

## MEMBER ARTICLES

# How do you manage your business? Myths vs. findings from praxis

**Peter Poliak,**  
**Senior Manager, Advisory**  
**PricewaterhouseCoopers**

The challenge of driving strategic decision making based on providing focused and reliable management information has never been more important than it is today. Dynamic global competition and opportunities on one hand, and increasing regulatory requirements on the other, are just some of the factors forcing companies to reassess their capabilities and to change their approach in managing the organization.

PricewaterhouseCoopers carried out a European survey entitled “Corporate Performance Management: How do you manage your business?”. The goal of this survey was to understand how companies are managed, and to analyse current capabilities and development plans in the area of Corporate Performance Management.

The resulting survey report provides an analysis across territories, regions, industries, and by company size. The publication allows company leaders to benchmark their management approach against their peers and evaluate how their position relates to best practice.

In this article, I bring you the most interesting findings from this survey when commonly used praxis is compared to widespread thinking followed by my professional point of view.

### **Strategy maps are not widely used**

Survey participants acknowledge the challenge posed by communicating their strategies on all organisational levels and about 90% have implemented, or plan to

implement, related communications tools. Nevertheless, only 33% use strategy maps as a tool to communicate their strategy.

*I believe that not just the company goals itself, but the process of creating and communicating them is especially important for their further implementation. For employees of many companies, the strategy of their employer is taboo, although they are expected to fulfil it.*

### **22% do not perform cash flows analysis regularly**

It is remarkable that the importance of cash flow analysis and integrated cash flow planning is often neglected. 22% of the participating companies do not perform cash flow analysis on a regular basis. Cash flows are not static and depend much on changes in market forces, competitors, suppliers and customers. Companies need to measure their “liquidity” on a regular basis and track the generation of cash especially in times when illiquidity becomes the major threat for businesses around the world.

*This finding is quite surprising. The company must think not only from a long-term perspective, but also from the perspective of the near future. Many good ideas are not implemented only because the company is unable to survive the next few months.*

### **Value-orientated KPIs are not comprehensively used**

Value-orientated KPIs seem to still play a relatively insignificant role. Of the participating companies, 30% indicated having value-orientated KPIs in place. But value orientation nevertheless plays an important role for listed as well as for non-listed businesses. It is a competitive advantage to understand how a company is valued and how to increase and sustain that value in the short and long term, even if the business is

solely or family-owned. Only companies that offer sustainable returns will survive in the long run.

*As expected, it is still a minority of companies that are capable of looking at their departments from the perspective of the value they create for stakeholders. This point of view requires that a reliable managerial information tool be built on the company's robust process model.*

### **Positive influence of reward systems is recognised**

The survey clearly shows the benefit of incentive systems: 93% of the participants agree that incentive systems positively influence Corporate Performance Management. Both financial and non-financial approaches are applied across all organisational levels to control the efficiency of strategy execution.

*Our practice in Slovakia confirms that. Performance increases almost immediately when meeting goals and reward systems are interconnected.*

The most popular incentive is profit sharing, used by 37% of the companies. 25% follow bonus bank approaches, which keep bonuses in a kind of bonus bank account for a certain amount of time in order to ensure the sustainability of results before the bonus is paid out in full. Other incentives are non-financial incentives such as special training courses or international assignments, which are applied in 24% of the companies. Stock options are the least preferred incentives with 14%.

### **Variable compensation depends much on corporate performance**

The survey also shows that the individual performance of 69% of all participants only has a low or very low influence on

their variable compensation. Corporate performance has a much higher impact on variable compensation: More than 49% of the respondents state that corporate performance has a high or very high influence on their variable compensation. In general, corporate performance has more of our influence on variable compensation than individual performance.

*If employees feel that their individual performance may not have much of an effect on their compensation scheme, they may not agree to a larger amount of variable compensation. Conversely, if they feel that their individual performance is taken into account, they will be open to a more performance-oriented compensation structure.*

**Greater emphasis on variable compensation in Eastern Europe**

Eastern European companies tend to favour variable compensation more than their Western counterparts. In Eastern companies where entrepreneurship and growth were major driving forces in the last several years variable compensation on the

first management level represents at least 51% of total compensation in one-fifth of participating companies (20%).

