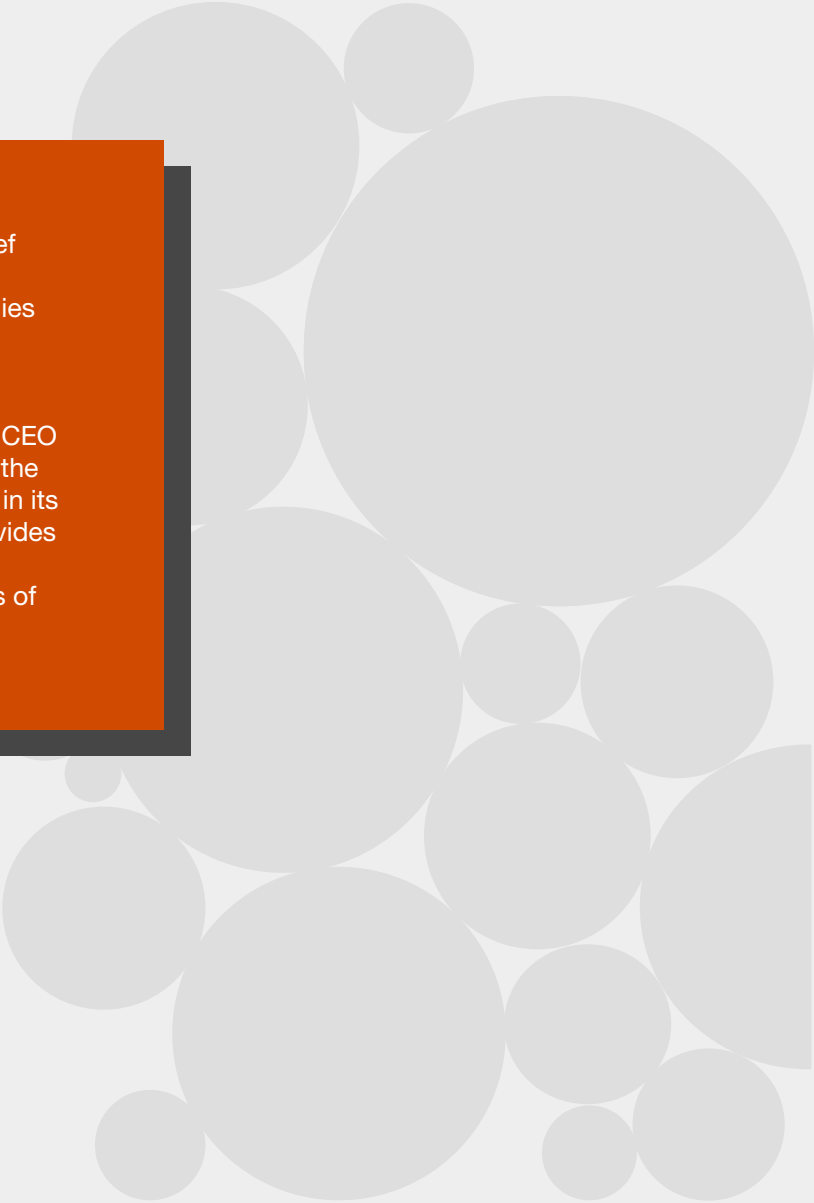


Hungarian CEOs expect a quick rebound





This publication explores the views of 240 Hungarian chief executives on the economic outlook, on revenue growth prospects, and on how they are reinventing their companies to mitigate global disruptions, such as the impact of COVID-19, and ensure sustainable operations.

This is the tenth year PwC has conducted the Hungarian CEO Survey. We carried out the first survey in 2011, based on the PwC network's Annual Global CEO Survey, which is now in its 24th year. Based on in-person interviews, our survey provides unique insight into the thinking and strategic direction of Hungarian CEOs, and enables comparison with the views of chief executives around the world.

Optimism on the horizon

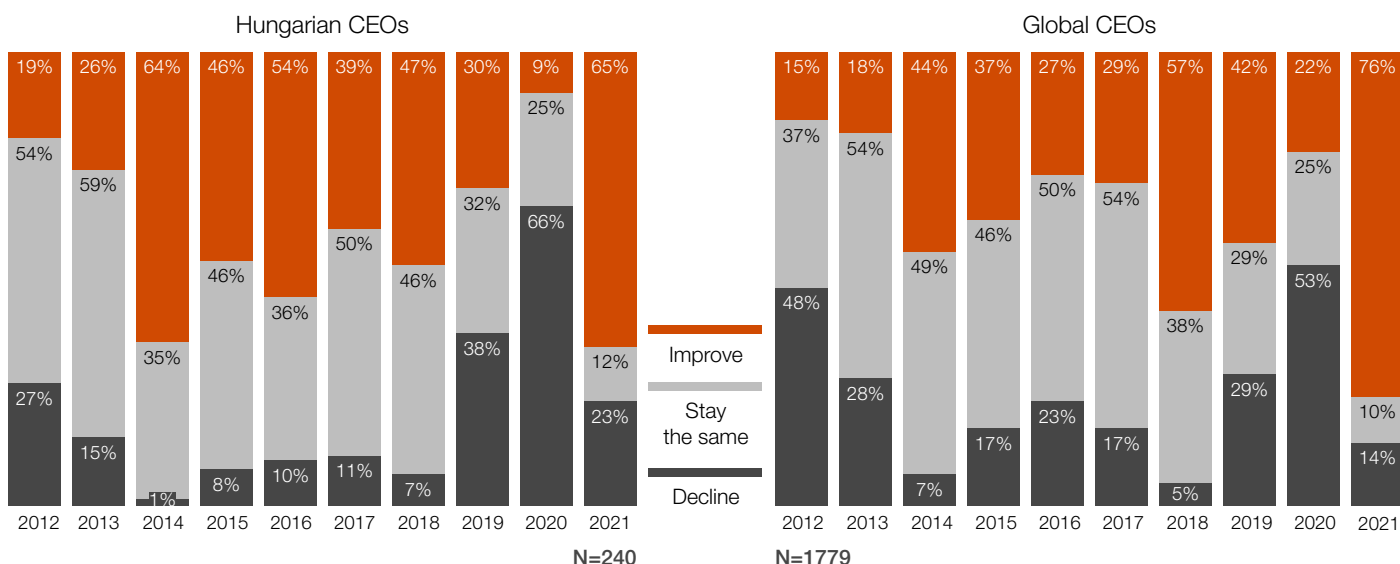
PwC Hungary has interviewed Hungarian CEOs every year for the past ten years. Since the beginning of our survey, optimism has never been higher about global and Hungarian economic growth as is predicted by CEOs for 2021. Sixty-five percent of respondents think that both global and Hungarian economic growth will improve. That is a huge leap forward compared to last year's expectations of 9% and 16%, respectively. Only 12% said they expected economic growth to stay the same globally and in Hungary, which is another record. Apparently, CEOs expect a rebound after the downturn as the world begins to turn the corner on the COVID-19 pandemic.

