, whether it's from home, on the road or from an office.

Customers such as Google, GlaxoSmithKline, and Nokia join hundreds of thousands of growing small and medium businesses that benefit from outsourcing their office and workplace needs to Regus, allowing them to focus on their core activities.

Over 900,000 customers a day benefit from Regus facilities spread across a global footprint of 1,200 locations in 550 cities and 94 countries, which allow individuals and companies to work wherever, however and whenever they want to. Regus was founded in Brussels, Belgium in 1989, is headquartered in Luxembourg and listed on the London Stock Exchange. For more information please visit: [www.regus.com](http://www.regus.com)

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## Methodology

Over 12,000 business respondents from the Regus global contacts database spanning 85 countries were interviewed during August 2011. The Regus global contacts database of over 1 million business-people worldwide is highly representative of business owners and senior managers across the globe. Respondents were asked a wide variety of questions including ones about their economic performance and expectation, along with their views of the business continuity market and their use of disaster recovery alternatives within their own firms. The survey was managed and administered by the independent organisation, Mindmetre – [www.mindmetre.co.uk](http://www.mindmetre.co.uk).

# Notes



Whilst every effort has been taken to verify the accuracy of this information, Regus cannot accept any responsibility or liability for reliance by any person on this report or any of the information, opinions or conclusions set out in this report.

