



Global reach
Local knowledge

NEWS RELEASE

Developing markets of Eastern Europe to buck downward global FDI trend and attract US investors

According to new research from TMF Group, in association with Forbes Insights, 3 in 10 US-based multinationals now see Eastern Europe as central to their corporate investment and growth plans – an uplift of 3.2% on the previous two years.

The study, *'Venture Further: what drives international expansion and investment by US businesses?'*, canvassed the views of 250 US-based C-Suite Executives to explore the motivations and challenges of US-headquartered multinationals in taking their organization into a new international market. Respondents were drawn from a wide selection of industries and from organizations with annual revenues ranging in size from \$250 million to over \$5 billion. Respondents were asked into what regions their organizations had invested in the last two years, as well as where they planned to invest in 2017/18.

Key findings included:

- ***Despite global FDI downturn, Eastern Europe will see 3.2% uplift in investment from US-based multinationals***
- ***1 in 4 investors are looking for new talent or sources of capital***
- ***1 in 3 stress the importance of thorough research and local market knowledge***

Commenting on the findings Juraj Gerzeni, Regional Head of EMEA for TMF Group, said: "Respondents reported that in the period 2015-2016, over a quarter (26%) had undertaken expansion or investment activity in Eastern Europe. This year and next year, however, they forecast that figure to rise; increasing by 3.2% to put the region at the centre of growth plans for nearly three in ten (29.2%) companies."

He continued: "This uplift in investment would seem to mirror the IMF's economic forecast for the region in 2017 of 3.1%, almost double that of the Eurozone at 1.6%.

"As a region, Eastern Europe is very much pinning its growth plans on technology: proactively encouraging innovation and entrepreneurial start-ups through various local government and EU funded programs. There is a high level of technical talent to draw on too, with 285,000 engineers graduating from Poland, Slovakia, the Ukraine and the Czech Republic each year."

He went on: "The opportunity for investors is in providing funding for these innovations, as well as the more established industries and factories that support them and the Universities that are providing these much-needed skills.

"The region is also a flourishing technology hub and outsourcing center. Competition to recruit local in-house talent is becoming increasingly fierce, so many global companies operating within CEE now choose to outsource a number of key functions such as accounting and financial reporting, legal administration and entity management (to keep abreast of sudden changes) and an array of HR and payroll activities."

In addition, the survey investigated what motivated US-businesses to explore new foreign markets and what challenges they had faced. It also asked respondents what one piece of advice they would give to a peer considering international expansion.

Alongside expanding operations and increasing market share, findings showed that respondents were looking also to find new talent and skills and new sources of capital. They also faced similar challenges in selecting and establishing a new entity, including the establishment of financial processes and compliance with local regulation.

Gerzeni concluded: “The importance of local knowledge when entering a new market cannot be underestimated. Whether you are looking to extend or enhance existing operations or looking for new opportunities, it is important to fully understand the local complexities of any given market to make sure your operations are – and remain – fully compliant with what could be a rapidly changing regulatory landscape.”

To find out more about TMF Group and to download the full report: tmf-group.com/venturefurther

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NOTES TO EDITORS

For more information please contact:

Carlie Bonavia, PR & Communications Executive: carlie.bonavia@tmf-group.com

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VENTURE FURTHER: What drives international expansion and investment by US businesses?

In March 2017, TMF Group - in association with Forbes Insights - canvassed the views (via an online poll) of 250 C-suite Executives from US-headquartered multinational companies to understand their motivations and challenges in taking their organization into a new international market. The respondents were drawn from a wide selection of industries and from organizations with annual revenues ranging in size from \$250 million to over \$5 billion.

- 250 US-based C-Suite Executives from multinational companies: CEO, CFO, COO and CLO.
- Nearly three-quarters of respondents (71.6%) worked for organizations with annual revenues of over \$1 billion.
- The majority (70.8%) were also responsible for overseeing operations in more than 6 countries, while one in four (24.8%) for operations in over 10 international markets.