There is no such noticeable shift in CEOs' confidence about their own companies' prospects for revenue growth. The reason for this could be that since 2015, more than 80% of CEOs have been steadily optimistic about their twelve-month outlook. Expectations of revenue growth are almost as optimistic this year as they were last year; while, for the first time since 2017, 90% of CEOs expressed optimism about growth prospects over a three-year period. While many companies cut jobs – with a third of the CEOs interviewed reporting that they were forced to reduce headcount last year – half of the CEOs anticipate an increase in headcount once again in 2021, and as many as 62% of them expect the same over the next three years.

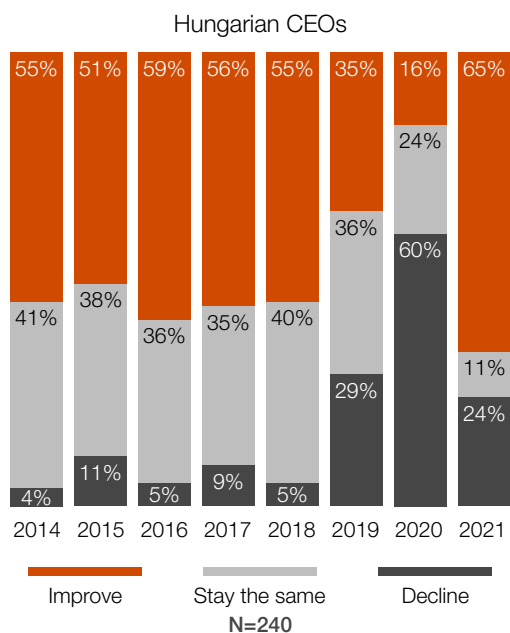
CEOs have expected a slowdown in the economy in recent years. Those fears have come true in the form of a pandemic, but the new situation has also resulted in new emphases and new ways of thinking.



Do you believe global economic growth will improve, stay the same or decline over the next 12 months?



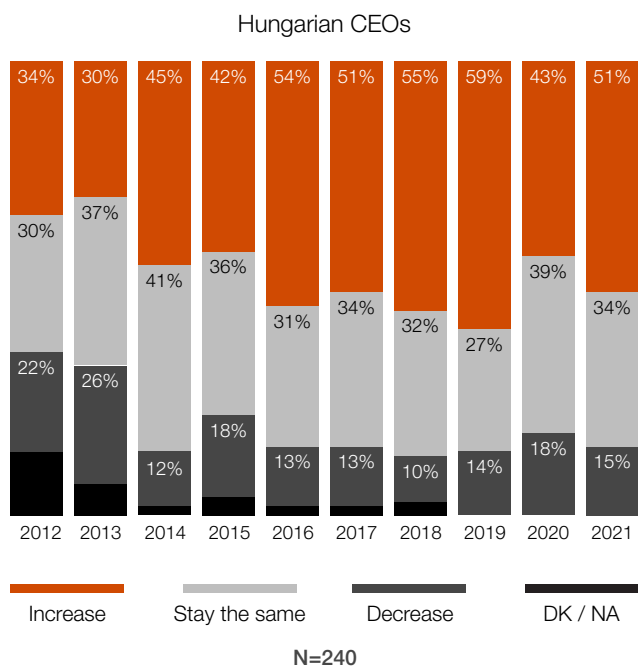
Do you believe Hungarian economic growth will improve, stay the same, or decline over the next 12 months?



How confident are you about your organisation's prospects for revenue growth over the next 12 months?



Do you expect headcount at your company to increase, decrease or stay the same over the next 12 months?



Growing concerns

Most CEOs were already expecting a slowdown last year, but in terms of potential threats to their own companies, they did not appear to be more concerned about the year to come than before. Our recent survey findings show that the pandemic has exacerbated CEOs' existing concerns about their companies' growth prospects. For every threat identified in our survey, the share of respondents who expressed concern about that threat has increased by an average of ten percentage points, while pandemics and other health crises have moved to the top spot (82%) on the list of CEOs' concerns. This is all the more interesting because nearly two-fifths of the CEOs we interviewed stated that their companies had not been adversely affected by the pandemic.

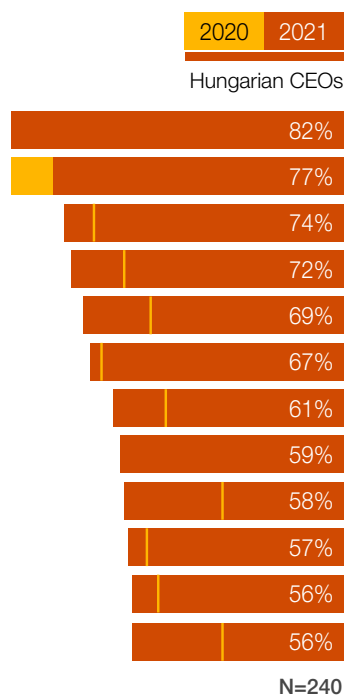
Among CEOs' top concerns, pandemics were followed by the availability of key skills and exchange-rate volatility, trailed by uncertain economic growth and cyber threats.

It is perhaps not surprising that most CEOs have factored those top four threats into their strategic risk management activities, in addition to changing consumer behaviour and the speed of technological change.

