



SURVEY RESULTS (SEPTEMBER 2023):

Investment in Government Relations and Public Affairs Functions by Companies Operating in CEE

Zagreb, 17 October 2023



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Zagreb, 17 October 2023**

The **Vlahovic Group** is conducting an ongoing research project aimed at improving the regional government relations and public policy services available to companies with interests in Europe, Central and Eastern Europe, the Balkans and/or the Adria region. In connection with that work, during September of 2023, a number of selected companies that share those markets were invited to participate in a confidential survey concerning their current and projected practices as regards the providers of government relations and public policy services.

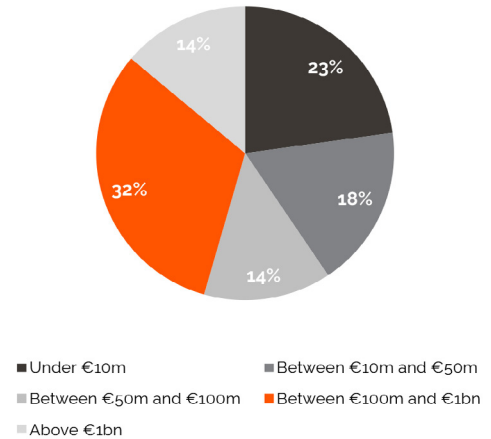
This document summarizes the results of that survey. We believe these results offer unique, real-world, and real-time insights into this sector, including the current sentiments and expectations of some of its most important participants. We are happy to share them with you and hope you will appreciate their value, as well. Let us know of any observations, questions, or comments that you might have. Just reach out to us at: nv@vlahovicgroup.com



Overview of Respondents

Companies from various sectors supported the survey, with the dominant one being Industrials/Manufacturing (20%), followed by Healthcare (15%). Other participating sectors included IT/Digital, FMCG/Retail, Energy, Pharma, Finance, Biotech/Medtech and Defense/Security. From the respondent revenue perspective, the largest share of companies, 32%, were mid-to-large sized generating between EUR 100m and EUR 1bn annually. The second most frequent group, (23%), were small companies with revenue under EUR 10m.

Respondent companies 2022 annual revenue



64% of respondents had previously engaged a government relations and public affairs services provider, demonstrating the market’s recognition of those services as well as the untapped potential of first-time customers. Among those that have not previously engaged such providers, certain respondents mentioned they are presently considering doing so.

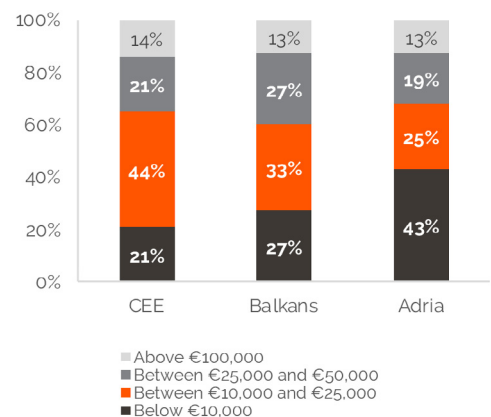
Brussels proved to be the predominant global government relations and public affairs headquarters of the respondents (20%), which was somewhat expected as it is the center of political and legislative decision-making in the EU. Based on the numerous other headquarters locations submitted by respondents, local HQs are preferred when global headquarters are not in Brussels.

Historical and Expected Government Relations/ Public Affairs Budgets

Annual budgets for Europe of up to EUR 250k dominated respondent feedback (74%). We also asked our respondents to estimate 2022 expenditures in relation to different (sub)regions of CEE:

In the CEE region, 44% of respondents reported budgets between EUR 10k and EUR 25k, **with annual average budgets standing at EUR 37k**. Essentially the same average budgets were reported in the Balkans. The Adria region (consisting of Slovenia, Croatia, Serbia and North Macedonia) reported lower **average budgets of EUR 33k**.

2022 Government relations and public affairs investment





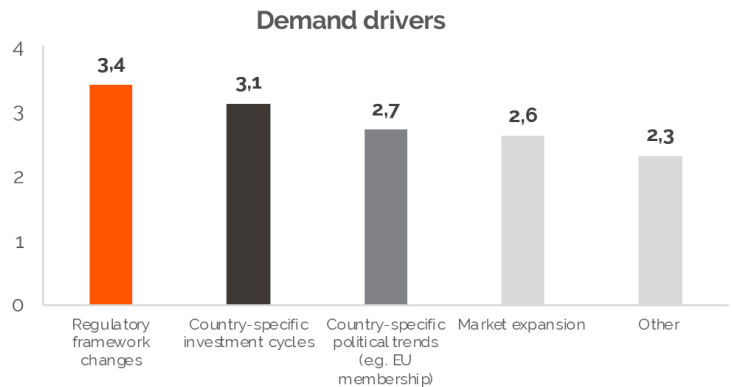
Over the next 24 months, 67% of respondents estimate stable budgets for government relations and public affairs services, whereas **28% of respondents believe that spending will increase**, perhaps confirming the market's perception of current economic and geopolitical uncertainties.

