



Survey of MNCs in Ireland 2008

Results of the 10th Anniversary Competitiveness Survey



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Conducted by

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TABLE OF CONTENTS

EXECUTIVE SUMMARY	6
FOREWORD & INTRODUCTION.....	8
CHAPTER 1: THE EVOLUTION OF IRISH TRADE, 1998 - 2008	10
CHAPTER 2: ISSUES OF IMPORTANCE FOR COMPETITIVENESS.....	15
CHAPTER 3: PROSPECTS FOR IRISH SUBSIDIARIES	18
CHAPTER 4: COMPETITIVE THREATS	22
CHAPTER 5: IMPACT OF THE GLOBAL CREDIT CRUNCH	24
APPENDIX: QUESTIONNAIRE	26
BIBLIOGRAPHY	31



Executive Summary

This is the tenth year in which the IMI has carried out a survey of Multinational Companies (MNCs) operating in Ireland. These reports highlight the major issues affecting MNC companies in Ireland, in particular the factors that underpin Ireland's competitiveness.

Multinationals based in Ireland operate in the context of an increasingly globalised world. The international integration of world commodity, capital and labour markets has continued to deepen since the end of the Second World War. In the 2000-2006 period global trade expanded by over 10 per cent per annum, driven in particular by the growth in Asia, Eastern Europe and the countries comprising the Commonwealth of Independent States. Foreign Direct Investment (FDI) flows experienced strong growth up to 2000, increasing at an annual rate of 18% over the two previous decades. Global FDI subsequently declined until

2003, though has since increased rapidly, though as of 2006 had not reached the record 2000 level.

The last decade has been a period of rapid change for the Irish exporting sector. In the late 1990s and early years of the new millennium, Ireland's share of aggregate world trade increased rapidly, peaking in 2002 at 1.3%, though has since eased back to 1.1%. The most noticeable feature of the composition of Ireland's export trade is the growth in services exports. These accounted for 44% of exports in 2007, up from 19% in 1998. On current trends, Ireland is likely to earn as much export revenue from services as goods by 2010.

FDI remains an important element of the Irish export performance. Ireland's stock of FDI as a percentage of GDP was estimated as 81.2% in 2006, compared to a 24.8% global average.

The issue of wage costs retains its position as the most important issue identified by respondents for Ireland's competitiveness, as it was in the last report in 2005. Five of the 'top ten' factors of most importance to Ireland's competitive position are related to the cost of doing business in Ireland, as they were in 2005. These include; wage costs, the rate of inflation, energy costs, corporation tax and non-labour costs.

The factor 'Management skill/talent' was ranked in second place of the most important factors affecting Ireland's competitiveness. This particular factor has moved up four places from 5th overall in 2005.

In terms of overall competitiveness for MNCs, 35.9% of respondents saw Ireland as uncompetitive, while only 26.6% had the view that Ireland was generally a competitive place for MNCs.

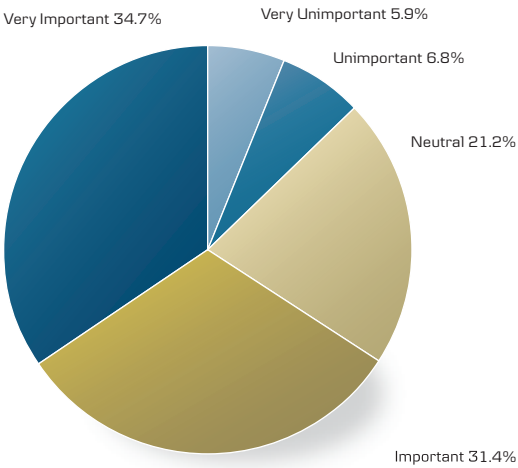
The survey asked respondents which countries they expected to present the most significant threat to Ireland's competitive position in the coming 12 months. China was identified as the biggest threat to Ireland's international competitive position, with India seen as a close second.

Respondents felt that the Irish Government could continue to attract and retain foreign-owned MNC business to Ireland. However, the results showed that the respondents believed that the costs of doing business in Ireland must be controlled while maintaining the low corporate taxation rate and investing in human capital.

Over two thirds of MNCs reported that the Irish aspect of their operation was either important or very important strategically to the global performance of their parent company. This

represents a 13 point increase in respondents who stated in 2005 that their operation was either important or very important to the global performance of their parent company.

Strategic importance of Irish operation



Almost two thirds of respondents stated that the growth in strategic importance of their Irish operations was static over the past two years. This figure is 24 percentage points higher than that observed in 2005 (36%) when respondents were asked to comment on the change in strategic importance over the previous five years.

More optimistically however, just over a fifth of respondents reported that the level of strategic importance of their Irish operations had increased over the past two years.

However, 36% of respondents to this year's survey reported that they expect the numbers they employ to decrease over the coming year, while a little over a quarter expect the number they employ to rise over the same period.

Foreword & Introduction

In 1998, the IMI initiated an annual survey of the attitudes and experiences of Chief Executives and senior management of multinational companies operating in Ireland. This report is the 10th anniversary edition of this series.

This year IMI partnered with National Irish Bank to carry out this research once again. The purpose of this study was to understand the main factors behind the choice of Ireland as a location for Multinational companies, whether these companies are foreign or indigenously owned.

The report begins in Chapter 1 by setting out the technological, economic and political developments that have driven globalisation since the end of the Second World War. It then sets out the salient trends in Ireland's export and investment performance over the last decade.

The results of the survey are presented in Chapters 2 to 5. Chapter 2 discusses the responses of MNCs in the survey relating to the competitiveness of the Irish economy in 2008. It also identifies the key elements of the business environment that MNCs believed were of most importance in terms of remaining competitive.

Chapter 3 presents respondents' views on the strategic importance of the Irish subsidiaries of MNCs in the context of the global operations of their parent companies and how this level of strategic impact has changed over recent years. It also presents the results of the employment and turnover expectations of MNCs for their Irish subsidiaries in the short term.

