The 8th Slovak CEO Survey 2017

The consulting company, PwC, and Forbes magazine looked at what business leaders think about the influence of technologies and talent on business, and what it means to run a business in Slovakia. 163 CEOs shared their views.

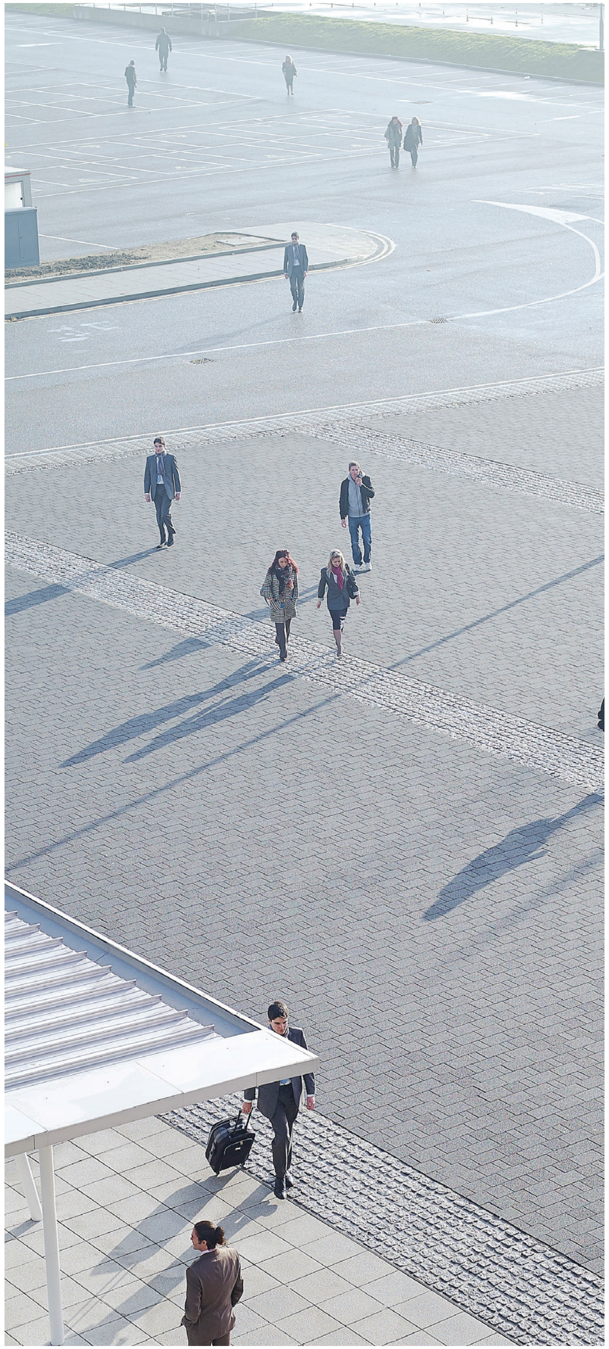
Technologies and talent will change business

The belief of Slovak CEOs in the growth of revenues was at the highest level since 2012

87%
of CEOs expect their revenues to grow next year

61%
of CEOs believe that globalisation has not helped reduce the gap between the rich and the poor

96%
of CEOs believe that the most important thing in Slovakia is to have a qualified, well-educated and adaptable workforce



pwc

www.pwc.com/sk/en/ceo-survey

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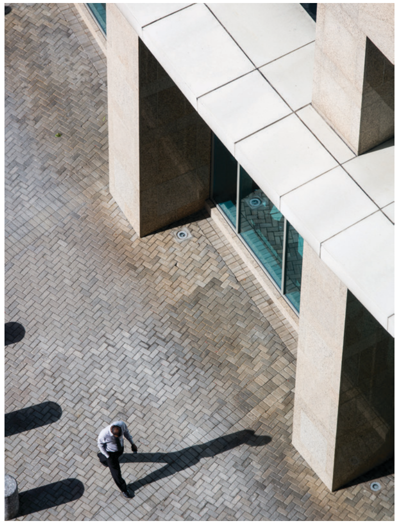

Trust has become significantly stronger, companies predict better results

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CEOs pay close attention to taxes

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More new people, more innovation

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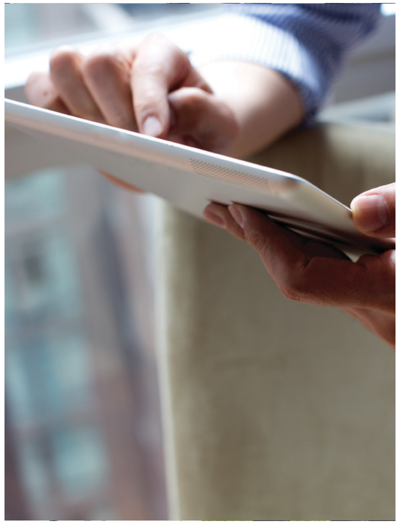

Emergence of new technologies is accelerating, but Slovak CEOs are confident

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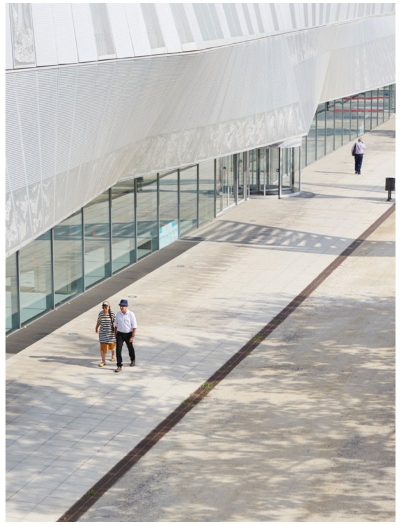


The business environment in Slovakia is still facing the same challenges

Todd Bradshaw
Country Managing Partner
PwC

Even in good times, courage is needed to change a company from the inside

Slovak CEOs currently have a lot of confidence in the success of their companies and in economic growth, and they believe in their abilities and have trust in their companies. It is gratifying to know that after several years of financial crisis, companies are experiencing better times. New technologies, however, are bringing about at an increasingly faster pace, not only many new opportunities but also new risks. In addition, a new generation of people are entering employment, and this is a challenge for both HR departments and managers. Companies must change their personnel strategies to reflect the emerging digital generations and their skills, and to take into account new technologies. Employees require more from their employers, in terms of finance, and in terms of HR management and the company approach to social responsibility. Based on the survey and other available information, we know that the quality of HR and its ability to accept and implement new technologies is the most important factor of market success. This is also the biggest challenge for global leaders and in Slovakia particularly. In the future, companies will need, more than ever, to attract talent and retain them. The dissatisfaction of Slovak leaders with the quality of education has been evident for several years, and it is becoming more and more obvious due to the lack of progress made in this field. Similarly, increasing the tax burden, which is already one of the highest in the region, remains a key concern of CEOs.

Our survey also asked what globalization does for a society. Global leaders and Slovak leaders acknowledge the positive aspects of globalization for international trade, economy and companies but also for HR and improvements in infrastructure. However, they are sceptical about globalization´s contribution to the elimination of differences between the rich and the poor, the fairness of tax systems and avoiding systematic failures. It is not clear to what extent company leaders can influence these challenges of society, and it is clear they cannot succeed without cooperation with governments and national institutions, and without dialogue. The importance of corporate social responsibility will undoubtedly grow, and actions of companies in this area will gain a lot of attention from the public, employees, talents and customers. Companies are experiencing good times, but new challenges are appearing and their solutions will be more and more difficult.

I would like to thank all the CEOs who participated in our survey, and all of you who are interested in the results of the survey. The survey outputs are of great relevance, as in the good times we should prepare for bad times. I wish you every success in addressing these challenges.

