

Czech CEO Survey 2015

Key findings

*Your own way
to success*

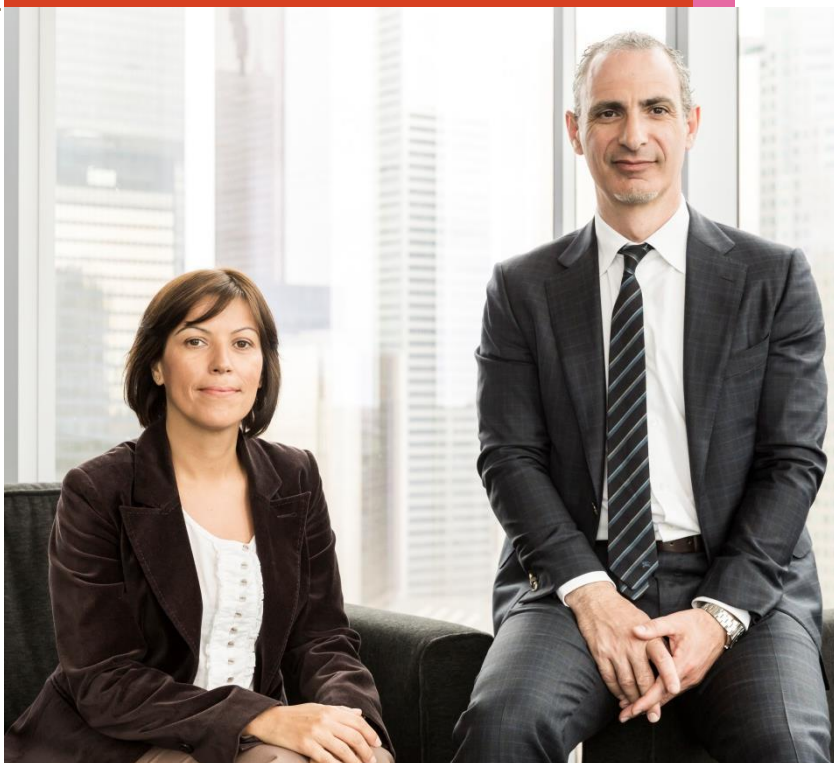




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Introduction

The Czech CEO Survey 2015 has clearly shown that CEOs focus on growth. The common lamentation over the crisis is already past. Each company is unique and searches for its own way to success. The common denominator is the acquisition and correct usage of resources. People are the most important one. The fear that there will not be enough employees with required knowledge will represent – according to the CEOs – the biggest threat for their companies. Historically, this threat replaced traditional themes such as corruption, bureaucracy or high tax burden, for the first time. Therefore, we have devoted one single chapter to the question of employee' motivation. I believe that it will be an inspiration for you to succeed in the struggle for the best employees.

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We are going to grow

The overall confidence of CEOs in themselves and in the economy is growing. Despite a number of persisting uncertainties, they feel more stable than in previous years. Still, there are too few companies with aggressive strategies active on the market.

“Increasing proportion of companies that plan to grow thanks to innovations is a promise of a positive trend. Still, companies that see the biggest opportunity for growth in penetration of the current domestic market are dominating in the market.”

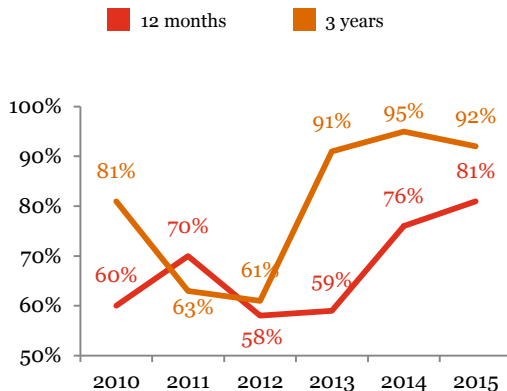
Jiří Moser, Country Managing Partner, PwC CR

CEO mood has improved despite the outlook of the Eurozone still being uncertain on the one hand and the geopolitical situation in Ukraine and in Russia on the other. Slightly more moderate optimism in the medium term likely reflects the fact that the consequences of the threats mentioned, e.g., shortage of contracts, don't have to show this year, but might do so later in the future.

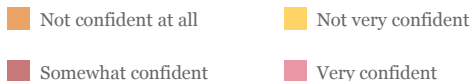
In recent years, concerns about the future prevented investments; but this now means that companies are somewhat flush with cash.

I don't expect interest rates to increase in 2015; but if they do, it will be only moderate. Stress testing and quality evaluation of important European banks turned out positively, but banks surely won't mitigate their strict requirements on applicants for a loan, which is positive. Concessions in this area could lead to another financial crisis.