Chapter 4 presents the survey responses on which countries' respondents expected to present the most significant threat to Ireland's competitive

position in the coming 12 months. The survey also asked what the Government should be doing to maintain Ireland's position as a competitive place to do business.

Chapter 5 surveys MNC opinions on whether the recent turbulence in the financial sector has had a direct impact on their Irish operations. Those companies who said that there was an impact were then asked how it has materially affected their companies here.

The survey was carried out using an online questionnaire during August 2008 and was circulated to Chief Executive Officers and senior managers in 571 multinational companies with a base in Ireland. Of these, 142 senior executives accessed the survey with 122 completing the survey fully, thus giving a response rate of 21%.

The questionnaire was divided into four sections including: profile of participating companies, current business operations including a section on the impact of the global credit crunch, the competitiveness of the Irish economy for multinational companies and the strategic role of, and challenges for MNCs in Ireland.

Of the 122 multinational firms that participated in the survey, 65.6% of these are from foreign-owned organisations with a base in Ireland, while the remaining 34.4% were Irish owned firms that operate on a multinational basis.

These 122 firms reported a combined annual turnover in excess of €16.5 billion. In 2005 the total turnover of the 64 firms participating in the last survey was an estimated € 7.7 billion, while in the first edition of the survey in 1998, the total turnover of the 85 companies that responded was

reported as £12.1 billion (€14.6 billion). The participating firms account for over 48,147 employees and the average employment rate of graduates in the responding firms was 35%.

As in previous years the firms were drawn from all of Ireland's major exporting sectors, and in each case the respondent to the survey was the Chief Executive or a senior manager of the Irish operation.

Companies in the Technology, Electronic and Software sector represented the largest single grouping observed in this year's survey at 24%, with those operating in the Pharmaceutical & Chemical sector (15%) the next largest sector represented in the findings. Those companies involved in General Manufacturing and also in the Medical Devices sector both made up 11% of respondents respectively, with the Construction / Engineering / Energy sector making up 10% of the response. The sectoral breakdown of responding firms is outlined in Table O.1 below.

Table O.1 Sectoral breakdown of responding companies

Sector	N	%
Food	8	6.6
Communications	8	6.6
Pharmaceutical / Chemical	18	14.8
Medical Devices	13	10.7
Software / Electronics / Technology	29	23.8
Banking / Finance / Venture Cap / Insurance	4	3.3
Construction / Engineering / Energy	12	9.8
Softdrink / Brewing / Distillery	3	2.5
Distribution / Logistics	2	1.6
Manufacturing	13	10.7
Other Sector	12	9.8
Total	122	100

CHAPTER 1 The Evolution of Irish Trade, 1998 - 2008



1.1 International Context

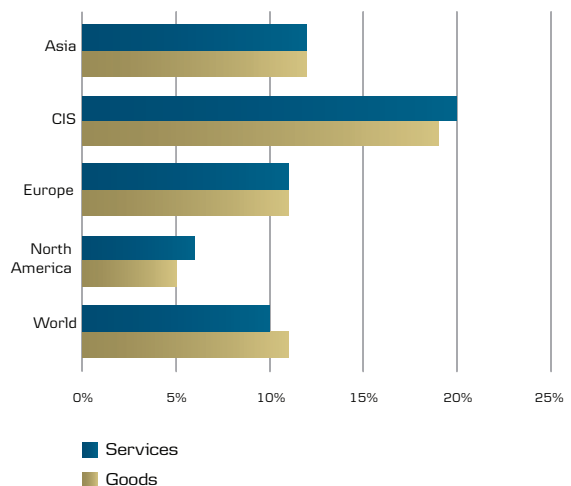
The international integration of world commodity, capital and labour markets has continued to deepen since the end of the Second World War. This has been driven by technological, economic, and political developments.

The continued spread of globalisation can be seen in the rapid expansion in global trade, both in terms of goods and services. Figure 1.1 shows that in the period 2000-2006, global trade expanded by over 10 per cent per annum, driven in particular by the growth in Asia, Eastern Europe and the countries comprising the Commonwealth of Independent States.

The composition of trade has also changed significantly over the last decade. In 2001, the bursting of the dotcom bubble arrested the dramatic rise in the trade in office and telecom

products. The share of fuels in world trade fluctuates sharply on changes in price, with the 2007 share (20%) reaching levels last seen after the oil price hikes of the early and late 1970s. The internationalisation of services production has been facilitated by the improvement in communications technology, though this is often evidenced in increasing Foreign Direct Investment (FDI) flows rather than trade flows.

Figure 1.1
 Growth in World Trade by Region, 2000-2006



Source: World Trade Organisation (2008)

Another feature of the increasingly globalised patterns of production is the increases in FDI flows. FDI flows experienced strong growth up to 2000, increasing at an annual rate of 18% over the two previous decades. FDI subsequently declined until 2003, a decline which is largely associated with the bursting of the dot-com bubble in 2001.

Subsequently, FDI activity has increased rapidly, though as of 2006 had not reached the record

2000 level. A growing feature of global FDI has been the emergence of Research and Development (R&D) as a driver of multinationals' investment decisions, an activity which until recently was among the least internationalised segments of multinationals' value chain¹.

Table 1.1 below charts the principle global events that have driven globalisation from 1960 to 2008.