Juraj Porubský
Editor–in-chief
Forbes

The empires of the future will be empires of the mind

CEOs of companies in Slovakia are optimistic about the future. The world economy has recovered beyond expectations, stock markets are doing well, and a financial crisis threat in the Eurozone is currently receding. Prospects look almost idyllic.
Companies are not currently considering layoffs. Quite the opposite, more than half of them will have to take people on and will need high level skills. People who are able to solve problems (not so easy to find). People who are able to cooperate (not easy to find). People who are able to adjust (also a challenge). And on top of that, they also need to be creative and innovative, have leadership skills and good emotional intelligence.
Even though business is ever more impacted by automation, digitalization, AI and machine learning, the human factor is still important. This is a situation where leadership will be at a premium. In fast-growing companies, HR is often just considered a way of employing new people. But HR can also change the company environment, to make it more attractive so people want to work there.

Attracting talent, considered by CEOs to be a key problem, is only the start. What is important is to develop talent, to give people a chance to solve real problems, and allow them to make mistakes. If you ask any CEO what is the most important thing at their company, they will probably tell you their people. But even large companies in Slovakia have not built an adequate system to help their staff adapt to rapidly-changing times. Without this, they will not be able to get the maximum benefit from the current period of economic growth.
In Slovakia, discussions are ongoing about the education system, major education reform, labour market needs and the needs of large companies. Jumping from company to company for a better salary and importing foreign workers is common now due to a lack of skilled staff. Many companies will need to increase salaries to attract staff.

Even countries with rich mineral resources or strong domestic demand realize how important skilled and talented people are for their economy. Small countries, without large natural resources, are almost entirely dependent on foreign demand, and the quality of HR is a question of survival.
Winston Churchill said that the “The empires of the future will be empires of the mind”. The responses of the CEOs make it clear that the future has arrived.

1

Trust has become significantly stronger, companies predict better results

Slovak CEOs are considerably more confident about revenue growth and the world economical growth

Compared to last year, the 2017 CEO survey recorded an increase in optimism amongst Slovak leaders. More than 40% of Slovak CEOs believe that world economic growth is likely to accelerate. However, more than half of them believe it will not change. In comparison to last year, Slovak leaders are substantially more optimistic. Last year, one third of CEOs expected a decline in the world economic situation, while only 22% expected an improvement.

Figure 1: Slovak CEOs expect a higher growth rate than global CEOs

Q: Do you think that the global economic growth rate will accelerate, remain unchanged or slow in the next 12 months?

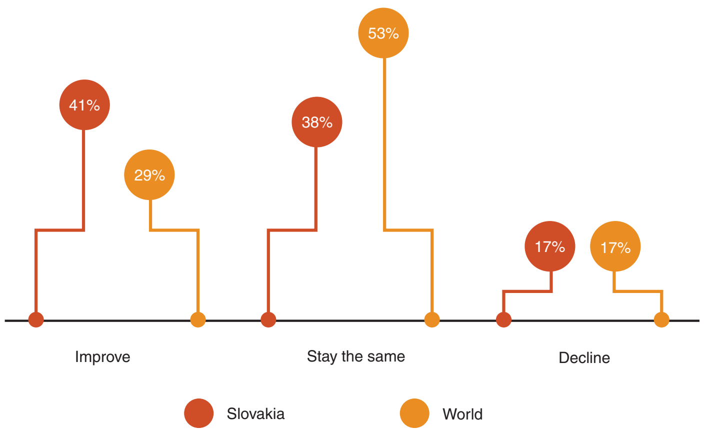
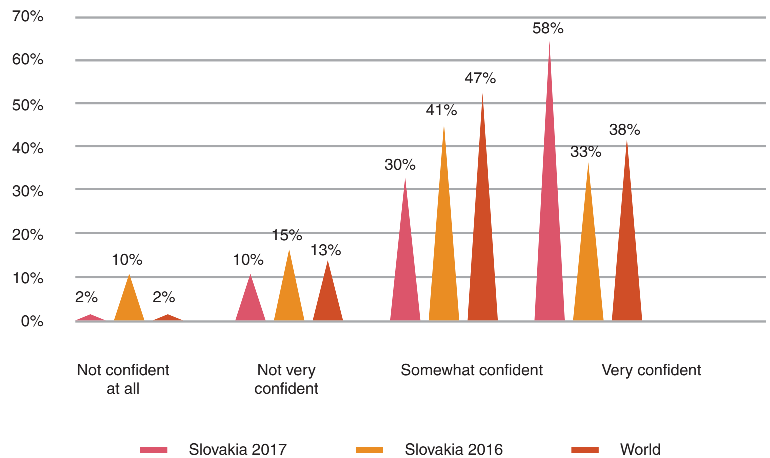


Figure 2: The year-on-year trust of Slovak CEOs in the growth of their companies increased significantly

Q: How strongly do you believe that your company has good prospects for revenue growth over the next 12 months?



"The current economic situation of companies is developing very positively. In this stage of business growth, leaders should be considering the future, invest in new technologies and staff education, and should get ready for the digitalization of business and changes resulting from unfavourable demographic developments in Slovakia."

Alica Pavúková
Partner, Assurance Leader

Slovak CEOs are significantly more confident about their companies. 58% of CEOs are very confident about revenue growth over the next 12 months, compared to 33% last year and 38% of global leaders. This is the highest level of confidence measured by the CEO Survey in the last six years. The Slovak leaders were the least confident about revenue growth last year due to the migration crisis, the possible collapse of Schengen and imminent Brexit.

CEOs showed substantially higher confidence as regards the next three years, suggesting there is a very optimistic atmosphere at companies today and an absence of real threats. 57% of CEOs in Slovakia have strong confidence in revenue growth in their companies over the next three years, compared to 34% last year and 51% of world leaders.

Figure 3: The confidence of Slovak CEOs in revenue growth is the highest since 2012

Q: How strongly do you believe that your company has good prospects for revenue growth over the next 12 months?

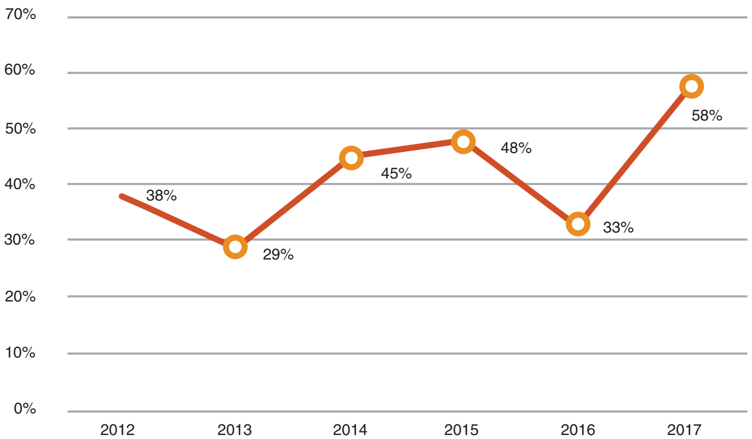
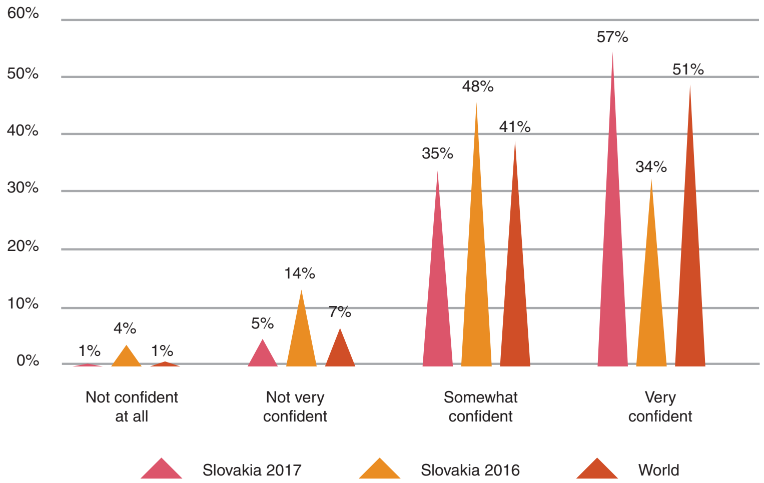


Figure 4: The trust of Slovak CEOs has also increased, as regards the next three years

Q: How strongly do you believe that your company has good prospects for revenue growth over the next three years?