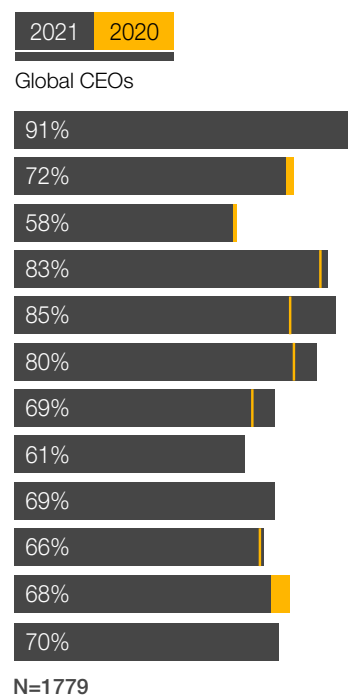
The greatest shift, however, occurred in CEOs' concerns over an increasing tax obligation (+29 percentage points), readiness to respond to a crisis (+26 percentage points), declining employee well-being (+26 percentage points), misinformation (+24 percentage points), and supply chain disruption (+20 percentage points).



List of top potential economic, policy, social, environmental and business threats to companies' growth prospects
(share of CEOs who are concerned about the threat in question)



Pandemics and other health crises
Availability of key skills
Exchange rate volatility
Uncertain economic growth
Cyber threats
Over-regulation
Populism
Declining employee well-being
Readiness to respond to a crisis
Protectionism
Trade conflicts
Misinformation



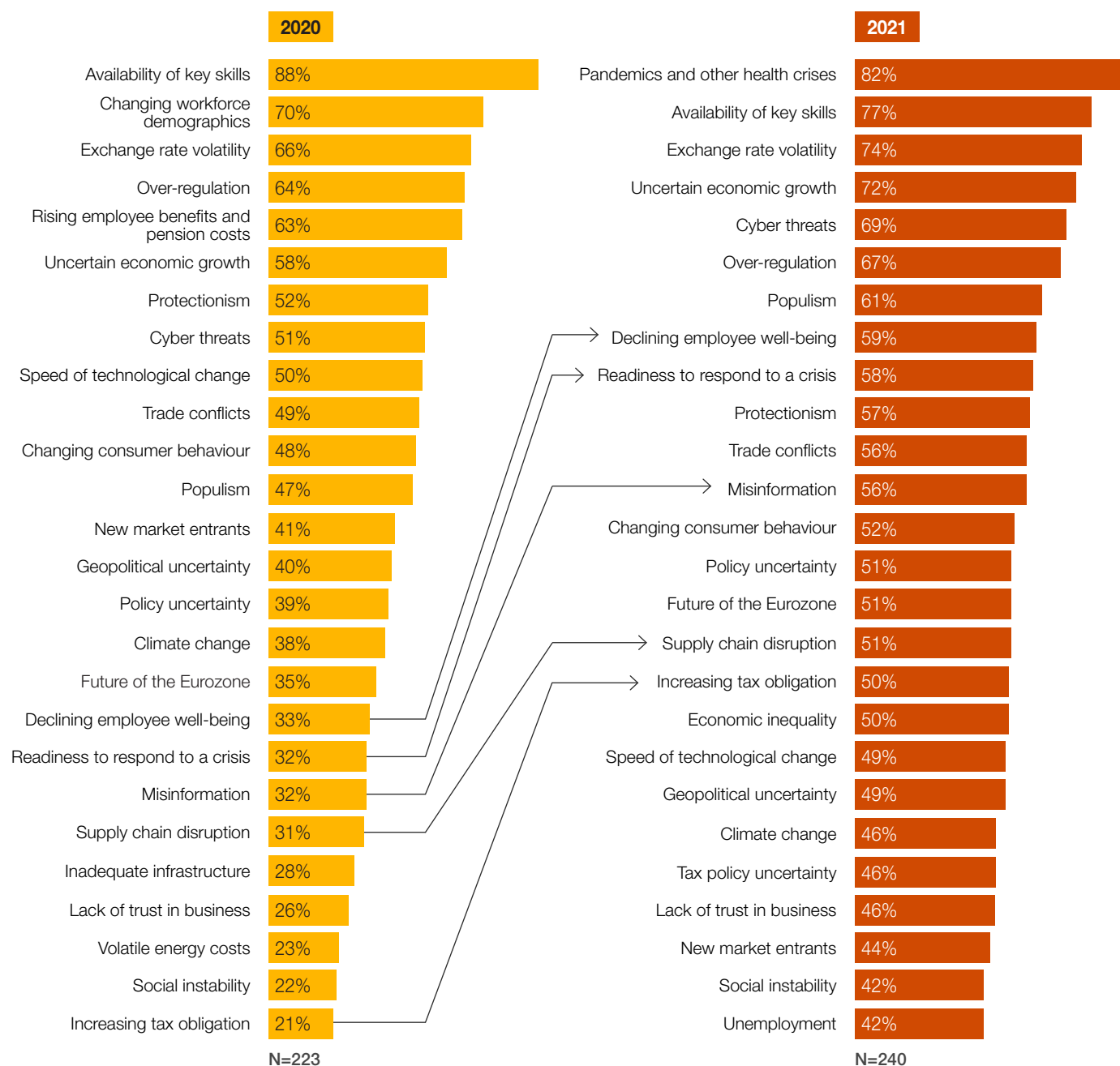
List of top potential economic, policy, social, environmental and business threats to companies' growth prospects

(share of CEOs who are concerned about the threat in question)