Table 1.1: The Chronology of Globalisation, 1960-2008			
	Technological	Economic	Political
1960	Integrated circuits become commercially viable (1961)	GATT Kennedy Round (1964-69)	
	Mont Blanc Road Tunnel (1965)	Trade policies of East Asia countries shift to export development from import substitution	
	Increased use of containerisation in ocean transport (1968-)	Elimination of last custom duties within EC (1968)	
1970	The first single chip microprocessor, the Intel 4004, is introduced (1971)	Tokyo Round of the GATT (1973-79)	EU enlargement to 9 members, including Ireland (1973)
		Rise of Asian newly industrialised countries	China's policy reforms (1978)
1980	IBM introduces the first personal computer (1981)	Mexico Starts market reforms and joins the GATT in 1986	EU Enlargement to 12 members
	Microsoft Windows introduced (1985)	Louvre Accord promotes stabilisation of major exchange rates (1987)	Fall of the Berlin Wall (1989)
1990	UK-France Eurotunnel opened (1994)	Indian economic reforms launched (1991)	Dissolution of the Soviet Union (1991)
	Second generation digital mobile phones introduced	Establishment of NAFTA (1994)	Maastricht Treaty signed (1992)
	Invention of the World Wide Web (1991)	Asian financial crisis (1997)	
		Establishment of the WTO following Uruguay Round (1995)	
2000	Container ships transport more than 70% of seaborne trade in value terms	China joins WTO (2001)	EU Enlargement to 27 members
	Number of internet users rises to an estimated 1.46 billion (2008)	End of Multifibre agreement which restricted global textile trade (2004)	
		Collapse of Doha Trade Talks (2008)	

Source: Adapted from World Trade Organisation (2008)

1. Forfas (2005)

Technological developments shaped the process of globalisation. Particularly important in this regard was the fall in the cost of the transport of goods, which in turn has facilitated greater specialisation between countries. This fall in transport costs was due to the more widespread use of containerisation



from the late 1960's onwards, the development of the jet engine as a means of mass transport and massive investments in road infrastructure in Western Europe and North America. Improvements in communication technology also facilitated greater global integration. In particular, the commercialisation of inventions such as the microprocessor, the PC, and the mobile phone, and the use of these technological advances to create the World Wide Web, has greatly increased the quality and range of global communication tools.

Economic policy reforms have been important in facilitating globalisation. Many countries engaged in reforms aimed at deregulation of their economies, in particular the reduction of restrictions on the international flow of goods, services and capital. Further, multinational efforts to reduce trade barriers were pursued through successive GATT² rounds, though in more recent years bilateral and regional agreements have grown in importance.

Political developments have also helped drive the pace of globalisation. While initially the creation of the EU was driven by political considerations, its subsequent development has been essentially economic in nature. Europe has grown in stages to 27 members, creating a region of free mobility of labour, capital, goods and services. The other major political change which helped foster globalisation was the fall of the Berlin Wall in 1989 and the subsequent dissolution of the Soviet Union. This was predated by the shift in Chinese economic policy in the 1970s.

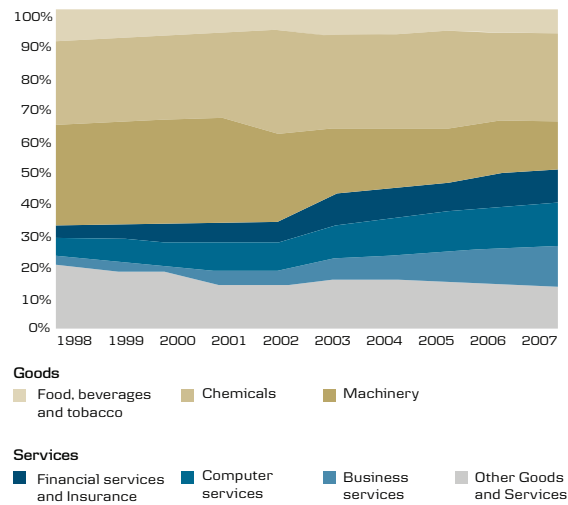
1.2 Ireland's Performance

The last decade has been a period of rapid change for the Irish exporting sector. In the late 1990s and early years of the new millennium, Ireland's share of aggregate world trade increased rapidly, peaking in 2002 at 1.3%. Since then it has eased back to 1.1% on the back of the decline of Ireland's goods export share. Much of this decline is due to the emergence of developing countries, particularly in Eastern Europe and Asia. Relative to developed country trade, Ireland's export share has been relatively steady since 2002.

The sectoral composition of Irish exports has also changed dramatically. Figure 1.2 below shows the distribution of Irish exports from 1998 to 2007. The most noticeable feature of the composition of Ireland's export trade is the growth in services exports. These accounted for 44% of exports in 2007, up from 19% in 1998. On current trends, Ireland is likely to earn as much export revenue from services as goods by 2010.

Figure 1.2

Distribution of Irish Exports, 1998-2007



Source CSO

1.2.1 Goods Trade

The profile of Ireland's manufacturing trade has undergone rapid change since accession to the EU in 1973. In the early 1970's Ireland had a large number of domestically-owned firms alongside a small number of exporting firms which were predominantly foreign-owned. This was in large part a legacy of Ireland's industrial policy in previous decades, which had two aims, namely to encourage indigenous Irish firms to replace imports with domestically produced output, coupled with an active export promoting policy.

Manufacturing employment declined for much of the two decades following the entry of Ireland into the Anglo-Irish Free Trade Agreement in 1966 and into the EEC in 1973. This occurred as many of the indigenous import substituting firms collapsed in the face of rising import penetration, a collapse that was more severe than had been anticipated. Most of these plants were not able to switch into exporting, and subsequently disappeared.

Export activity ultimately proved successful in recuperating all of these losses, though this positive effect took longer to materialise. Throughout the period from 1973 to the late 1980's, exports rose as a share of aggregate manufacturing output. This was dominated by an influx of foreign multinationals, particularly from the US. This export performance was greatly assisted by the emergence of a wave of small Irish suppliers of intermediate inputs³. Both factors combined to increase manufacturing employment in exporting firms in Ireland from 200,000 in 1990 to 250,000 in 2000⁴.

The period since the bursting of the dot-com bubble has seen a steady decline in the importance of computer hardware production as a share of total exports. This has been offset to a significant degree by the emergence of a very strong chemicals/pharmaceuticals manufacturing and development industry in Ireland. This sector bypassed machinery as the most important goods category in Ireland in 2002 and now accounts for a quarter of all Irish exports.

1.2.2 Services Trade

Services exports have become an increasingly larger share of Ireland's exports over the last decade. As with the previous expansion of goods exports, the expansion in services was driven by foreign multinationals. This took the form of the inward flow of services firms, as well as existing firms evolving from a manufacturing to a services focus.