More than half of the companies expect to increase the number of employees in Slovakia and globally

Strong confidence in company growth was reflected in Slovakia and globally in an increasing number of employees. Half of the CEOs expect to increase staff numbers and one third of CEOs expect no change. Compared to last year, the share of companies planning to reduce staff numbers fell from 21% to 14% and half of the leaders stated that automation and new technologies is not the reason for this reduction.

Figure 5: More than half of the companies expect to increase the number of employees in Slovakia and globally

Q: Do you expect that the number of employees in your company over the next 12 months will increase, decrease or remain the same?

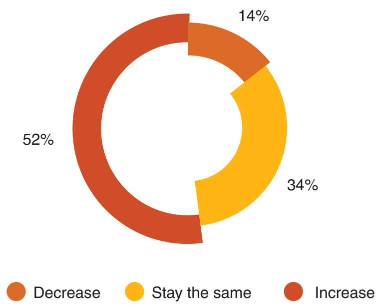
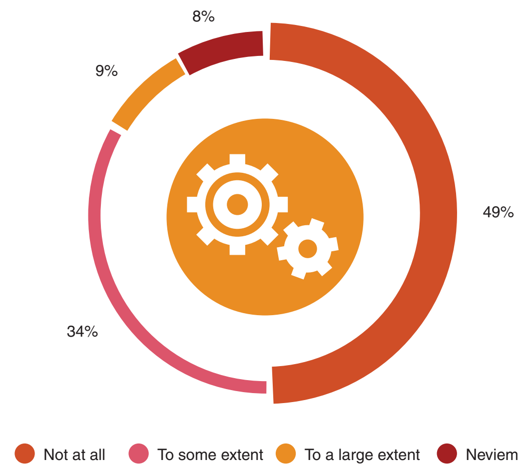


Figure 6: Automation and technologies are not reasons for reducing the number of employees

Q: To what extent will the reduction of the number of employees be a result of automation and introduction of other technologies?



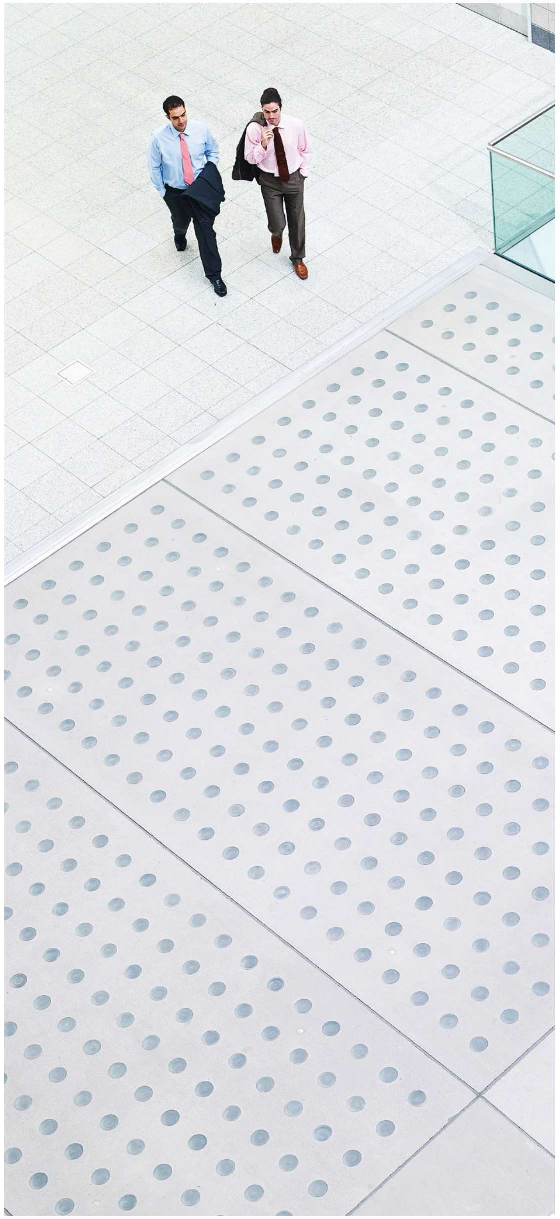
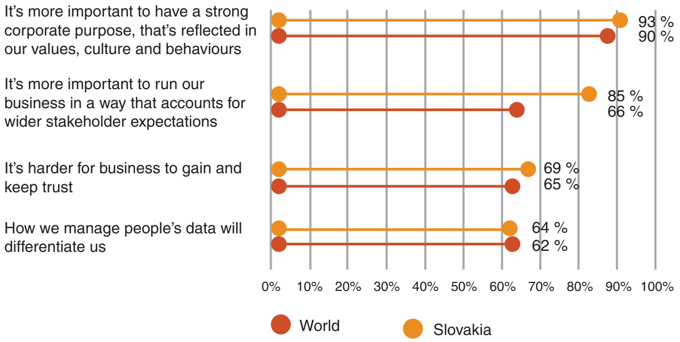


Figure 7: CEOs are concerned about the wide range of digital risks and their influence on their business

Q: How much do you agree or disagree, in the context of the ever more digitized world, with the following statements?

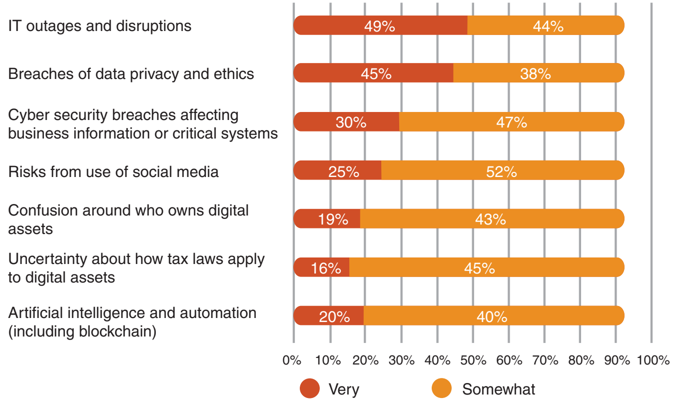


Two thirds of CEOs state it is more difficult to maintain trust

The global CEO survey has been carried out by PwC for 20 years, and trust has never been such an important business value as now. Before 2002, we did not ask the leaders about trust. We started to monitor their concerns after accounting frauds, the dotcom bubble and the collapse of financial markets. Until then, the leaders had not expressed their concerns about public trust and its impact on the success of their companies. After the financial crises, the concerns of CEOs about trust started to grow. In 2013, only 37% of CEOs worried that a lack of trust could threaten the growth of their companies. This year, this figure was 58%. 69% of global leaders believe that it will be more difficult to win and maintain public trust in coming digitized age. 87% of global CEOs and 77% in Slovakia state that social media could have a negative impact on the level of trust in their industries in the next five years. As new technologies and new applications of the existing technologies are coming, new threats are emerging and existing threats may worsen.

Figure 8: Importance of integrity in business is high

Q: How much do you agree or disagree, in the context of an ever more digitized world, with the following statements?



"Trust is the most important value that companies should consider. Customers, employees, capital markets and all stakeholders place a very high premium on trust, which can quickly be destroyed with one simple mistake. The number of threats that companies will face in coming years has increased thanks to technology and communication trends, which will increase their costs to ensure trust is maintained."

Daniel Webster
Partner, U.S. Accounting and Reporting Leader for CEE

"CEOs are most worried about IT failures, personal data protection and cyber security. Above all financial institutions must focus on these risks and invest in technologies and security. Risks will increase when Directive PSD2 enters into force, as this directive will grant third parties access to customer data. CEOs must digitalize internal and external processes to enforce IT security."

