2013

Czech CEO Survey

Key Findings

How to navigate through economic turbulence

pwc

Introduction

For the fourth year in a row, we have interviewed top representatives of leading firms active in the Czech market. A total of 109 Czech business leaders participated in this year's Czech CEO survey. This local report is a follow up on PwC's 16th annual Global CEO Survey, unveiled at the World Economic Forum in Davos, Switzerland.

The Czech CEO Survey 2013 shows that local CEOs share an optimistic outlook for the mid-term future. To achieve growth over the next three years, they need to be working on it now. They are busy consolidating their resources, recruiting and retaining key personnel, and inventing new ways to attract customers. At the same time, an increasing number of CEOs are also looking to expand outside of the Czech Republic.

Jiří Moser

Country managing partner

PwC Czech Republic

jiri.moser@cz.pwc.com

+420 251 152 048

Pavel Heřmanský

CEO Survey project manager

PwC Czech Republic

pavel.hermansky@cz.pwc.com

+420 251 151 827

Title

Improvement within three years
90% of CEOs are confident that they will see their business revenue grow over the next three years.

Growing competition for customers
60% of CEOs want to implement major changes in their strategy for attracting new and retaining current customers.

Return of financing through banks
48% of businesses are planning to fund growth this year through bank loans.

Czech companies outgrowing the local market
33% of CEOs see their main growth opportunity outside of the Czech market.

Efforts to improve cost-effectiveness and reduce costs continue
49% of surveyed CEOs plan to continue cost-saving measures.

Unstable economy remains the greatest threat
78% of CEOs continue to fear the unstable global economy.

Key skills for growth
37% of CEOs are concerned about the lack of key skilled personnel in the Czech market.

Firmly in control
Only *15%* of CEOs involve their employees in making strategic decisions about their business.

Innovation support through tax incentives
78% of CEOs want tax incentives to stimulate innovation.

We do not expect much from the government…
Only *10%* of CEOs believe that the Czech government is working on decreasing the administrative burden on local businesses.

www.pwc.cz/ceoagenda

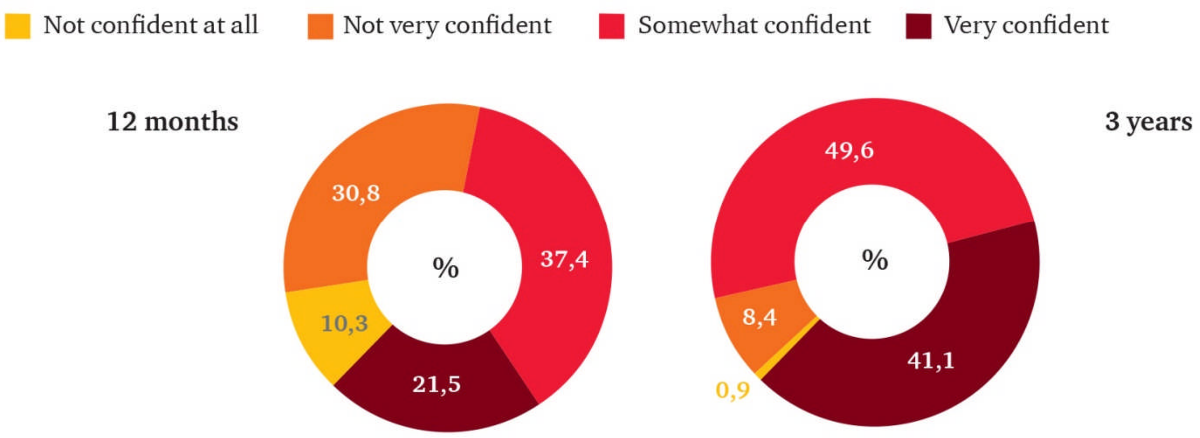
Improvement in three years

Czech CEOs are traditionally a little less optimistic about their future outlook than their global counterparts. Their responses are also marked by the extreme uncertainty that is currently prevalent in the Czech market. Many CEOs are not sure what to expect in a year from now. The good news is that there are more CEOs who expect their situation to improve this year (59% expect their revenues to grow) than those who expect to be worse off (41%). However, only 22% Czech CEOs are very confident about their growth this year, while the global average is 36%.

Czech CEOs are more confident about the mid-term outlook: nine out of ten are somewhat confident that their business revenues will grow over the next three years. This matches the expectations of CEOs globally, while CEOs in Western Europe are bit more conservative: 80% of them are somewhat confident about their business revenue growth in three years.

Czech CEOs are working now to better position themselves for future growth., incl. accumulating the sources they will need them for future growth. A number of CEOs listed the search for resources in their plans for this year. Merger and acquisition activity has subsided – we have not seen as many deals between companies at the same level – but some businesses are acquiring firms with a specific skill or offering that will allow them to differentiate themselves in their quest for customers.