Ireland became more attractive to new foreign services firms due in part to changes in the taxation regime. In 1998, the European Commission forced Ireland to change its corporation tax regime. Previously, the regime had been heavily biased in

3. Li, Walsh and Whelan (2007)

4. Forfás (2001, 2008). Figures relate to permanent full-time employment.

favour of manufacturing and IFSC operations (10%), while other services firms paid 40%. These rates were combined to a lower rate of 12.5% in 1998, providing a strong incentive for foreign services



multinationals to locate in Ireland. The tax regime was subsequently further updated to encourage headquarter operations to locate in Ireland⁵.

Further, the Irish subsidiaries of many foreign multinationals have evolved from an initial focus on manufacturing to an increasing involvement in the servicing of their European and global markets. Two significant trends can be identified in the evolutionary path of these subsidiaries: one has been a shift from manufacturing to product, fleet and logistics, and control of the supply chain, and the second has been the increasing significance of servicing customers within the EMEA region⁶. This success by Irish subsidiaries reflects in part the 'first mover advantage' of having the first European subsidiary of many US firms located in Ireland.

1.2.3 Foreign Direct Investment

The strong performance of Irish exports over the last decade has been largely due to the wave of foreign owned multinationals who have invested here. As of 2007, foreign owned plants engaged predominantly in exporting accounted for 153,508 permanent, full time jobs, with a further 18,064 workers in part-time, temporary or short-term contract employment. Ireland's stock of FDI as a percentage of GDP was estimated as 81.2% in 2006, compared to a 24.8% global average⁷.

The Irish economy has had considerable success in attracting high value FDI in recent years⁸. According to the IDA, new job creation (a proxy for inward investment) peaked in 2000, though has remained strong. The National Irish Bank/OCO Investment Performance Index showed that Ireland was ranked 14th out of the world's top 30 economies in 2007⁹. The index, which is adjusted for economy size, shows that Ireland outperformed virtually every other leading developed economy during 2007, only falling below a number of high growth developing countries. A particularly high share of these projects in 2007 involved some R&D activity¹⁰.

An important feature of Ireland's recent experience of foreign multinationals is the relatively high rate of churn¹¹. Job gains since 2002 have been matched by the same number of job losses resulting in aggregate employment in foreign owned plants being virtually unchanged in 2007 compared to 2002. This process of re-allocation of employment, from contracting sectors to expanding and from under-performing firms to successful ones, is an important facilitator of productivity growth¹².

5. The Finance Act 2004 established a new headquarters regime aimed at attracting international corporations to establish their regional HQ in Dublin.

6. Collins and Grimes (2008)

7. UNCTAD (2007)

8. NESC (2008)

9. National Irish Bank, OCO Consulting (2008)

10. *ibid*

11. Central Bank (2008)

12. *ibid*

CHAPTER 2 Issues of Importance for Competitiveness

Chapter 2 discusses the views of MNCs in the survey as to the competitiveness of the Irish economy in 2008. It also identifies the key elements of the business environment that MNCs believed were of most importance in terms of remaining competitive.

Respondents were asked to rate the Irish economy on its overall competitiveness for MNCs and then to rate the importance of twenty-four issues that affect this competitiveness on a five point scale (see the appendix for a copy of our questionnaire). In each case, '1' represented a very positive reply and '5' represented a negative reply. The issues were organised into six subsections: the business environment (section 2.1); infrastructure (section 2.2); operations (section 2.3); employment (section 2.4); skills (section 2.5) and education (section 2.6).

When asked to rate the Irish economy on its overall competitiveness for MNCs, 35.9% of respondents saw it as uncompetitive while only 26.6% had the view that Ireland was generally a competitive place for MNCs.

The factors identified as most important across all of the headings this year are shown in Figure 2.2 along with their equivalent ranking from 2005.

Figure 2.1 Ireland's overall competitiveness for MNCs.

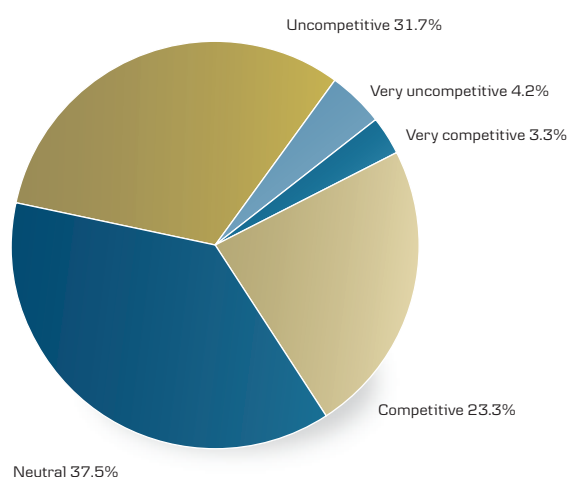
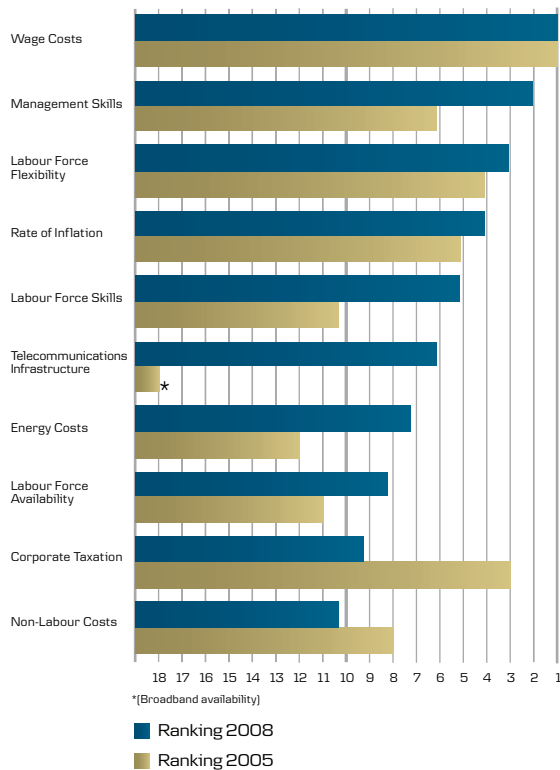


Figure 2.2

Competitiveness Factors



The issue of wage costs is again the most important issue affecting Ireland’s relative competitiveness according to those heading up these companies. Four of the top five issues relate to labour factors, wage costs being the most important while the other three factors relate to skills, management skill, which has gained in importance since the last survey was carried out, the flexibility of workers and their level of skill. Only one of the top five issues mentioned relates to the wider environment for doing business, and that is inflation.