2020

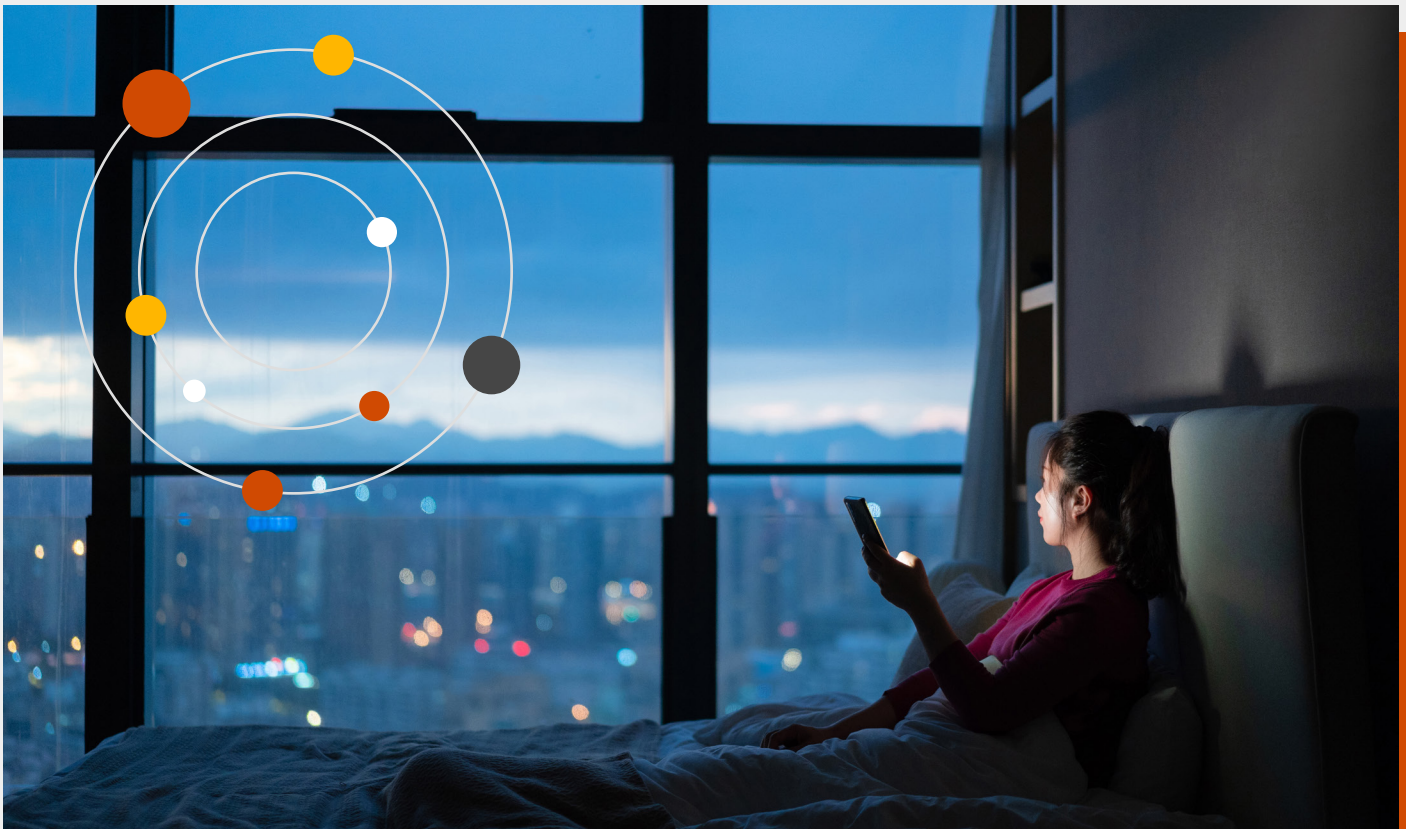
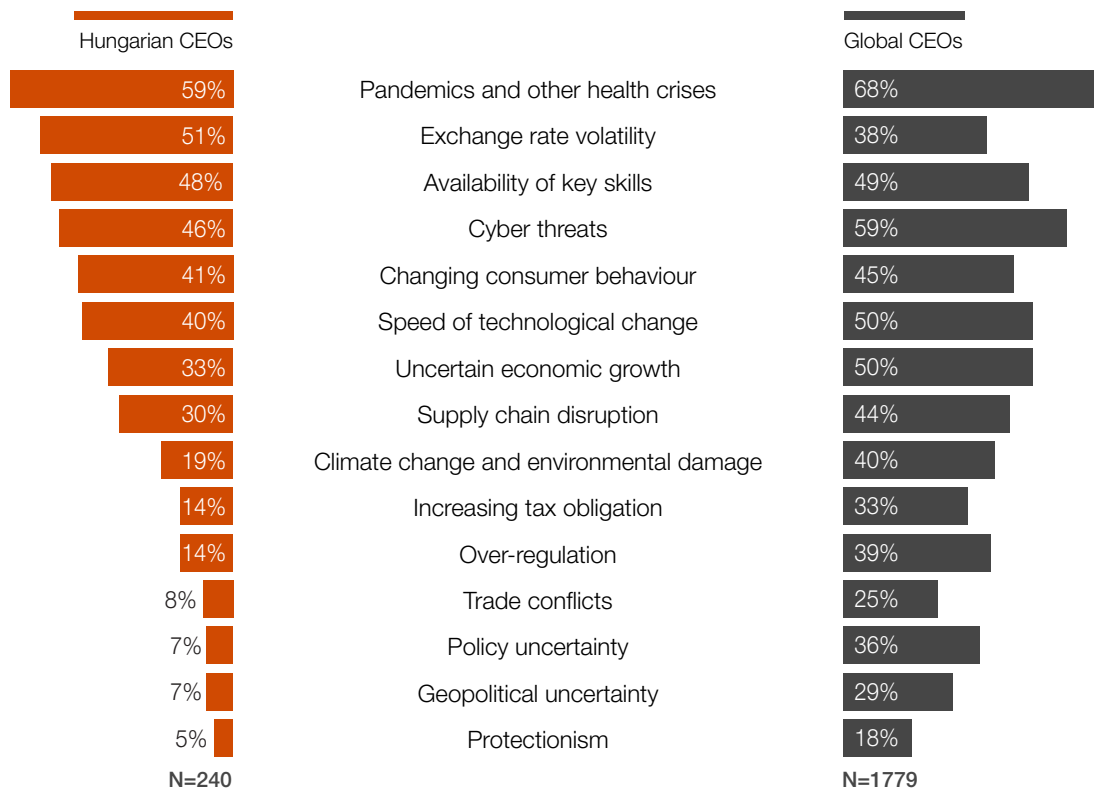
2021

Hungarian CEOs



Threats explicitly factored into companies' strategic risk management activities

(share of CEOs who reported factoring the threat in question into their organisations' strategic risk management activities)