Juraj Tučný
Partner

There are fewer CEOs expecting cost reduction

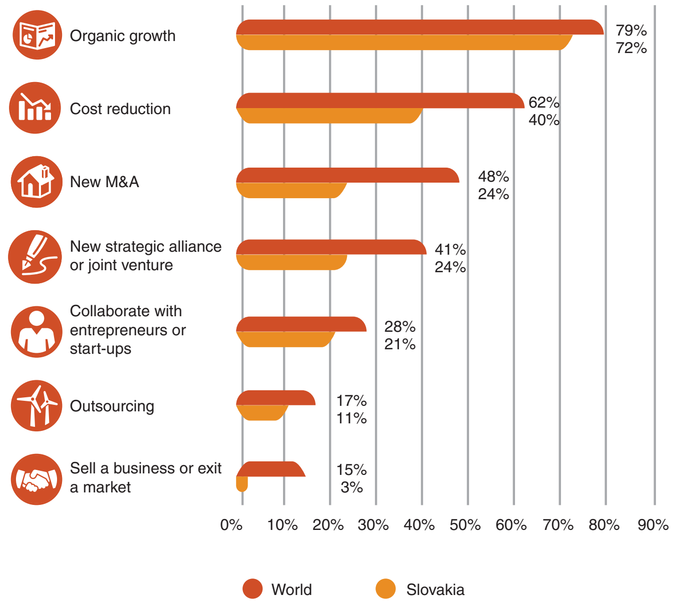
Organic growth is the basis for the growth of companies in Slovakia and globally. Positive expectations were reflected in cost reduction plans. Last year, 68% of CEOs expected cost reductions, compared with 40% this year. This year´s survey reconfirmed that global companies believe much more in other forms of growth – new strategic alliances and joint ventures, fusions and acquisitions, outsourcing or company sales and market exit.

"There are fewer companies now planning cost reduction because the leaders expect a positive development of their companies, and quite the opposite, they are planning to increase the number of their employees. At the same time, though, 78% of CEOs expect that within five years, the technologies will completely and significantly change the economic competition in their industries. The companies are having good days, but only those that are now providing for investments in new technologies and education of their employees, will be successful also after that period of five years."

Alex Šrank
Partner, Advisory Leader

Figure 9: Global leaders are planning more activities to support growth than Slovak leaders

Q: Which of the following activities do you plan to implement in the next 12 months to support the growth and/or profitability of your company?

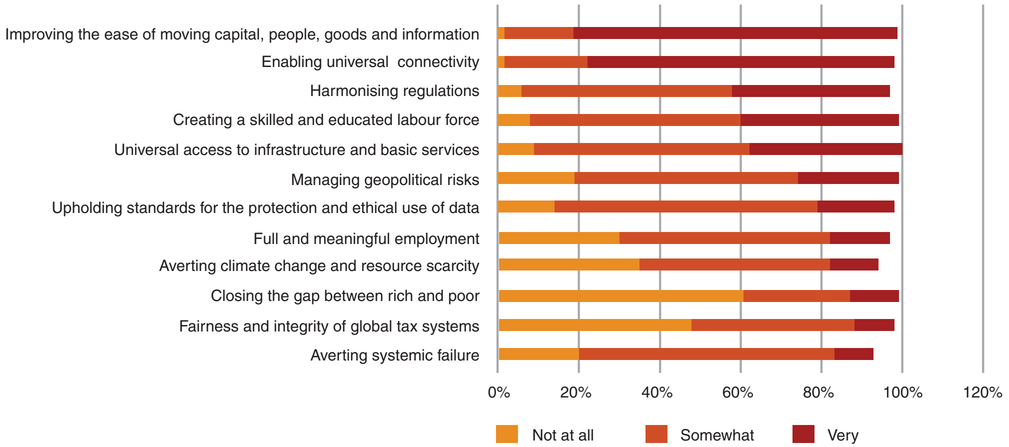


Globalisation has facilitated the movement of capital, persons, goods and services, though it has failed to reduce the gap between the rich and the poor

Both Slovak and global leaders believe that globalisation has enabled global connection and facilitated mutual exchange, and, to a certain extent, has brought about universal access to infrastructure and basic services and contributed to the preparation of a skilled workforce. However, they do not ascribe a social dimension to it. According to them, it has not reduced the gap between the rich and the poor, and has not improved the justice and integrity of global tax systems either, although it has helped to a degree to avert systemic failures. 44% of CEOs agree with the statement that it is more and more difficult for them to find the balance between competition in the open global market and restrictive national policies.

Figure 10: Globalisation has given a boost to business freedom, but it has not helped to reduce the gap between the rich and the poor

Q: To what extent do you think globalisation helps in the following areas?



"Business Service Centres (BSCs) in Slovakia help the Slovak economy integrate into the global economy. The BSCs contribution to the labour market (approximately 25,000 employees) has already been significant. 87% of BSCs in Slovakia plan to expand their scope or customer base or both in the near future. Increased demand for qualified employees and increasing salary costs are the key challenges facing the centres in our region."

Asif N. Khoja
Partner

2

Slovak CEOs consider tax burden increases, protectionism and the future of the eurozone to be major threats

Based on the survey results, the concerns of Slovak general directors with regard to the increasing tax burden are evident, much more than is the case for world leaders. The survey results documented the negative experience of Slovak leaders with unexpected and frequent changes to tax legislation. Slovak leaders expressed strong concerns about the future of the eurozone and protectionism, as the Slovak economy is open and export-oriented. Representatives of Slovak companies pay less attention to exchange rate fluctuations, social instability and access to affordable capital as global leaders. In this respect, Slovak CEOs confirmed that they are more confident about the growth of their companies than the global leaders.

Figure 11: Slovak CEOs consider tax burden increases, protectionism and the future of the eurozone to be major threats

Q: To what extent are the following potential threats of concern to you?

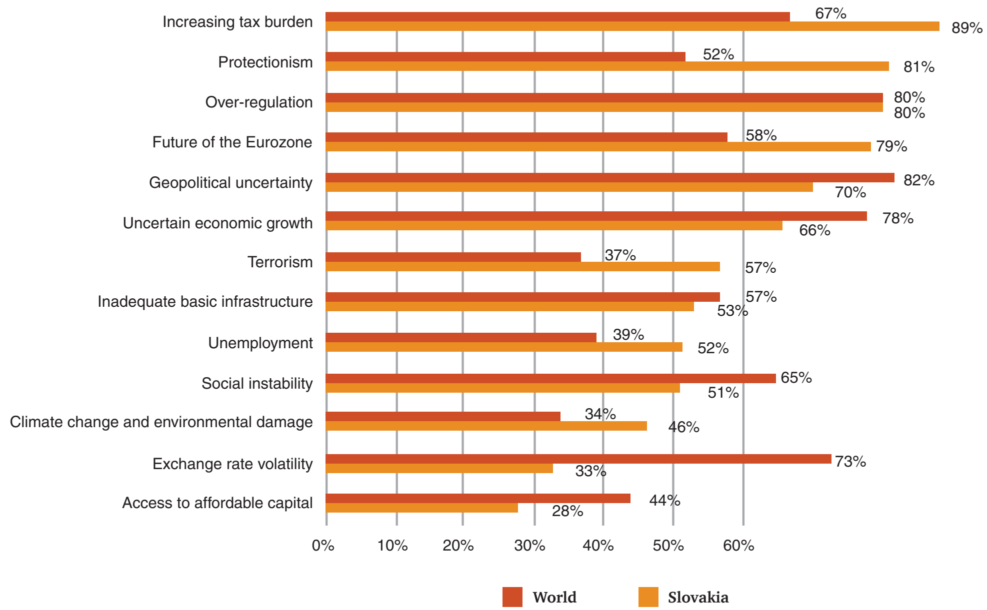
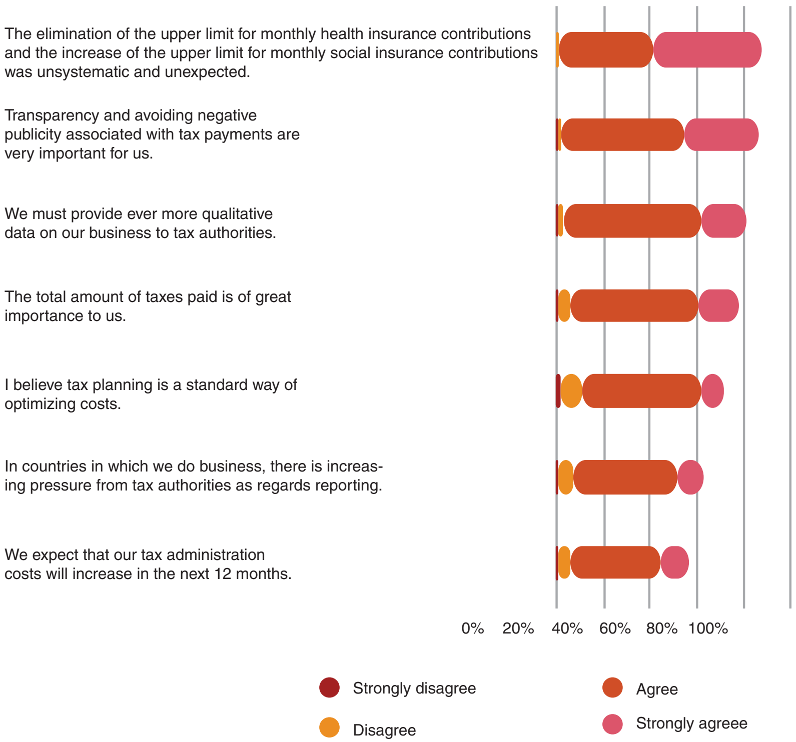