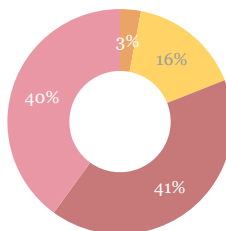
The vast majority of CEOs await that their revenue will grow in the following years



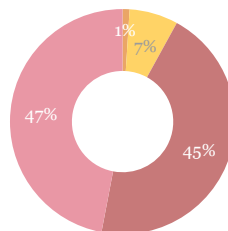
How confident are you about your company's revenue growth prospects over the next 12 months/3 years



Over the next 12 months

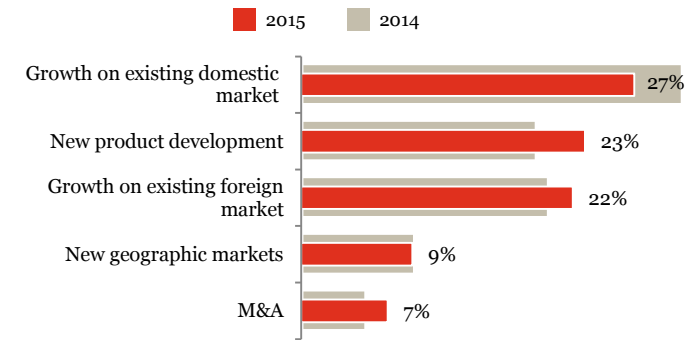


Over the next 3 years



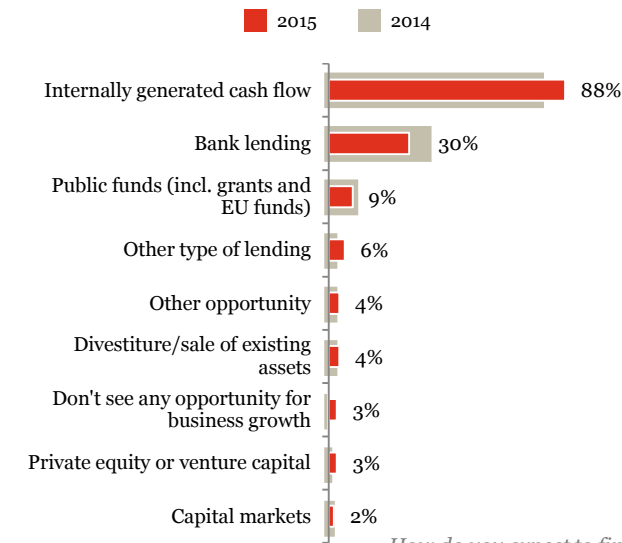
The main opportunity for business development this year is growth in the existing domestic market; number of innovators grows

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



Other opportunities were chosen in this proportion: *Change in corporate culture 5%; Other opportunity 3%; New joint ventures and/or strategic alliances 2%; Don't see any opportunity for business growth 2%.*

Internally generated cash flow remains king, interest in bank lending decreases



How do you expect to finance this growth? (choose all applicable)

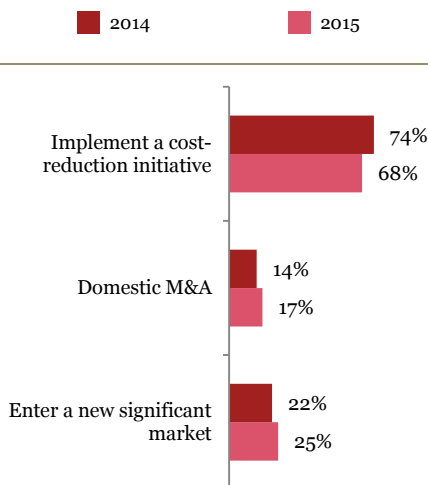


Transactions are coming back to life

Company thinking is no longer a grey choice between savings and expansion. Restructuring steps and strategies have a much broader range of options. Can a company grow and save at the same time? Yes, if savings are not only cuts, but increase efficiency that boosts competitiveness. Expansion strategies then support a variety of forms of cooperation that allow the company to beat its competitive advantage.

CEOs affirm that they are about to end more M&A on the Czech market this year than last year. Also in our praxis, we meet a lot of Czech companies that want to grow by buying a rival company or a company within its production chain.

The most important restructuring activity in the last year was cost reduction



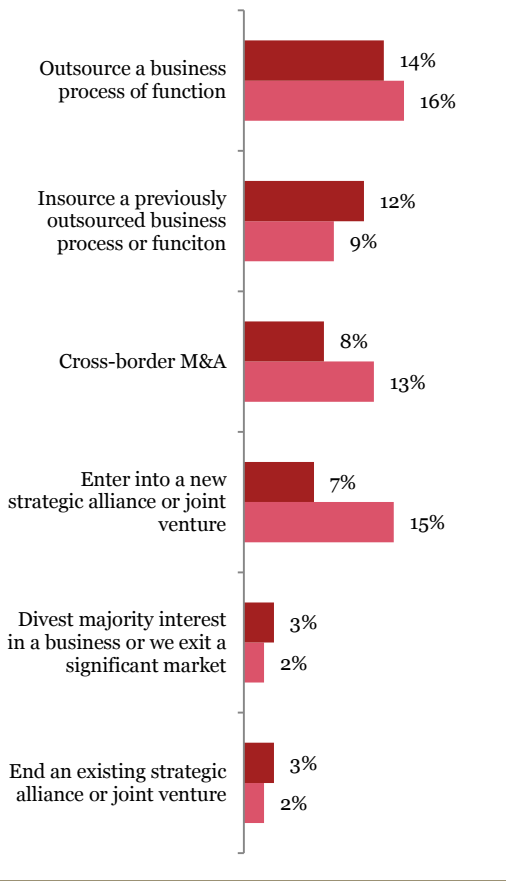
Which of the following restructuring activities have you initiated in the past 12 months/Do you plan to initiate in the coming 12 months?

“Good condition of domestic banks helps transactions. Banks have a surplus of cash and are willing to provide financing under very favourable conditions – for good investment opportunities, they are also willing to cover more than half of the transaction value.”