Redefining strategy: digital acceleration

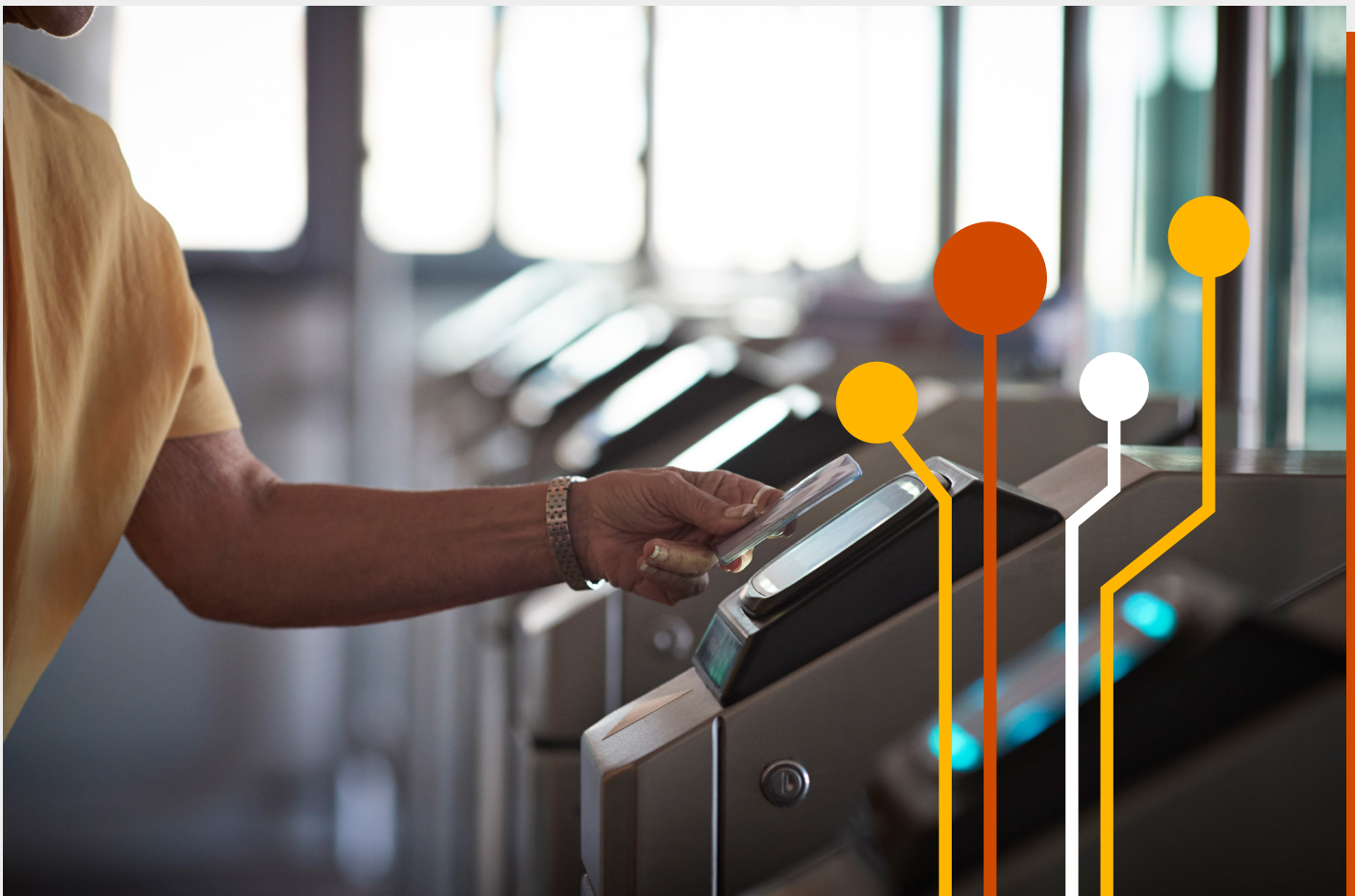
Companies' growth plans did not change much in 2020: the most common activity CEOs are planning is still seeking operational efficiencies (although to a lesser extent than the year before), followed by launching a new product or service, and organic growth. Meanwhile, the share of CEOs planning a new strategic alliance or partnering with entrepreneurs or start-ups has further declined. The importance of foreign markets has also declined structurally when it comes to growth plans.

CEOs strongly agree that there can be no growth without investment: Seventy-eight percent plan to spend more on digital transformation, and 77% are investing in initiatives to realise cost efficiencies. These are the two most typical (and possibly interrelated) ways in which CEOs seek to redefine their strategy. Six out of ten CEOs are planning to invest in R&D and new product innovation, and the same percentage want to invest more in cybersecurity. Over half of the companies want to increase their investment in leadership and talent development, and nearly 50% plan to invest more in environmental, social and governance (ESG) initiatives.

The focus points for redefining strategy are action plans to address key concerns, but not on the same scale. While the number two concern after pandemics is the availability of key skills, and the top two outcomes on the list of CEOs' priorities for success are related to employees, only 48% say that employees strongly influence their organisation's strategy.

The order of stakeholder groups with the strongest influence on corporate strategy has not changed since 2016. However, the pandemic has changed the extent to which they shape corporate strategy.

The pandemic has impacted companies more than any stakeholder group. Yet, other than digitisation, the key to successful business operation still lies in a skilled, educated and adaptable workforce.