Top 10 global investment and expansion destinations for US-based multinationals in 2017/18

		2015 - 2016	2017 - 2018	Ranking change (2015 - 2016) / 2017 - 2018	+ / -
WESTERN EUROPE	Austria, France, Germany, Liechtenstein, Monaco, Switzerland	58.4%	51.6%	(2) / 1	-6.8%
NORTH AMERICA (Excl. USA)	Bermuda, Canada, Greenland, Saint Pierre and Miquelon	59.2%	50.0%	(1) / 2	-9.2%
NORTHERN EUROPE	Channel Islands, Ireland, Isle of Man, United Kingdom	44.4%	43.6%	(3) / 3	-0.8%
AUSTRALIA & NEW ZEALAND	Australia, Christmas Island, Cocos, New Zealand, Norfolk Island	33.2%	42.8%	(5) / 4	+9.6%
SOUTH AMERICA	Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Falkland Islands, French Guiana, Guyana, Paraguay, Peru, Suriname, Uruguay, Venezuela	39.2%	36.4%	(4) / 5	-2.8%
EASTERN EUROPE	Belarus, Bulgaria, Czech Republic, Hungary, Poland, Republic of Moldova, Romania, Russia, Slovakia, Ukraine	26.0%	29.2%	(10) / 6	+3.2%
SOUTHERN EUROPE	Albania, Andorra, Bosnia and Herzegovina, Croatia, Cyprus, Gibraltar, Greece, Italy, Macedonia, Malta, Montenegro, Portugal, San Marino, Serbia, Slovenia, Spain, Vatican City	32.4%	28.8%	(7) / 7	-3.6%
SOUTHERN ASIA	Afghanistan, Bangladesh, Bhutan, India, Iran, Maldives, Nepal, Pakistan, Sri Lanka	32.8%	28.0%	(6) / 8	-4.8%

EASTERN ASIA	China, Hong Kong, Japan, Korea (North), Korea (South), Macau, Mongolia, Taiwan	29.6%	27.6%	(8) / 9	-2.0%
CENTRAL AMERICA	Belize, Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama	28.4%	25.6%	(9) / 10	-2.8%

What motivates US business to explore new markets?

To open new markets and gain market share	45.6%
To expand existing operations / service lines	42.0%
To create / improve R&D and technology resources	30.0%
To find new talent and skills	28.8%
To find new sources of capital	26.8%
A customer contract required local presence	24.8%
To establish a shared service center	23.6%
Financial and corporate restructuring/establishment of special purpose vehicle (SPV)	22.8%
To buy a competitor	20.8%
To decrease operational cost/operate more cost effectively	12.0%
Other M&A activity	10.0%

What are the biggest challenges that US businesses face when entering a foreign market?

Establishing banking and accounting measures and statutory records	31.6%
Identifying the right premises and / or process agent	31.2%
Selecting and incorporating the right entity type	30.0%
Finding and providing official evidence of 'good standing'	28.8%
Data protection considerations and privacy laws	28.4%
Operating within trade union and collective bargaining agreements	28.0%
Finding the right local talent and adhering to labor laws	27.2%
Rules on transfer pricing and/or repatriation of profits	25.6%
Appointment of local directors and/or representatives	22.4%
Additional licensing requirements and/or revised constitution following merger or acquisition	20.0%
Rules relating to the transfer of staff from acquired/merged operations	20.0%
Compatibility of local financial reporting rules with international reporting systems and standards	21.6%
Intellectual property agreements and enforcement	19.6%
Unique cultural expectations and language barriers	19.6%
Rules relating to 'restricted' industries	18.8%
Detailed record checks of company directors (including disclosure of ultimate beneficial owner (UBO))	13.2%
Antitrust or competition law	10.4%

With the benefit of hindsight, what one piece of advice would US business leaders give to their peers?

PLAN THOROUGHLY AND DO YOUR RESEARCH	Be clear on your reasons for investment/expansion and don't make false assumptions about a local market. Make sure that you investigate the territory's political, legal and cultural environment, as well as the competitive landscape, target market and/or workforce.	36.0%
CONSIDER JOINT VENTURES AND ACQUISITIONS	Consider joint ventures and acquisitions. One way to avoid some of the effort, cost and risk of setting up in a new territory is to buy an existing operation or create a joint venture with an existing operation. However, these options come with their own risks and professional assistance should be sought.	23.6%
CONSIDER A SINGLE SUPPLIER TO MANAGE YOUR MULTI-TERRITORY RELATIONSHIPS	One of the key issues in managing expansion is the gathering, processing and reconciliation of operations, financial and legal data across multiple territories. Using a single strategic supplier to handle these as outsourced functions could help provide consistency across processes and standards.	18.8%

GET HELP FROM THIRD PARTIES	Local service providers, chambers of commerce and advisors are invaluable, particularly when creating a new legal entity, recruiting and training staff and setting up your back-office function.	10.8%
CONSIDER OUTSOURCING	Don't under-estimate the operating costs in a local market. The boundary between what you do in-house and what you outsource should remain fluid, and be constantly reassessed over time.	10.8%