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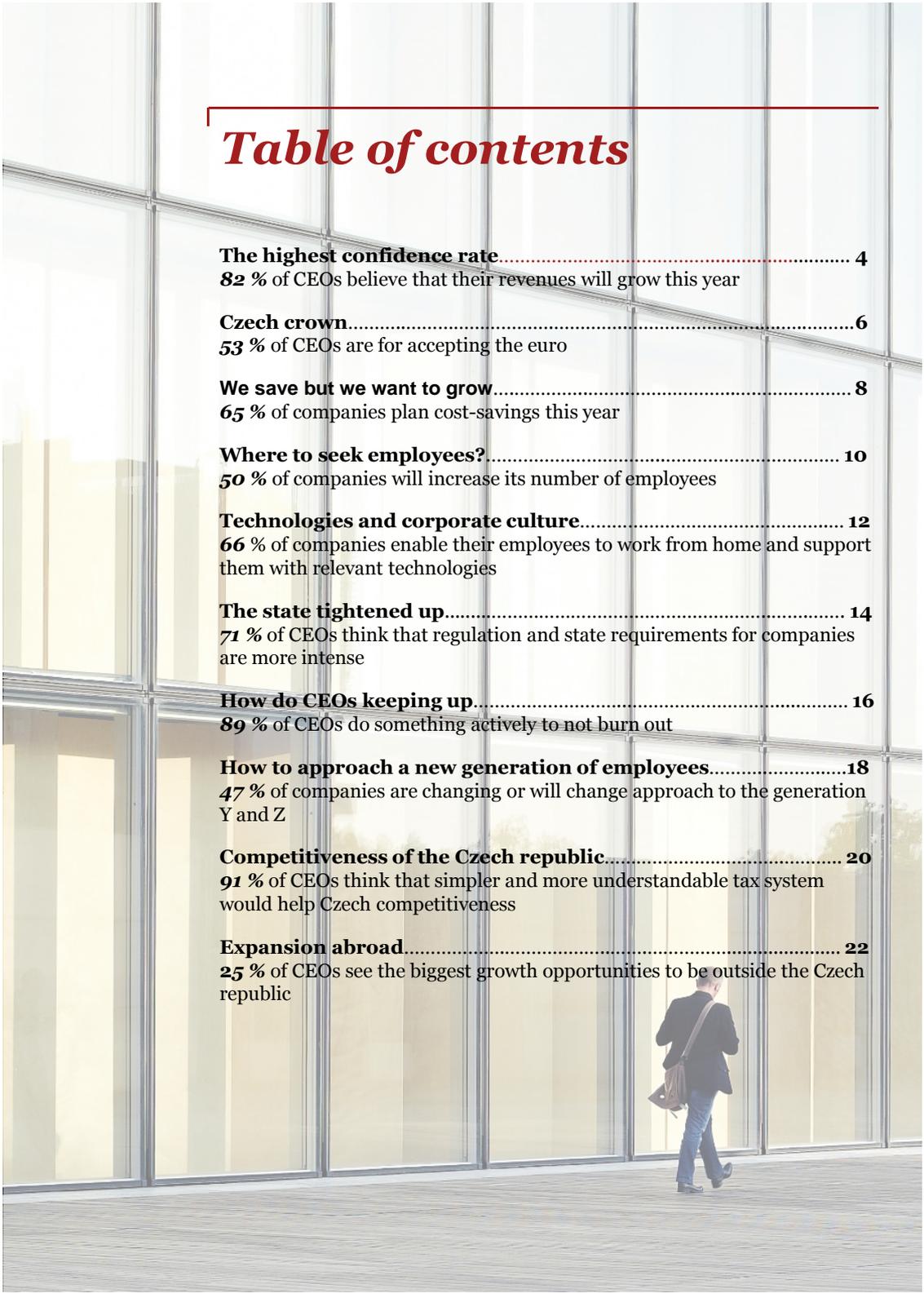
# *Czech CEO Survey 2016*