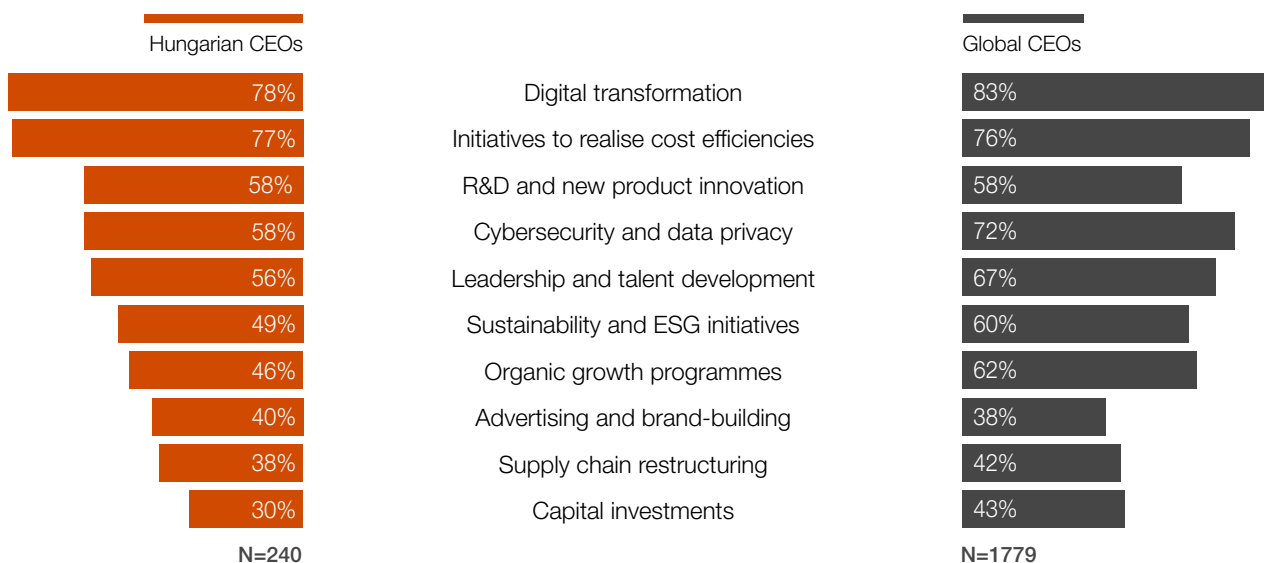
Which of the following activities, if any, are you planning in the next 12 months in order to drive corporate growth or profitability?

(share of CEOs planning to carry out the activity in question, multiple answers were possible)

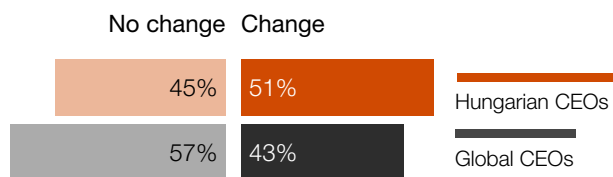


How do you plan to change your long-term investments in the following areas over the next three years?

(share of CEOs planning to increase their companies' investments in the area concerned)



As a result of the COVID-19 crisis, are you making any changes to your organisational purpose to better reflect the role your organisation plays in society?



Stakeholder groups with the strongest influence on corporate strategy



In your own words, what is the purpose of your organisation today?

"Return to the new normal as a stronger organisation"

"Integrate digitised processes into day-to-day operations"

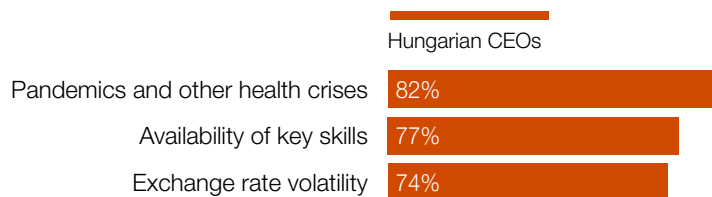
"Maintain employee well-being, and ensure long-term sustainability of our operations"

"Support digital transformation"

"Organic growth from own resources"

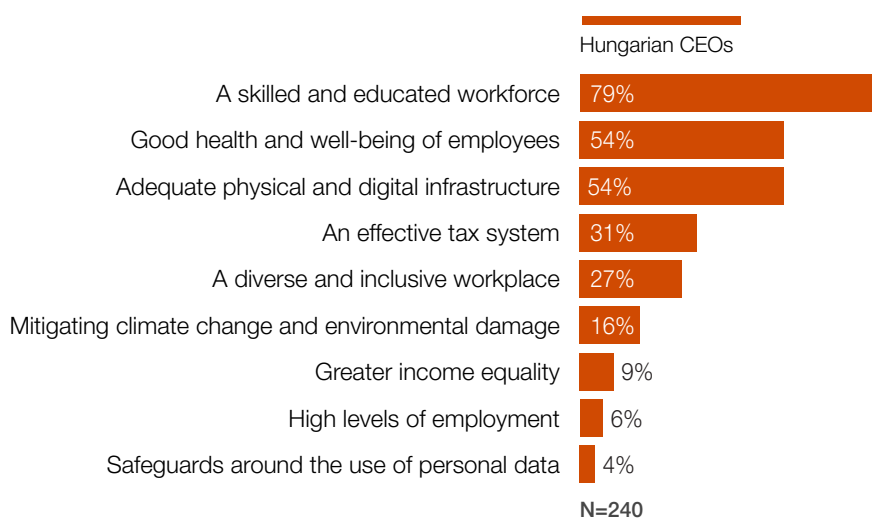


Top concerns



Which three of the following outcomes do you think should be priorities for successful business operation in Hungary?

(share of CEOs who selected the outcome among their three responses)