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



"Survey results show growing optimism. CEO confidence in revenue growth, particularly in the three-year horizon, is in line with the forecasted economic revival expected globally as well as in the Czech Republic in 2014."

***Jiří Moser**, Country managing partner, PwC Czech Republic*

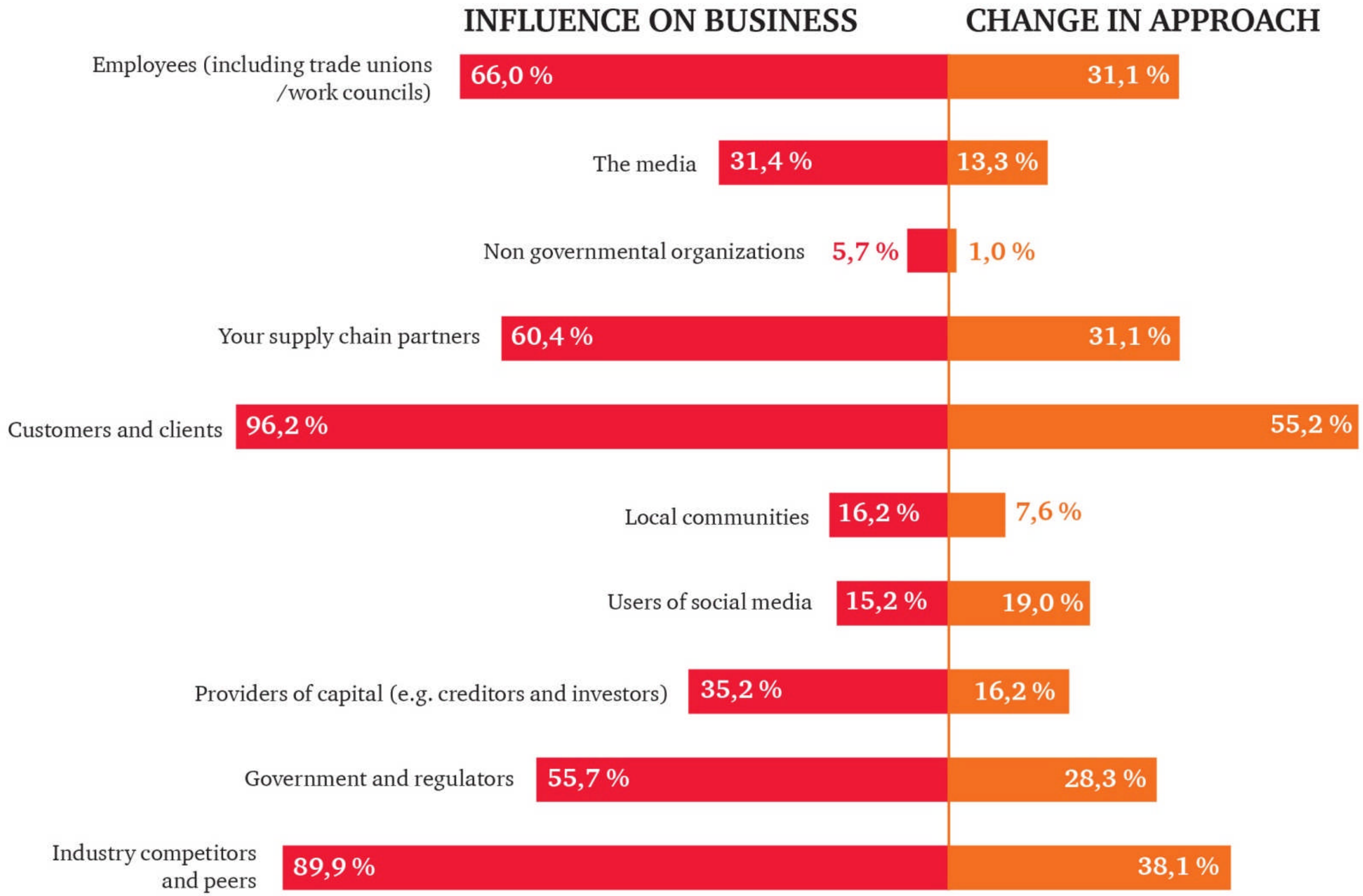
Competition for customers

Nearly half of the CEOs surveyed fear that a shift in customer spending preferences may be the key factor impacting their business this year. Customer preferences are changing rapidly and they are growing increasingly sensitive to price. As a result, retaining current customers and attracting new ones is a key task for Czech CEOs.

Customers are losing their brand loyalty and expect continual innovation and improvements. The majority of CEOs consider their best strategic opportunity for business growth to be in new product development, similarly as last year. One third of CEOs see their best opportunity for growth in research and development or in improving their company's innovation potential. Another third of respondents value broadening their customer base.