Key findings

*People and  
business in  
digital world*

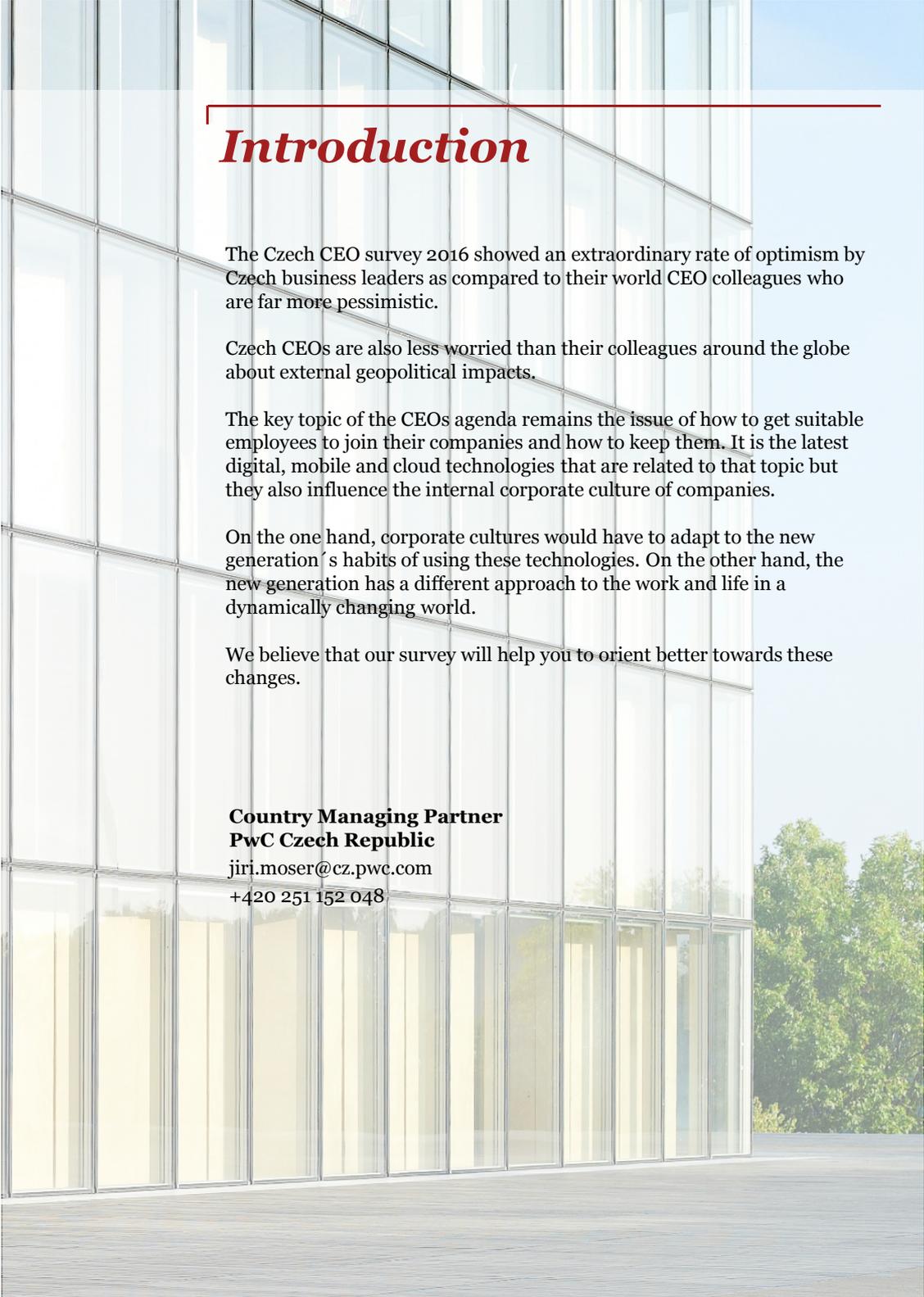


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## *Table of contents*

<b>The highest confidence rate</b> .....	<b>4</b>
82 % of CEOs believe that their revenues will grow this year	
<b>Czech crown</b> .....	<b>6</b>
53 % of CEOs are for accepting the euro	
<b>We save but we want to grow</b> .....	<b>8</b>
65 % of companies plan cost-savings this year	
<b>Where to seek employees?</b> .....	<b>10</b>
50 % of companies will increase its number of employees	
<b>Technologies and corporate culture</b> .....	<b>12</b>
66 % of companies enable their employees to work from home and support them with relevant technologies	
<b>The state tightened up</b> .....	<b>14</b>
71 % of CEOs think that regulation and state requirements for companies are more intense	
<b>How do CEOs keeping up</b> .....	<b>16</b>
89 % of CEOs do something actively to not burn out	
<b>How to approach a new generation of employees</b> .....	<b>18</b>
47 % of companies are changing or will change approach to the generation Y and Z	
<b>Competitiveness of the Czech republic</b> .....	<b>20</b>
91 % of CEOs think that simpler and more understandable tax system would help Czech competitiveness	
<b>Expansion abroad</b> .....	<b>22</b>
25 % of CEOs see the biggest growth opportunities to be outside the Czech republic	



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## *Introduction*

The Czech CEO survey 2016 showed an extraordinary rate of optimism by Czech business leaders as compared to their world CEO colleagues who are far more pessimistic.

Czech CEOs are also less worried than their colleagues around the globe about external geopolitical impacts.

The key topic of the CEOs agenda remains the issue of how to get suitable employees to join their companies and how to keep them. It is the latest digital, mobile and cloud technologies that are related to that topic but they also influence the internal corporate culture of companies.

On the one hand, corporate cultures would have to adapt to the new generation's habits of using these technologies. On the other hand, the new generation has a different approach to the work and life in a dynamically changing world.

We believe that our survey will help you to orient better towards these changes.

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## The highest confidence rate

Czech economy ranked among the top European states in 2015 with the GDP growth of more than 4%. Even though the growth was influenced by receiving money from EU funds, companies trust in the economy is evident. This is proven by the increasing number of investments, wage increases or very low unemployment rate.

Growth expectations of CEOs in 2016 are the highest in the seven-year history of our survey. Medium-term outlook on the revenue growth is also improving. 94% of respondents are confident about their growth to a certain degree.

Speaking about the growth, the question of extending companies' production capacities is also important. However, companies do not plan to use external financial resources. It is well-known that a lot of companies have ready money available but it is important to mention that significant investment projects could not be financed only from the companies' own money.

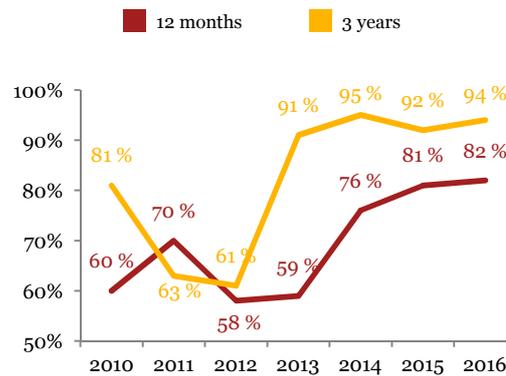
The results of the survey come with a question if the expected growth is based on plans, real contract flows view or if it is only about improving consumer's mood and positive macroeconomic perspective.

Compared to the world leaders, Czech CEOs are not very worried about the development of the global economy, technological changes or changes in consumer preferences.

**“Companies learned to work with balance, they manage to create their own resources and reserves.”**

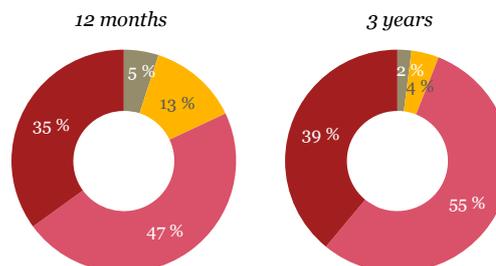
*Petr Smutný, Partner in Corporate finances and restructuring department, PwC CZ*

The majority of CEOs believe that their revenues will grow over the next few years.



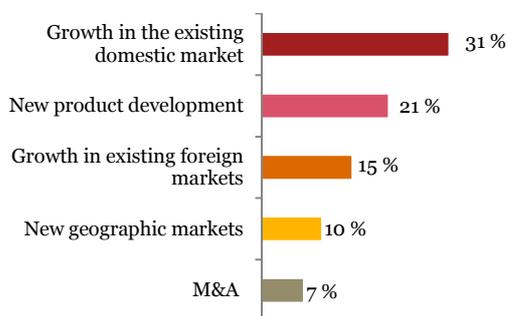
How confident are you about your company's revenue growth prospects over the next 12 months/3 years?