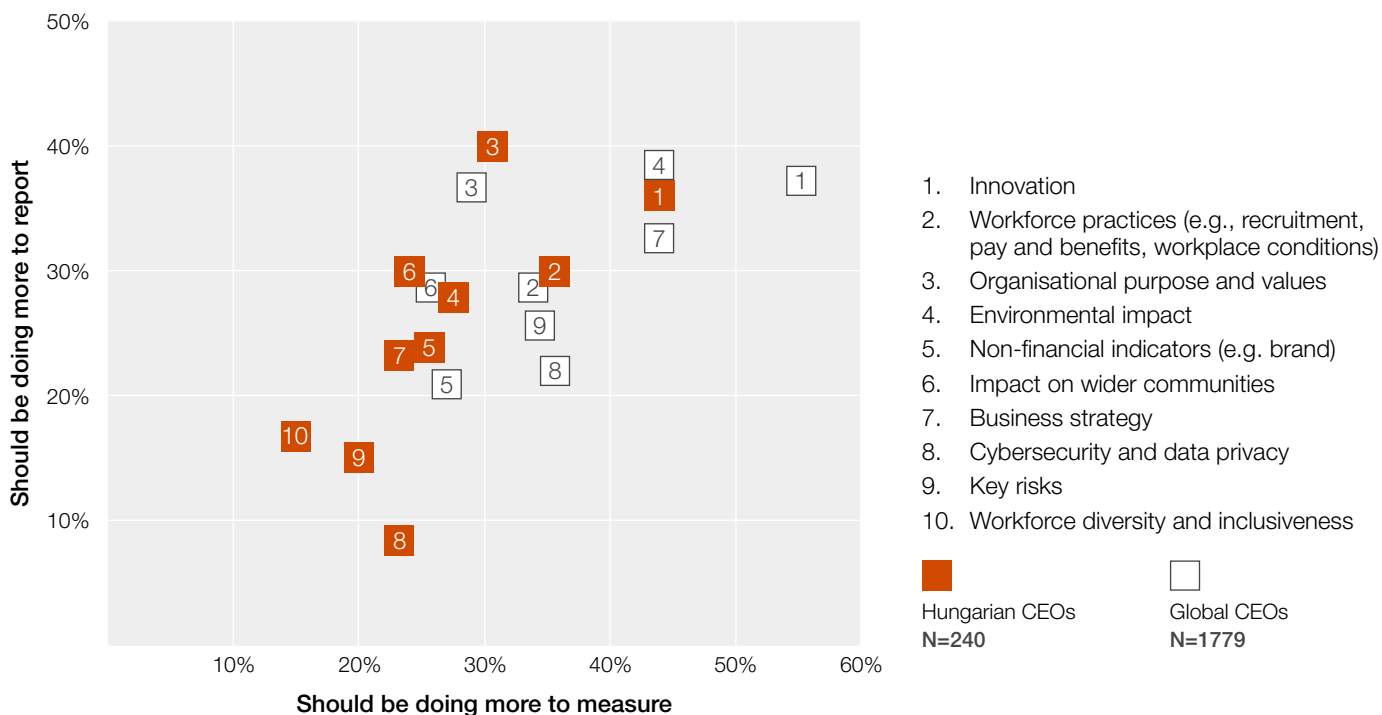
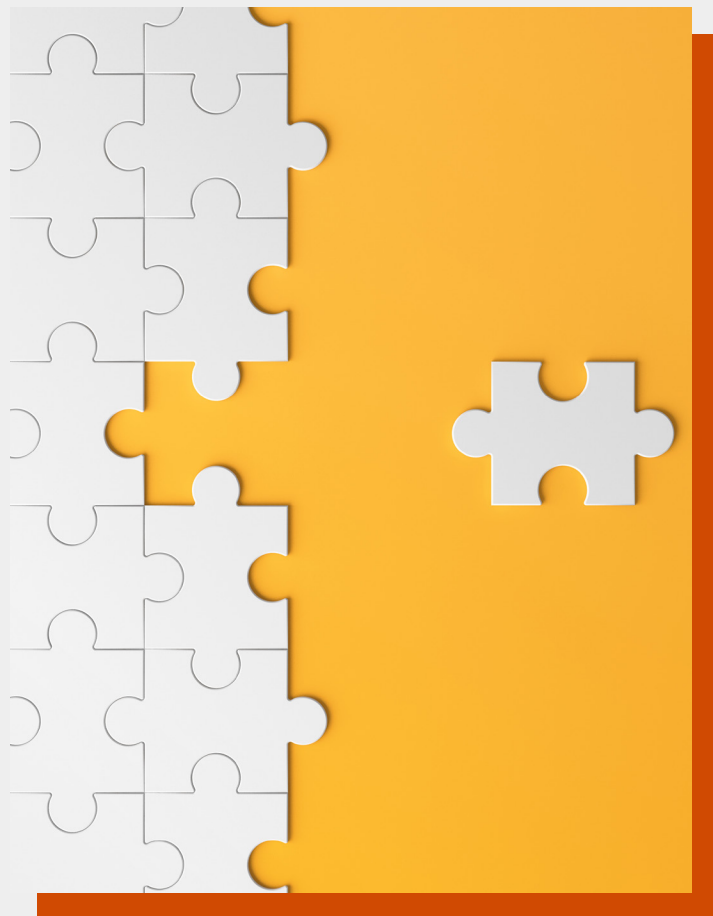
CEOs are pushing for greater measurement

Companies are under great pressure. The challenges they face include responding quickly to crises, digitisation that also prioritises cybersecurity, the availability and strategic management of key skills, and dealing with uncertainties. This is how the environment most affects companies. But how a company affects its environment is also of strategic importance.

Of the key areas we have listed, CEOs have selected at least two where they should be doing more to measure their companies' impact. The most frequently mentioned area is innovation, followed by workforce practices (e.g., recruitment, pay and benefits, workplace conditions), organisational purpose and values, environmental impact, non-financial indicators, and the impact on wider communities.

Key areas where CEOs say they should be doing more to report include organisational purpose and values, innovation, impact on wider communities, workforce practices, and environmental impact.

Overall, there are more areas where CEOs say they should be doing more to measure than areas where they should be doing more to report. For now, measurement seems to be taking precedence over reporting.



Focus on the workforce

While a third of the CEOs said their companies had to reduce headcount in 2020, this reduction is planned to be only temporary. However, the new ways of operating have also led to new expectations of employees. According to CEOs, the primary factors that contribute

to competitiveness are organisational culture, workforce engagement and communications, and the adaptability and well-being of employees. They intend to achieve efficiency gains primarily through automation and the use of technology.

Which aspects of your workforce strategy are you changing, if any, to make the greatest impact on your organisation's competitiveness?

(share of CEOs who selected the aspect among their three responses)



