

Czech CEO Survey 2014

Key findings

*Guide to the new
reality*

Introduction

For the fifth year in a row, we have interviewed top representatives of leading firms active in the Czech market. A total of 138 Czech business leaders participated in this year's Czech CEO survey. This local report is a follow-up on PwC's 17th annual Global CEO Survey, unveiled at the World Economic Forum in Davos, Switzerland.

The Czech CEO Survey 2014 showed that thoughts on the crisis, which were very common during the past five years, have been replaced by a new challenge – achieving a new reality. The new reality is as demanding as the recent period. However, CEOs' increasing confidence indicates that, certain doubts aside, they do believe in success. Entering new industries could help them to achieve it.

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Title

Better reality

95% of CEOs expect that their revenues will grow in three years.

Finding new industries

24% of CEOs intend to enter new industries.

New requirements for leadership

92% of CEOs believe the requirements for leadership have changed over the past 5 years.

Stability now and boom in 3 years

42% of CEOs plan to expand in the Czech market this year.

Together for a better business environment

89% of CEOs want government to hear their suggestions on the planned regulation of their business.

Safe bet

51% of CEOs see the greatest business growth potential in their existing domestic or foreign markets.

We'll be hiring, say CEOs

52% of CEOs plan to increase headcounts over the coming year.

Instability – not a big concern

Only **32%** of CEOs see uncertain or volatile economic growth as a key risk for their company in the next 12 months.

Processes, motivation and controls

73% of CEOs see setting up control mechanisms as the main opportunity for innovation in public administration.

Different planning horizon

3 years – an ideal planning horizon for half of Czech CEOs.

Better reality

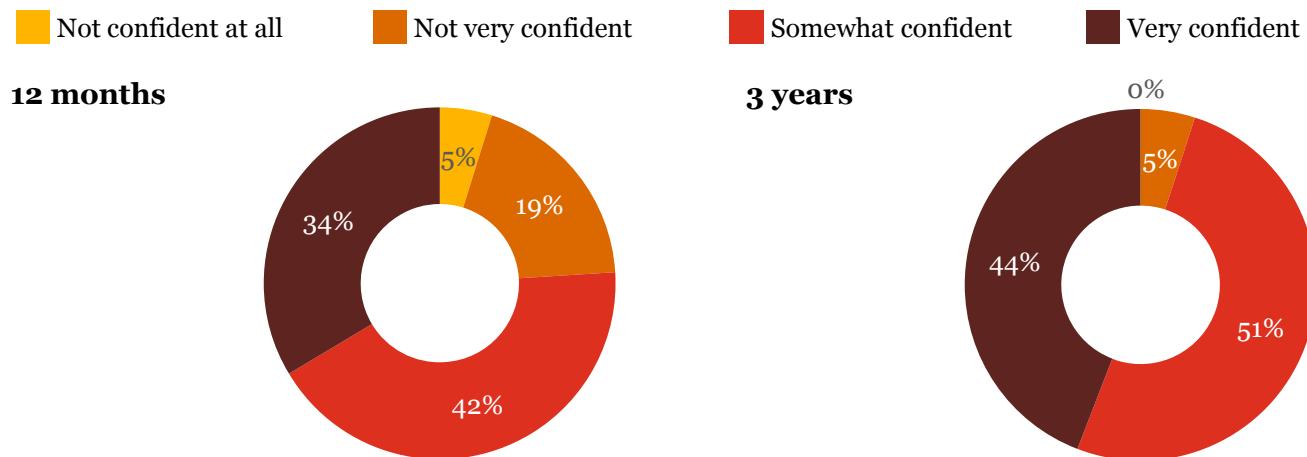
After five years, it's time for CEOs to give up brooding on the crisis and fully concentrate on how to be successful in the new reality. The directors' answers show that they've already started. For the first time in the five-year history of the CEO Survey, all respondents showed at least some confidence that sales would be growing in 3 years. Over a 12-month horizon, 95% of respondents at least partly believe in growth.

Last year, this figure was 90%, but among the remaining 10%, we found some directors who were convinced that they would not prosper even in three years. Overall, this year Czech CEOs are more optimistic than their colleagues in Central and Eastern Europe (84%).

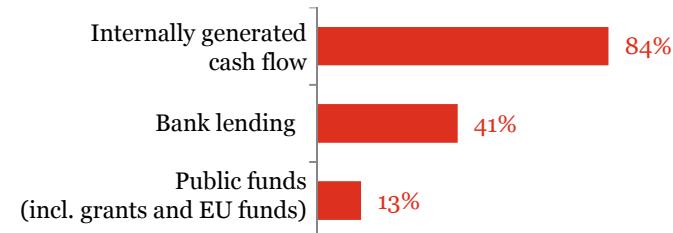
This growing (but still quite cautious) optimism will characterize 2014. At least 76% of Czech CEOs at least partly believe in the growth of the firm, which is less than the global average (86%) but more than the Central European one (73%).