Very confident (dark red), Somewhat confident (pink), Not very confident (yellow), Not confident at all (grey)



**The main opportunity this year would be the developments in current Czech market; the number of innovators is increasing**

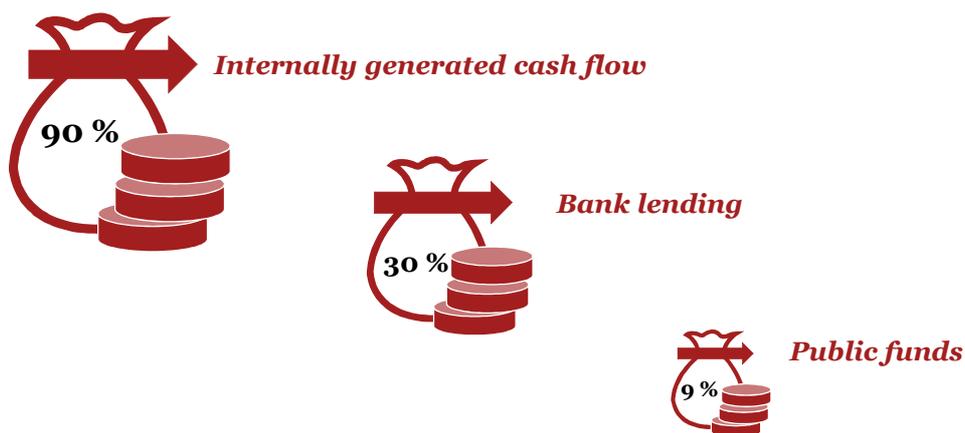
Which of the following strategic opportunities offers the greatest growth potential for your business over the next 12 months?



Other choices were selected as follow: Change in the company culture 5 %; New common company and/or strategic alliances 2 %; Other 6 %; We do not see the opportunities for growth 2 %.

**Companies will finance planned growth from their own resources**

How do you expect to finance this growth?



## Czech crown

The survey showed that companies still depend too much on intervention by the Czech National Bank regarding the currency provision. Intervention by the national bank started in November 2013 and in its latest statement from the beginning of 2016 they indicated that they would prolong a weak exchange rate of the Czech crown against euro which is currently 27 CZK/EURO.

Whether the exchange rate affects expense items or revenues, it turned out that companies, having the rate guaranteed, often forget that the intervention would not last for a long time and secure it only against euro. But many important materials are imported from dollar territories and big investments are exported to non-euro regions.

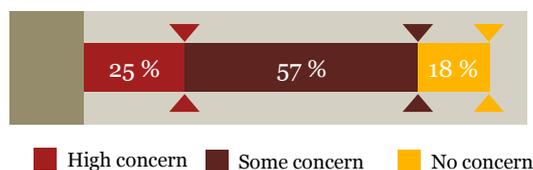
Once the intervention ends, everybody would have to deal with the access to the monetary provision. Position analysis about currencies and appropriate monetary provision needs to be prepared ahead of time, so everybody should discuss it as early as possible.

The topic of euro acceptance can be seen the same way. Apart from the political aspects of this step, companies would not avoid the monetary risk even after possible euro acceptance. They would have to deal with the euro course changes related to their contracts in dollars and other currencies.

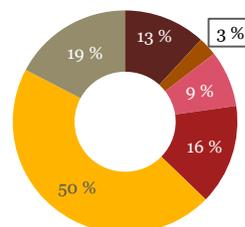
Due to the large export dependency of the Czech Republic, one would expect more euro supporters. But from the perspective of the whole Czech population, only one third of the population is for euro acceptance, compared to 70 % who are opposed according to Eurobarometer.

## Fluctuation in the exchange rate – are we worried?

*How concerned are you about the exchange rate in the next 12 months?*



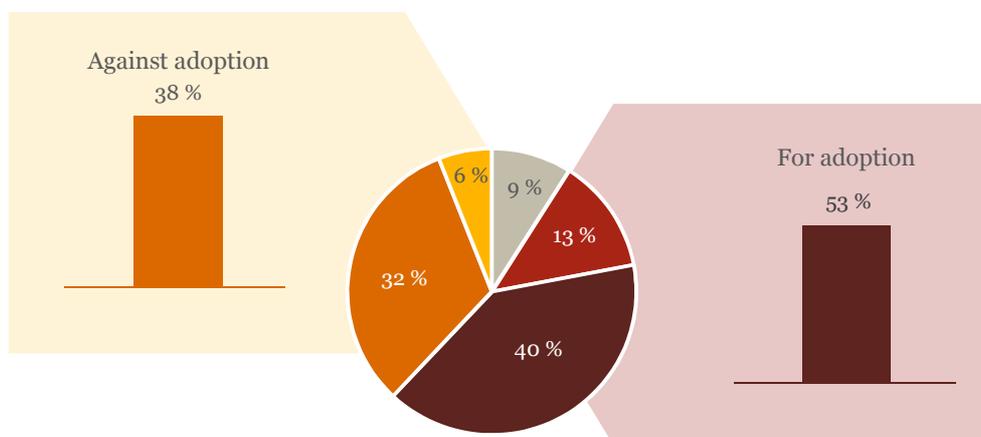
*Has your company changed its approach to exchange rate risk based on Czech currency exchange rate development in past years?*



- Yes, we started to hedge
- Yes, we have included exchange risk in contracts with our suppliers/customers
- Yes, we strengthen our analytical capacities
- Yes, we quit hedging
- No, we have still the same approach to exchange rate risk, current hedging is enough for us
- No and we do not hedge

**The past changes in the CZK exchange rate force one-fifth of CEOs to change their opinion about euro acceptance but majority of them are still for acceptance.**

Have you changed your mind on the adoption of the euro based on Czech currency exchange rate development in past years?



- Yes, now, I am for adoption.
- No, I am still for adoption.
- Yes, now, I am against adoption.
- No, I am still against adoption.
- I do not care.

***“Companies should not forget that possible euro acceptance does not cover all their exchange rate risks. Many materials are imported from dollar territories and also big investments are exported to non-euro regions.”***

*Olga Čilečková, Treasure risk manager, PwC ČR*

## We save but we want to grow

CEOs have ambitious plans. However, they have not forgotten about their experiences with the crisis so they keep their expenses under control. It appears that pressure to reduce expenses not only during the crisis will be employed by companies a permanent tool.

It is important to carry out cost saving measures on the context of a company's strategy. If the company does not have a clear strategy, any restructuring action could be risky.