A total of 60% of CEOs plan to implement major changes in their strategy for attracting new customers and boosting customer loyalty. At the same time, 38% of CEOs plan major changes in their corporate strategy this year. Many of these changes require a shift in corporate culture, but less than one tenth of companies are planning cultural change initiatives. Just over 10% of business leaders consider a transformation of their entire organisation to be a strategic growth opportunity. This attitude is somewhat paradoxical, as major strategic changes must also involve new thinking by employees and a new work attitude. Not all Czech CEOs realise that yet, but those that do will have a competitive advantage.

Which of the following stakeholders have the greatest influence on your business strategy? To what extent are you changing your approach to them in the coming 12 months?



"The two factors that have the greatest impact on business are customers and competition. CEOs plan changes primarily in their customer relationships. They also want to differentiate themselves from their competition."

***Patrik Horný**, Partner, Advisory services, PwC Czech Republic*

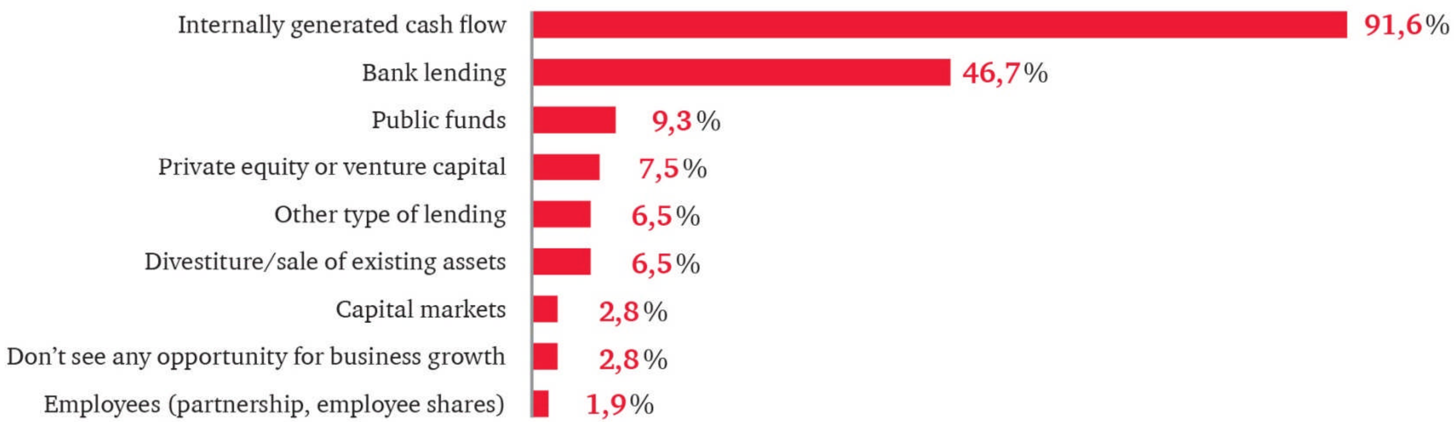
Return of bank lending

Companies need to finance their planned growth and a solid internal cash flow is typically one of the requirements. Businesses have faced cash flow difficulties over the last few years and been often forced to abandon activities that were too costly and did not generate enough funds. This process has both freed up their cash capacities and put them in a healthier financial position. The “cleaned-up” businesses are now in a better position to negotiate with banks and other lenders about sourcing external funding as well.

The number of Czech CEOs planning to fund their growth through bank lending this year has grown by more than a half over last year. While last year, only 28% of CEOs were planning a bank loan, this year it is almost a half of those surveyed (48%). As internally generated cash flow is typically one of the prerequisites, 92% of businesses plan to invest it in their growth this year, as compared to 83% last year.

While a half of all CEOs believe that state financial support could improve the Czech Republic’s investment potential, not many of them actually use public funds for their business growth. Only 9% of CEOs plan to use public sources for funding this year – however that is an improvement from last year’s 2%.

How do you expect to finance your growth?



“Local companies remain conservative about their financing, which is not necessarily a bad thing in these turbulent times. Just like in our previous surveys, funding through internally generated cash flow is dominant, followed by bank lending. This shows that a number of businesses have sufficient cash reserves and that they trust the Czech banking system, which was able to support the Czech economy throughout the economic crisis.”

***Petr Kříž**, Leading Partner, Financial Services, PwC Czech Republic*

Local companies outgrowing the Czech market

One third of the surveyed CEOs see a strategic opportunity for business growth outside of the Czech market. A total of 19% of companies plan to expand in their current foreign markets, which is slightly more than the share of companies that see expanding in the domestic Czech market as their strategic growth opportunity (18%). Another 14% of CEOs consider a geographic expansion into new markets to be their best growth opportunity.