Miroslav Bratrych, Leading partner Advisory Services, PwC CR

A trend for this year will also be the insourcing of back processes and activities that companies outsourced during the last years and they have found that they lost control over them and the provider abused his position. Companies have also learned how to outsource correctly and CEOs already plan to outsource more than last year.

Which of the following restructuring activities have you initiated in the past 12 months/Do you plan to initiate in the coming 12 months?



Relations with the East are cooling

Approximately nine out of ten domestic companies have activities that are tightly linked with other countries in some form. The development of the Czech crown exchange rate, especially to Euro which is the domestic currency of the largest customers of the Czech economy, is therefore a subject closely monitored by Czech CEOs, as well as geopolitical uncertainties in the eastern Europe.

The good news is that Czech companies can cope with these uncertainties. The growth in new contracts for Czech industry in recent years should be seen as a promise of positive development, at least this year. The cooling of relations due to the Ukrainian conflict won't affect Czech companies fundamentally. However, there is a danger that we will experience the consequences of the Ukrainian conflict in 2016.

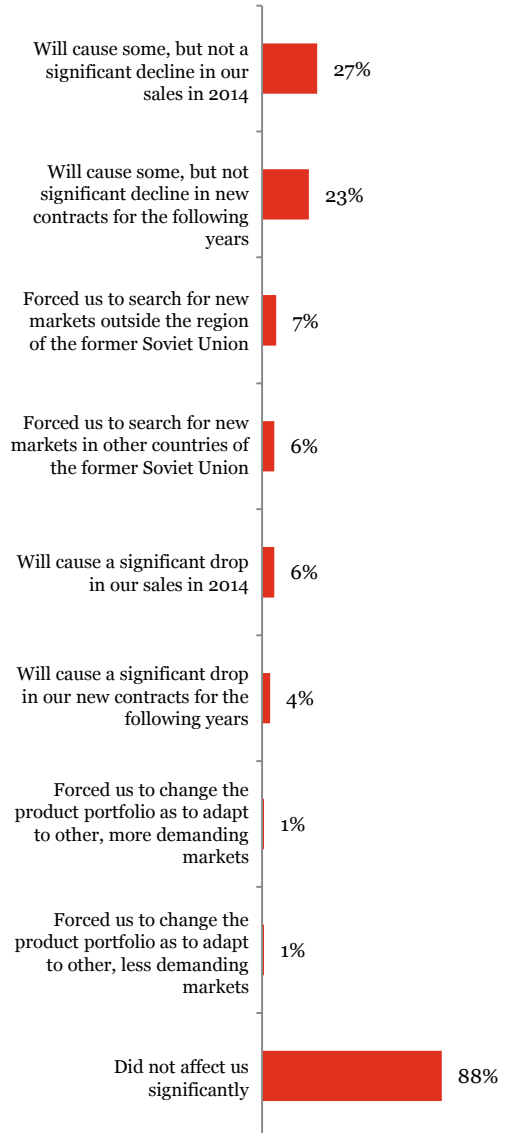
“Long-term evolution of the currency can be estimated by analysts on the basis of market behaviour, but administrative measures are difficult to predict.”

Petr Smutný, Partner, Corporate Finance and Restructuring, PwC ČR

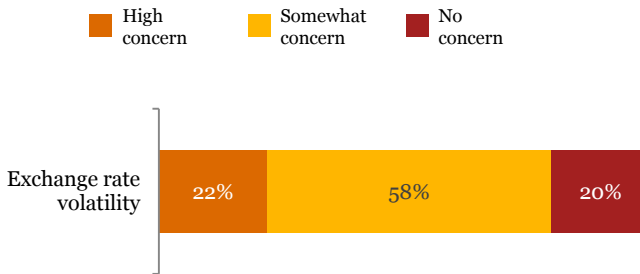
Weakening of the Czech crown by Central Bank intervention the year before last didn't have such a negative impact as some critics had warned. However, it has caused uncertainty among companies regarding the future development.

Ukraine crisis and Russian sanctions did not affect the companies significantly in the Czech Republic by now

Ukraine crisis, incl. Russian sanctions ...



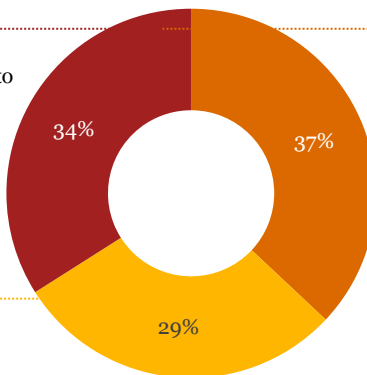
Worries about currency fluctuations also persist this year



How worried are you about currency fluctuations in the following 12 months?

Czech crown weakening pleased the majority of companies in the Czech republic; or at least it did not affect them

Neutral
(does not apply to our business or negatives and positives were equal)



Positively
the predominate impact has been positive (strengthening positions on foreign markets, etc.)

Negatively,
the predominate impact has been negative (higher input prices, insurance, etc.)

How do you feel about the overall impact of the Czech crown weakening on your company?

People and technology

Only 6% of CEOs consider the speed of technological change to be a big threat for their company. Suspecting them of frivolity would not be fair, as 70% of respondents plan to increase investment in digital technologies and nearly 60% of them want to improve use of existing technologies.

“I’m pleased that 15% of companies have increased their investment in digital technologies in order to increase cyber security. I was afraid that it would be even less. I hope that other companies already have these technologies and are now only working on the improving processes.”