On the other hand, the fact that CEOs intend to finance their planned growth with their own capital confirms that there is still uncertainty in the market. The obvious winner in the external sources of financing on the Czech market is traditionally a bank loan. Only a negligible share of the capital market is rather surprising in a time of low interest rates and very strict loan conditions. There is quite a big scope for company bonds. In the coming months, we will probably notice a growing interest in this type of financing by companies and also by investors.

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



How do CEOs expect to finance this growth?



Other values

Divestiture/sale of existing assets	5%
Other type of lending	5%
Other	5%
Capital markets	4%
Private equity or venture capital	3%
Don't see any opportunity for business growth	1%
Employees (partnership, employee shares)	0%

"The CEOs' responses don't radiate crisis any more but rather a healthy individual effort to get ahead. Yes, companies facing tougher competition must be more efficient and innovative, but many examples show that one can succeed. In addition, success in a challenging environment confirms the right business model and a healthy corporate culture that supports innovation and good ideas."

Jiří Moser, Country Managing Partner, PwC Czech Republic

Finding new industries

Especially the companies with an extensive client base are aware of the fact that they can offer their clients more than the current production. Although they are still innovating the production, demand for their products and services has its own boundaries.

Another possibility could be a company's decision to utilize its current experience in the industry where until now it has had the role of a supplier or a customer, or the company believes that it could use its free capacities in that industry.

There are opportunities available in both production and services. For example, companies from completely different industries with an extensive range of retail or business clients are trying to offer them telecommunication services as a mobile virtual network operator.

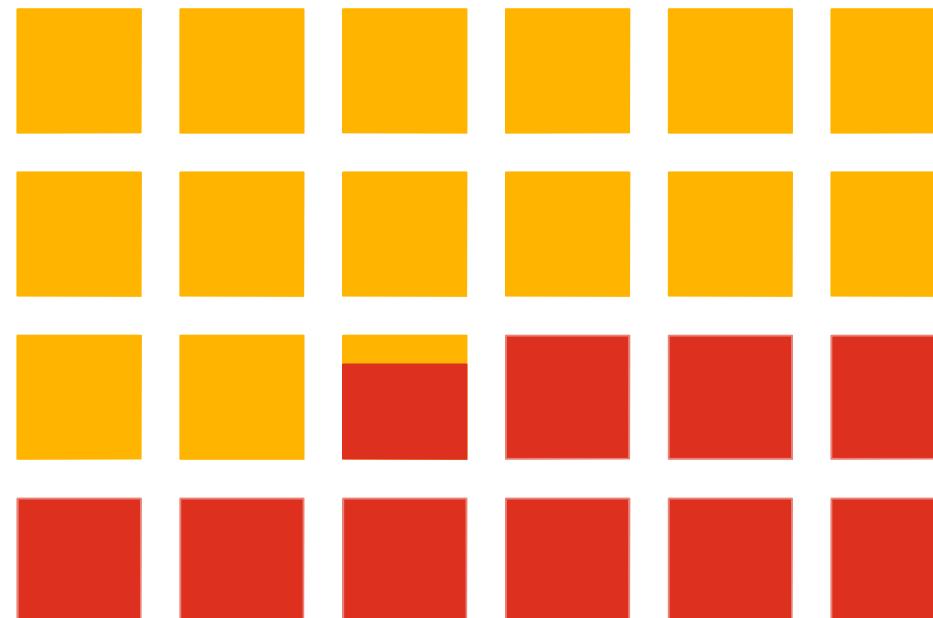
In many cases, modern technologies are the reason why companies were able to enter the new industries. 90% of CEOs entering the new industries confirmed that the new technologies were the most helpful thing. Most often they mention high-speed internet connection or systems that help them to process information about their customers and their segmentation.

Despite the fact that entering a new industry leaves a lot of room for innovation, less than one half of CEOs said that they are going to work in the new industry the same way as the companies that are already in it.

Connecting separated sectors can be an innovation and a way to attract clients. It could also be a way to increase the value of existing premises, knowledge or experience.

Which new industries do CEOs intend to enter?

24% of respondents intend to enter or are currently entering new industries.



59% Will function (in terms of their business model) the same way as companies that are already active there.

41% Are entering the industry with innovation (in terms of their business model), and will function in a way that is different from the companies that are already active there.