A total of 12% of CEOs are planning a foreign merger or acquisition this year. Last year, 9% of them concluded such a transaction.

Globally, the majority of CEOs consider their best strategic opportunity for growth to be an expansion in their domestic market, but this is primarily affected by CEOs from large economies that still offer opportunities for organic growth. PwC's Family Business Survey, on the other hand, showed the importance of foreign expansion for family-owned businesses in all countries. According to the survey, more than two thirds (67%) of family businesses export a part of their production abroad and within the next five years, this number is expected to grow to nearly three quarters (74%). Family businesses expect that their exports will account for up to 30% of their revenue in the next five years.

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

"As the pressure to keep fixed costs low continues, more local companies find that the Czech market is becoming too small for them. Logically, they are looking to expand abroad, which allows them to offer their products to a broader customer base. While some producers, for example in software, simply need to translate their product and it is practically ready for the new market, producers of more classical products need to consider many specific aspects of the new markets, ranging from cultural differences to regulatory issues."

***Petr Zmátlík**, Director, Private company services business consulting, PwC Czech Republic*

Effort for greater effectiveness and savings continues

When choosing the most significant opportunities for business growth, most CEOs selected improving the operational effectiveness of their business, over growing their customer base or investing in innovation. While greater effectiveness by itself cannot guarantee growth, this answer does not surprise us.

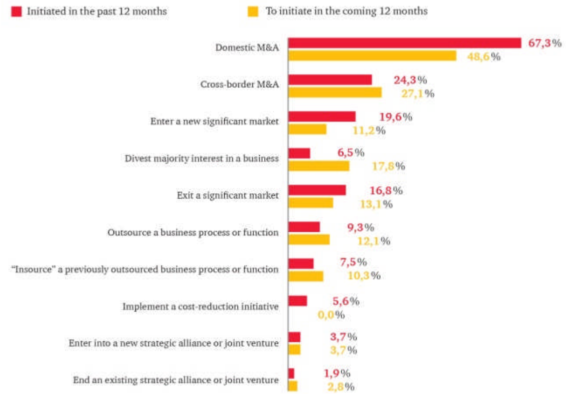
While practically nobody is talking about a crisis, rather about uncertain economic times, cost reduction remains one of the top priorities for CEOs. Last year, 67% of companies implemented cost-cutting measures and nearly a half of our respondents are planning them this year.

CEOs realise that simply reducing costs does not automatically lead to success. They are looking for new ways to collaborate within their supply chain to get ahead. Businesses are turning away from outsourcing, popular over the past few years, and some are even insourcing some previously outsourced functions. The emerging trend this year is to enter into a new strategic alliance or joint venture. While last year 7% of businesses chose such partnership, 18% of companies are planning it this year.

CEOs realise that although it is not necessary to undertake a merger right away, cooperation with others can be mutually beneficial, whether in their production chain, when entering new markets, or negotiating prices with suppliers and customers.

What are your top opportunities for business growth over the next 12 months?

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



"While during the crisis, businesses had to improve their operational effectiveness and cut costs in order to survive, CEOs continue to see opportunities for further improvements in this area. Let's hope that they won't simply try to lower their costs, but will aim to actually manage them."