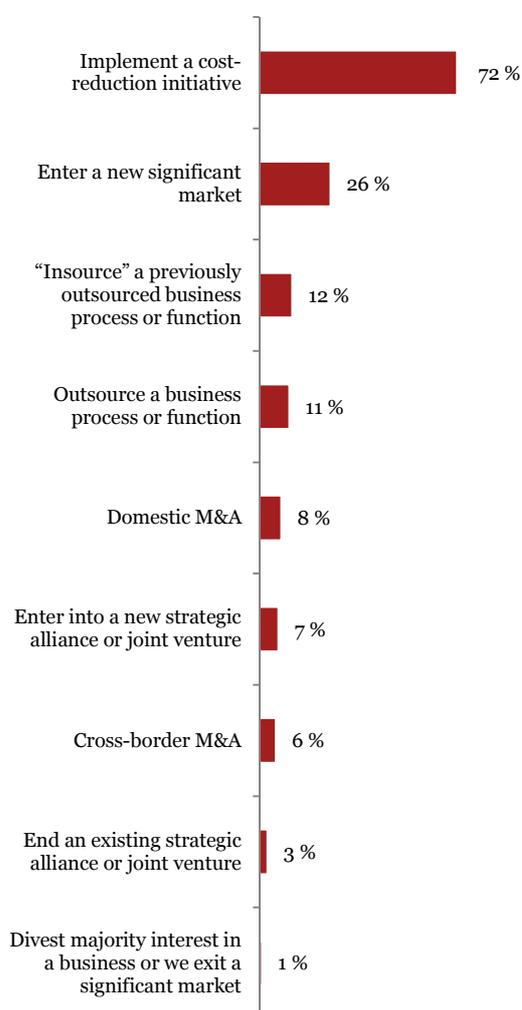
The survey also reveals the companies' intensive work on raising their revenues. It seems that consolidation of markets proceeding broadly.

In 2016, transaction activity as well as the number of a new businesses and strategic alliances in the Czech Republic should increase. Conversely, CEOs have announced a decline in a cross-border mergers and acquisitions. This can be related to increasing geopolitical risks and economic insecurity in Europe.

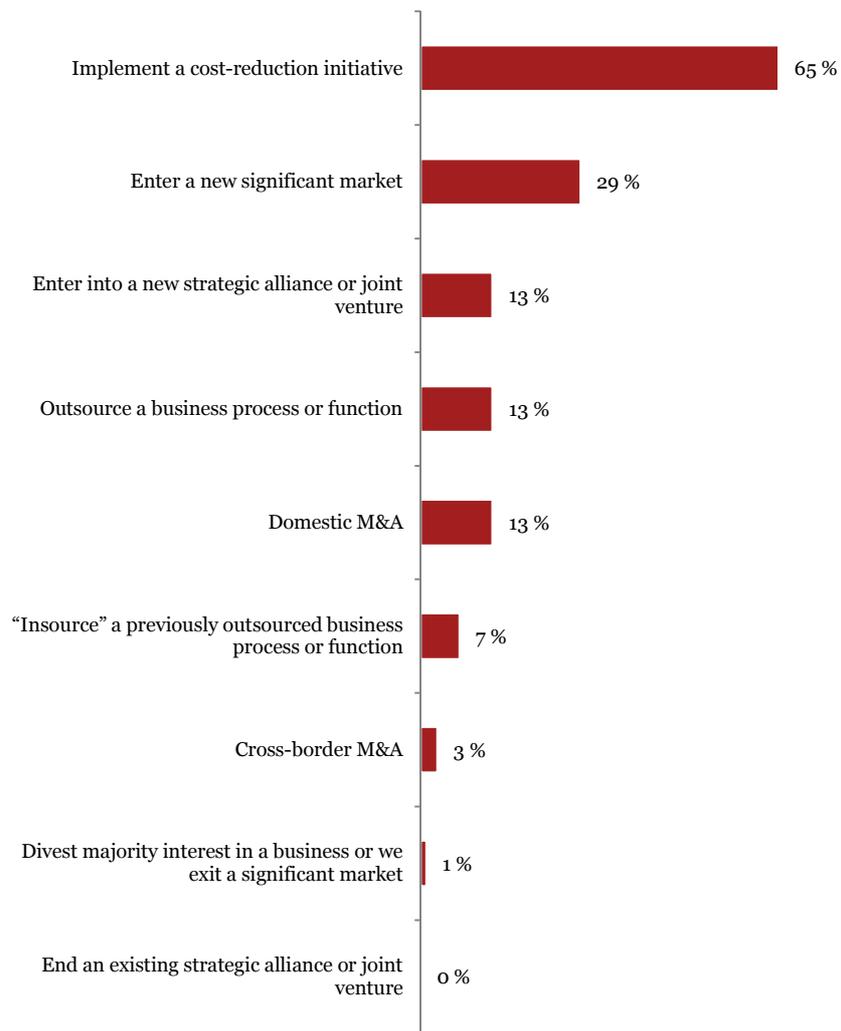
***“Investors' interests lie in traditional industry sectors like engineering or energetics but also in IT or media. Acquisitions are made by local investors but there are a wide range of foreign players, too. The interest of Chinese investors to invest to Czech companies and Central and Eastern Europe is increasing.”***

*Miroslav Bratrych, managing Partner in Consulting, PwC ČR*

## What restructuring activities were CEOs initiating in 2015? Firstly, they were saving but they entered new markets as well.



**What restructuring activities are CEOs planning to do in 2016?  
They will save but they plan mergers and acquisitions, too.**



## We will not have employees...

According to CEOs the key topic in 2015 was the availability of employees with required knowledge, experiences and skills. In 2016, the year-on-year increase in new vacancies will not be that significant but the reservoir of vacant labour force will also decrease.

Therefore, it is not surprising that the lack of labour force remains the biggest business menace for 2016 according to CEOs. Compared to the past year, it is not only a question of the candidates' qualities but the lack of human resources in general which can be critical for lots of business plans and the Czech economy as well.

CEOs realized that looking for new human capital is only one part of the problem. The other part is keeping the current ones which does not seem to be a big problem for the majority of business leaders – only 14 % of them indicated it was a big menace. Therefore, a third of them does not see it as a problem at all.

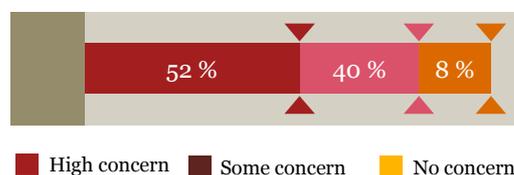
According to the PwC PayWell research, companies should raise the wage/salary for 2,5 % average. Low inflation also ensures real growth. The raise could be more significant for exposed positions or key employees.

However, financial motivation is not the only or a major way to get and keep an employee. Companies are looking for their future employees at schools and nurture of their image as a „good employer“.

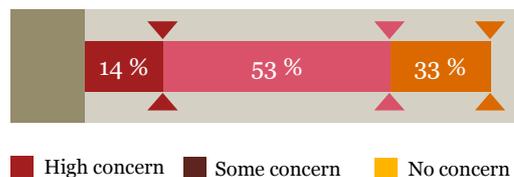
## Potential threats – how much are CEOs worried about them?

How concerned are you about the following potential business threats for your company in the next 12 months?

### Availability of key skills

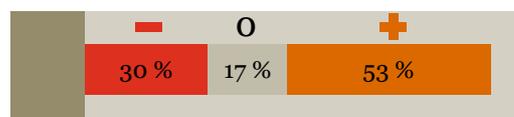


### Lack of employee engagement

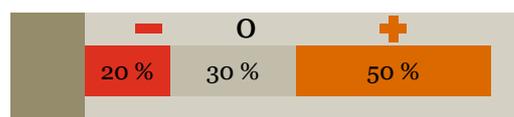


How has headcount in your company changed?

