The Brexit Column

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'Should I stay or should I go?'

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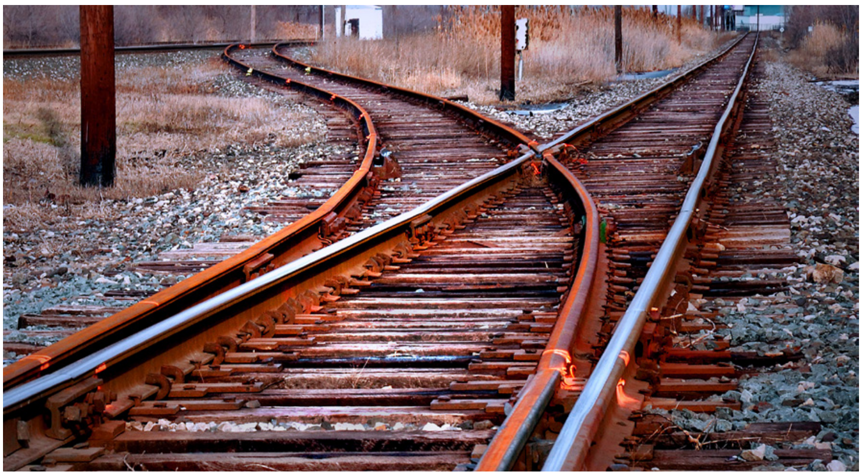
How many CEOs have had those Clash lyrics ringing around their heads lately? Since the Brexit vote, I've dealt with a number of multinational clients facing a dilemma about location strategy. Many are biding their time before making a decision; a few are staying put; a couple have pulled the plug.

The drumbeat of stories in the media is adding more pressure. CEOs will have heard Google's European chief assure us that Brexit is a 'local' issue and should not distract the UK's thriving tech sector. But they will also have found some pretty stark predictions using that same company's search engine, simply by typing in terms such as: "industry, Brexit, Frankfurt and banking".

Stepping back into the meeting rooms with clients however and my sense is that the few companies who said they were pulling the plug were not doing so purely because of Brexit. In each case, the decision was on a knife-edge already. The opportunity cost of exiting the UK (or not entering in the first place) was negligible. The Brexit vote tipped the scales just enough. And the reason the UK lost out was based, not on hard financial data, but a vague sense of "best not risk it".

In my experience, only very rarely does one variable alone swing it for a particular place. People decide after weighing up a wide range of features, some objective and some very subjective, that together make up the physical and human geography of the candidate locations.

I can say clearly after helping companies make location decisions for years: this is not a new phenomenon. It happens every time the government



introduces a new tax, ramps up regulation, increases the minimum wage or reverses a subsidy. Industry bodies scream, others accuse them of scaremongering. The trouble is that nobody asks the companies, who generally say nothing and get on with it.

Even where the project is focused on one thing – labour cost arbitrage, say, or tax efficiency – there are always other factors such as accessibility, labour relations or existing footprint. But most of all, it hinges on track record and credibility – the brand value of the location. In that domain, the UK and particularly London and the south east of England, has built up a strong location brand.

A 'points-based system'

A location decision will generally depend on a long scorecard of these positive and negative factors. For example, preserving passporting rights may fail to keep a bank in situ if, at the same time, skilled foreign workers are shut out. Equally, emotion plays a part. The welcome that foreign citizens receive, whether from the government or ordinary people, will reverberate globally because of the UK's high profile internationally.

But more than anything, the decision will depend on the strength of ties that already bind the multinational to the UK. In that regard, we see three types of company broadly.

First, there are those with few options. These are domestic businesses or those based in the UK in order to access the UK market, for example large retailers. Where Brexit creates problems, they will build structures to get around or manage them. This group will generally remain quiet in public.

Second are the companies already invested heavily in the UK, financially and emotionally, but with international value chains. These are generally national champions or foreign investment darlings in sectors such as financial services, life sciences or automotive. You will probably hear from them in the media and we already know the government is listening. Many have done careful scenario planning. Some have backup plans if the Brexit outcome 'hardens'.

Third, we find foreign owned businesses without a big existing footprint, but who may have been thinking about investing further. They usually stay silent. But crucially, this group could be the ones to make all the difference. They won't be scenario planning, because they don't need to. We may never hear from them, because they may never contact us.

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"Not with a bang but a whimper"

Herein lies a major issue for the country. The UK will certainly notch up foreign direct investment (FDI) victories in the next couple of years, however I doubt we will hear much about the defeats: business divestment is rarely made by grand gesture. More often, it is the gradual accumulation of hundreds of smaller, marginal decisions over many years. If there is a loss of FDI, it will happen not with a bang but with a whimper. Nobody will ever be able to prove whether Brexit was the trigger or not.

The benefits and costs of basing operations in the UK will be closely scrutinised by companies and loudly debated in public over the next two years. Companies should try and block out the noise and take their time over a decision, when possible. Think beyond Brexit and consider your broader needs … particularly since the government is likely to be an attentive listener.

As for the government, it has no single magic bullet that can bolster the UK's attractiveness – even for a single sector. The job of those flying the flag for British investment will be to work all the harder during this period when the terms of Brexit remain hazy and to remember that attracting investment involves a whole suite of factors that together make the UK appear more open for business. That word "appear" is especially important.

This article represents the views of the author only, and does not necessarily represent the views or professional advice of KPMG in the UK.

*Heading "Should I stay or Should I go" is a lyric from *The Clash's* 1982 eponymous song.

*Subheading 'Not with a bang but a whimper' refers to *The Hollow Men* by T.S. Eliot.

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