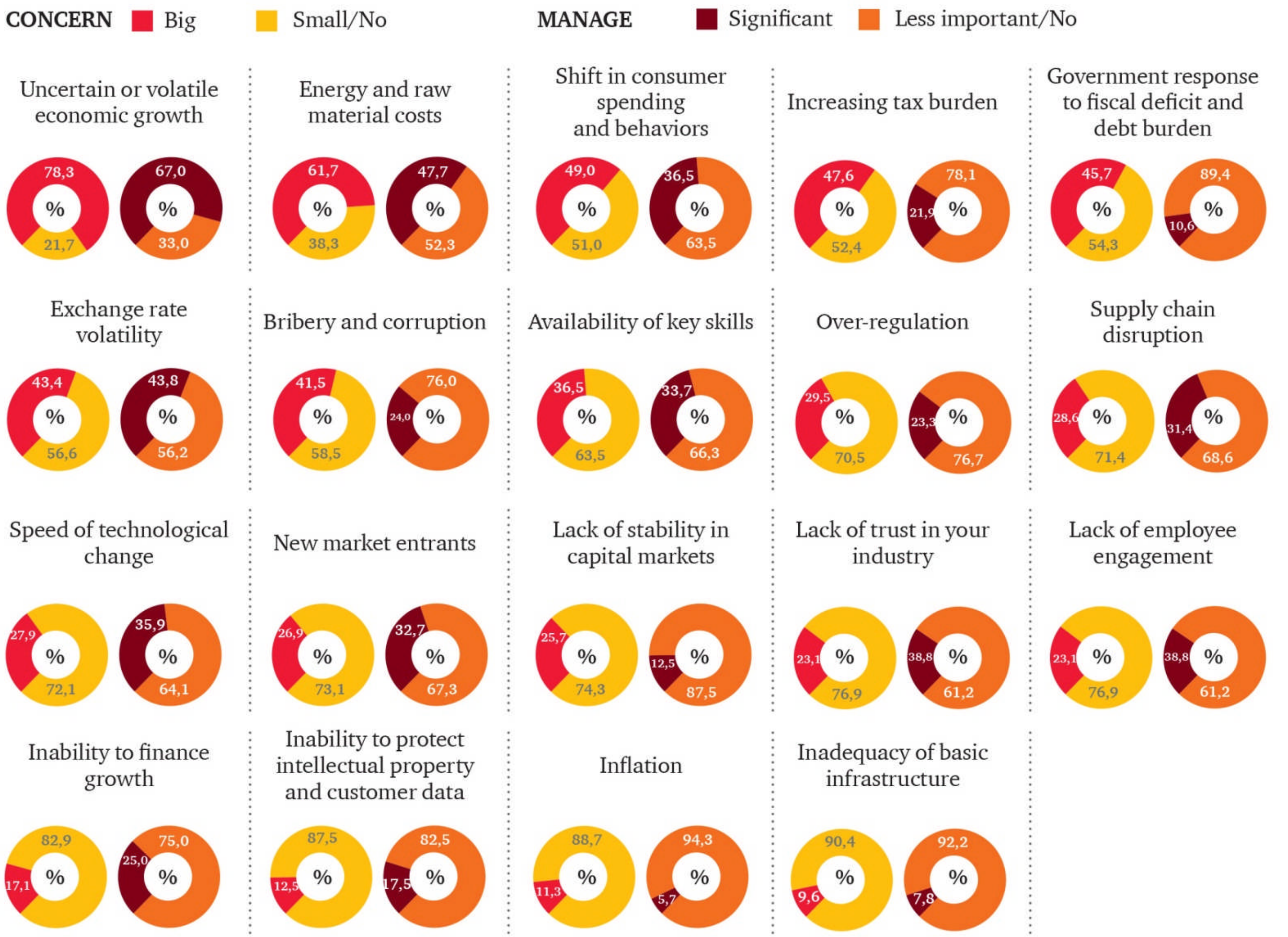
***Petr Smutný**, Partner, Corporate Finance and Restructuring, PwC Czech Republic*

Unstable economy still the greatest threat

CEOs are confident when it comes to their prosperity and the ability of their businesses to compete. They fear primarily external factors over which they have little influence: global economic developments, volatile exchange rates and raw material costs. Nearly four fifths of Czech CEOs see uncertain or unstable economic growth as their greatest business threat this year. There is uncertainty about the Czech economy, and primarily about what will happen with the debt crisis in Europe. CEOs are also keeping an eye on important economies such as the USA, China, or India. As far as Czech economy is concerned, CEOs believe that its greatest issue is lack of consumer trust and dropping domestic demand.

CEOs want to combat unstable economic growth with innovation. Nearly one fourth of businesses plan to introduce new products or services this year. However, most businesses are looking for new, cheaper and more efficient ways to produce or distribute their current products and to reach a greater customer base. Due to the small size of the Czech market, this strategy can hardly lead to a long-term increase in the Czech Republic's ability to compete internationally.

Which of the following potential business threats represent key risks that your company plans to manage in the next 12 months?



"CEOs are most worried about factors that they have no control over. Our experience from our past surveys confirms that. Many CEOs admitted that while they were able to firmly manage their companies through unstable times, they often felt disconnected from outside economic developments that they had to react to."