### Change in the headcount in 2015

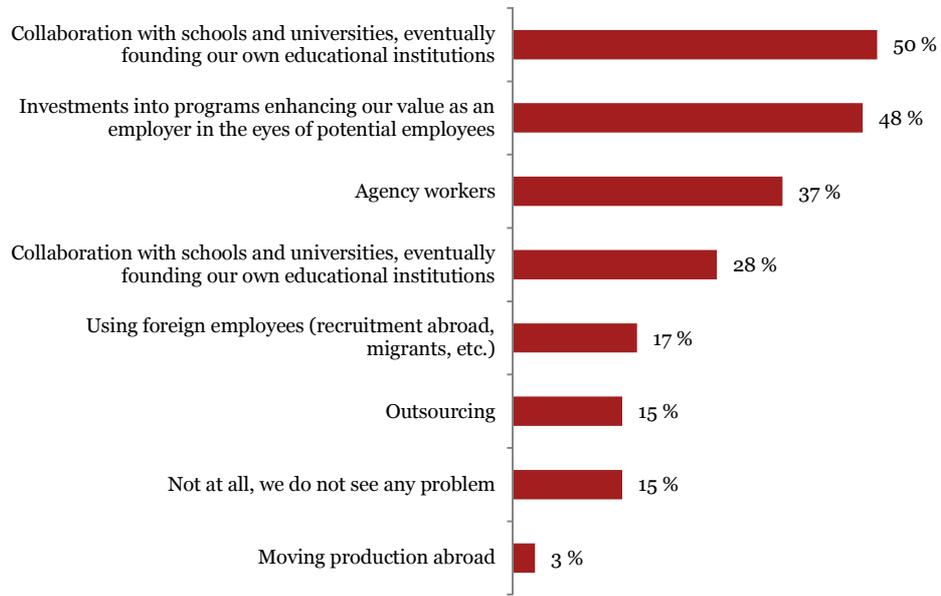


### Change in the headcount in 2016



## Lack of employees - what to do?

How do you intend to address the shortage of staff related to the declining demographic curve?



## The entrance of a new generation to the labour market

Generation Y (born 1986-1995) is entering the labour market followed by generation Z (internet generation). Do you feel that you have to work with these employees differently than you were used to in the past?



## Technologies and corporate culture

Modern digital, mobile and cloud technologies fundamentally change the way companies are run.

CEOs did not agree on the question of the future replacing of human capital with machines, whereas permission for certain employees to work anywhere they want becomes standard.

Regarding the replacement of human capital by machines, already half of CEOs expect it and a quarter of them intend to do it due to the lack of labour force on the market.

It is hard to say if greater pressure on expenses or the development of modern technologies are forcing CEOs to give preference to quick and effective communication via teleconferences and other modern tools as opposed to travel.

Modern ways of communicating and working from home need to be controlled with regards to data security. Despite the fact that, in the majority of companies, the question of cyber security is important for the top management, only a tenth of respondents see it as a big threat.

CEOs are not worried that much about the speed of technological change. This can be why they do not agree on the idea that digital technologies change their views on sustainability. Still half of the respondents consider technologies to be tools that could not affect the core of the companies' sustainable business.

### The speed of technological change

How much are the CEOs worried?

How concerned are you about the speed of technological change in the next 12 months?

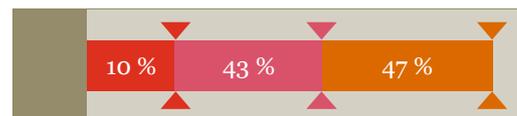


■ High concern ■ Some concern ■ No concern

### The security of client data and intellectual property protection

How much do the CEOs worry?

How concerned are you about the inability to protect intellectual property and customer data in the next 12 months?



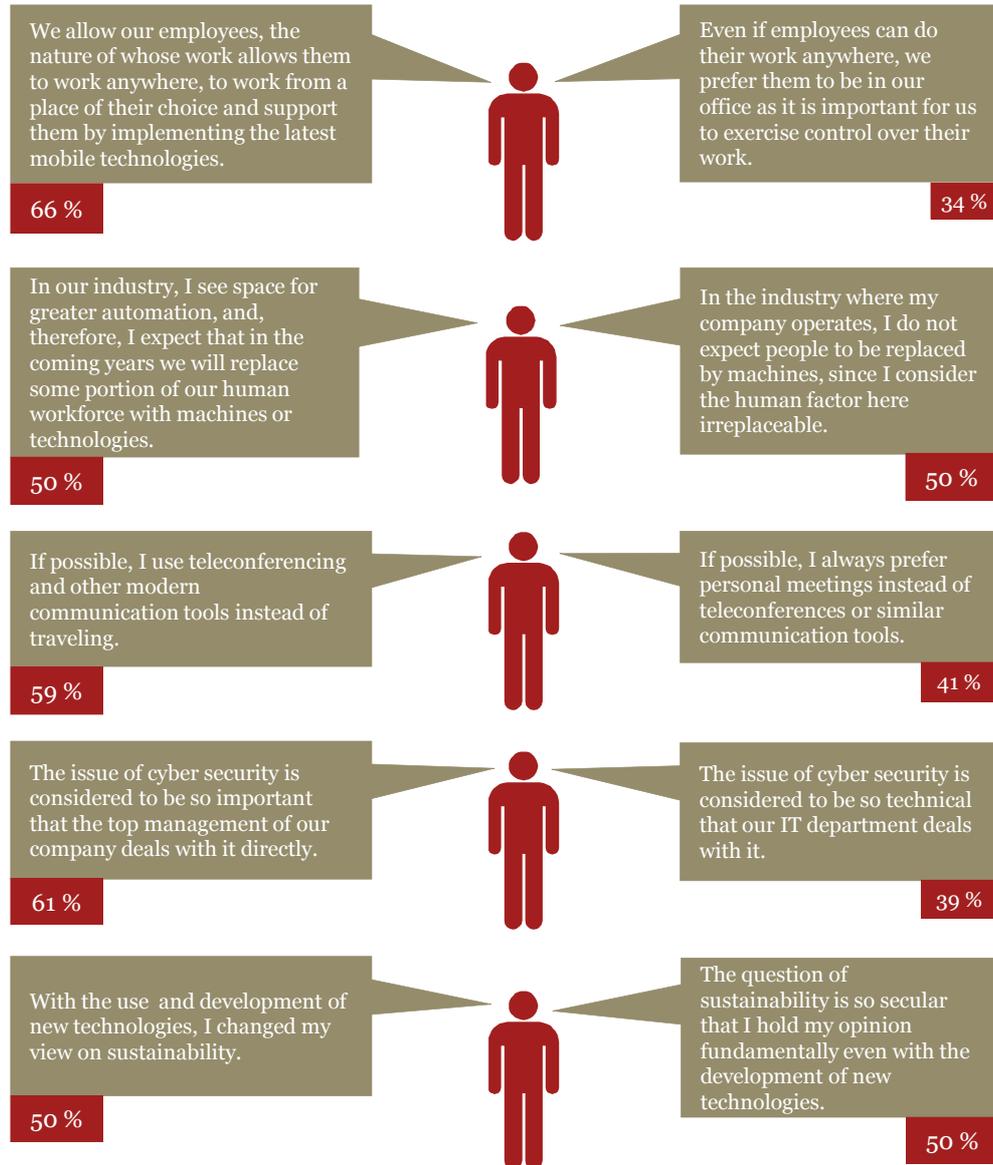
■ High concern ■ Some concern ■ No concern