Aleš Špidla, Cyber Security Specialist, PwC CR

Processes in companies are being automated. For example, when goods are produced, the warehouseman reads the barcode with a barcode reader.

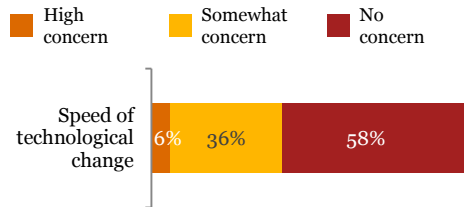
It is automatically saved in a register and an invoice or a guideline for the payment is created. That is why CEOs see the largest area for improvement in terms of increasing the competitiveness in more effective use of technologies and people.

Social media, big data, mobile technologies or cloud can contribute to the composition of a totally new business models. Its introduction in the company is always the decision of the top management who have to be the ambassadors of change.

Better use of the employees’ potential means that terms such as proactivity and creativity will be mentioned more often.

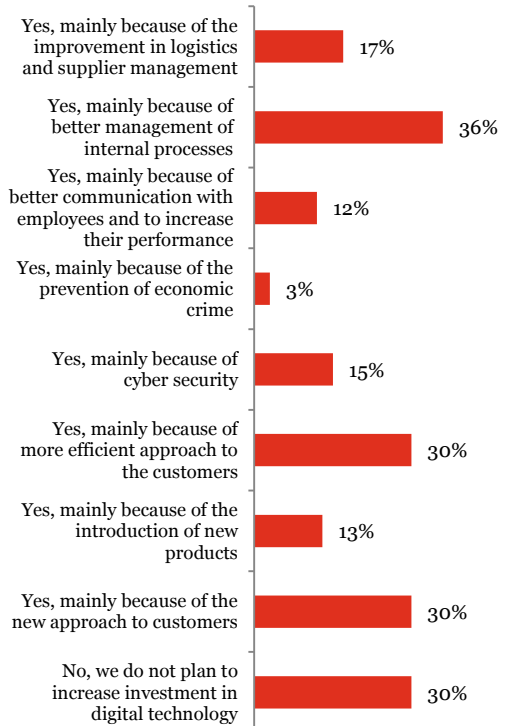
CEOs are not worried a lot about the speed of technological change in the following months

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



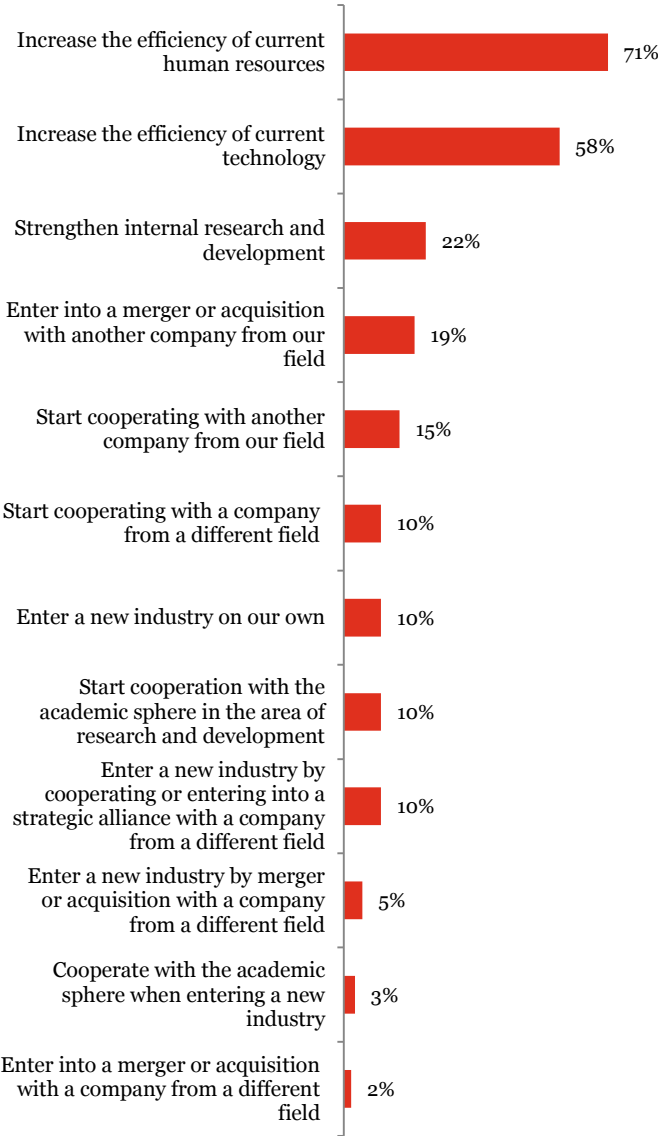
70% of respondents are going to increase investment in digital technologies this year

Are you going to increase investment in digital technology?



Higher efficiency in the use of human resources and technologies will be crucial for increasing competitiveness this year

To increase competitiveness in the upcoming year, we intend to:



Strategic motivation

Almost one half of Czech CEOs are not satisfied with their performance management and remuneration systems. 15% of respondents have recently changed their way of managing performance so that it is in line with the company strategy.