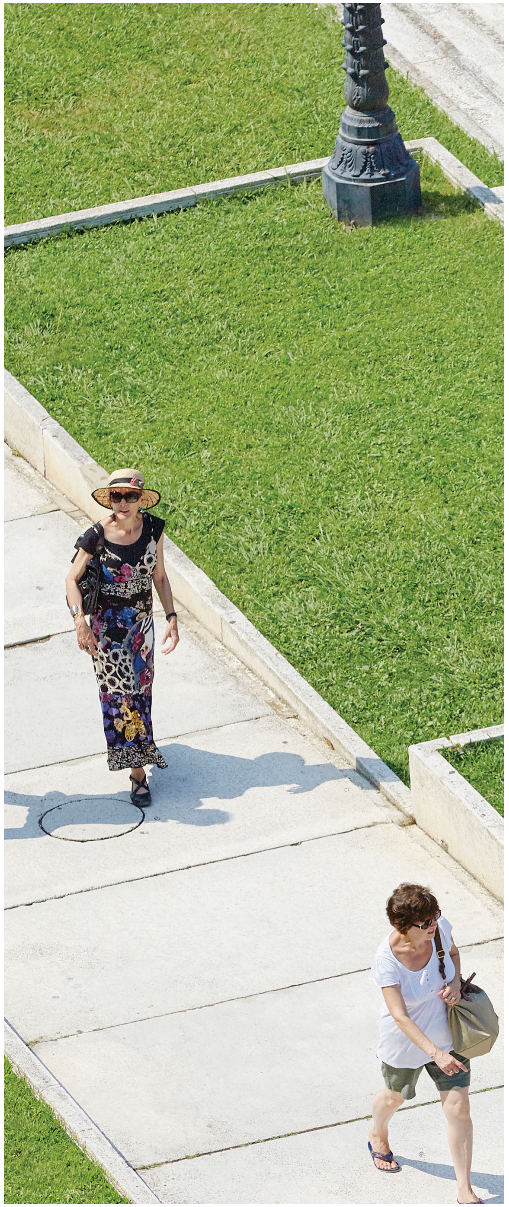
Figure 12: **83% of CEOs find transparency and avoidance of bad publicity related to tax payments to be important**

Q: To what degree do you agree with the following statements related to taxes?



"The survey results show that Slovak CEOs face greater uncertainty as regards taxes than global leaders, mainly as a result of unexpected changes to tax legislation. Companies are also coming under greater pressure due to an increased pressure for transparency, having to provide more data to the tax administration and an increase in tax administration expenses."

Christiana Serugová
Partner, Tax Leader



3

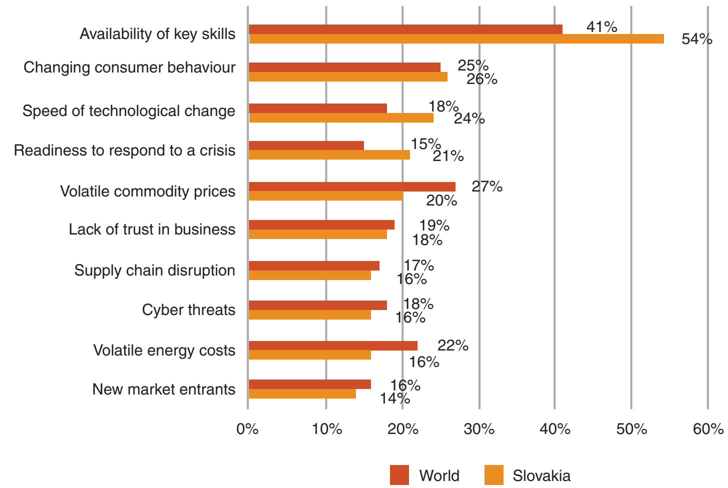
More new people, more innovation

The key elements of the current business: Talents, key skills and human capital bringing innovations

In the last CEO Survey, Slovak CEOs referred to the quality of education as a major threat, changes to the education system was one the most important requirements. This year´s CEO Survey again recorded similar statements by Slovak CEOs, who consider the accessibility of key skills to be a primary threat to business, and that innovations and human capital require strengthening. Talent is given and will continue to be given a lot of attention by companies in Slovakia and globally.

Figure 13: Accessibility of key skills and competencies is a major business threat from the perspective of the leaders in Slovakia and globally

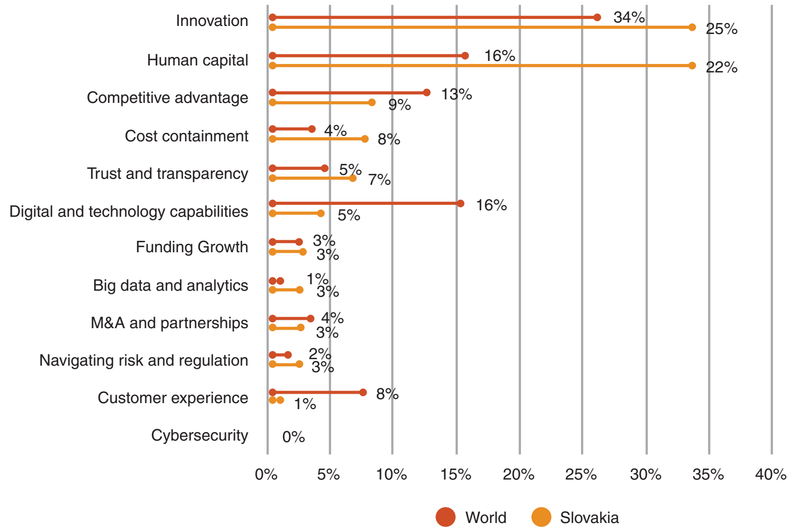
Q: How much are you worried about the following business threats?



Slovak leaders are clearly far more aware than global CEOs that innovations and human capital are undoubtedly the most important areas for consideration. However, Slovak CEOs do not consider digital and technological skills and customer experience to be as important as their global colleagues.

Figure 14: Innovations and human capital are the areas that leaders would like to strengthen the most

Q: Given the business environment in which you are engaged, which of the following areas would you like to strengthen the most to make the most of new opportunities?



