Overcoming obstacles together

2nd Hungary CEO Survey

6 March 2013

www.pwc.com/hu/ceosurvey
In Hungary

82%

Globally

97%

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About the survey

In 2013, more than 170 companies from seven industries took part in the second Hungary CEO Survey prepared by PwC, the world’s largest professional services network. The survey is based on personal interviews with CEOs conducted between October and December 2012 with the aim of presenting the views, concerns and future plans of the most important industry leaders in the Hungarian economy.

We prepared our survey based on the 16th Annual Global CEO Survey that PwC published earlier this year. For the global survey, PwC polled 1,330 CEOs in 68 different countries about the challenges posed by the current economic environment and future global growth opportunities.

In this report, we present the results of both the Hungarian and the global survey in order to provide a comprehensive picture of where the CEOs of market-leading companies see growth opportunities in Hungary and abroad.

We want to thank the more than 170 CEOs for taking part in the second Hungary CEO Survey, and for sharing their views with us. Our aim is to make the survey a tradition, and to present a comprehensive picture of the global and Hungarian prospects every year, as seen by Hungarian CEOs.
We are pleased to have prepared the Hungary CEO Survey for the second time this year, in which we gauged the opinions of the most influential Hungarian CEOs. Based on the conclusions drawn from the first survey, I’m not the only one who had high expectations of the 2013 survey.

The responses have shown that Hungarian CEOs are somewhat more confident than last year about their growth prospects for the next 12 months. Globally, the mood is slightly less optimistic than a year ago, but even so, more upbeat than in Hungary.

The past decade has been marred by economic volatility and disruption, and risks that once seemed improbable have become the norm. But what do CEOs focus on globally in this age of “certain uncertainty”? CEOs highlighted three areas they wish to focus on in the coming period: government, clients, and their own management practices which enable them to prevail in this economic climate. Two important stakeholders are high on CEOs’ agendas both globally and in Hungary: the government and clients. This is because these two have the biggest impact on the way businesses operate. Management style and adapting to a fast-changing business environment are also more important for decision makers than before.

The interviews we conducted with the CEOs answer as many questions as they raised. Our analysis aims to provide a comprehensive overview of the current situation and future prospects. Just as last year, we hope you will find our survey report useful, and that it will serve as a point of reference for the widest possible range of businesses and economic players in Hungary.

Nick Kós, Country Managing Partner, PwC Hungary

An important objective of the Confederation of Hungarian Employers and Industrialists since it was established 111 years ago has been to represent the interests of Hungarian companies. If we want to succeed, we need to know what the most influential Hungarian CEOs think about the situation of the Hungarian economy and the prospects of their businesses. For that reason, we are pleased to have taken part in last year’s first Hungary CEO Survey, and based on the positive experience MGYOSZ has continued to work together with PwC this year.

We firmly believe that more cooperation is needed and reliable partnerships must be established and cultivated in order for the Hungarian economy to be successful. One of the most important conclusions from this year’s survey is that trust must be restored at all levels, including in the private sector.

The results have shown that, in addition to shrinking markets, what concerns CEOs most is the unpredictable regulatory environment, which is mainly due to legislative and tax changes. The other serious economic challenge is financing. The reduced availability of loans continues to trouble Hungarian businesses: banks have tightened their lending conditions, which makes it increasingly difficult to finance risky investments. We believe that this could be alleviated by allocating EU funds more efficiently and by encouraging venture capital investments.

MGYOSZ will, of course, continue to represent the interests of Hungarian enterprises constructively and by cultivating partnerships with the government, the industry and other stakeholders at the national level. The 2nd Hungary CEO Survey will help us to better understand what these interest are.

Dr. Péter Futó, President of MGYOSZ

83% In Hungary

85% Globally

The government and regulators influence the operation of my business

Overcoming obstacles together
1. Waning optimism worldwide, increased focus on existing markets

As is evident also from last year’s survey, the global economy has been plagued by uncertainty and unpredictability for the past ten years. Interestingly, however, CEOs perceive their own companies’ growth prospects to be more favourable than the outlook for the economy in general. As shown in Figures 1–3, CEOs are more confident about their company's prospects over the next 12 months or three years than about economic growth in their own country or globally. This suggests that CEOs continue to believe in the suitability of their strategic objectives.