**“In 1920, machines were engaged in the automatization of car production, whereas in 2016, they can drive a car, diagnose a patient or approve contracts. “**

*Petr Chadima, expert in technological consulting, PwC CZ*

## Digital world from the respective of CEOs

Which of these statements best describe your approach towards technology?



## The state tightened up

Companies and enterprisers are conciliated to paying taxes but they complain about selected legislative tools created to address non-payers and fraudsters but that significantly affect honest ones as well.

The strictness and tax officers sophistication are increasing. Officers are not afraid to go into more complicated spheres to analyse them in more detail and also dispute them competently.

This affects not only companies but also their perception of an external world/environment. And the fact how many information does the state collect about them.

Controlling report is the major topic in the tax administration. CEOs consider it to be a big issue, regarding to a great uncertainty connected with this report that was often discussed in media.

It is a significant lump sum administrative burden, however, once the process is established and automatized, it would not be such a workload for companies.

In 2015, CEOs had to deal with new duties for their statutory deputies. More than a fifth of respondents completed their legal knowledges.

***“The survey showed up that CEOs are circumspected in their positions of statutory deputies. They took necessary measures to complete their knowledge of law about these risks, often by consulting with their external lawyers. More than a quarter of companies had to re-expose their processes.”***

*Bořivoj Libal, the managing Partner of PwC Legal CZ*

## Significant threats for business

### The low-grade legislature

*How concerned are you about questionable or unpredictable legislation in the next 12 months?*



■ High concern ■ Some concern ■ No concern

### Restrictive regulation

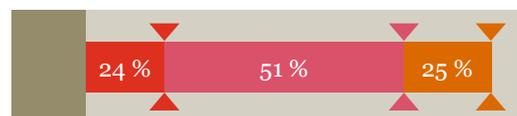
*How concerned are you about excessive regulation in the next 12 months?*



■ High concern ■ Some concern ■ No concern

### Increase in tax and payment burden

*How concerned are you about the increasing tax burden in the next 12 months?*



■ High concern ■ Some concern ■ No concern

## The regulation of a business environment

During the past 3 to 5 years, the regulation of the business environment is...



- More intensive overall (e.g. we are more controlled/the government is more forceful in tax collection or in enforcing the rules about what information we have to report about ourselves).
- Less intensive overall (e.g. we are less controlled/the government is less forceful in tax collection or in enforcing the rules about what information we have to report about ourselves).
- The same overall.

## Companies' tax collection provision

The government is now taking fierce steps to collect tax revenues from companies. Have you noticed this?



- Yes, as a citizen, I appreciate that the government keeps an eye on the money that belongs them.
- Yes, as a company leader, I am concerned about the administrative burden.
- No, I do not feel that companies are under more pressure from tax authorities.

## How do CEOs keep up

To gain and keep employees is becoming more complicated. In case of key labour force or leaders, it is a strategic topic that should be discussed by the management of every company. CEOs are fully aware of it and they emphasise mainly a motivating environment and corporate culture.

Questions of ethics and corporate responsibility are also of significant importance. In a rapidly changing milieu, programs for employee development and their adaptability to the new conditions, requirements or technologies are very important. More than a half of the companies have such programs focused on training future leaders.

What do leaders do after getting to the top? 97 % of them realize that, if they want to stay motivative and successful, they have to do something. 89 % really do something – they occupy themselves with activities which help them gain energy, for example, spending a time with their family, doing some sport or personal hobby. They develop themselves systematically in new fields and they are training their successors.

Only less than a tenth of respondents are preparing themselves for a “second career” when they will not be business

**“Companies deal quite intensively with the question of keeping employees and gaining new ones from diverse age groups, with different values, priorities and expectations. However, they should try to solve the problem of the co-existence of more generations or different specific groups of employees in one workplace and a way to manage them effectively.”**

Andrea Linhartová Palánová, HR expert in PwC CZ

## How to attract the key labour force to the company and motivate them?

What aspects of your talent strategy are you focusing on the most to make the greatest impact on attracting, retaining and engaging the people you need to remain relevant and competitive?

	Workplace culture and behaviours	63 %
	Our reputation as an ethical and socially responsible employers (CSR)	57 %
	Our focus on skills and adaptability in our people	56 %
	Our focus on our pipeline of leaders for tomorrow	54 %
	Effective performance management	47 %
	Pay incentives and benefits we provide to our workforce	40 %
	Health and well-being of our workforce (including flexible working and work/life balance)	39 %
	Our focus on productivity through automation and technology	31 %
	The locations of our operations	29 %
	Effective global mobility programmes	6 %
	Our focus on diversity and inclusion	14 %
	Our use of predictive workforce analytics	3 %

## What does the CEO do to not burn out?

What do you personally do to be a successful and motivated leader and prevent burnout?

	Set aside a set amount of time dedicated to my personal life (family, hobbies, sports, etc.)	64 %
	Personal development	46 %
	Sharing experience and expertise (coaching, mentoring, lecturing, etc.)	46 %
	Educating a successor who will take over my position in the future	24 %
	Dedicating a certain amount of time to socially beneficial activities (nonprofit sector, community, municipal policy, etc.)	19 %
	Consulting with an expert (coach, psychologist, etc.)	12 %
	I have already designed my „second career“	7 %
	Other activities	2 %
	I have not been doing anything particular yet, but I feel that I should	8 %
	I believe that does not concern me	3 %

## How to approach the generation Y and Z labour force?

More than a third of companies do not need to change or they assume that the entrance of a new generation with a specific approach to their life and work to the labour market does not concern them. But in fact, generations Y and Z play an important role for company opportunities. These people are used to working naturally with the internet, social media and modern technologies every day. If they get a chance, they can help a company to focus its investments into innovations or they can help with an innovative way of approaching customers.