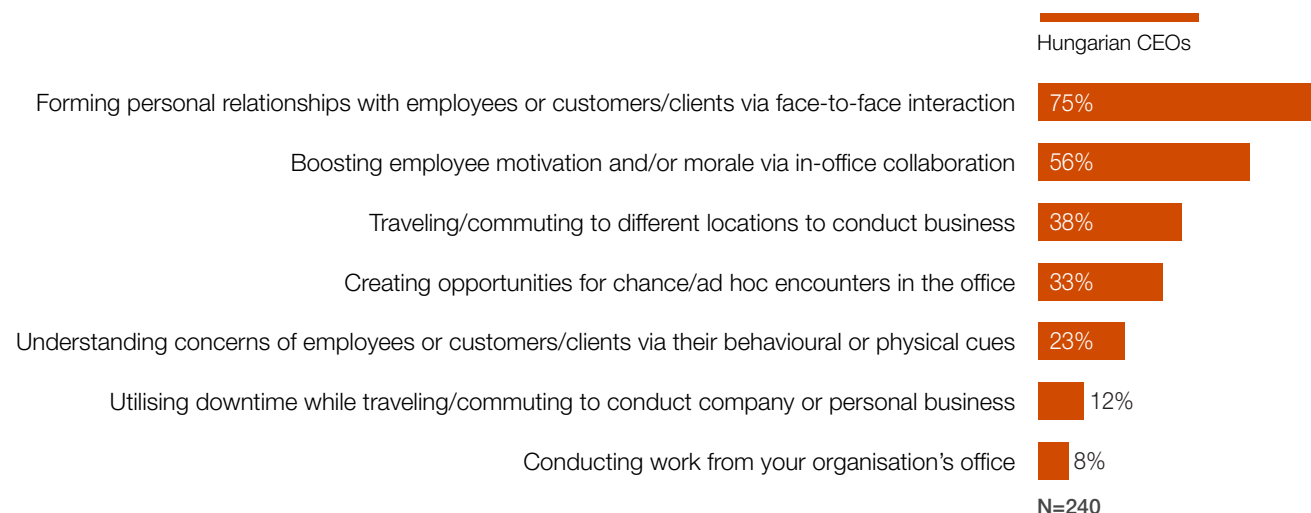
The fallout of COVID-19

While 38% of the CEOs say that their companies' performance has not been adversely affected by the pandemic, many of them are missing something from their pre-COVID lives. Three-quarters of respondents miss forming personal relationships with employees or customers/clients via face-to-face interaction, and the majority also miss the ability to boost employee

motivation via in-office collaboration. A third of CEOs miss travelling and ad hoc encounters in the office, while a quarter of them would better understand the concerns of employees or clients via behavioural or physical cues. However, the share of CEOs who miss working from the office is only 8%.

What are you missing most about your personal ways of working from before the COVID-19 crisis?

(share of CEOs who selected the activity among their three responses)



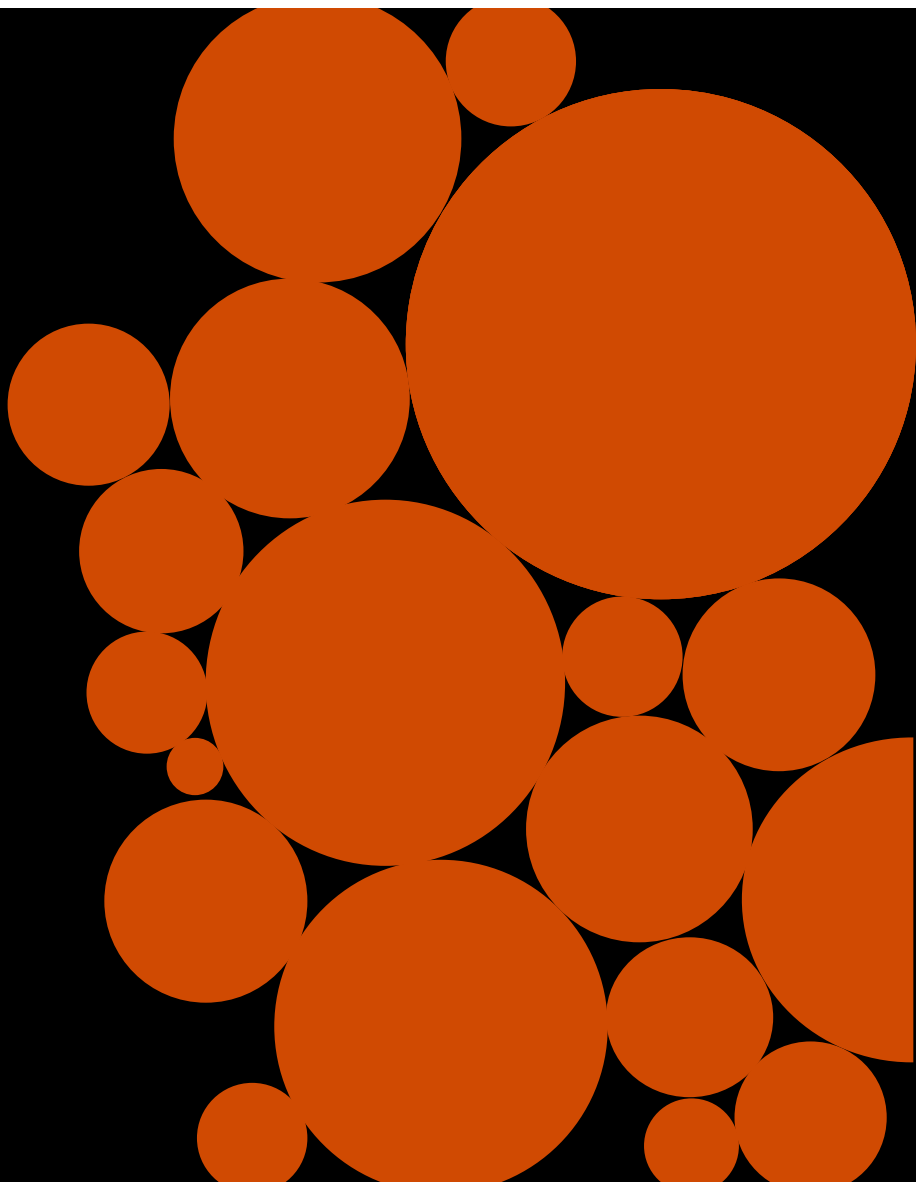
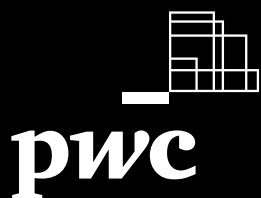
“As our survey shows, companies are redefining their strategy: half of the CEOs plan to change their organisational goals in response to the COVID-19 crisis. CEOs are primarily aiming to make their company future-proof and sustainable, and are intent on returning to the new normal as a stronger organisation.

Overall, the pandemic has made the human factor uncertain for businesses. We are facing the twin challenges of skills shortages and unemployment. The strategic importance of the workforce is well illustrated by the fact that the top two outcomes on the list of priorities for successful business operation are related to employees.”



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Country Managing Partner



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