However, the optimism of global CEOs has waned somewhat compared to last year: this year’s survey shows that only one-fifth of CEOs expect economic growth. CEOs’ concerns are not unfounded: there seems to be a slowdown in both developed and emerging markets (e.g. the BRIC economies), and companies face risks that once seemed improbable. Although global CEOs are less optimistic about the economic prospects, they are generally more confident about the future than their Hungarian counterparts.

But how can global CEOs strengthen their companies in this age of “certain uncertainty”? Mainly by taking cautious steps on the market: according to the global survey, nearly half of the CEOs are pinning their hopes on organic growth in their existing markets. Most of these companies that have decided to expand consider China to be the most important country for their overall future growth prospects, followed by the United States and Brazil (see Figure 5).

If we look at potential opportunities for growth, mergers and acquisitions have been on the decline, along with extending operational footprints abroad: only 17% of global CEOs report that they are planning such measures (see Figure 4). According to the survey, most of these are expected to take place in North America and Western Europe, and are based on the assumption that certain competitors will become weaker or more easily acquired. Caution is also becoming the guiding principle in the field of innovation: establishing closer relationships with clients is more and more important for CEOs worldwide, along with increasing the efficiency of product development processes.

“I am convinced that Eastern Europe is just as undervalued now as it was overvalued before the crisis started in 2008. In the medium term, the economic growth in this region will exceed the European average, although unfortunately not in Hungary.”
Sándor Csánya, Chairman & CEO of OTP Bank Nyrt.

“I think the winners of tomorrow will be the companies that are able to adapt to a continuously changing environment in order to achieve future growth.”
Paolo Maria Tafuri, Managing Director of Danone Kft.

“The uncertainty regarding the EU economy is a serious challenge for all manufactures.”
Kenji Karato, Managing Director of Bridgestone Tatabánya Termelő Kft.

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2. Hungarian prospects remain gloomy, putting key stakeholders first

Although a small majority of CEOs thought the Hungarian market was getting weaker in 2012 – which is not surprising given the statistical data – when evaluating the past year on the whole, the number of CEOs who reported that their companies’ positions had improved was slightly higher than those who experienced a decline. Among the companies’ markets, they saw their domestic markets as weakening: more than half of the CEOs believe the situation has declined in the past twelve months, and only 17% perceive an improvement. However, CEOs are more confident about their foreign markets: a significantly larger number of CEOs say the situation has improved than those who perceive weaker markets, and a quarter of CEOs believe the situation has not changed over the past 12 months. Although the Hungarian companies primarily plan to achieve growth in the domestic market and in the region, the fact that China was mentioned among the most important countries for the company’s growth shows that – similar to global players – the Hungarian companies are opening towards and focusing more and more on developing countries. However, only a very small proportion of Hungarian companies are expanding abroad, which is very surprising given that international expansion may represent a significant growth potential also for Hungarian companies.

Similarly to the respondents of the global survey, the majority of Hungarian CEOs are confident about their companies’ revenue growth in 2013, and they are more optimistic also about the global economy’s future prospects for growth. However, as shown in Figures 1–3, CEOs are much less optimistic about economic growth in Hungary: only 5% predict growth and half of the respondents foresee a further decline in 2013 compared to the previous year. The contrast between Hungarian CEOs’ expectations about general economic growth (5% expect the economy to grow) and their expectations about their own prospects for revenue growth (60% are confident) is not surprising, as Hungarian GDP growth and company revenues are not always tied together. This is also supported by the fact that in 2011, based on sales revenue, the total export of companies in the top 500 exceeded their exports in the previous year by 18.1%, while the rate of GDP increase was only 1.7%.