Communication with customers is changing and will change in the future. Employees from generations Y and Z can help companies to move towards the future in these areas. The speed of the development of e-commerce in the Czech Republic is enormous and it is crucial to constantly react to the brand new ways of using social media and technologies.

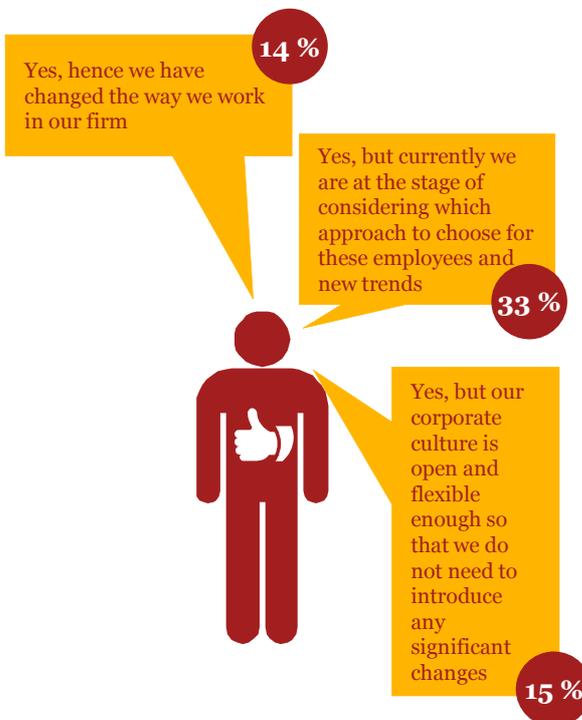
Even though companies intensively deal with the question of keeping and gaining employees from diverse age groups, with different values, priorities and expectations, they should try to solve the problem of co-existence of more generations or different specific groups of employees in one workplace and how to manage them effectively.

In the future, working teams will be more heterogenous than we are used to. We have to be prepared for when in five years' time different generations with different capabilities, experiences, customs, technological knowledges, life attitude and motivation will co-operate on a one project or in one workplace.

Besides, more of them will not be full time employees but freelance contractors or suppliers. We should consider it to be an opportunity.

### We change for generations Y and Z...

Generation Y (born 1986-1995) is entering the labour market followed by generation Z (internet generation). Do you feel that you have to work with these employees differently than you were used to in the past?



### ...or the new generations will adapt to us?

Generation Y (born 1986-1995) is entering the labour market followed by generation Z (internet generation). Do you feel that you have to work with these employees differently than you were used to in the past?



***“Generations Y and Z are important for companies’ opportunities due to their habit of using the internet, social media and modern technologies in their everyday life. If they get a chance, they can help companies to focus their investments into innovations or they can help with an innovative way of approaching customers.”***

*Andrea Linhartová Palánová, HR expert in PwC CZ*

## Competitiveness of the Czech Republic

CEOs clearly stated clearly that they expect a less complicated life from the government due to administrative and tax burden. This comprise innovation opportunities which leaders of the Czech companies see in a public administration – functional processes and controlling mechanism.

At the same time, CEOs expect the state to ensure the necessary infrastructure and quality labour force. Despite the lack of people in general, for CEOs quality is more important than the quantity.

If the Czech economy wants to increase its competitiveness in the international realm, it is necessary to not only attract new investors from fields with high value added for the country but to have available labour force that will be able to perform this action and stack up against the other EU countries with similar problems.

The accessibility of a qualified labour force is one of the important criterions on which big industrial players are choosing countries in which to place their strategical investments.

Another key field is support of technical education. The unemployment rate is one of the lowest in Europe and, according to the Ministry of Industry and Trade, there is a need for 100 thousand more people in the technical fields.

The current graduate shortage in these fields is one of the big risks for the traditionally industrially oriented Czech economy. It also places limits on Czech companies as they try to win contracts.

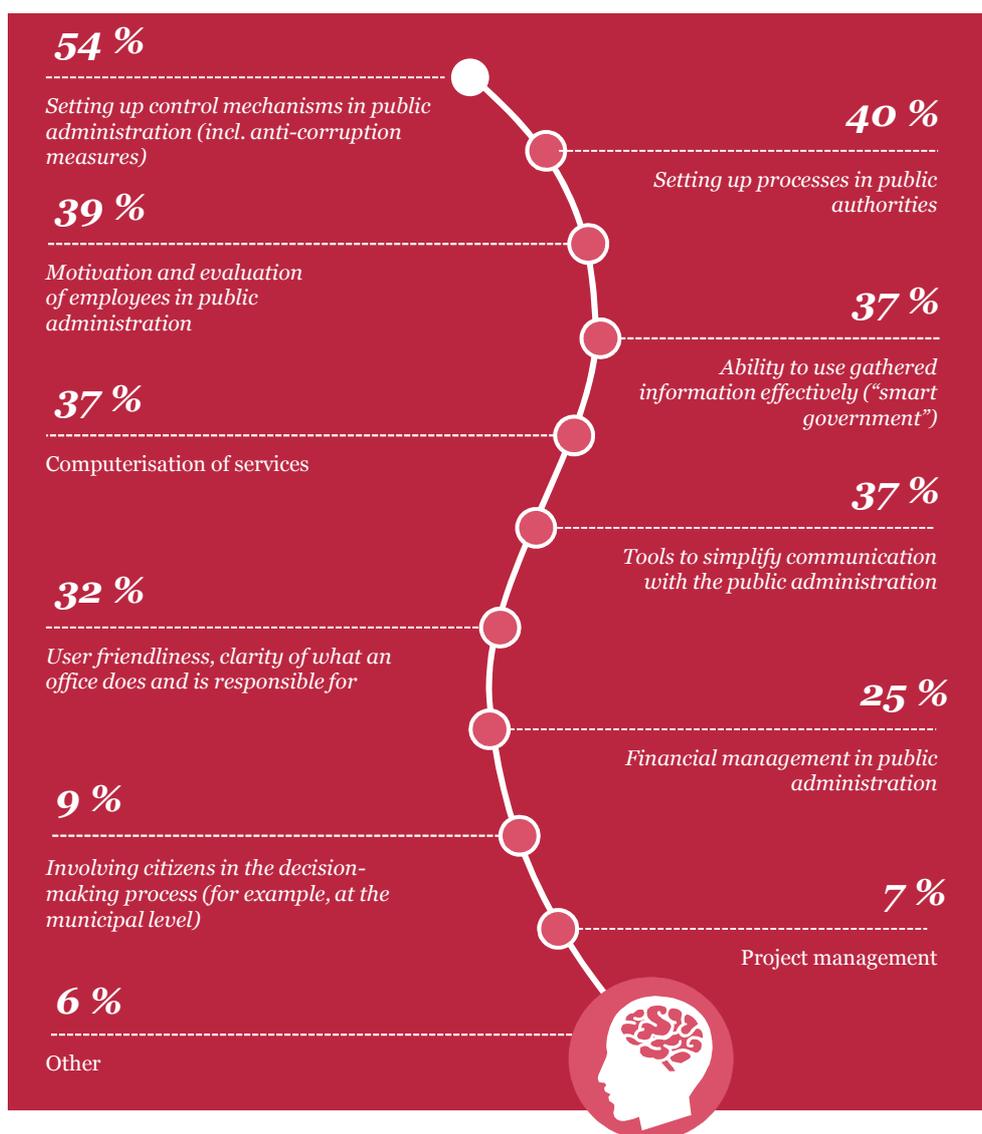
According to thee CEOs, what priorities should the government have?