Perhaps surprisingly given the nature of the survey participants Corporate Taxation has declined in importance as an issue for multinational companies operating in Ireland, from third place in 2005 to ninth this year.

Table 2.1 Rank order of factors affecting competitiveness

Ranking: 2008	Competitiveness Factors	Ranking: 2005
1	Wage Costs	1
2	Management Skills	6
3	Labour Force Flexibility	4
4	Rate of Inflation	5
5	Labour Force Skills	10
6	Telecommunications Infrastructure	18*
7	Energy Costs	12
8	Labour Force Availability	11
9	Corporate Taxation	3
10	Non-Labour Costs	8
11	Education System	2
12	Air and Sea Infrastructure	6
13	Exchange Rate Stability	14
14	Employment Legislation	19
15	Regulatory Framework	26
16	Industrial Relations	16
17	Business Service Availability	28
18	Road Transport Infrastructure	13
19	EU Directives	32
20	R&D Support	15
21	Environmental Issues	27
22	3rd Level Linkages	-
23	Interest Rates	25
24	Property/Construction Costs	33

*[Broadband availability]

Importance rate averages from respondents under each of the 6 competitive environment headings are set out in the following sections.

2.1 The Business Environment

Table 2.1.1: Business environment factors - importance rankings

Business Environment	
Rate of Inflation	1
Corporate Taxation	2
Exchange Rate Stability	3
Business Service Availability	4
Interest Rates	5

2.2 Infrastructure

Table 2.2.1: Infrastructure - importance rankings

Infrastructure	
Telecommunications Infrastructure	1
Energy Costs	2
Air and Sea Infrastructure	3
Road Transport Infrastructure	4

2.3 Operations

Table 2.3.1: Operations - importance rankings

Operations	
Non-Labour Costs	1
Regulatory Framework	2
Environmental Issues	3
Property/Construction Costs	4

2.4 Employment

Table 2.4.1: Employment Issues - importance rankings

Employment	
Wage Costs	1
Labour Force Availability	2
Employment Legislation	3
Industrial Relations	4
EU Directives	5

2.5 Skills

Table 2.5.1: Skills Issues - importance rankings

Skills	
Management Skills	1
Labour Force Flexibility	2
Labour Force Skills	3

2.6 Education

Table 2.6.1: Education Issues - importance rankings

Education	
Education System	1
R&D Support	2
3rd Level Linkages	3

CHAPTER 3: Prospects for Irish Subsidiaries



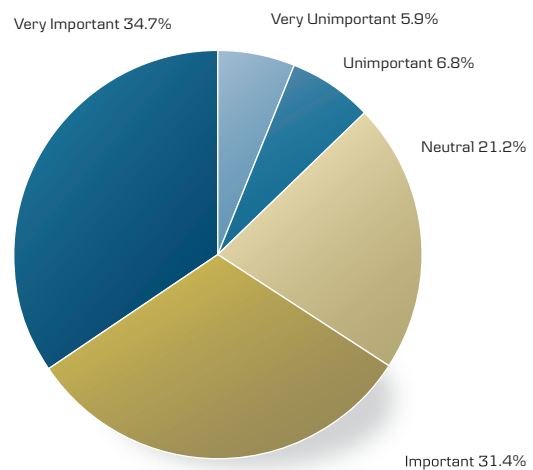
This chapter focuses on respondents' views of the short term prospects for the Irish subsidiaries of the MNCs interviewed. The short term prospects for Irish subsidiaries depends on changes in the role and importance of the Irish operation in terms of the companies' global operations, as well as the market conditions facing the company as a whole. Section 3.1 assesses the strategic importance of the Irish subsidiaries, while Sections 3.2 and 3.3 report the forecasted change in employment and turnover in Ireland for the coming year.

Section 3.1: Strategic Importance of Irish Operation

MNCs were asked about the strategic importance of their Irish operations as regards the global performance of their parent companies and how this level of strategic impact has changed over recent years. Over two thirds of MNCs reported that the Irish aspect of their operation was either

important or very important strategically to the global performance of their parent company. This represents a 13 point increase in respondents who stated in 2005 that their operation was either important or very important to the global performance of their parent company.

Figure 3.1: Strategic importance of Irish operation



In relation to the sectors that reported the highest levels of strategic importance, 94.5 % of those involved in the Pharmaceutical/Chemical industry described their Irish operations as important (38.9) or very important (55.6%) strategically. Of those companies operating in the Medical Devices sector, 77% of respondent companies saw their Irish operations as important (30.8%) or very important (46.2%) strategically. Similarly 75% of those in the Software / Electronics and Technology sector described their Irish operation as strategically important (35.7%) or very important (39.3%).

Thirty percent of those in the General Manufacturing sector saw their Irish operation as neutral in terms of strategic importance while 15% saw their strategic position as unimportant or very unimportant.

On average the strategic importance of the Irish operations scored 2.18, indicating that company executives view their Irish operations as being generally important to the global performance of their company.

For almost six in ten of those who see their Irish operation as globally very important, this level of strategic importance has increased over the past two years. For those who see the strategic importance of the Irish operations as important their views on how this importance has changed over the past two years is more balanced between those for whom this importance has decreased (38.1%) and those for whom this level of strategic importance has increased (38.5%).