Examining the mood of Hungarian privately owned businesses, it is an interesting observation that while agriculture, since agriculture basically depends on regional endowments and Hungary has very favourable conditions for agricultural production. To exploit the opportunities provided by Hungary’s favourable conditions for agricultural production, Hungary may need to acquire new foreign markets and introduce competitive forms of production. The existence of skilled local workforce, the wage level of which is lower than in Western Europe and even in certain Far East countries, can also be a driving factor for growth. However, this competitive advantage and the consequential potential for growth can only be maintained in the future if the education system responds better to labour market requirements; the institutions must produce graduates who have marketable knowledge combined with practical skills.

“I believe that Hungary needs a predictable framework and trust must also be restored – at the levels of local businesses, capital markets and international organisations – to again put Hungary’s economy on a path to growth.“

Zsolt Felsőuti, majority shareholder of the MPP Group, Vice-President of MGYOSZ
It is clear that stakeholders want to have a direct say in company affairs more and more often. As shown in the figure below, locally 83% of them think that the government’s influence is the greatest, which closely approximates the globally polled 85%. There is, however, a striking difference in the ranking in the two surveys, because customers’ influence received an overwhelming majority on the international level, while it only made second place in Hungary. In the following paragraphs we examine how CEOs respond to such a large increase in these two factors’ influence, and how all these are reflected in their growth strategy.

On the basis of our survey’s results, we can establish that the relationship with the government is the most decisive factor for Hungarian companies to ensure growth of their business. This is similar to what respondents said in the global survey. CEOs are concerned about the effects of the government’s and regulators’ decisions on their businesses both in Hungary and globally (see Figure 7). Well over two-thirds of CEOs rated government fiscal policies and the government’s potential over-regulation among economic and political risks that pose a threat to growth, and this is the highest percentage polled since 2006. The almost complete ban of slot-machines, outlawing smoking in pubs, calls and restaurants, the state monopoly on tobacco sales, the special taxes in certain sectors, the renationalization of certain public utility companies, or a government-imposed reduction of utility costs billed to consumers show that the Hungarian government has extended its influence over new areas. However, increasing government influence is not unique to Hungary: businesses all over the developed world are facing government efforts to intervene in business matters on a daily level instead of keeping their strictly regulatory role.

For example the Confederation of Italian Industrialists would promptly waive government tax benefits in exchange for mitigation of general corporate tax burdens. They also protest against the tax burdens of Italian businesses, which according to their calculations are 20 percentage points higher than those of their German competitors. During the recent G20 Finance Ministers Summit in Moscow, one of the prominent topics discussed was how to prevent global enterprises from transferring their revenue to countries with lower tax rates by means of cross-border transactions. One reason for this is that, in the past year, a number of well-known multinational corporations were involved in tax evasion scandals and had to explain their behaviour. Seeing government reactions, we can expect that such cases will become more frequent in the future: the finance ministers of Germany, France and the UK were all of the opinion that this is an important issue, and that action plans have to be adopted to address it.

Based on the responses, Hungarian CEOs are basically dissatisfied with the work of the Hungarian government, and there is a high level of disagreement about positive statements concerning the government’s actions. Among the positive statements, most respondents agreed with the one saying that the government supports innovation in the private sector and is taking adequate steps to improve the country’s infrastructure. Only every tenth CEO or less agrees with the rest of the positive statements. They least agreed with the statements that the government is driving convergence of global tax and regulatory frameworks and is ensuring regulatory stability.

“From businesses’ point of view, all amounts of money they pay to a government body can be considered to be ‘tax type payment’, and here we can see a significant increase, since operating expenses have apparently increased. Failure to achieve the projected GDP growth in 2013 may further drain off funds from the corporate sector, but businesses have no more disposable funds left. At the same time, if additional tax burdens are introduced, there will be no need to support the small- and medium-sized companies sector any longer, because there will be no one left who will be able to use the financing.”