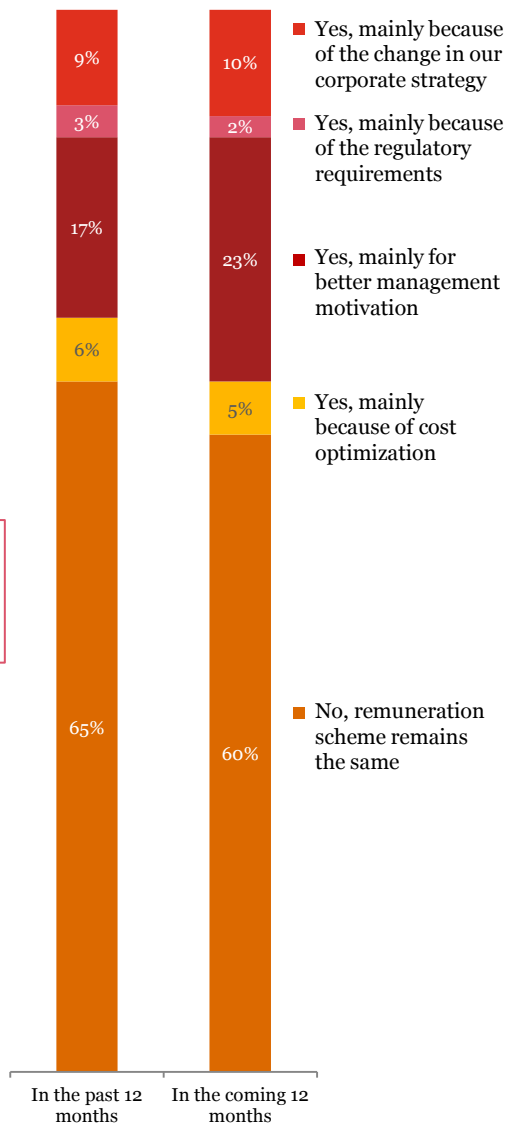
How we work has been dramatically changed over the last years. The output itself is not the key indicator of job performance anymore – areas such as quality, customer satisfaction, innovations or risk management are coming to the forefront. Also, we have to add massive technology developments that affect our work significantly.

“Performance management system will instead be about continual coaching and development rather than ranking.”

Daniel Soukup, HRM Specialist, PwC CR

Recent PwC Survey among leading companies in Great Britain has shown that the traditional system of performance management as we know it today is not intended to be completely destroyed. However, dissatisfaction with its bureaucratic conception, costs and inefficiency is clear. Current performance management systems don't meet their main goals. Those are, e.g., support for company goals, motivation and employees' engagement support and enforcement of specific company values.

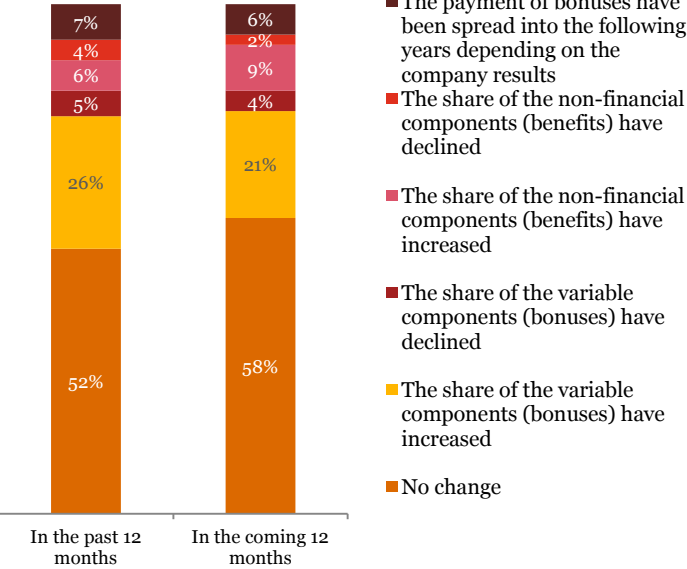
More than one half of CEOs are not considering changing the management remuneration scheme in the Czech Republic



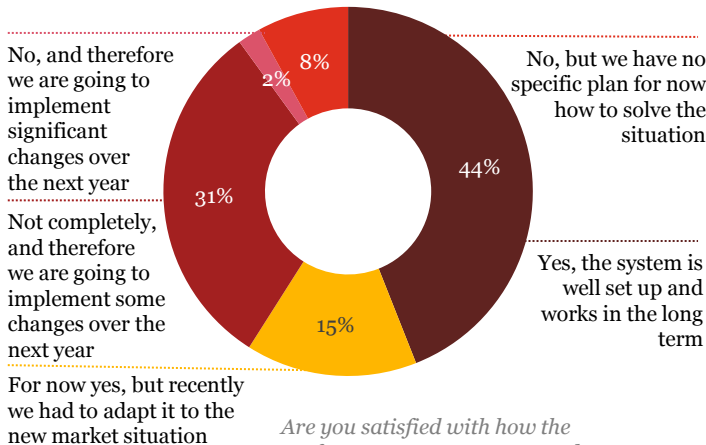
Have you made/are you going to make changes in the method of management remuneration in your company?

More than one-fifth of respondents plan to increase the share of the variable components of remuneration

How has/will the remuneration scheme in your company changed/change?



More than a half of companies changed or plan change the remuneration system



Are you satisfied with how the performance management and remuneration system in your company is connected to the company strategy?