Leaders initiate changes in personnel strategy and investments in talents, and are considering using machines and artificial intelligence

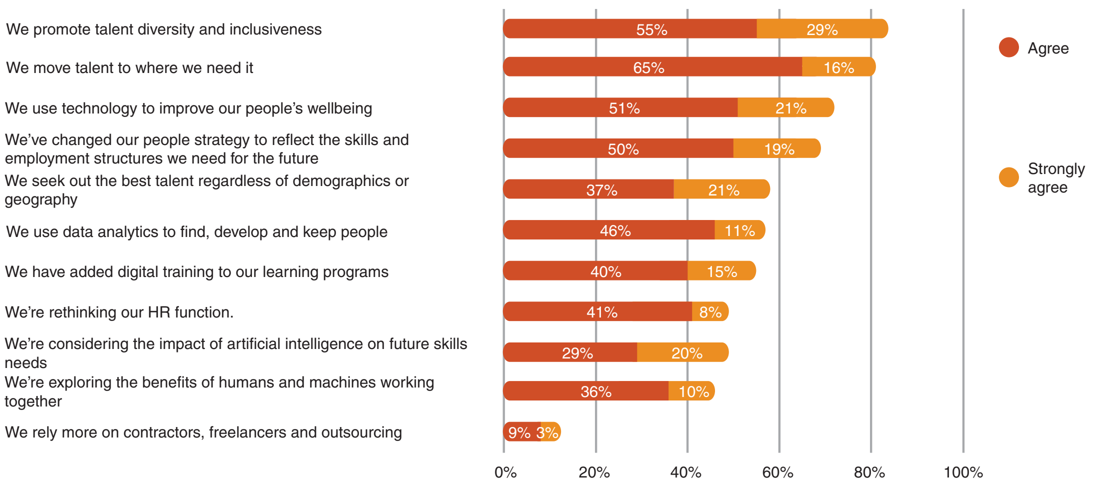
Up to 70% of Slovak and 78% of global CEOs confirmed that they will change their personnel strategies as regards skills and the structure of employees needed in the future. 50% of companies in Slovakia and 59% globally are re-assessing the operation of their personnel departments. Companies move talent to where they are most needed,

In Slovakia and globally, with regard to personnel policy, companies certainly are not relying on suppliers, freelancers and outsourcing. Up to 88% of global companies and 84% of companies in Slovakia support diversity and the integration of new talent. Almost one third of companies are searching for the most talented employees, regardless of demographic or geographic factors.

Almost half of Slovak companies are considering the impact of artificial intelligence on the required skills in the future, and are exploring the benefits of work shared between humans and machines. More than two thirds of companies use technologies to improve the satisfaction and well-being of their employees.

Figure 15: Companies are paying a lot of attention to talent

Q: How much do you agree or disagree with the following statements regarding activities of talent at your company?



"The automotive industry in Slovakia continues to grow, both manufacturers and suppliers. This is a statement of trust investors have in the Slovak business environment and it reflects the attractiveness of Slovakia being "Autoland". At the same time, further growth might be limited by the lack of qualified labor. 37% of the supplier experienced problems winning new projects due to lack of staff. Availability of workforce and technological transformation will be challenge the automotive industry in Slovakia."

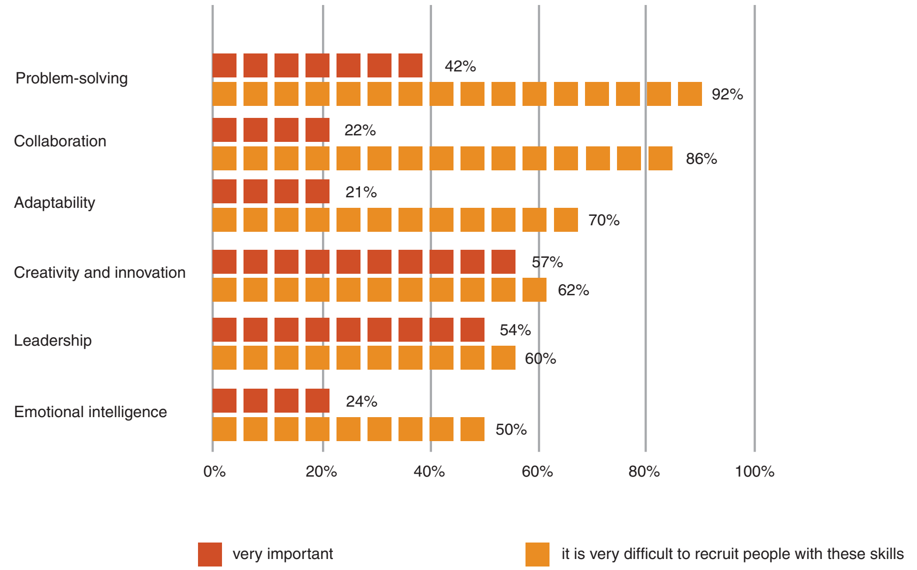
Jens Hörning
Partner, CEE Automotive Leader

The most difficult issue for companies is to find creative and innovative individuals and individuals with leadership capabilities who cannot be replaced by robots

14% of companies in Slovakia expect a drop in the number of employees, and 9% expect this to be due to automation and robotization to a large extent and one third of them expect it to be caused by automation and robotization to a certain extent.

Figure 16: Problem solving, the ability to cooperate and adaptability are the most essential competencies

Q: To what extent are the following skills and competencies important for your company, in addition to professional business knowledge?



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Emergence of new technologies is accelerating, but Slovak CEOs are self-confident

78% of CEOs expect that within five years technologies will significantly change economic competition in their industries

Two thirds of CEOs claim that in the last five years, technologies have significantly changed economic competition in the industries in which they operate. It is no surprise that in the last 20 years, this was claimed by 79% of CEOs, and the same is expected in the next five years by 78% of CEOs. The innovation cycle is accelerating, and CEOs must prepare their companies for even greater digitalization. The introduction of new technologies, however, requires continual preparation of the company for constant changes, and a sufficient number of qualified and adaptable people able to carry out the technological changes. Digitalization brings about transparency, and this is undoubtedly something positive for a company, but it also increases demands on winning and maintaining trust, and on managing risks in the company.

Based on the Digital IQ 2015 Survey, Slovak and Czech companies, introducing digital technologies, focus mainly on cost reduction and internal processes, and underestimate the importance of impacts of digital technologies on boosting and generating new revenues. Companies in Western Europe, particularly in the UK, take a more systematic approach to introducing and using digital technologies – they build special teams with their own competencies, budgets, tasks and/or laboratories to develop new prototypes. In contrast, Slovak and Czech companies mainly rely on ad hoc opportunities and networking with other leaders.

Figure 17: Technologies have changed competition significantly

Q: How much have technologies changed economic competition in your industry in the past ...?

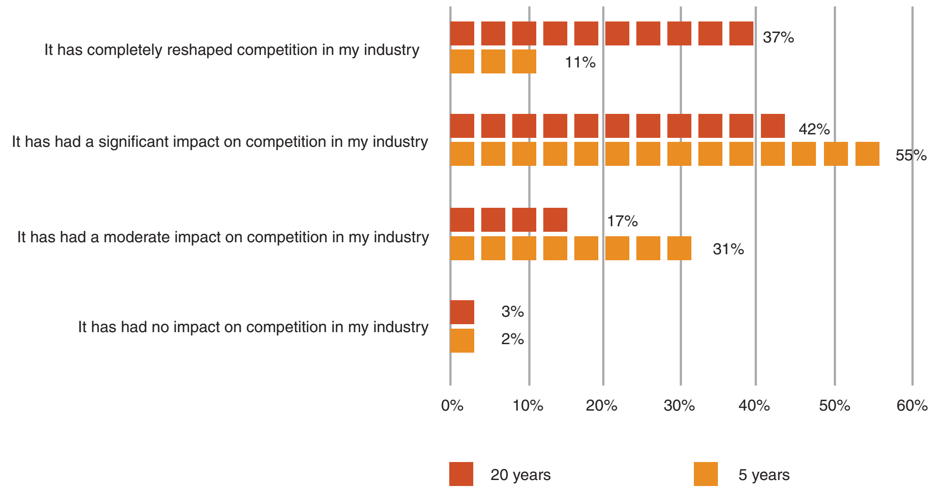


Figure 18: Technologies will change competition completely and significantly

Q: To what extent do you think technologies will change economic competition in your industry in the next five years?