Miklós Horváth, President & CEO of Ventura Zrt., Chairman of the Hungarian Foreign Trade Association, Member of MOYOSZ’s Governing Body

Tax policy decisions are of priority importance for businesses in terms of the regulatory environment. 2012 also brought surprises in this respect, since the maintenance of special taxes and the introduction of a new tax on financial transactions clearly worsens the competitiveness of Hungarian companies. According to MOYOSZ, the government’s continued debt- and deficit-reducing measures can be one of the highest risk factors in respect of the regulatory environment, and this assertion is in accordance with the survey results. Naturally, the employers’ confederation agrees with these goals, whereas they think that if the expected economic growth fails to materialize, these can only be achieved by tax increases, which may put businesses into an even worse situation. At the same time, MOYOSZ welcomes enactment of the new Labour Code, developed with active participation of the employers’ confederation, given that the new law provides a more flexible employment framework, which is in the interest of both employers and employees. When developing the regulatory environment (in particular, in the area of the central tax and wage policies), there is a need for even closer cooperation between the interest groups and the regulators. According to the employer’s confederation, a good example for this cooperation is the recently set up Standing Consultation Forum of the Private Sector and the Government (“VKF”). A permanent participant in this Forum is MOYOSZ, whose role, currently being limited to the world of work, might be extended to further areas in the future.
This high level of disagreement regarding the government’s actions may suggest that it would be essential to establish regular and substantive consultation between the government and the economic operators. In Hungary CEOs think that the growth prospects of their businesses are most threatened, among the various economic and political factors, by central government measures aimed at addressing the public deficit and the debt burden (see Figure 7). The overwhelming majority, 84% of CEOs said they were afraid of such measures. CEOs see uncertain or unpredictable economic growth as the second biggest risk factor, and many of them are also concerned about increasing tax burdens. This latter fear is the most determinant in the financial sector, where 91% of CEOs indicated the increase of tax burdens as the biggest threat. CEOs’ concerns are indicated the increase of tax burdens as the second biggest threat. The Hungarian survey shows a similar result, but the three most important tasks also included the reduction of poverty and inequalities.

As the role that intervening governments play is a heavy concern both globally and locally, it can be said that Hungarian CEOs do not have to feel they have been left alone with the problem of responding to this issue. Hungarian CEOs, similar to global CEOs, face the question of what strategy to develop to be able to cooperate with the intervening government; they may initiate consultations on either multinational or local industry level, or establish federations among market players. An overwhelming majority of CEOs not only complain about the burden that intervening governments put on them, but many of them have already adapted to the new world order and acknowledge the continuous regulatory presence in the life of their company.

CEOs are not at all more optimistic about the prospects for 2013 in this area: over two-thirds of them expect to have higher tax liabilities to pay in 2013 than they had in 2012. It can be said that CEOs of businesses operating in the financial sector are the less optimistic in general and also in this respect; 87% of them are of this opinion. Increasing importance of the state and an increasingly active government are not unique to Hungary. A more and more evident global trend is that, since the start of the crisis, regulators have assumed an active role for themselves and do not limit their role to shaping market developments. While the creation of fiscal stability is a priority for every government, the balance can be improved only if there are sufficient earnings and profits. As a result, companies worldwide increasingly have to accept their respective government as a permanent negotiating partner.

In addition to the shaping and regulation of market processes, CEOs also have other expectations from the government. According to the global survey, 60 percent of the CEOs regard as an important government task the maintenance of stability in the financial sector, the development of the infrastructure, and – as a shared responsibility – the development of skilled workforce. The Hungarian survey shows a similar result, but the three most important tasks also included the reduction of poverty and inequalities.

As we have seen, the government and regulators are important factors in the growth of businesses. However, the role of customers, from whom companies derive their income, is also decisive. Based on the global survey, in the eyes of CEOs, once again “the customer is king,”: a sweeping majority, 97%, specified customers paying for products and services as being the single most important factor influencing business operation. This is also supported by the fact that 51% of the respondents said that expanding their customer base is one of the most important priorities for the next 12 months. So what is new, one might ask, as of course there’s nothing surprising about top executives focusing on their customers. What has changed is that CEOs are now trying to win over more consumers by focusing on fewer, albeit more targeted, growth areas.

Course, under the current circumstances this is no easy task. As we’ve underscored earlier, one of the key issues for a top executive is to identify the markets where the company’s customer base can be significantly expanded in the future. From this perspective, it’s not a good idea to adopt a one-size-fits-all approach and treat all the emerging countries as though they were the same: that’s because, for example, some countries will gain in importance in the next decade because of their production capacity and not due to their consumption potential (see Figure 8).