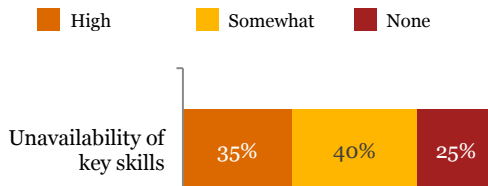
Lack of people ...

Human capital is one of the most valuable assets that CEOs have in a company and they are aware of it. That is why they spent a lot of time taking care of it in the last decade and this year it will also be their priority.

The most important theme is the lack of quality employees in 2015. CEOs are so afraid of this that they consider it to be a greater threat for their business than an unstable legislative environment or high tax burden and corruption.

In the context of the pressure on efficiency, companies will orient intensively on workforce planning not only in terms of the number of employees, but also in terms of gaining necessary experience and knowledge. CEOs will consider a variety of forms of flexible arrangements that will allow the company to manage costs flexibly.

The three-fourths of companies are worried about the availability of key skills in the next 12 months



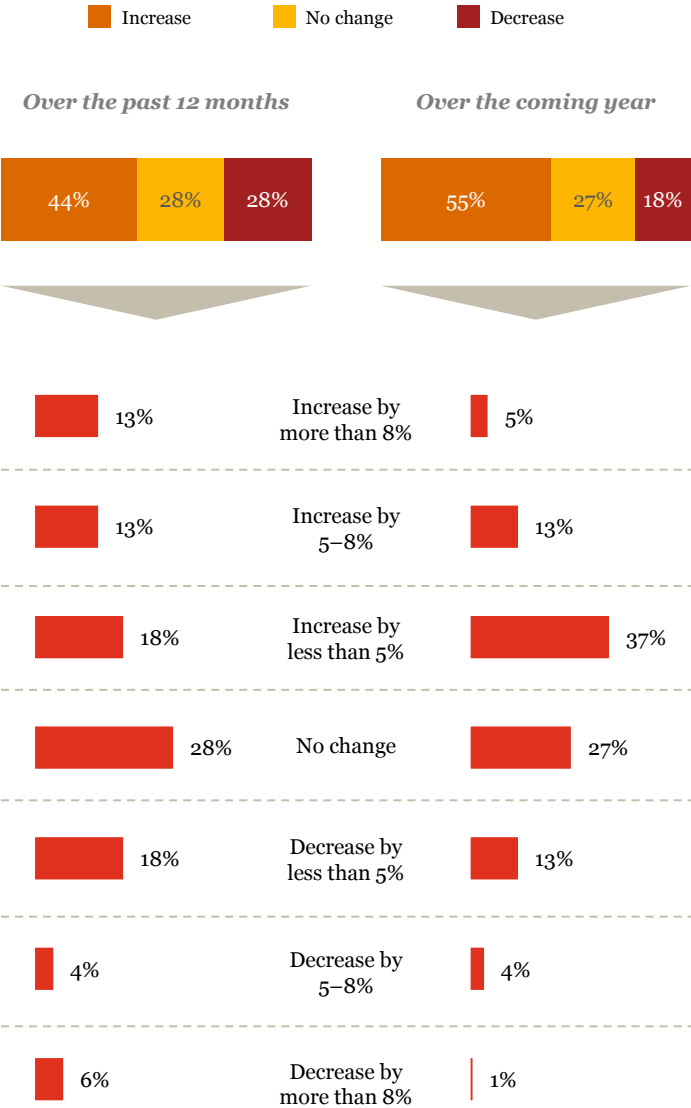
How much are you afraid of the unavailability of key skills for your company in the next 12 months?

“Companies analyse the conditions for obtaining and retaining key people in detail – how many of them they need and what rival companies offer.”

Daniel Soukup, HRM Expert, PwC CR

Most of them plan to increase or at least maintain the current staff level. Such conditions favor the growth of wages. Companies giving general increases in wages is over; companies now analyse in detail the work done so they can identify key employees for salary increases.

Companies plan to increase the number of employees more often than last year



How has headcount in your company changed over the past 12 months and what do you expect over the coming year?



Thinking globally

The Czech Republic is a small open economy that is tightly connected with the world abroad. This corresponds to demands, which CEO's are waiting for, that the market will have from them in the following years. The main necessity is to think globally and understand the local consequences for the Czech Republic.

Czech companies and their managers are quite flexible. They can feel local and global opportunities as well as the consequences of their decisions. Equally important is for them the ability to innovate. CEOs are demanded to support the innovative culture in the company. We expect that there will be too few suitable employees, which will make these people more valuable.

“Czech companies will have to focus on products with high added value, so that they could pay their experts.”

Věra Výtvarová, Leading Partner, Assurance Services, PwC CR

CEOs feel much more confident when managing changes and they are even seeking them actively. They also do not avoid a greater number of dramatic changes realized in a short time horizon.

Changes and a volatile environment are no longer considered to be a necessary evil, but are instead seen as a new opportunity. Also, leaders feel a better consistency between setting strategy, performance management and remuneration.

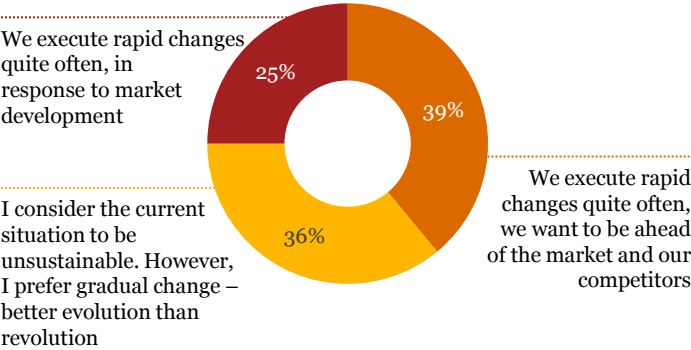
The most appreciated leader skill will be to think globally



How do you think the requirements for leadership will change in the following 5 years? Demands that will increase the most are on the ability to:

The majority of companies make rather rapid than gradual changes

Which of the following statements complies to you?