"Organic growth is difficult and long term, so when expanding into new industries, companies often buy established players. Generally, they decide for acquisitions in a sector which will enable them to achieve interesting synergies. To reach them, careful analyses of strategies and business models of both companies are essential."

Miroslav Bratrych, Leading Partner, Advisory Services, PwC Czech Republic

New requirements for leadership

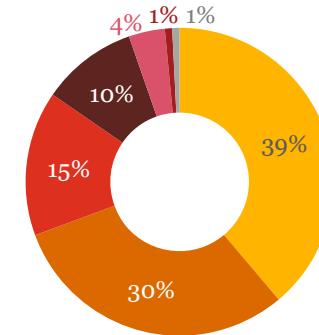
Only 8% of CEOs think that the requirements for leadership (the ability to motivate and lead by example) have not changed significantly over the past five years. The majority of CEOs feel increasing requirements on leadership, and as they were only able to choose one option, their answers vary.

Most of the CEOs say that global thinking with a local context is needed much more than in the past. In other words, every small company, even if it's not exporting any goods, is a part of the world economy, and it has to monitor trends in innovations, commodity prices, customer behaviour, or suppliers' situations. A global company can't apply one strategy for the entire world, in every country for every customer. Risk management and how to access it is also an important topic.

A company's success depends a lot on the motivation of its employees. But what is the motivation for CEOs? A clearly defined goal to be accomplished was the most common answer. That is typical in tough times, when a firm does not grow a lot. It was also true the last few years. Erroneously set KPIs are also a common issue. If the crisis has helped to solve it and CEOs got "correct guidance", it is not surprising that they now feel more motivated.

If a CEO is motivated by the people around him, his company is usually innovative and growing. To prove to myself and to others "that I can manage" is typical for ambitious people. If an ambitious director has correctly defined goals satisfying him and contributing to the firm growth, then everything is all right.

What personally motivates CEOs the most to perform in challenging times?



- I have a clearly defined goal that I want to accomplish.
- People around me, my colleagues and their passion.
- I will prove to myself and to others that I can manage difficult situations.
- I want to leave something for tomorrow.
- Other.
- New career opportunities.
- Nothing, I feel unmotivated.

How do CEOs think the requirements for leadership have changed over the past 5 years?



"There is significant importance in CEOs' mobility enabling them to gain experience and bringing them to a local environment. At the same time, they must be able to create an environment that motivates people to try new things. That also requires changes in the system of work and performance evaluation so that failure is not punished but taken as a lesson for the future."

Libor Stodola, Human Resource Management, PwC Czech Republic

Stability now and boom in 3 years

The Czech subsidiaries of global firms have a free hand when determining the local strategy. Apart from risk management, the influence of local management dominates, say CEOs.

The owners of local companies or their parent companies seem to be satisfied with their Czech businesses. Almost nobody plans to reduce activities in the Czech Republic, stability predominates and more than 40% of companies even plan to expand this year. The proportion of companies waiting and expanding reverses in a three-year horizon, when an overall recovery in both the Czech and the world economy is expected.

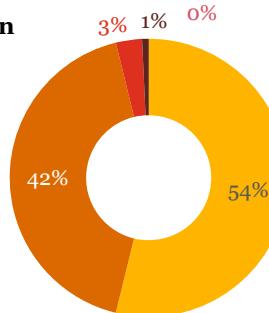
Limited resources and pressure on efficiency prompted companies to prioritize and to concentrate power into key areas where they believe they can succeed. Further pressure on efficiency is required to be among the best in the sector. So we shouldn't be surprised that even successful and growing companies are increasing efficiency, searching for savings and not wasting anything.

CEOs are aware of the fact that human capital is one of the most valuable assets they have. That's why they've been investing a lot of time in it, and they still plan to prioritize it in their agenda in the next few years. In the context of pressure on efficiency, we can expect an intensive orientation on quality workforce planning regarding both the number of employees and the structure. Companies are going to use various flexible types of jobs that could help them to manage costs.

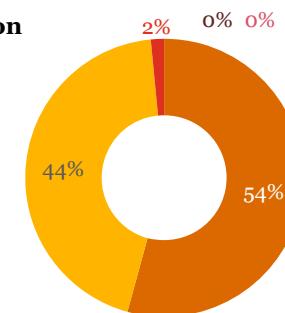
In the Czech Republic, companies plan to ...

- Remain stable.
- Expand, increase investment activities.
- Reduce certain activities, but still stay on the Czech market.
- Leave the Czech market.
- Significantly reduce activities on the Czech market with a mind towards leaving the market.

In a 1-year horizon



In a 3-year horizon



What is your company's response to the current economic situation? Who initiates the measures?