***Jiří Moser**, Country Managing Partner, PwC Czech Republic*

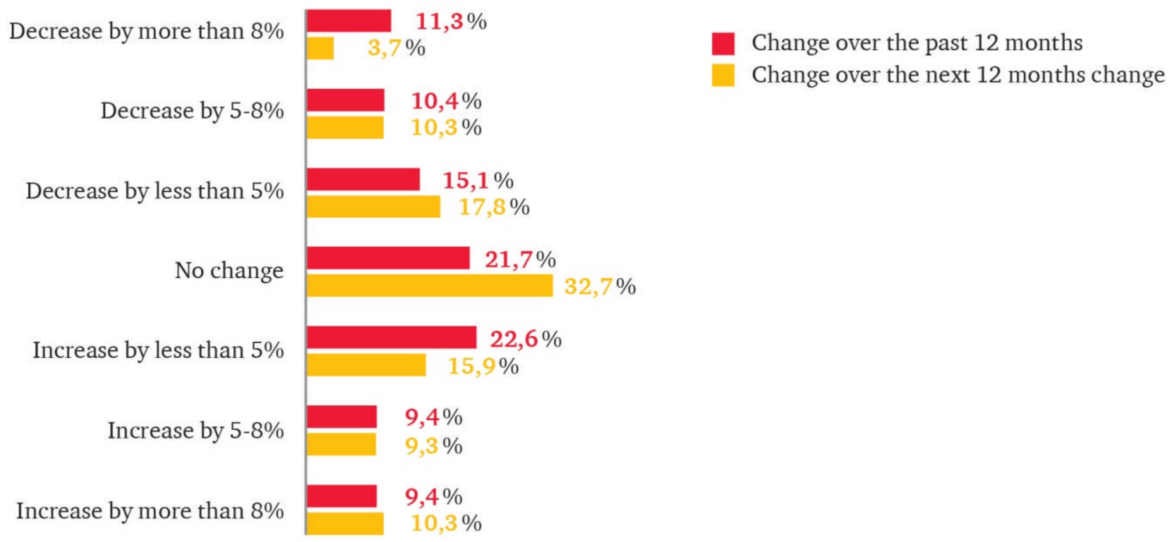
Job market calming down

Czech businesses, similarly to their global counterparts, are not planning major changes in headcount this year. As compared to last year, fewer companies plan to hire or to let people go. The good news for employees is that, overall, more businesses plan to hire than to cut staff.

CEOs realise that despite the high numbers of unemployed, it remains difficult to find certain experts or experienced managers. More than a third of respondents (37%) are concerned about the availability of key skills in the market. At the same time, they realise that the current economic situation does not allow them to offer major financial incentives, so they are looking for other ways of motivating employees. Nearly one fourth (23%) of CEOs see a lack of employee engagement as a key threat for their business this year.

However, as nearly all CEOs surveyed are planning to grow their business over the next three years, they will need to start training the needed expert staff now. Even in relatively low-tech areas, training staff can take 1-2 years, but technologically advanced fields require an average of 3-5 years of training, and for example the energy sector needs 5 to 7 years. Companies can choose to train their expert staff themselves or try to hire them away from their competitors.

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



"Companies are starting to make an effort to evaluate their business from the perspective of what is going to happen in the next three to five years. If they want to grow, they need to start securing the needed personnel now. They are asking themselves: What kind of people are we going to need? They do realize that the required expertize and skills will differ somewhat from what they need right now."

***Libor Stodola**, Senior Manager, Human Resources Management, PwC Česká republika*

Firmly in control

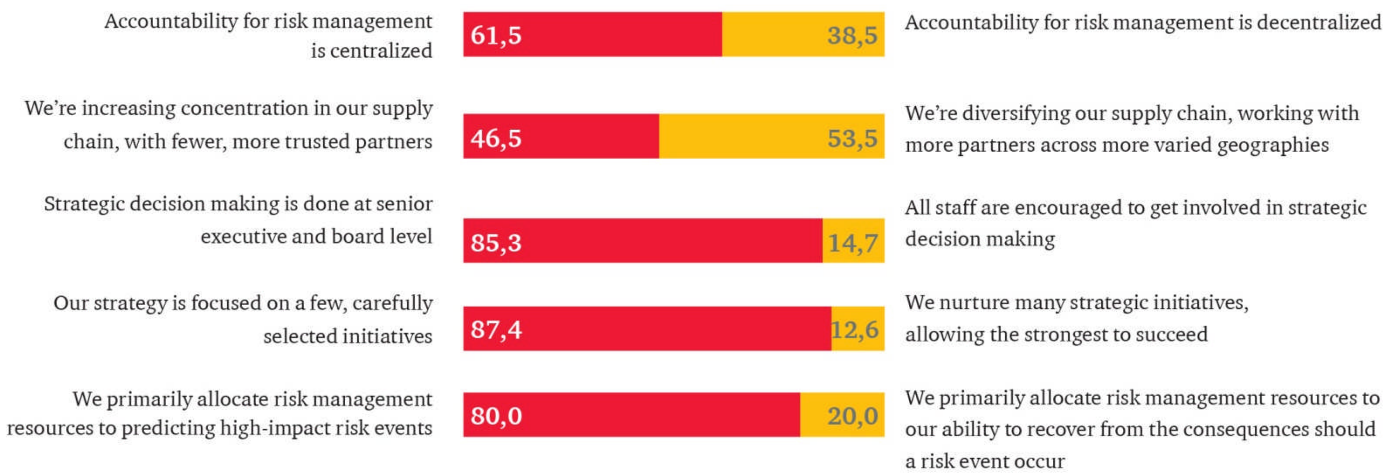
In these uncertain economic times, day-to-day company management can feel practically like crisis management. It is no wonder that CEOs are trying to stay firmly in control of their strategic decision-making and focus their strategy on only a few select initiatives.