*Companies in Eastern Europe are, in general, more performance-oriented compared to*

*companies in Western Europe (which is a bit "socialist"). The volume of compensation plays an important role, for sure. By connecting variable pay with the company's performance, it is possible to raise wages partially.*

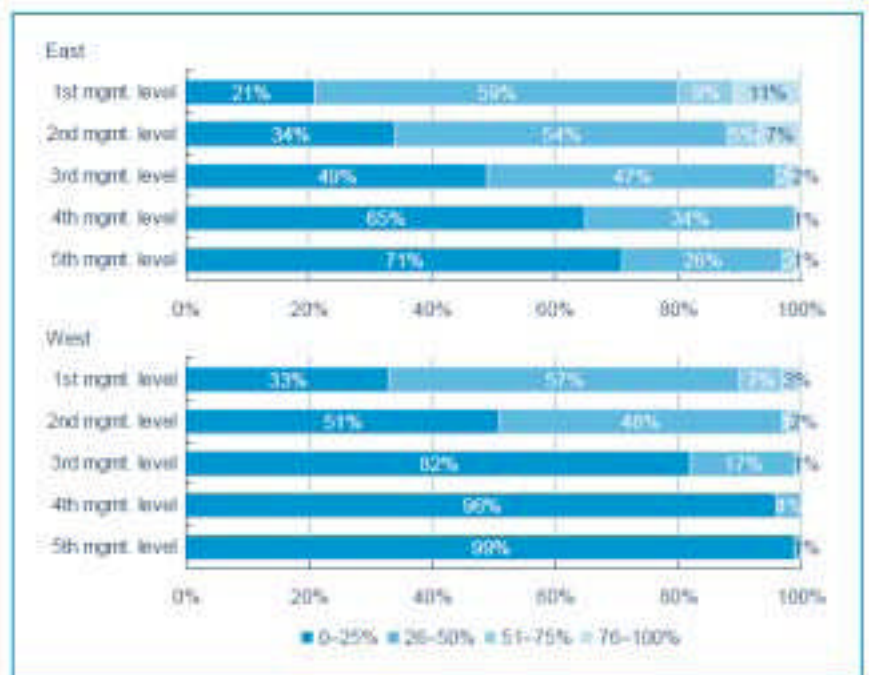


Fig. 23 - Percentage of variable compensation in total compensation package

**New Partners at PricewaterhouseCoopers**

**Andrey Kolchin, Tax**



Andrey is a tax partner and has been with PwC Slovakia since May 2009, having transferred from PwC Russia. He joined PwC in 1998 and has significant experience in advising multinational groups and emerging local companies with ambitious growth aspirations on a wide range of matters including corporate tax issues, outbound and inbound structuring, holding, organisational and operating arrangements and tax-related issues and opportunities of various other business matters. His industry knowledge includes, in particular, consumer and industrial products, retail, telecom, technology and media segments.

In his new role, and against the backdrop of the continued economic challenges, Andrey's aspirations are to integrate into the Slovak business community, seek challenging discussions to generate business ideas and strategies, and seize business opportunities arising from Slovakia's unique geographical and economic cooperation position.

**Miklós Fekete, Advisory**



From 1 July 2009, Miklós Fekete, an Advisory partner of PricewaterhouseCoopers joined our Bratislava office.

Miklós joined PwC in 1992 and is a Transactions partner of our Advisory practice in Budapest and now also Bratislava, specialised in providing business recovery/independent business review, due diligence and M&A services. He has extensive experience with both

corporate and Private Equity deals, including various market sectors ranging from agriculture, food processing, energy, manufacturing, services and telecommunication to real estate.

Miklós assisted a large number of foreign and local investors doing acquisitions in CEE and Western Europe, and worked on more than 120 transactions in Hungary, Slovakia, Serbia, Slovenia, Croatia, Austria, Sweden, Germany and the UK.

In his new role as Partner of PwC Slovakia, Miklós will be responsible for further developing our Transactions business in Slovakia and CEE.