Which *THREE* of these outcomes do you think should be government priorities to enhance the quality of the business environment in the Czech Republic?



**The biggest areas in need of innovations in the public sector: monitoring, processes and people's motivation.**



In which fields of public administration do you see the main opportunities for innovation?

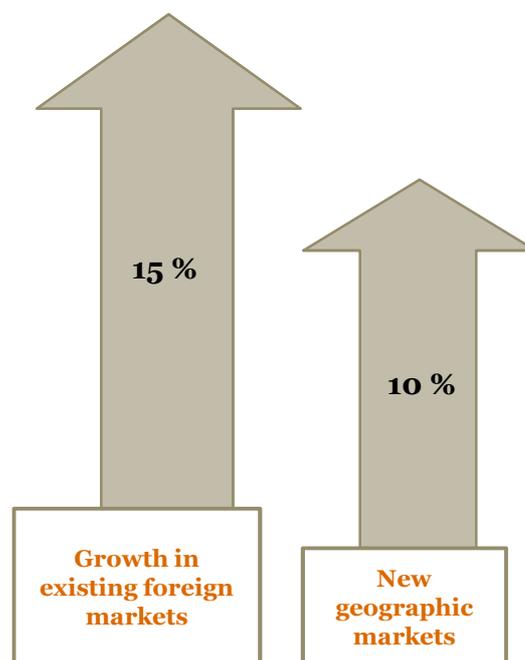
## Foreign expansion

Czech companies see a many growing opportunities for this year on the domestic market. And it is not a surprise that this market is considered to be the most important regarding their business. In second place is Slovakia which is related to the common history and the cultural and language contiguity.

The third, Poland, reflects the geographical nearness of this market, cultural similarities on a certain level and, primarily, its size. Also the standards of the Polish market are about the same level as the Czech market and precisely lower than the West markets. So, Czech companies do not have to modify their products that much.

Poland´s significance is increasing in the region and therefore it attracts more and more Czech companies. Despite the geographical and cultural nearness, they should not underestimate preparation. Besides certain legal and tax differences, they should prepare for business and cultural particularities of this country. For example, Polish companies who compete with each other can unite against a foreign competitor.

A quarter of Czech companies see foreign markets as the biggest growth opportunities for this year

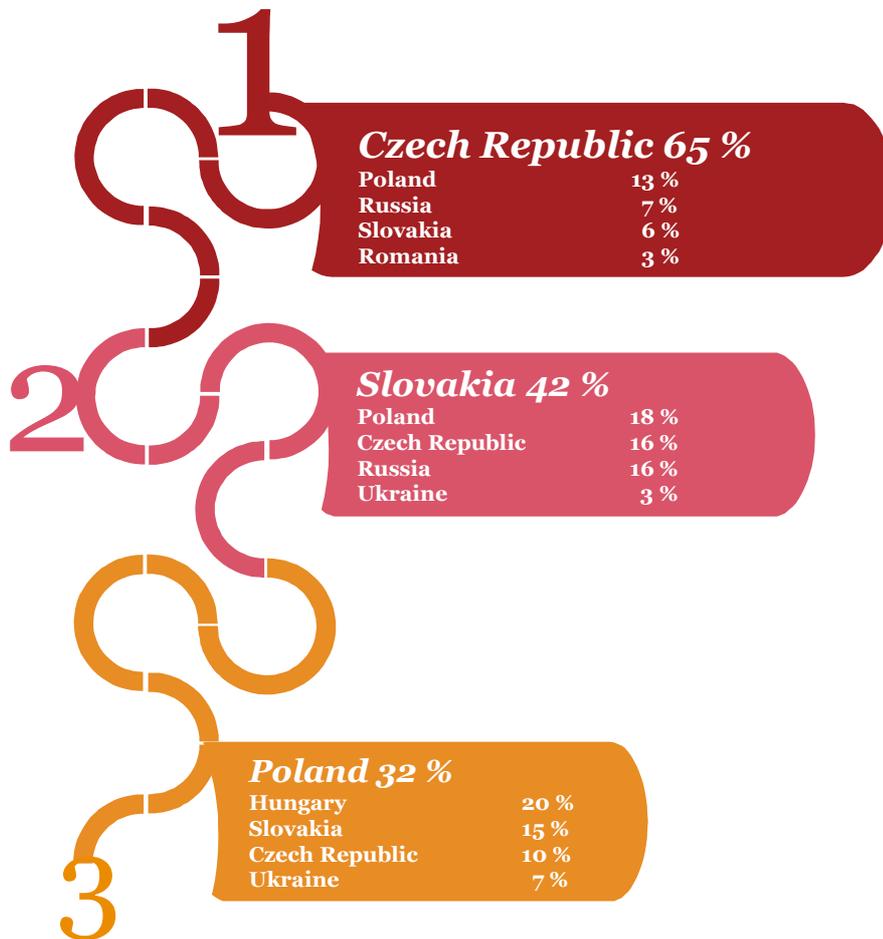


***“In response to the progress of the domestic market, lots of building companies are starting to move their capacities abroad. However, not every company catch as on in foreign countries. Foreign markets are usually very protectionist and, in addition, Czech companies can face a lot of troubles due to a lack of awareness of the local environment that can lead to a decrease in profitability.”***

*Tomáš Bašta, Partner in Audit services, PwC CZ*

## Key markets for Czech companies

Which three CEE countries do you find most strategic for your firm/organization?



## About the Czech CEO Survey

This is the seventh time we have addressed the leaders of the most important companies operating in the Czech market. The Czech CEO Survey, to which we received responses from 110 Czech business leaders, follows the Global CEO Survey that PwC has executed for 19 years. Its results are traditionally published at the World economic forum in Davos in Switzerland.

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