Businesses are trying to shrink their organisational structure not just to save money, but also because excessive middle management tends to hinder information flow through the company. Top managers now have a greater number of direct subordinates and need to be able to delegate effectively. This increases the importance of both formal and informal management training and development. Businesses have to choose the best strategy for developing their future top managers.

Active succession planning and development programs that involve entry-level managers in strategic decision-making are some of the most successful management development efforts in Czech businesses. Our survey shows that businesses have a designated successor only for every other key role in the company – they need to train new ones for all the rest.

Only one fifth of businesses have a sufficient connection between their corporate culture changes and their management development programs. This might mean that top managers are not doing enough to visibly endorse the corporate culture change. However, they need to realise that such change is not possible without their active engagement.

From each of two statements, select the one that better describes your approach to managing your organisation



"Businesses only have a chosen successor for every other key role in their organisation. They need to train new ones for all the rest. We expect that the issue of succession will grow in importance not just in the case of family businesses, where the stakes include property transfer and control, but also in case of corporations, in order not to disrupt the continuity of their functioning."

***Věra Výtvarová**, Leading Partner, Assurance services, PwC Czech Republic*

Tax incentives for innovation

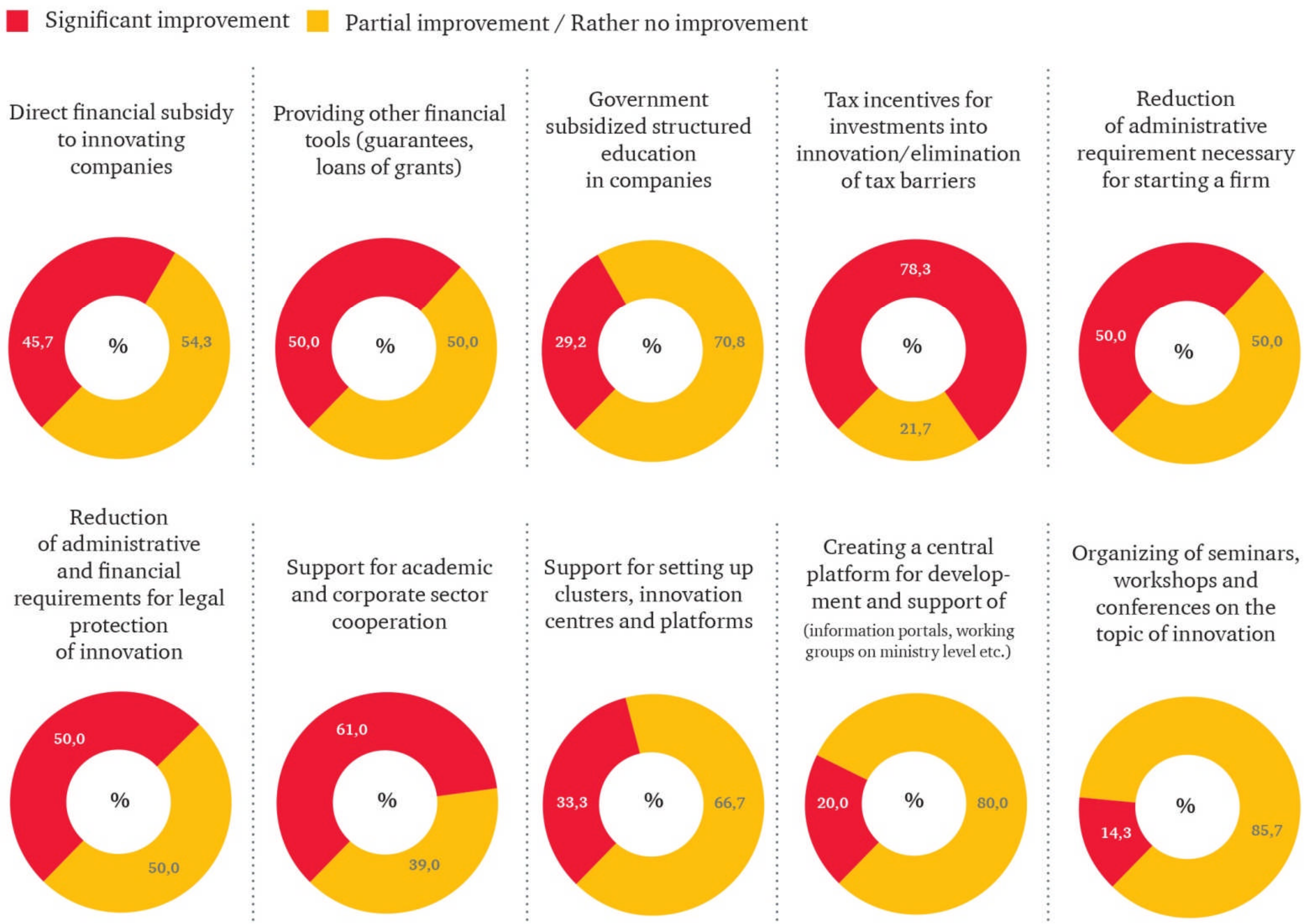
Local companies are not looking for state subsidies to support innovation, but would find it helpful if taxation and excessive administration were not driving their innovation costs up. CEOs see a possible solution in being able to use investment in innovation as a tax deduction.