“It all starts with the consumer – a rich and robust understanding of what they want, where they’re going, but, most importantly, what they want in the future.” – says Douglas D. Tough, Chairman and CEO of International Flavors & Fragrances, Inc., pointing out the other set of strategically important issues in connection with consumers. And this is exactly the factor that is changing much more frequently than before. It is no coincidence that rapidly changing consumer behaviours represent a serious threat to the business operation of companies in the eyes of half of the respondents participating in the global survey.

According to the survey results, in terms of customer-centred operation there is still room for improvement for Hungarian CEOs: although customers in Hungary, as elsewhere, are among the most important stakeholders, they ranked lower than the government. It is interesting that only 73 and 74 percent of pharmaceutical industry- and the consumer product and retail sector CEOs, respectively, ranked customers as their most important stakeholders. It is also telling that while 82 percent of global company heads are planning to create a new strategy to hold onto their clientele, and increase customer loyalty, less than two thirds of the CEOs of Hungarian companies are planning to do the same. Also, barely one third of Hungarian company CEOs are thinking about putting some effort into improving their service quality.
Due to falling growth opportunities, however, in the long run the role of customers will inevitably gain in importance for Hungarian companies too, and consumers will take centre stage in every domain. This approach makes it necessary to elaborate and introduce new marketing and sales techniques. Most organisations still use traditional market research and marketing communication methods, even though these techniques can only answer the question of how consumers behave en masse.

With the increasing preponderance of digital media, today we have several tools at our disposal (for example data-mining on social media websites, analysing consumer opinions, etc.) that can help companies understand what consumers want as individuals. This could provide the basis for product development, and for identifying hitherto untargeted consumer segments, as well as for introducing new communication techniques. This also explains the fact that three-quarters of global CEOs are planning to launch a technology investment project in the near future.

The current economic realities – domestic and international – are becoming increasingly challenging for companies operating in Hungary. In the opinion of MGYOSZ, it is also due to this process that the stakeholder approach has recently gained favour, as effective cooperation with various partners has perhaps never been as important for companies as it is today, in the current unpredictable economic environment. Based on the research data, the government and the regulatory authorities are the most important stakeholders for companies when it comes to determining their strategies. According to MGYOSZ, companies should pay considerable attention to their suppliers, because these days an appropriately advantageous and, most importantly, flexible, supplier chain represents the very basis for business success for most large domestic corporations.

At the same time, understanding consumer logic is in no way limited to new marketing communication solutions. Company managers are determined to implement their development projects and to increase demand for their products and services in cooperation with consumers, equipped with a deeper understanding of consumers’ needs. A good example here is Boeing, which consults with the airlines as well as with their frequent fliers when developing its new planes. In addition to finding new customers in existing markets, foreign markets, including neighbouring countries in particular, continue to represent a significant potential. At present, Hungarian privately owned businesses seem to be more open to these markets: every fifth of them see a growth potential in geographic expansion.

The research clearly shows that the plans of domestic top executives regarding employee headcount have improved, although, for 2013, compared to last year. Unfortunately, however, presumably this improvement will only be enough to mitigate stagnation of the aggregate employee headcount figures in the private sector in Hungary. Moreover, the instruments created by the government in the opinion of MGYOSZ, the community works programmes are not a long-term solution to employment issues; however, in the current circumstances such a central intervention is indeed justified. Another area where the government should interfere in the future is the ratio of people working in the black and grey economy. There have been no improvements in this area, and it continues to act as a drag on Hungary’s international competitiveness.

“With no problems with professionals because we draw from all across Europe. We have a coherent strategy that we follow: there are no drastic changes. Growth is not an end but a means. Know-how is available internally, and manual labour externally.”

Jüszel Váradi, CEO of Wizz Air Hungary Kft.

“We are proud to invest in talented Hungarians.”

Javier Gonzalez Pareja, CEO of ROBERT BOSCH Kft.