Figure 3.2: Change in strategic importance

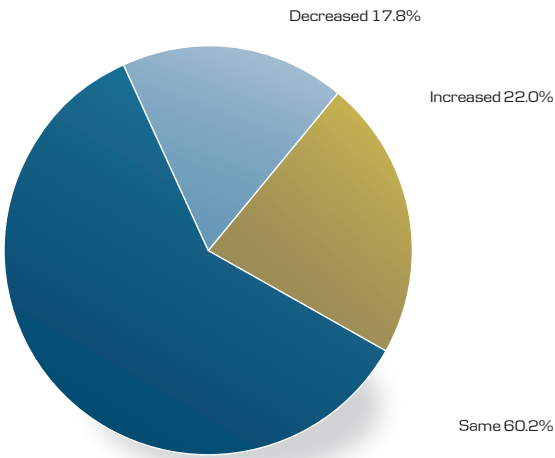


Figure 3.2 above shows that a little over twenty percent of respondents reported that the level of strategic importance of the Irish operations had increased over the past two. However, almost two thirds of respondents were of the opinion that the growth in strategic importance of Irish companies was static over the past two years. This figure is 24 percentage points higher than that observed in 2005 (36%) when respondents were asked to comment on the strategic importance over the previous five years.

When this data is analysed further the sector that shows the largest increase in the level of this strategic importance is the Pharmaceutical / Chemical sector. Here 44.4% of companies in this sector reported that the strategic importance of their Irish operations has increased over the past two years. The sector that reported the level of strategic importance had decreased the most was the Food sector (29%) followed closely by Construction / Engineering / Energy at 27%.

Perhaps reassuringly, 70% of those engaged in the General Manufacturing sector who responded to this year’s survey indicated that the level of strategic importance of their Irish operations remained unchanged over the past two years.

The business leaders who responded to this year's survey were also asked how they saw the position of MNCs in Ireland changing over the next two years. A large proportion of the opinions expressed reinforced the views expressed on costs in the earlier part of the survey and the threat of the movement of this type of foreign-led investment out of Ireland toward locations with lower labour costs.

More labour intense industries that do not have significant R&D outlay, will leave for other less expensive countries.

I believe that the environment for MNCs in Ireland is still positive however cost control through wage and control of Inflation is essential for it to stay positive.

In the Pharma sector a difficult period lies ahead. With price pressure from Government and a relatively high cost base, efficiencies can seem to be gained through some form of shared services or UK control. On the manufacturing front, the availability of high level graduates is key as we attempt to move up the value chain. Unless the education system can continue to deliver on this front, the future of R&D will remain in doubt. Traditionally in Ireland, we are not good innovators & this may ultimately be necessary to distinguish us from our competitors.

Without a strong stance on pay competitiveness will deteriorate further, we need to break the cycle of the last number of national wage agreements eroding competitiveness.

On a more positive note, much of the comment related to the type of work undertaken here moving up the value chain.

Ireland is still an important gateway into the EU. However the Irish operations will place more emphasis on supply chain, high value added process and business support such as Engineering Finance etc.

Hopefully we will become part of the strategic planning at higher levels but due to the size of many of the Irish MNC where the parent is overseas this is unlikely due to our size.

MNCs will continue to be a key input to the Irish economy given the level of investment and employment. Over the next two years and wage levels and inflation levels will determine a lot of the future strategies. Long term returns will depend on this and with other regions competing for investment it will be the best return which will win. Ireland will need to be innovative to attract and keep the investments.

The more labour intensive operations will tend to move eastwards towards lower labour cost economies.

Manufacturing employment will continue to reduce as labour costs, energy costs and market accessibility make it increasingly difficult to stay competitive.

Continued flight towards higher value added services, and development of right sourcing strategies for provision of lower value services. There will be less willingness to invest here generally unless we can get our cost base into control. It is difficult now to attract talent into Ireland from abroad at a reasonable cost on account of high cost of living.

I see greater difficulty in delivering the level of profits and growth to satisfy the benchmarks internationally which could translate into less investment in Ireland as the return on investment is greater in many other territories.

More challenges from the emerging economies on the cost base which increases the need for the knowledge based proposition.

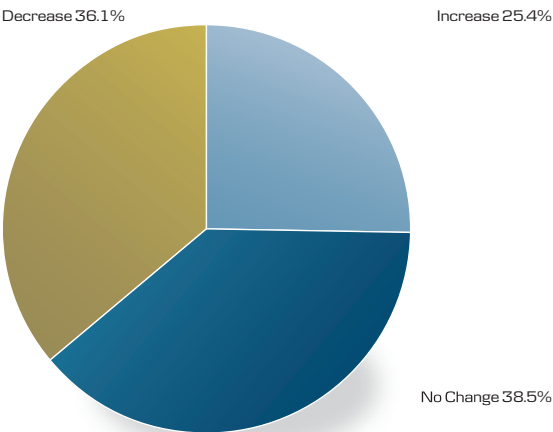
We will have to reduce costs in any way possible. Our ability to compete against sister operations will weaken as our costs rise.

Section 3.2: Employment expectations

The respondents to the survey employed 48,147 workers between them with an average graduate employment rate of 35%.

In terms of the future prospects of this workforce, just over 36% of respondents to this year's survey reported that they expect the numbers they employ to decrease over the coming year. A little over a quarter expect the number they employ to rise over the same period.

Figure 3.3: Future employment expectations



While this is a slight increase in the proportion (22%) of firms expecting to increase the numbers they employ as reported in the 2005 MNC report, this year's survey witnesses a 15 percent increase in the proportion of firms predicting that their staff numbers will fall over the next 12 months.

Section 3.3: Turnover Expectations

The firms involved in this survey contribute a combined €16.5 billion to local economic activity. One fifth of companies predict either negative or no growth, with 17% of respondents expecting the growth of turnover to be static over the next year.

This is compared to 12% as observed in 2005. This situation is perhaps to be expected given that one fifth of respondents reported a perceivable reduction in their company sales performance or reported having to revise their growth forecasts going forward, as shown below, when asked about prevailing economic conditions and the impact of the global credit crunch.

Table 3.3.1: Forecasted Turnover Growth for 2009

	%
Negative Growth	4.9
Zero Growth	17.2
Less than 5%	16.4
Five percent	15.6
Between 5 and 10 %	8.2
Ten percent	14.7
Between 10 and 15 %	5.7
Between 16 and 20 %	8.2
Between 25 and 50 %	5.7
Over 50 %	2.5
	100.0

In terms of positive growth 16% of companies predict less than 5% growth in turnover, while 32% of respondents believe their turnover will grow by only five percent or less in the coming year, while 15% predict turnover should increase by 10 percent.