CEOs believe that the government is not doing enough to support collaboration between public, private and educational sectors. Cooperation between businesses and schools is left up to their own initiative. Stronger support for such connections could improve the competitiveness of the Czech economy, CEOs say. They also believe that the Czech education system does not produce graduates with qualifications that reflect the needs of today's job market.

CEOs in our survey do not see value in some activities that are supposed to stimulate innovation, such as seminars or state-designed clusters and innovation centres.

According to our survey, more than one third of companies plan to increase their investment in research, development, and innovation, and nearly half of our respondents expect to invest in new technology. Companies plan to fund their investment and growth with their own capital and through bank lending. CEOs believe that the state is not doing enough to support investment in businesses with a high innovation potential and know-how.

Which of the state measures below could help to increase innovation potential of the Czech Republic?



"Nearly 80% of CEOs are calling for tax incentives for innovation, but they do not realise that our tax system already offers them such treatment. This shows that it's not always necessary to change tax laws – the state should put more effort into promoting the incentives that are already in place."

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

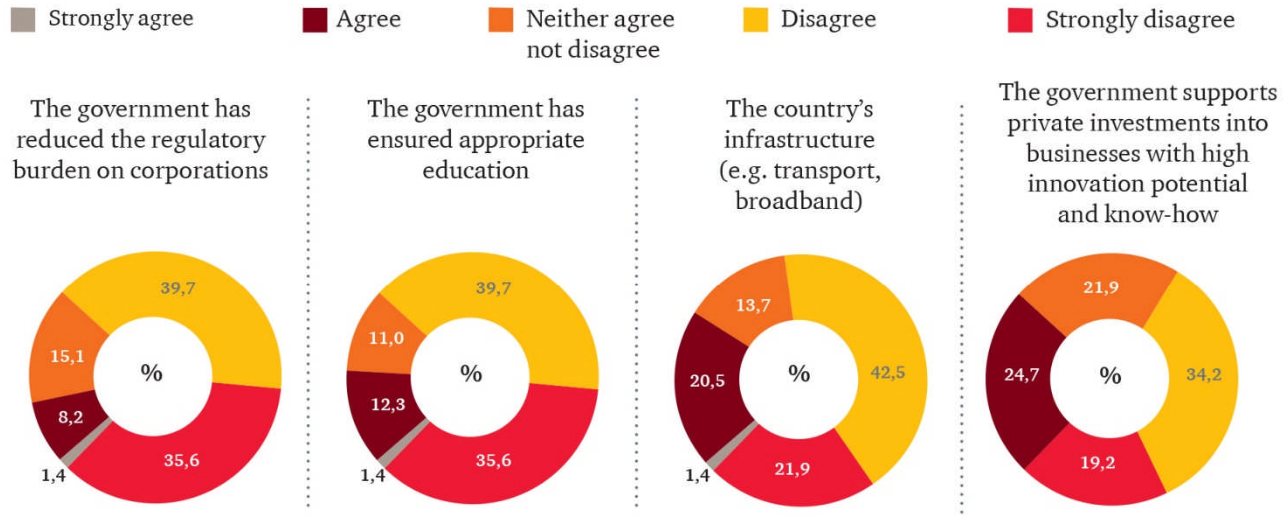
Not expecting much from the government

Two years ago, we asked the CEOs in our survey if they thought that the current government would reduce the regulatory burden on Czech businesses. Nearly one third of CEOs thought it would. This year, we asked them whether they thought that the government was in fact reducing the regulatory burden, and less than one tenth of our respondents thought so.

86% of CEOs pointed out that difficulties complying with legal regulations have had a negative impact on their business.

CEOs believe that the state is insufficiently supporting investment. Rather than direct subsidies, they would prefer tax incentives. Such support would be more transparent than providing subsidies directly to selected companies. Increasing transparency in public administration is something that our CEOs clearly want. At the same time, they also warn that controls and procedures in public administration are not set up correctly.

Do you agree with the following statements about the role of the government in the Czech Republic?



"The greatest opportunity for innovation in public administration is the reform of administrative procedures and control mechanisms, including anti-corruption measures. CEOs would prefer this over innovations over innovations in the social sphere, transportation and safety in cities. To some extent, they even prefer this over introducing electronic services to the public – so called smart public administration."

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