Based on the results of the global CEO survey, it can be concluded that finding and retaining the right people remains the greatest challenge in 2013. The ability to find key people creates a competitive advantage for the company during the next 12 months, and a quarter of these respondents are also planning to invest in the area of talent search over the next 12 months. At the same time, the role of talent management is important to CEOs in Hungary as well.

“I believe in healthy development, which involves not only growth but also an improvement in quality.”

Dale Martin, CEO of Siemens Zrt.
5. Flexible CEOs – adaptive and flexible organisations

“Making the right decisions is especially crucial at the beginning of the third millennium, in this age of uncertainty. The immense amount of information that floods us through every conceivable outlet is nothing short of daunting. ERP systems are also a rich source of information for senior executives. But I don’t think this has made decision-making any easier. I say this because many decision-makers only rely on data and analyses. I think they should trust their leadership instincts more. Today’s unpredictable and rapidly changing world requires us to make our decisions differently.”

Éva Magyari, CEO of Camelog Zrt.

These days, CEOs are faced with challenges they didn’t have to consider earlier or that were only present to a limited extent. Now they have to find appropriate responses if they are to operate successfully, and implement the necessary measures at their companies. Compared to the mid-2000s, this requires a new kind of leadership, new priorities, and differently structured companies – and this may pose the biggest challenge to CEOs today.

A more resilient corporate structure

In the past few years, the economic crisis has forced CEOs to be more flexible in order to survive and, despite continuously decreasing resources, find an efficient way to operate their businesses that can ensure future growth. For this to happen, it is essential that corporate strategies be aligned to the changing circumstances – so it is not surprising that 41% of Hungarian CEOs are planning to make changes in this area in 2013. Our survey findings also show that top management, globally as well as in Hungary, are focusing on a few carefully selected areas when it comes to improving their business operations. As Figure 12 shows, for half of the CEOs surveyed, this is currently one of the three most important priorities.

When making decisions about investments or corporate restructuring, and before selecting the particular areas to focus on, CEOs usually diligently review all the available options, weigh the chances of success for each, and focus their limited resources on the resulting strategy. It is clear from Figure 11 that, based on CEOs’ responses, steps taken towards cost-effectiveness are still the most important factors in improving competitiveness, even after four or five years of continuous cost reductions – all other factors are way behind. This approach may also explain why many CEOs are rather conservative in planning their workforce (see Figure 10). However, the desire to reduce their cost base does not mean that CEOs are carrying out indiscriminate, across-the-board cuts. An important precondition for successful long-term growth is finding the right balance: how to make business operations efficient and economical in a way that enables companies to implement strategic objectives aimed at ensuring future growth? The risks are great: as we have pointed out in the chapter on growth and consumers, without continuous innovation, product development and investments in new markets and services, even a medium-term strategy may become unfeasible.

Carefully implemented and well-targeted investments – whether they are geared towards improving operating efficiency or acquiring new customers – will be of key importance in the coming period in terms of companies’ survival and jumpstarting growth. This is especially true in Hungary, where the rate of investment in the national economy hit an all-time low (16%) at the end of 2012. Hungarian CEOs may now be starting to realize the critical role of this phenomenon. This finding is also supported by the fact that more than half of the respondents are planning some major development or investment in the next 12 months – 31% of them are targeting the enhancement of production capacity. It can be viewed as good news from this perspective that, in contrast to popular belief, 79% of the 171 CEOs surveyed (most of whom are in charge of large enterprises) did not experience that loan financing opportunities were harder to obtain for their companies at the turn of 2012 and 2013 as a result of the crisis. This figure is not much lower for the senior executives of privately owned companies: 72% are of the same opinion.

In MYGOSZ’s opinion, Hungary’s economic environment has been characterised by continuous change over the past 25 years, as a result of which the adaptive capability of company managers has been continuously put to the test. Experience shows that if someone has the opportunity to work in the same place as a manager, because of the constant evolution of the environment and of the manager’s own managerial ‘personality’, it’s best for him or her to shed a substantial portion of his or her regular tasks every 4–5 years in order to ‘de-pod’, i.e., to introduce new tasks and challenges into his or her job. In the opinion of the largest domestic employers’ organisation, relying on the status quo and baseline planning no longer stand the tests of the 21st century.