CHAPTER 4 Competitive Threats



Since the 2004 edition, the survey has sought to elicit views on which countries' respondents expected to present the most significant threat to Ireland's competitive position in the coming 12 months. This year's survey also asked respondents to list any other countries they perceived as a 'secondary' threat to Ireland's international competitiveness. The results of these questions are shown in Section 4.1. The survey also asked what the Government should be doing to maintain Ireland's position as a competitive place to do business. The results of this question are discussed in Section 4.2.

Section 4.1: Threats to the National Competitive Position

As in 2005, a detailed examination of the national sources of competitive advantage shows that China, followed by India, were identified by most respondent companies as specific sources of threat to Ireland's competitive position. The results are shown below in Table 4.1, which shows how each country is ranked both as a primary and a secondary threat.

Table 4.1: Source of threats to Ireland's competitive position

Country	Primary %	Secondary %
China	22.1	9.8
India	11.5	16.4
Eastern Europe	9.8	18.9
UK & NI	9.8	4.1
Poland	9.0	4.9
USA	4.9	1.6
Asia	4.1	3.3
China & India	2.5	4.1
Singapore	2.5	1.6
Other	5.7	3.3
Don't know	18.0	4.9
	100.0	72.9

The majority of respondents identified more than one country which indicates that executives see competition arising from a number of international locations over the coming year. Eastern Europe, India and China again came out as the top three countries challenging our competitiveness. China was seen as the most significant threat and Eastern Europe as the greatest secondary threat.

Section 4.2: Actions Required from Government

Responses were invited to the question: 'What, in your view should the Irish Government do to attract and retain foreign MNC investment to Ireland?'

A total of 86% of respondents contributed a range of suggestions for Government action (105 comments in total). As with the previous survey, the vast majority of these comments reflected the need to control costs (particularly in the areas of labour and energy costs) and a desire to maintain our favourable corporation tax rates.

Keep the corporation tax at its current level. Continue with grants/aid towards re training and up skilling.

One is to maintain the low corporation tax and continue with the higher education programme. The IDA's focus on R&D needs also to continue.

The need to maintain investment in education, training and support for Research & Development was also singled out by a number of respondents.

Retain Corporation taxation advantage, Improve R&D support, provide ongoing R&D project support.

Government agencies are very proactive in this space; however what our competitors are offering is often times more attractive from a bottom line perspective. Continue investment in education and infrastructure - we need to move up market.

Maintain the investment in the value add economy, continue and increase on R & D support plus provide training assistance. EI support is also key and they have been of great assistance in supporting our overseas visibility.

Create personal incentives for life long learning/Career development for senior managers independent of the company they work for.



CHAPTER 5 Impact of the global credit crunch

There has been considerable turbulence in the world's financial markets for over a year. The problem stems from weakness in the US housing market, which has resulted in a range of financial institutions writing down the value of their exposure to US housing. This in turn has resulted in a lack of liquidity in the world's financial markets, with banks less willing to lend to each other. This has translated into a rise in the cost of credit for some private businesses and consumers, along with a greater rationing of credit. The impact of the credit crunch has been exacerbated by a downturn in the property markets of a number of European countries, most notably Ireland, the United Kingdom and Spain.

As part of this year's research looking at the prevailing conditions for multinational companies in Ireland, respondents were asked if the recent turbulence in the financial sector has had a direct impact on their Irish operations. They were also invited to comment on how the global credit crunch has materially affected their companies here. Of the 122 respondents who answered this question 52 or 42.6% stated that the global credit crunch did not have a direct consequence on their operations in Ireland.

Table 5.1 Impact of Global Credit Crunch

Impact of Global Credit Crunch	n	%
No Impact	52	42.6
Revised Growth / Reduction in Sales	24	19.7
Decision Making / Availability of Funds	9	7.4
Confidence	9	7.4
Increase in Costs	4	3.3
	97	79.5

Of those respondents who said that the credit crunch had affected their business, there was a diverse range of reasons as to why this was the case. However within the range of responses, three distinct themes did emerge as to how respondents felt the credit crunch has impacted on their business. These were revised growth or sales forecasts, availability of funds and business/consumer confidence.

Almost one fifth of respondents reported a perceivable reduction in their company sales performance or reported having to revise their growth forecasts going forward. For 7.4% of respondents the main impact of the global credit crunch was the reduction in the availability of finance for expansion with knock on implications for decision making within their organisations. The same proportion 7.4% of respondents highlighted a general reduction in business confidence as the main impact of the credit crisis.

Revised Growth / Reduction in Sales:

It has had little impact on the scale of our operation in Ireland as we are in a growing sector but it has impacted the rate of growth and hence our opportunities to expand.

It has reduced our projected growth from 15% to 5%.

Yes, transaction numbers are stable but the value of each transaction has fallen, thereby affecting profitability negatively.

It has had an Impact on the ability to grow sales in financial products.

Yes, it has put additional pressure on our pricing.

Decision making / availability of funds:

Slower decision making by clients reducing growth.

It has slowed the decision making timelines of our prospective customers and has meant decision making and budget setting has moved to next financial period.

Large impact as clients' access to funds dried up.

Our client base may now have difficulties renewing working capital facilities with their banks due to the credit squeeze, which added to increasing unemployment caused by the slowdown will make doing business in Ireland more difficult.

Yes, some banks unwillingness to give invoice finance has led to restrictions on cash flow, so slowed down growth.

Our operations do not rely on credit facilities, however, we are expected to increase our return on investment to cover corporate exposure in this regard. This relates to availability of credit from banks to fund investment programmes.

Business and Consumer Confidence:

It impacts customer's confidence and their appetite for risk thus reducing demand.

Lack of consumer confidence throughout Europe has led to fall off in sales performance which negatively impacts on production output.

No direct affect on our operation. However, the credit crunch has affected market sentiment and therefore the demand for our products.