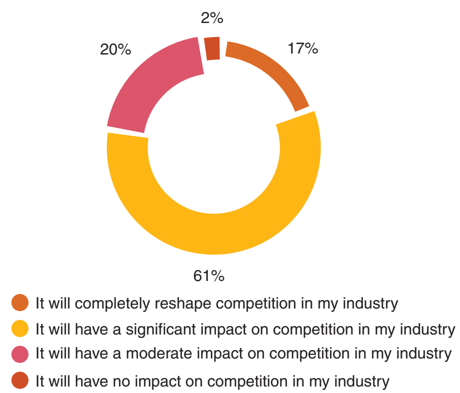


Figure 19: Slovak CEOs are self-confident

Q: To what extent do you agree or disagree with the following statements about using modern technology in your company?

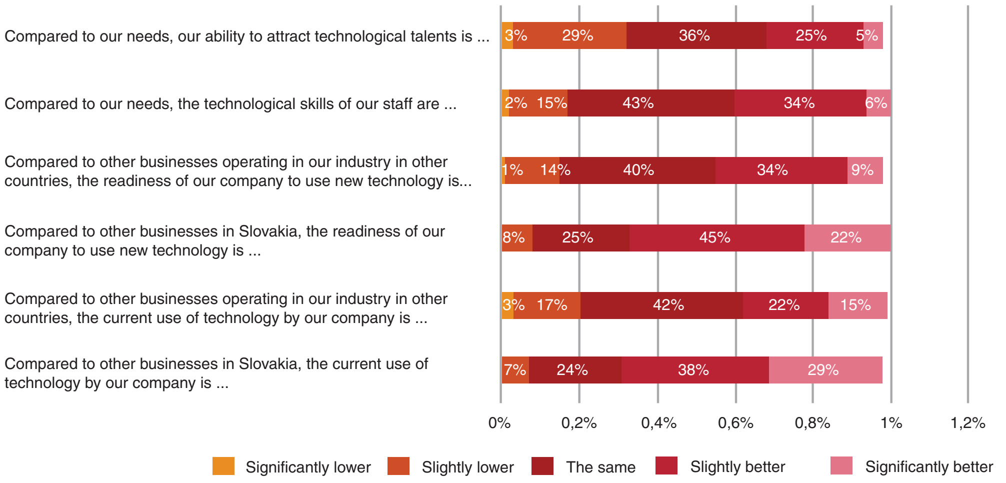
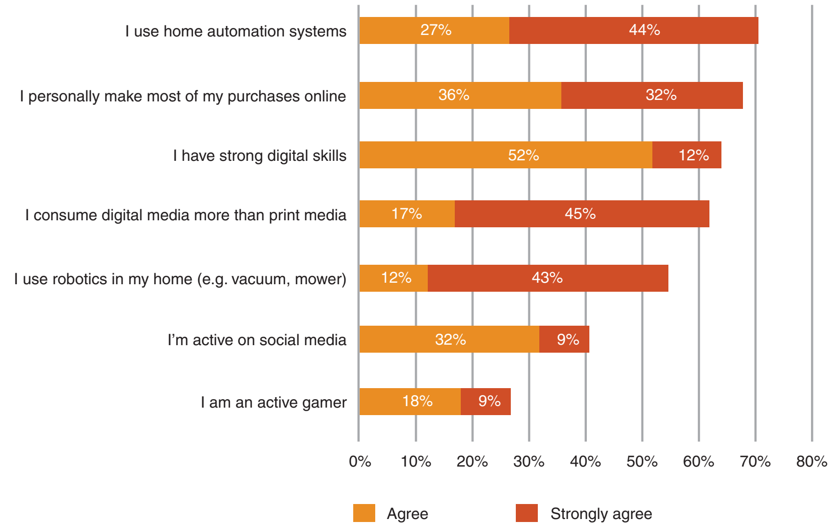


Figure 20: Slovak CEOs are digital also in their private lives

Q: To what extent do you agree or disagree with the following statements on your personal use of modern technologies?



"Companies face enormous challenges regarding implementing new technologies and CEOs are aware of the coming changes. 75% of CEOs globally and in Slovakia believe that technology will significantly impact competition in their industry."

Karsten Hegel
Partner

"The companies now have to implement new digital technologies and to face increased risks and costs reflecting this otherwise they will not be able to compete. It is necessary to prepare companies for the future systematically and not by accident."

Ivo Doležal
Partner

5

The business environment in Slovakia is still facing the same challenges

There are no changes in the order of the biggest threats to business in Slovakia for the last year. Across the whole survey, responses to a number of the questions confirm that a qualified workforce and talent are the major challenges for Slovak companies. Law enforcement continues to be the most important perceived threat, and there were no changes with regard to Slovak leaders in this respect.

New threats have emerged, such as countries leaving the EU and global geopolitical changes under the influence of changes in US foreign policy, and the insufficient introduction of modern technologies in business and production.

Figure 21: Leaders require a higher level of law enforcement, improvements to the education system, and stability of the tax system

Q: Which of the following factors could jeopardize successful business activities in Slovakia?

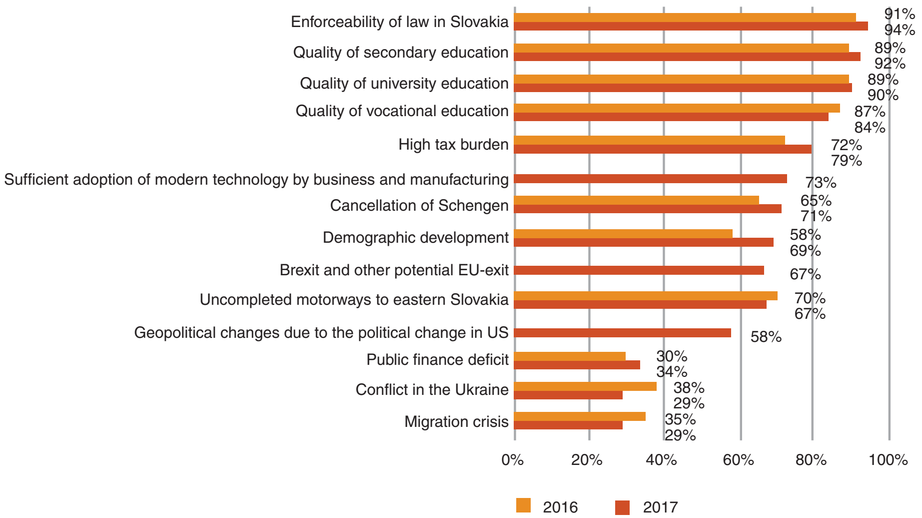
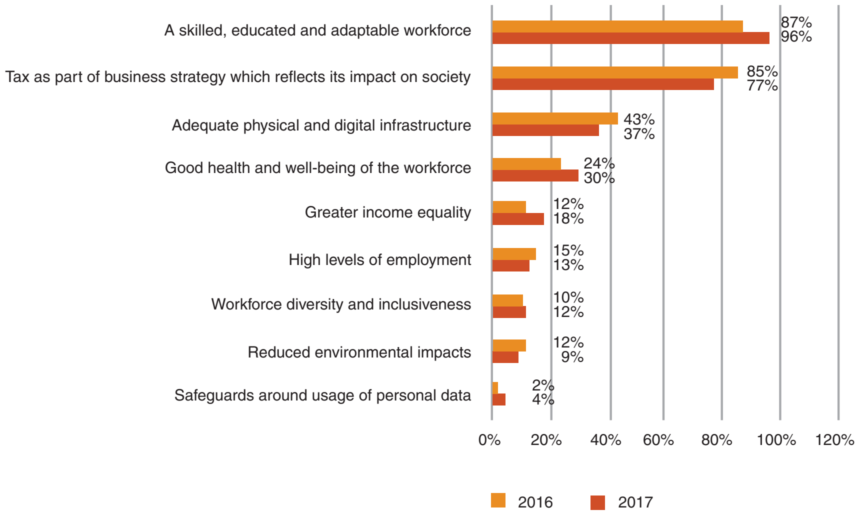