“A no-nonsense approach and regular zero-based planning – i.e. ‘What would I do if I could start afresh?’ – should become second nature to CEOs today. This is nothing new, only earlier or that were only present to a limited extent. Now they have to find appropriate responses if they are to operate successfully, and implement the necessary measures at their companies. Compared to the mid-2000s, this requires a new kind of leadership, new priorities, and differently structured companies – and this may pose the biggest challenge to CEOs today.

Péter Lakatos, CEO of Videoton Holding Zrt., Vice President of MYGOSZ

Question: What do you think are the three most important areas to consider in terms of investment in the next 12 months?

Question: Which of the following restructuring activities are you planning to start in the next 12 months?

Figure 11 – Based on CEOs’ responses, steps taken towards cost reduction and cost-effectiveness are still the most important factors in improving competitiveness

<table>
<thead>
<tr>
<th>Activity</th>
<th>In Hungary</th>
<th>Globally</th>
</tr>
</thead>
<tbody>
<tr>
<td>Implementing cost reduction</td>
<td>81%</td>
<td>51%</td>
</tr>
<tr>
<td>Significant IT changes</td>
<td>50%</td>
<td>49%</td>
</tr>
<tr>
<td>Forming a new strategic alliance or joint ventures</td>
<td>25%</td>
<td>13%</td>
</tr>
<tr>
<td>Outsourcing a business process or function</td>
<td>20%</td>
<td>33%</td>
</tr>
<tr>
<td>Domestic mergers or acquisitions</td>
<td>13%</td>
<td>26%</td>
</tr>
</tbody>
</table>

Figure 12 – Improving operational efficiency is increasingly becoming the primary goal of investments

<table>
<thead>
<tr>
<th>Activity</th>
<th>In Hungary</th>
<th>Globally</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improving operational efficiency</td>
<td>48%</td>
<td>51%</td>
</tr>
<tr>
<td>Introducing new technologies</td>
<td>37%</td>
<td>49%</td>
</tr>
<tr>
<td>Improving the quality of services provided to customers</td>
<td>34%</td>
<td>38%</td>
</tr>
<tr>
<td>R&amp;D and innovation</td>
<td>31%</td>
<td>33%</td>
</tr>
<tr>
<td>Building production capacity</td>
<td>31%</td>
<td>32%</td>
</tr>
</tbody>
</table>

* Among CEOs who are planning to make a major investment in the next 12 months (52%).
In our domestic survey we asked top executives to name historical figures and successful leaders they regard as role models. Over the past decade we’ve seen earthquakes and a tsunami resulting in a nuclear reactor accident, revolutions sweeping away regimes once thought to be unshakeable, armed conflicts, terror attacks, unexpected bankruptcies, the euro crisis, and so on. In this situation it’s clear that only flexible companies with the ability to adapt quickly will be able to stay afloat and react to the new situations in a timely fashion. This means that only managers who are able to adapt their strategies, create an organisation that operates flexibly, and are willing to sometimes take unexpected steps, will be successful.1 “I think of individual projects as musical notes, and my task as senior executive is to turn them into music that is tuned to our strategy,” says Kornél Czajtai, CEO of Cognizant Technology Solutions Hungary Kft., about his leadership role. It is also part of the change in leadership attitudes for CEOs to be open to consultation, to seek out opportunities for discussion, alliances and cooperation – not only inside, but outside the company as well. Customer focus, as well as assessing and respecting the needs of stakeholders, can be obvious keys to successful operations.

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7. Final thoughts from our CEO interviews

“Practical training at universities is inadequate. It is difficult to train young engineers to become good leaders, which may be an impediment to expansion.”

Dr. József Losó, Chairman of the Board of Directors, Irisz Mira Zrt.

“I believe growth can be ensured by capitalizing on actual comparative advantages and having the right financing in place.”

József Brumbauer, CEO of BPW-Hungária Kft.