Demand Drivers for Government Relations/Public Affairs Services

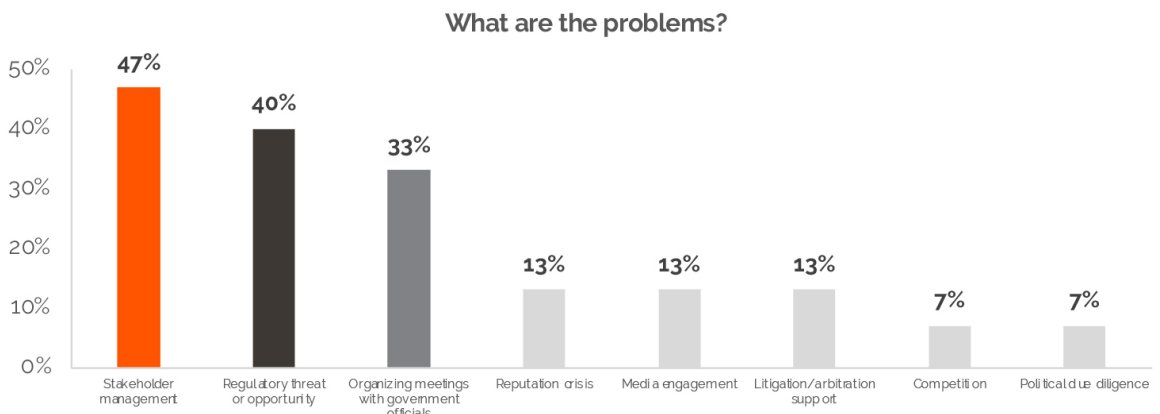
The most significant demand drivers were:

- Regulatory framework changes
- Country-specific investment cycles
- Country-specific political trends

Within the service bundle offered by government relations and public affairs providers, stakeholder management stands out as the main challenge for which respondents seek assistance, followed by regulatory threat or opportunity and organization of meetings with government officials.



These results confirm that understanding what political stakeholders do and how their behavior impacts the company's business model demands thorough regulatory and political monitoring, including intelligence on how to challenge the issues at stake. The current geopolitical situation also seems to be driving the need for advice on how foreign and trade policy decisions affect supply chains, regulatory changes, and fluid country-specific issues.

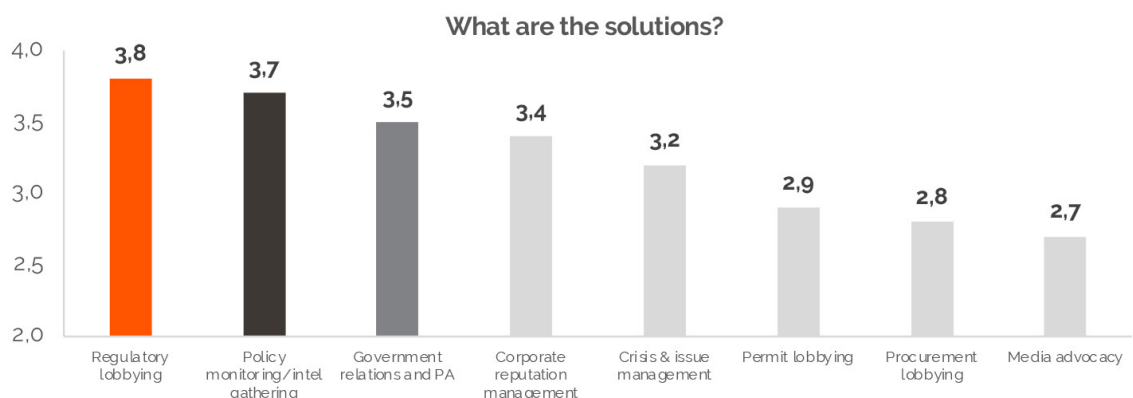




In respect of regulatory framework changes (both on the EU and/or national level) or country-specific investments (especially greenfield ones), the main goals are sound stakeholder management, ensuring a communication channel with government officials, and analysis of the (new) legislations and their impact on operations. Some 73% of respondents indicated that their company seeks out high level political meetings.