Money from Brussels mostly for innovations

Approximately one half of CEOs want to make use of EU money this year. The new 2014–2020 programming period should mean more money for research and innovations. Conditions for drawing the money will be significantly different than last years, especially for big companies. From negotiations on the form of operational programmes, it follows that small and medium-sized companies are the priority.

“Subsidies which will be available in Czech operational programmes will primarily go to small and medium-sized companies. However, it does not mean that big companies could not apply for money from EU programmes distributed directly in Brussels.”

Karel Půbal, Director, Advisory Services for the Public Sector, PwC ČR

In total, there should be more than 24 billion Euro available in the EU programmes for research and innovations and not only for small and medium-sized companies, but also for the large ones. These funds should generate up to 48 billion Euro investment value into research and innovations in the corporate sphere.

Companies should reckon with the fact that, instead of a subsidy, the forms of repayable financing will increase and companies will have to take this fact into consideration. Although the programming period covers the years 2014–2020, we do not even know the exact form of support from the EU in some areas in the beginning of 2015.

Almost half of companies do not draw money from EU funds

In 2015, our company plans...

Draw more money from EU funds, because we changed our business model or implemented activities that will enable the better use of European money

Draw more money from EU funds, because the new programming period priorities **are more suited** to our needs

6%

3%

8%

20%

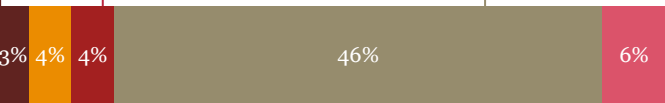
Draw more money from EU funds, because it will be easier than in recent years

Draw about the same amount of money from EU funds as in recent years

Draw less money from EU funds, because priorities of the new programming period are inadequate for us

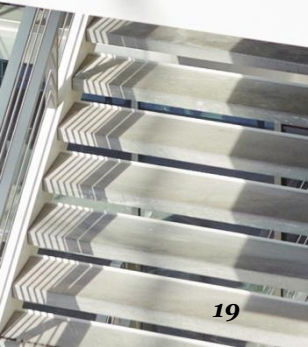
Draw less money from EU funds, because we ended or reduced activities for which money from the EU can be used

We do not use money from EU funds and do not plan to start in 2015



Draw less money from EU funds, because it will be more difficult than in past years

We lack information



Although complicated, the state is our partner

Paying taxes in the Czech Republic is, according to CEOs, not easy. More than a quarter of respondents have also stated that they are even under greater scrutiny by the tax office. Still, the vast majority of leaders consider a good relationship with the state to be a priority even at the cost of a higher tax burden.

“The state as well as the tax office should approach companies that pay taxes honestly, the same way as good customers.”

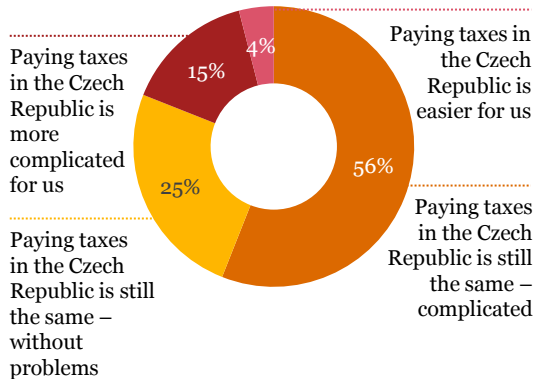
David Borkovec, Leading Partner, Tax and Legal Services, PwC CR

The survey clearly shows that the tax burden is not liquidating companies in the Czech Republic. We do not expect a significant increase in rates or the overall tax burden in the following two years. However, it is likely that some planned changes could increase the administrative burden of paying taxes in the Czech Republic. A common study of the World Bank and PwC “Paying Taxes 2015” ranked the Czech Republic 119th in this challenge.

Our experience shows that the possibility to calculate the tax base in compliance with international accounting standards (IFRS) would help foreign companies as they already conduct their accounting under those standards. This possibility is at least the first step for financial institutions. Another simplification could be the digitalization of taxes.

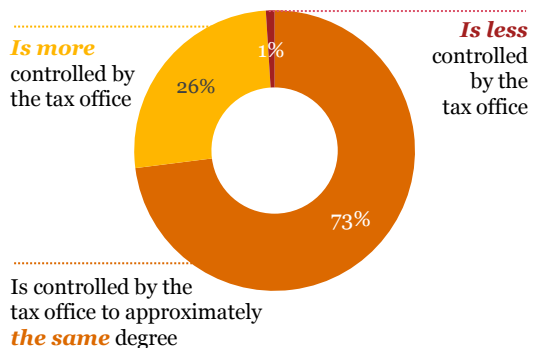
Difficulty of paying taxes in the Czech Republic has not changed a lot ...