We have a strong customer base in the US and are affected insofar as the performance of the US economy (and the confidence in it) drives our customers international spend.

It has totally knocked confidence and affected debt collection from customers.



Survey of Multinational Companies in Ireland 2008

Since 1998, the IMI has surveyed the attitudes and experiences of Chief Executives and senior management of multinational companies operating in Ireland.

This survey seeks information on the main factors that underpin Ireland as a location for these operations, the impact of recent developments on the competitiveness of the Irish economy and to highlight the some of the main issues that will impact on competitiveness in the near future.

This year IMI has partnered with National Irish Bank to carry out this research once again with the purpose of getting a sense of the main factors underpinning Ireland as a location for MNCs (both foreign and indigenous owned), the impact of recent developments on the competitiveness of the Irish economy and to gauge the issues that will impact on competitiveness in the near future.

I would like to invite you to complete this short online survey which will take less than 5 minutes of your time and please be reassured that your contributions will be treated with the strictest of confidence

Section A - Company Profile

A1 In what sector is your company engaged in?

- Food
- Communications
- Pharmaceutical / Chemical
- Medical Devices
- Software / Electronics / Technology
- Banking / Finance / Venture Cap / Insurance
- Construction / Engineering / Energy
- Softdrink / Brewing / Distillery
- Other (Please Specify) _____

A2 Is your operation foreign owned or an indigenous Irish company?

- Foreign Owned
- Indigenous Irish company.

A3 How many people does your company employ in Ireland? _____

A4 What proportion (%) of these are graduates? _____

A5 Please indicate the main function of your Irish operation

Regional Headquarters _____

Marketing _____

Purchasing _____

Distribution _____

R&D _____

Finance & treasury _____

Other (please indicate) _____

Section B: Your Current Business Operations

B1. What is the annual turnover, in €, of your Irish operation (e.g. €5,000,000)?

B2 By what percentage (%) do you expect turnover to grow in the next 12 months?

B3 Do you expect the number you employ to change in the coming year?

Increase No Change Decrease

B3 How has the global credit crunch materially affected the scale of your operations in Ireland?

B4 Please rate the overall competitiveness of the Irish economy to MNCs on the following 5-point scale: where **1** is **very competitive** and **5** is **very uncompetitive**.

1

2

3

4

5

Section C: Competitiveness of the Irish Economy

The following questions deal with competitiveness and the Irish Economy. Please rate each of the following variables in terms of its importance to the current competitiveness of your operations in Ireland

Please rate the importance of each of the following variables to the current competitiveness of your operations in Ireland (on a scale from Very Important to Very Unimportant).

C1 *The Business Environment*

· Rate of Inflation	1	2	3	4	5
· Corporate Taxation	1	2	3	4	5
· Interest Rates	1	2	3	4	5
· Exchange Rate Stability	1	2	3	4	5
· Business service availability	1	2	3	4	5

Please rate the importance of each of the following variables to the current competitiveness of your operations in Ireland (on a scale from Very Important to Very Unimportant).

C2 *Infrastructure*

· Road Transport Infrastructure	1	2	3	4	5
· Air and Sea Infrastructure	1	2	3	4	5
· Telecommunications Infrastructure	1	2	3	4	5
· Energy costs	1	2	3	4	5

Please rate the importance of each of the following variables to the current competitiveness of your operations in Ireland (on a scale from Very Important to Very Unimportant).

C3 *Education*

· R&D Support	1	2	3	4	5
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· Education system	1	2	3	4	5
· 3rd level linkages	1	2	3	4	5

Please rate the importance of each of the following variables to the current competitiveness of your operations in Ireland (on a scale from Very Important to Very Unimportant).

C4 Operations

· Property/Construction costs	1	2	3	4	5
· Regulatory Framework	1	2	3	4	5
· Environmental issues	1	2	3	4	5
· Non-labour costs	1	2	3	4	5

Please rate the importance of each of the following variables to the current competitiveness of your operations in Ireland (on a scale from Very Important to Very Unimportant).

C5 Employment

· Wage costs	1	2	3	4	5
· Labour force availability	1	2	3	4	5
· Employment legislation	1	2	3	4	5
· Industrial relations	1	2	3	4	5
· EU Directives	1	2	3	4	5

Please rate the importance of each of the following variables to the current competitiveness of your operations in Ireland (on a scale from Very Important to Very Unimportant).

C6 Skills

· Labour force skills	1	2	3	4	5
· Labour Force flexibility	1	2	3	4	5
· Management skills	1	2	3	4	5

Section D: Strategic Role of NMCs in Ireland

D1 What in your view should the Irish Government do to attract and retain foreign MNC investment to Ireland?

D2 Which country, in your opinion, will present the most significant threat to Ireland's competitiveness in 2009?

Are there any other countries you would consider as a significant threat to Ireland's competitiveness in 2009?

D3 How strategically important is your Irish operation to the global performance of the parent co? (on a scale from **Very Important** to **Very Unimportant**).

1 2 3 4 5

D4 Has this level of strategic importance changed over the past 2 yrs?

Decreased Same Increased

D5 How has the way in which you manage your company in Ireland changed in the last number of years?

D6 How do you see the position of MNCs in Ireland changing over the next 2 years?

Thank you for taking the time to complete this survey and please let me take this opportunity to acknowledge how very much the IMI appreciates your participation.

The results of this research will be published in October.

If you have any queries arising please do not hesitate to contact.

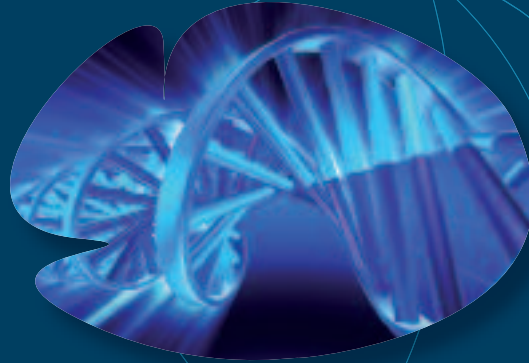
Best Regards,

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