Increasing efficiency in fields where there is potential for growth.

Increasing quality of HR – motivation, engagement and higher quality of recruitment.

Trying to make better use of innovation.

Ensuring appropriate technologies.

Changing corporate strategy.

Changing corporate culture.

Intensifying risk management.

Conducting extensive cost cutting measures.

On a scale 1 to 5; 1 = unimportant changes, 5 = significant changes

"Risk management is the only field where the parent companies make key decisions about their Czech subsidiaries, according to local CEOs. Two-fifths of respondents put more effort into it than in the past. If this reflects the whole Czech market, it's a good result. But from my own experience, I know that domestic enterprises themselves still underestimate risk management and concentrate on putting out fires, rather than preventing them."

Tomáš Kuča, Leading Partner, Risk Assurance Solutions, PwC Czech Republic

Together for a better business environment

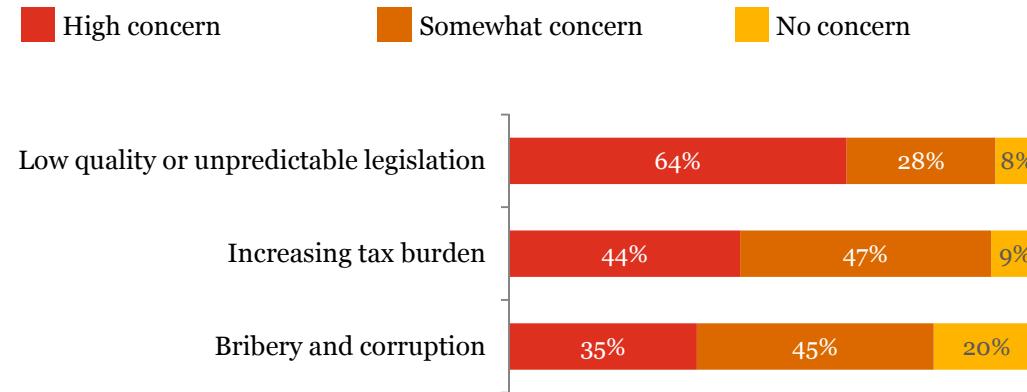
CEOs have started to realize that the competitiveness of a company also depends on the quality of the environment in which they operate. Those who were able to prosper in spite of or even thanks to the corruption or a poor legislative environment, are now finding out that it actually slows them down or harms them. As the Czech Republic becomes a more developed country, so do the local companies which want a higher quality and transparent business environment. They demonstrate an interest in being a part of the development and want to have better possibilities to influence it.

The new government's challenge is to regain the CEOs' trust. They actually consider poor and unpredictable legislation to be the biggest threat for their businesses. But of course, setting the rules of the game and enforcing them belongs to the major roles of any state.

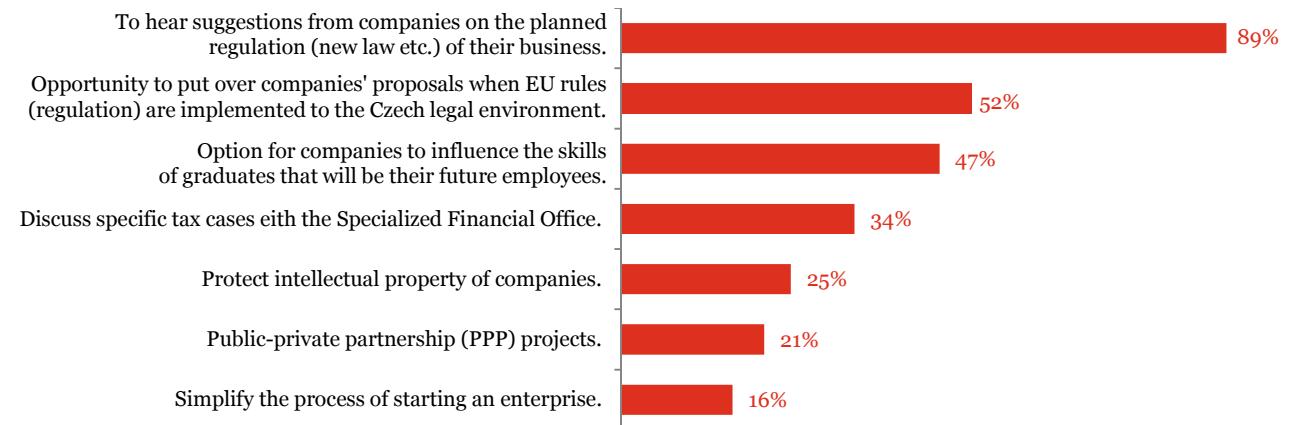
CEOs put the tax burden in second place, which expresses their dissatisfaction with the revenue side of the state budget. But they are not satisfied with the expenditure side either, as they put corruption in third place as a business threat – mainly the way in which public resources are divided, besides other things.