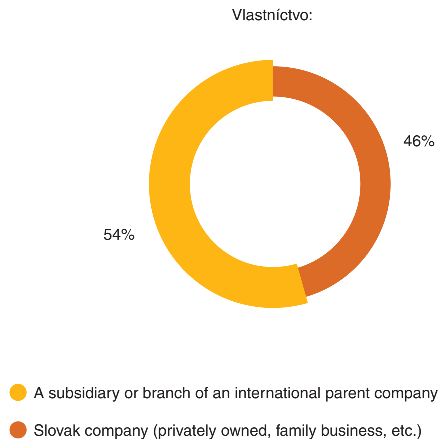
Figure 22: The priorities of Slovak CEOs have not changed – the most important one is a qualified, well-educated and adaptable workforce and a simple, stable and effective tax system

Q: Which three of the following outcomes do you think should be priorities for business to help deliver in Slovakia?

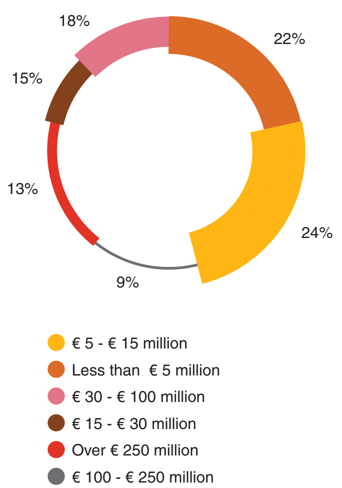


Characteristics of companies represented in the survey

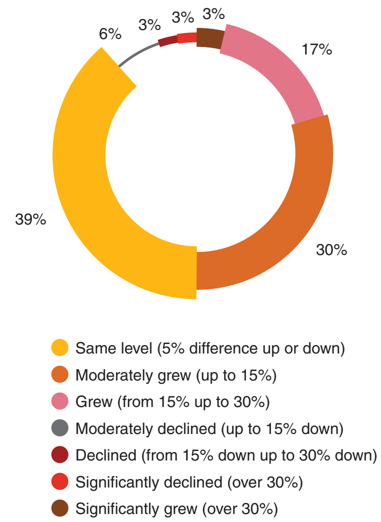
Graf č. 23: Ownership of the company:



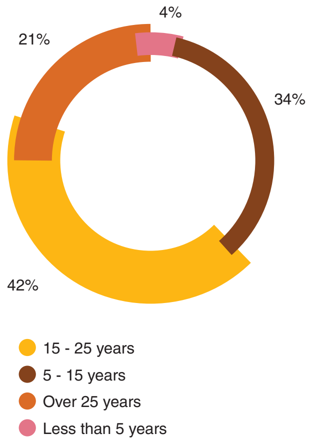
Graf č. 24: Organisations's revenue in € in the last fiscal year:

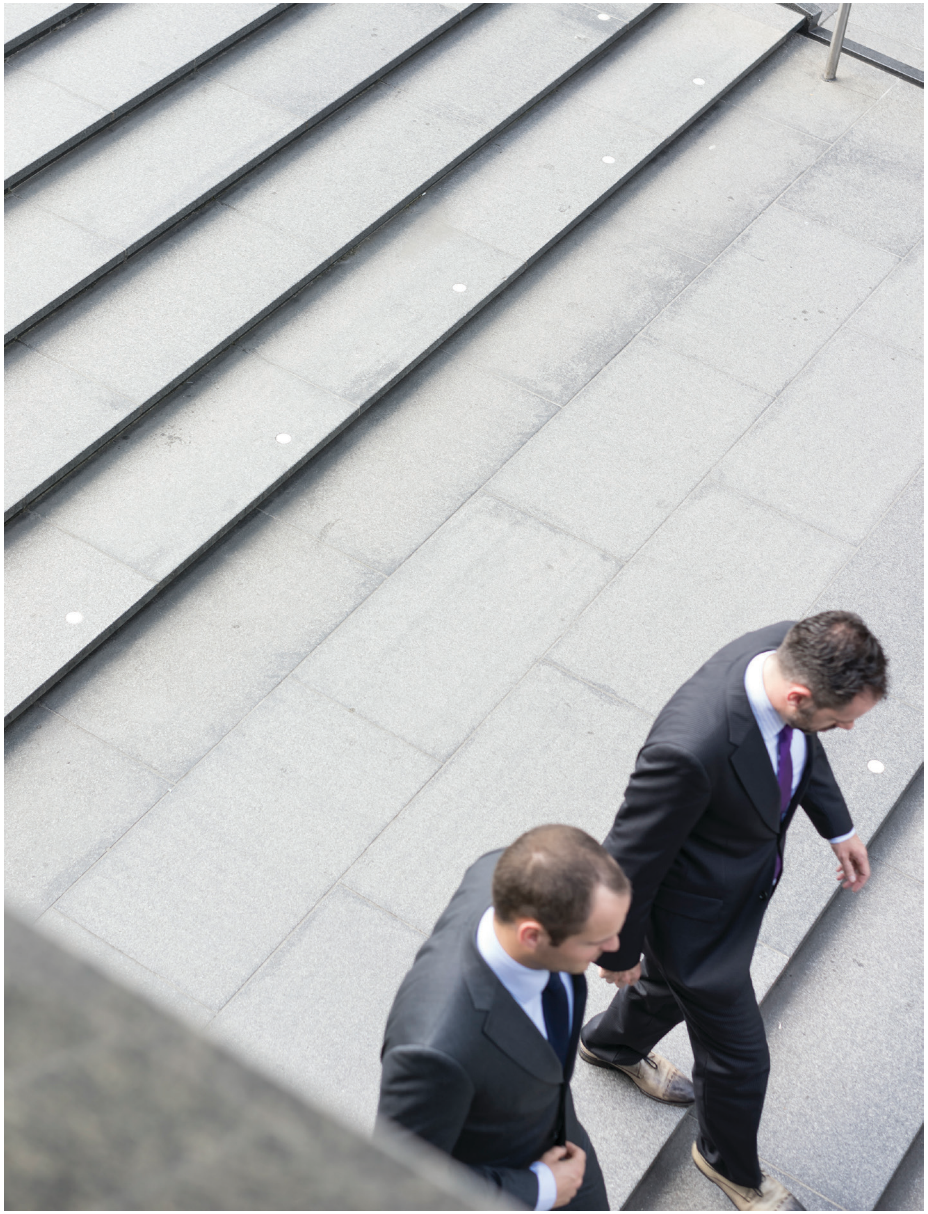


Graf č. 25: Year-to-year change revenue:



Graf č. 26: **Length of time operating in Slovakia:**





Slovak CEO Survey 2017

This is the 8th survey conducted by PwC in cooperation with the Slovak edition of Forbes magazine. The contacted CEOs replied on-line or using a printed questionnaire over the period 25 January 2017 to 3 March 2017. 163 top representatives of companies operating in the Slovak market participated in the survey from various industries including: financial services (banking & insurance), manufacturing, construction, automotive, retail & distributive wholesale, consumer goods, transportation & logistics, information technology, telecommunications, energy & utilities.

The 20th Annual Global CEO Survey was conducted in October and November 2016, more than 1300 CEOs participated in the survey and the results were published during The World Economic Forum in Davos on 19 January 2017.

www.pwc.com/sk/en/ceo-survey.html

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