In comparison to the conditions 3 to 5 years ago:



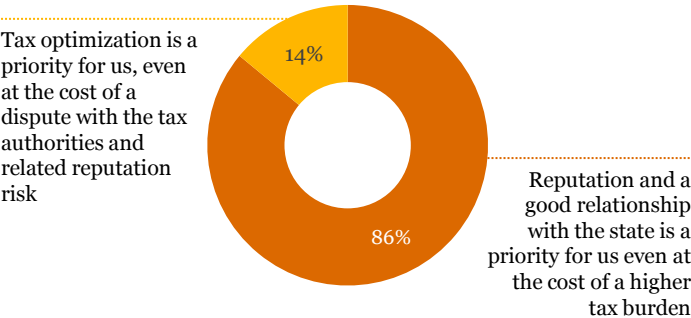
... as scrutiny of tax office controls has been approximately the same

In comparison to the conditions 3 to 5 years ago, the company you manage:



Reputation and a good relationship with the state are priorities for companies

With which of the following statements do you agree more:



Less dissatisfied CEOs

Companies are more responsive towards public administration and they perceive the evolution of relations with the state rather positively.

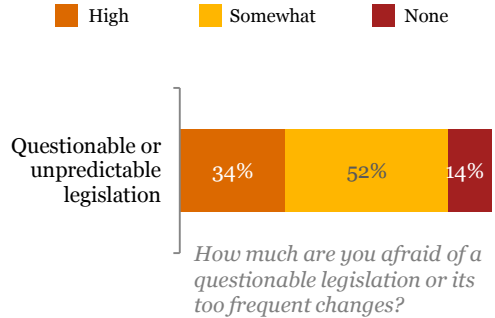
The biggest problem, however, remains the administrative burden in the Czech Republic. Key opportunities for innovations for the public administration are: control mechanisms, processes, motivation and evaluation of people. Yet, we did not notice any changes in these areas last year. Despite those facts, CEOs consider public administration to be more stable than the year before.

“Companies perceive public administration positively which is related to the general appeasement of the economical and political situation in the Czech Republic.”

Karel Půbal, Director, Advisory Services for the Public Sector, PwC CR

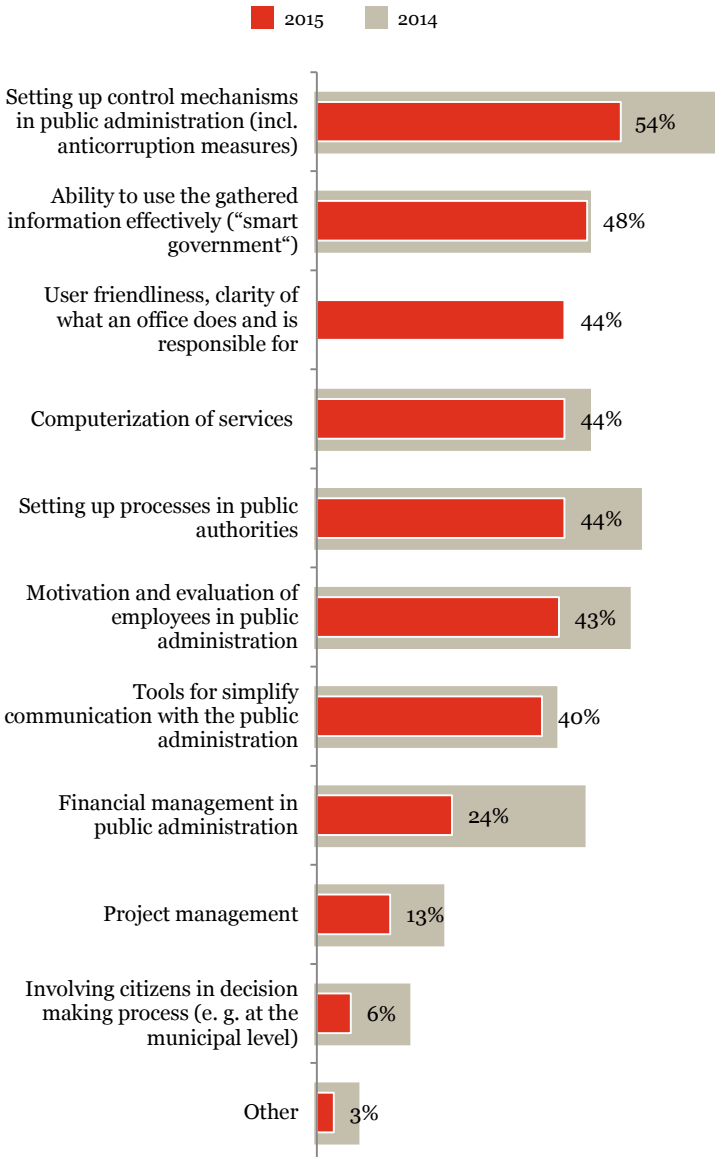
Control mechanisms, efficient processes and employee motivation are, according to CEOs, the main areas that should be targeted when innovating in the public sphere. Whole mechanisms stand on people and their approach. Changing culture towards performance orientation, set performance-oriented goals and linking them with remuneration could be the first step to greater efficiency of public administration.

Questionable or unpredictable legislation is a threat for overwhelming majority of the CEOs approached



Public administration should innovate primarily in setting up control mechanisms

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



About the Czech CEO Survey

This is the sixth 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 151 Czech business leaders follows the Global CEO Survey that PwC has executed for 18 years. Its results are traditionally published at the World economic forum in Davos in Switzerland.

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