This year, a new programming period of EU funds begins. According to the CEOs, EU funds should be directed to infrastructure, education and innovations. These areas are well known from the past, but the usage of EU funds presents much wider possibilities: e.g. boosting energy efficiency or making business services more sophisticated.

Which of the following potential business threats represent key risks for companies in the next 12 months?



In which field should government mostly help companies and collaborate with them?



"I see many opportunities for the new government to take further steps towards a more user-friendly tax system where citizens and companies willing to pay taxes are considered as good clients. Examples of such measures may be a call centre, methodological support and increased use of electronic communications and e-audits."

Peter Chrenko, Leading Partner, Tax and Legal Services, PwC Czech Republic

Safe bet

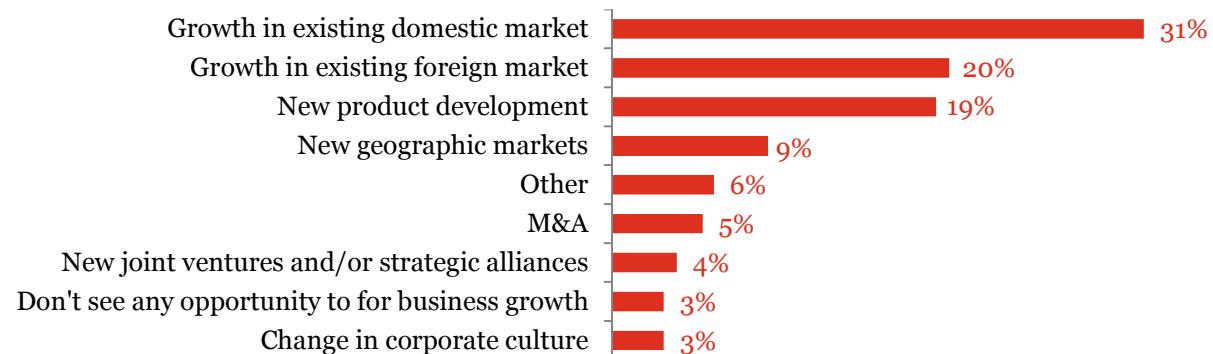
The number of CEOs who expect growth this year and over the next few years is higher, but caution still prevails in their plans. Compared to last year, when they saw growth opportunities in new markets outside the Czech Republic or in the development of new products, we can say that caution is increasing.

CEOs are not going to leave the already conquered positions abroad, because the second most frequent opportunities are in current foreign markets, according to the CEOs. However, the biggest opportunity CEOs see is in the domestic Czech market. Companies rely on the greater certainty of a familiar environment.

This approach conforms to the trend of this year, where companies are not planning to take a lot of steps in the dark, but are rather seeking to streamline existing processes, fully utilize their capacities and work more intensively with the current customer base. For example, companies could enter new industries and approach current customers with entirely new products.

The percentage of CEOs planning a new product or service development this year compared to last year decreased (from 23% to 19%). Innovations are going to be more about finding new or more effective ways to get to customers rather than about some revolutionary product. Companies do not obviously need to interconnect so much, because interest in a joint venture or a strategic alliance is half compared to last year.

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



"Businesses are relying on the greater certainty of well-known markets. Our experience from collaborating with Czech companies shows that entering foreign markets is a crucial decision in the life of a company. Mastering the new business environment, a different tax or legal system and specific customer requirements poses a long-term investment—not just financial—which requires courage. The expected recovery of the global economy as well as the Czech one should encourage companies to take such a step into the unknown."

Věra Výtvárová, Leading Partner, Assurance Services, PwC Czech Republic

We'll be hiring, say CEOs

In the Czech Republic, more jobs should be opening this year than closing. About half of the companies are going to recruit new people, whereas only one-quarter are going to lay employees off. From this perspective, this year should be better than last one: looking back, we see that despite the initial optimism slightly more companies dismissed than recruited.

Companies no longer intend on saving significantly in human resources.