“I draw inspiration from how Kutuzov, though unable to halt Napoleon’s advance against Moscow in 1812, ultimately emerged victorious. The French occupied the Russian capital without resistance, but their march into Moscow was far from triumphant. Napoleon was finally forced to retreat from the abandoned and fire-ravaged city. The Russians did not directly engage their enemy, pursuing a strategy of attrition instead. Ultimately only 15,000 of the nearly half a million men of the all-conquering French Army returned to French soil alive. Victory did not go to the side everybody had expected to prevail, and it came about in an unconventional way. Rather than by a single spectacular victory, the battle was won wisely, differently, little by little, and that is what I admire about Kutuzov. And that he knew sometimes retreat is the best option: at Borodino, he ordered his troops to withdraw, having recognized that losing Moscow did not mean losing Russia.”

Éva Magyari, CEO of Cenelog Zrt.

“Hungary provides an ideal environment for the automotive industry. The availability of a highly skilled workforce makes Hungary attractive to investors and contributes to AUDI HUNGARIA MOTOR Kft.‘s success.”

Thomas Faustmann, CEO of AUDI HUNGARIA MOTOR Kft.

“I work almost exclusively with leaders developed in-house who have a great deal of both industry-specific and inside knowledge.”

Péter Lakatos, CEO of Videoton Holding Zrt.

“More and more companies distinguish themselves in the labour market by investing in their employees’ health (healthcare benefits).”

Péter Grossmann, CEO of Medcover Magyarország Zrt.

“Nowadays no workplace is guaranteed for life, but the knowledge and experience we acquire can ensure a lifetime of employment. Today’s economy is characterized by tough, sometimes ruthless market competition, and a struggle for everyday survival. We keep chasing after investors and customers, go head-to-head with the authorities, and fight red tape. But no matter how fast-paced our world has become, we should not forget about the environment and what we should hold dearest in the long run: our fellow human beings, our towns and cities, our children, the disadvantaged, and people in need.”

János Takács, CEO of Electrolux Lehel Kft.

Survey methodology

This is the second year PwC has prepared the Hungary CEO Survey. The basis for the survey is provided by the PwC Annual Global CEO Survey, in which, in addition to the CEOs of global companies, leaders of Hungarian businesses have also been polled in phone interviews for 16 years on present challenges and future prospects. The aim of the research we conducted in parallel to the global survey is to give a more comprehensive picture of what Hungarian senior managers think, how they see the market, and what expectations and growth opportunities they have.

In the Hungarian survey, we applied the method of personal data collection: PwC experts interviewed the CEOs of 171 Hungarian companies in the period between October and December 2012. When conducting the interviews, we collected quantitative data by means of questionnaires. We asked more than 100 Hungarian companies that PwC industry groups selected from the automotive, pharmaceutical, energy, retail and consumer, telecommunications and media industries, tourism, financial service providers and industrial production. We considered privately owned, non-state-owned, non-listed companies, in which the owners or their direct trusted representatives are involved in the day-to-day operation of the company as a separate aspect in our analysis.

Two-fifths (43%) of respondents carry out business activities only in Hungary; nearly half (48%) are active both in Hungary and in foreign markets; and one-tenth (9%) only operate abroad. Companies with revenues of up to HUF 9.99 billion, between HUF 10 and 49.99 billion, and over HUF 50 billion represented a nearly equal share of the companies we analysed.

The survey mainly covered corporate strategy (major strategic objectives, as influenced by the world economy and global factors), business environment (growth opportunities, risks), regulatory environment (an assessment of the government activities), the impact of the measures on the success of businesses), labour market (needs and expectations in connection with human resources, human capital investment) and changes to CEOs’ perception of their role. The survey also includes quotes from the interviews with CEOs. Our analysis uses views and recommendations of the PwC experts, and the conclusions of the study prepared on the basis of the Annual Global CEO Survey.

Comments: The figures indicated on the charts do not add up to a total of 100% in every case, as we rounded up percentage data and did not include the answers “Neither agree nor disagree” and “Don’t know” in our calculations.