The most sought-after services include regulatory lobbying, policy monitoring and intelligence gathering, government relations and public affairs, and corporate reputation management. These results reflect the recognition by departments responsible for government relations/public affairs that their work is not transactional; they must engage stakeholders with the view of building critical alliances so that when issues arise an effective response can be organized.

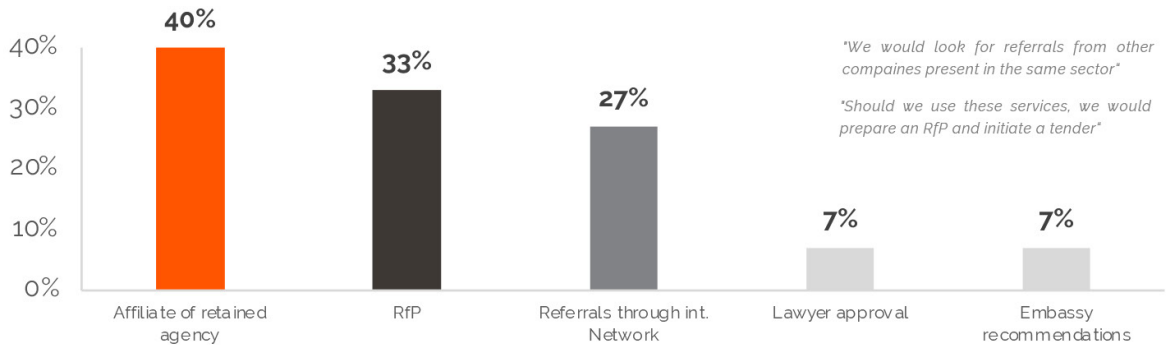
It also follows that, more and more, global companies have a dedicated VP for Government and Public Affairs tasked with the management of long-term objectives as well as crisis situations in different jurisdictions around the world, anticipating, monitoring, and coordinating action on emerging reputational and regulatory issues.



Selecting the Right Government Relations/Public Affairs Service Provider

In the process of selecting a provider, the companies' preferred channel is by mandating an affiliate of a currently retained agency (40%), followed by a request-for-proposal (RfP) as a fully competitive alternative. One of the respondents pointed out that they would look for referrals from other companies present in the same sector. Leveraging the experience and/or current relationships of a retained agency undoubtedly accelerates and facilitates selection of a trusted, quality provider.

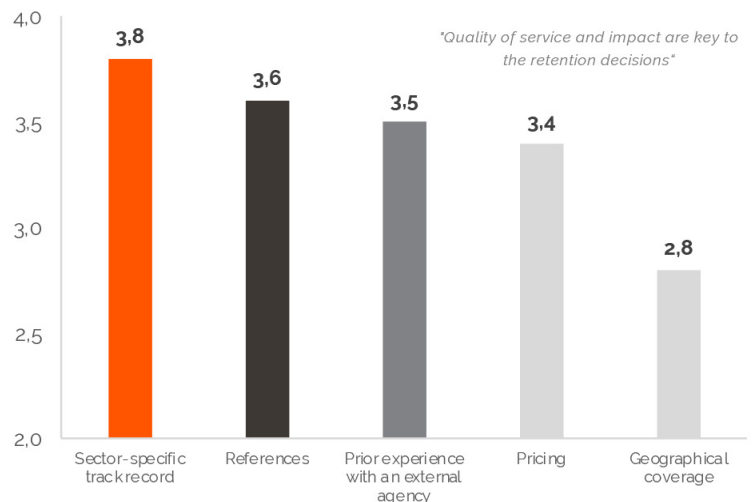
How do we find a public affairs service provider?



Once a company followed through on, for example, a request-for-proposal, we wanted to examine how it then grades the criteria relevant for final selection. Having a sector-specific track record stands out as the main criterium. Notably, pricing ranks as only fourth in priority, leading to the conclusion that, for this type of specialist service, what matters most is know-how yielding concrete results. As commented by one of the respondents, quality of service and impact are key to the retention decision.

Finally, 75% of respondents indicated that they find it somewhat or very beneficial that their government relations and public affairs service providers offer fully integrated services in multiple countries. Among those, 58% mentioned that having a **one-stop-shop provider would have a major impact** on their choice of provider. Geography-wise, this consideration was most relevant for the Balkans region.

Which criteria matter the most?



The survey clearly indicates that companies in Central and Eastern Europe use government relations and public affairs budgets to wage important regulatory and policy efforts, very often on Europe-wide relevant issues. These efforts are often of a long-term nature (1-3 years) and are strategically integrated within the highest business management levels.