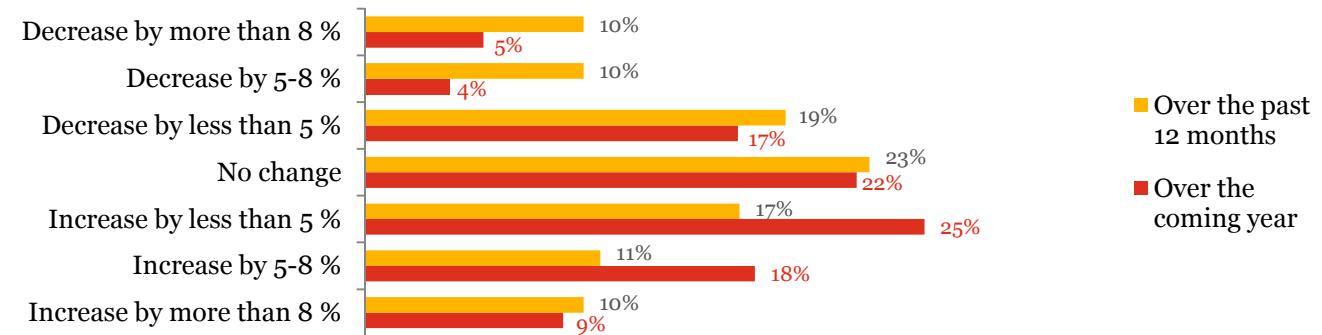
Nevertheless, according to this year's results, it's clear that companies will continue to save money. If not directly on the number of the employees, a focus on the most efficient use of their employees is expected. For example, firms will seek improvements in processes.

It seems that over the past few years, when a lot of companies decreased headcounts and almost everywhere re-evaluated or at least analyzed the need for individual employees or positions, the question of human resources has turned out to be nothing that CEOs should notably worry about.

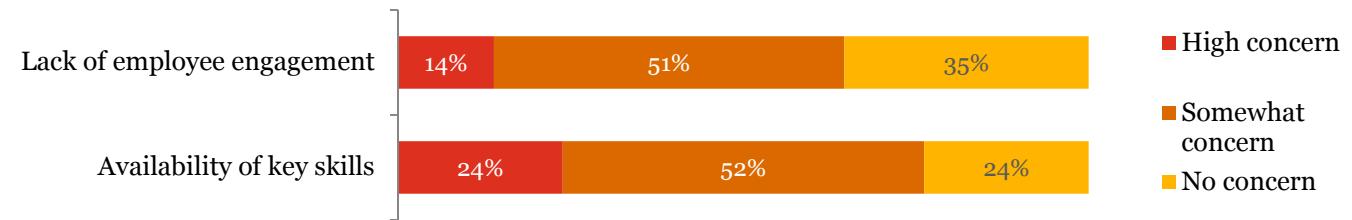
Less than a quarter of CEOs consider the lack of quality employees a big threat for the company, and even less worry about the low alignment of their employees.

Let's hope they are not mistaken. If the expected economic recovery comes true, there will be a real fight for talents on the Czech market. To train professionals could in some industries take more than one year, not mentioning how long it takes to even find them.

How has headcount in companies changed over the past 12 months and what do CEOs expect over the coming year?



Which of the following potential business threats represent key risks for companies in the next 12 months?



"The survey results confirm how crucial the right human resources planning is in the short and medium term. At the same time, the need to review prepared succession plans arises with respect to creating opportunities for internal promotions."

Libor Stodola, Human Resource Management, PwC Czech Republic

Instability – not a big concern

Compared to last year's results, twice as many CEOs of companies around the world expect that the global economy will improve during this year. This was shown in the 17th Global CEO Survey launched at the World Economic Forum in Davos.

The Czech CEOs' worries about economic development are decreasing as well – only 32% of them consider uncertain economic growth as a threat to their businesses. By comparison, last year 80% of respondents worried about economic development. Nowadays, instead of macroeconomic questions, the business environment itself is rather at the forefront of fears. Directors draw attention to poor legislation, a high level of corruption and a large tax burden.

By contrast, the smallest concern is the ability to finance growth, relating to a minimal fear of the situation on the capital markets. Firms have enough cash and are usually not planning investments this year, which would require a significant volume of external capital.

However, this year should be mainly about strengthening positions in current markets, meaning more intensive cooperation with existing customers. Directors are surprisingly not afraid of quickly changing customer preferences or the stability of their supply chain.

The recent crisis years forced many companies to ensure reliable suppliers and gave them an opportunity to strengthen their relationships. Yet it should be cause for concern that some of the companies still underestimate this area.

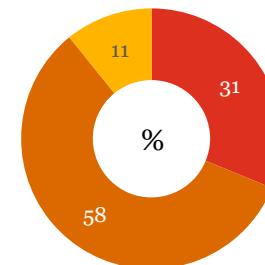
Which of the following potential business threats represent key risks for companies in the next 12 months?

High concern

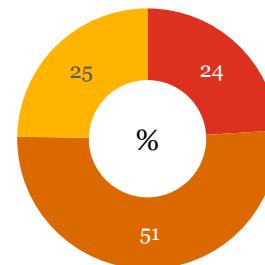
Somewhat concern

No concern

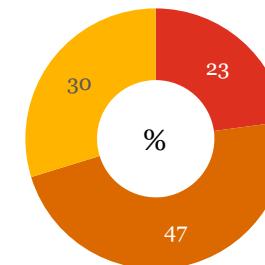
Uncertain or volatile economic growth



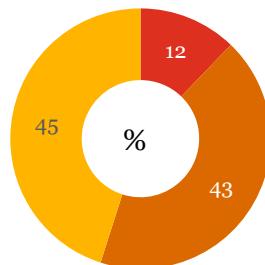
Shift in consumer spending and behaviours



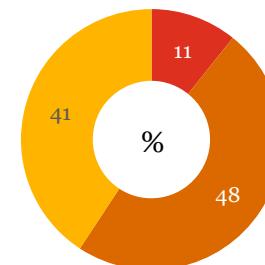
Energy and raw material costs



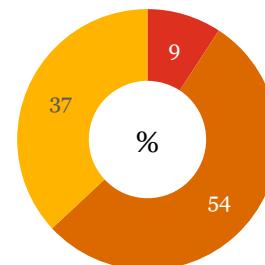
Supply chain disruption



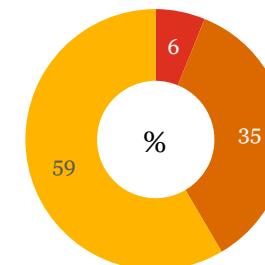
Inability to protect intellectual property and consumer data



Lack of stability in capital markets



Inability to finance growth



“Confidence that the economy will grow again is the first step to ensuring that companies have begun to re-invest and recruit. I believe that increasing optimism will gradually transform itself into an increase in demand, and thus into new orders.”

Jiří Moser, Country Managing Partner, PwC Czech Republic

Processes, motivation and controls

CEOs perceive the last year as a period of stagnation for the government caused by a political crisis and the restraints of the provisional government.

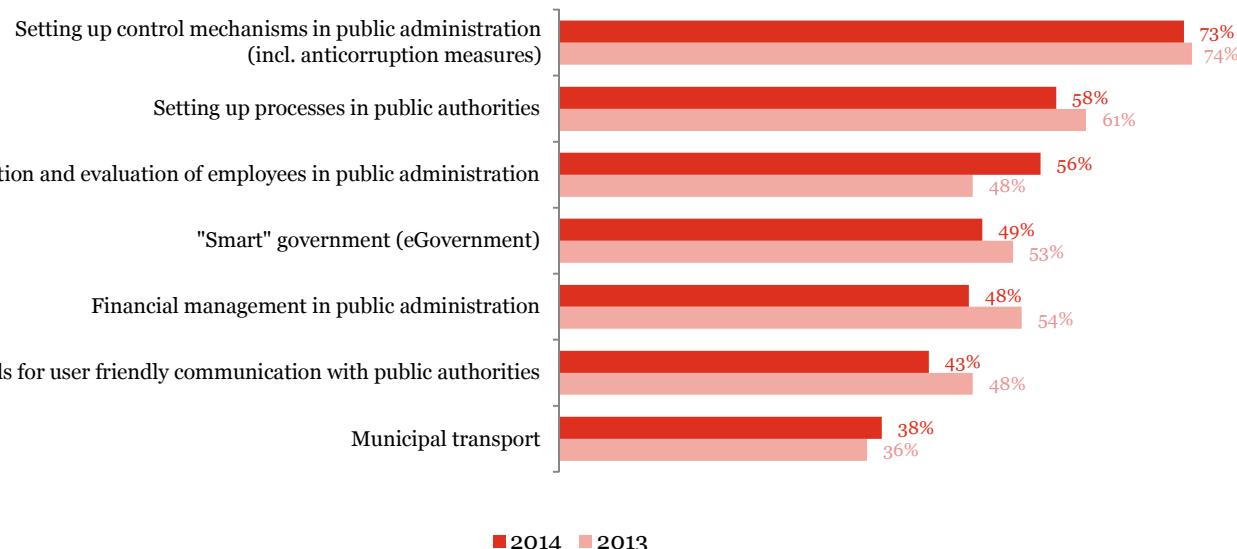
From the CEOs' point of view, the three biggest opportunities to innovate form a logical triangle: if processes fail and employees are not motivated, then control mechanisms do not work and corruption appears as a consequence. CEOs included corruption among the three biggest threats for their businesses this year.

People and their approach are essential for the functioning of any organization. Moving the culture towards performance orientation, setting performance-oriented goals and interconnecting them with remuneration are the first steps that could help to form a more effective government.

Dissatisfaction with the functioning of public administration then overshadows topics such as eGovernment.

CEOs started to notice security issues in cities. While last year only 18% of respondents saw there an opportunity to innovate, this year it was already 27%. Clearly they are afraid of social tensions in connection with the deteriorated economic situation of certain groups in the population.

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



"From the perspective of CEOs, the three biggest opportunities for innovation create a logical triangle: when processes don't work and when employee motivation fails, control mechanisms fail as well. The logical consequence is corruption - one of the three greatest business threats, according to CEOs."

Karel Půbal, Director, Public Sector Consulting Services, PwC Czech Republic

Different planning horizon

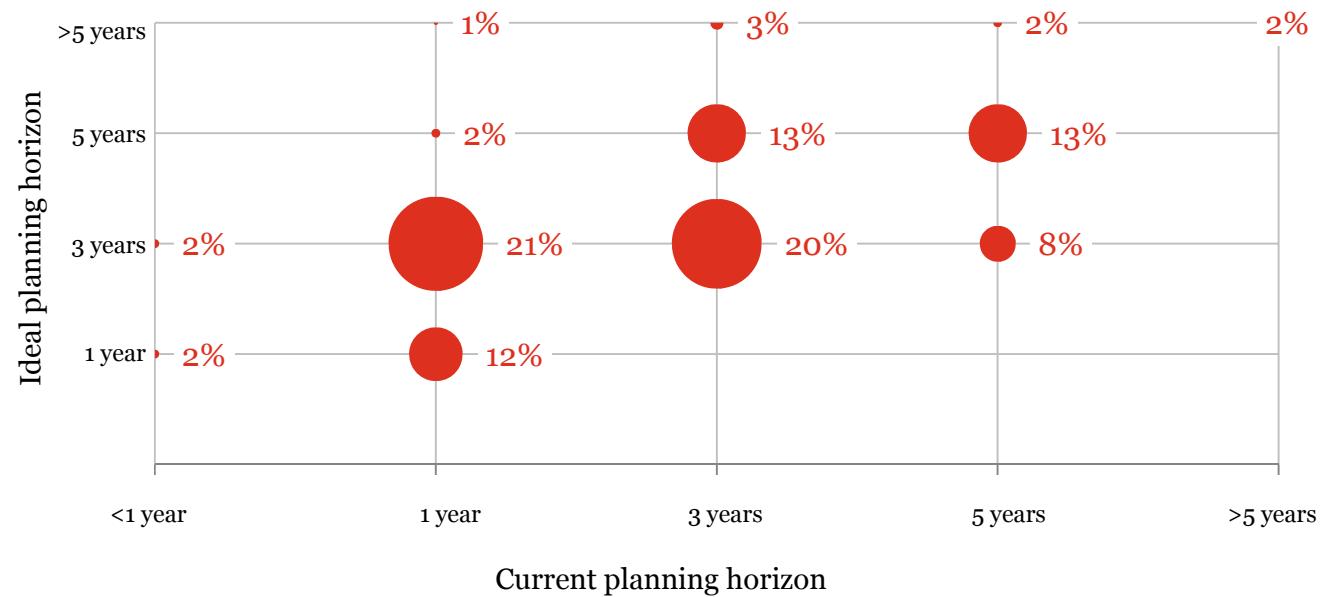
Czech CEOs work mostly with an annual or a three-year planning horizon. An annual horizon is a certain particularity of local companies – more than one-third of them plan in this horizon, while in CEE it is less than one-quarter and globally only 12%.

Conversely, half of local CEOs would like to have a three-year horizon; globally, it is only 40% of CEOs. 35% of CEOs globally would prefer a five-year horizon, but only 28% of CEOs in the Czech Republic.

A short-time horizon is typical for the situation in recent years when companies faced primarily savings and effectiveness. A five-year horizon is on the other hand a minimum to really prove the results of robust projects.

A short-time horizon could also be a consequence of a lack of vision or long-term strategic goals. It also corresponds to companies' focus on existing markets rather than new ones or new product development this year.

What is the current planning horizon? Ideally, where would CEOs like their planning horizon to be?



“Five years is a minimum, which can really show tangible results for major projects. The shorter planning horizon, rather preferred in the responses of Czech CEOs, reflects the fact that they have been focusing mainly on savings and greater efficiency. But it can also be due to a lack of vision and long-term strategies in Czech companies.”

Petr Zmátlík, Director, Private Company Services, PwC Czech Republic