12. Annual CEO Survey

Polish perspective*

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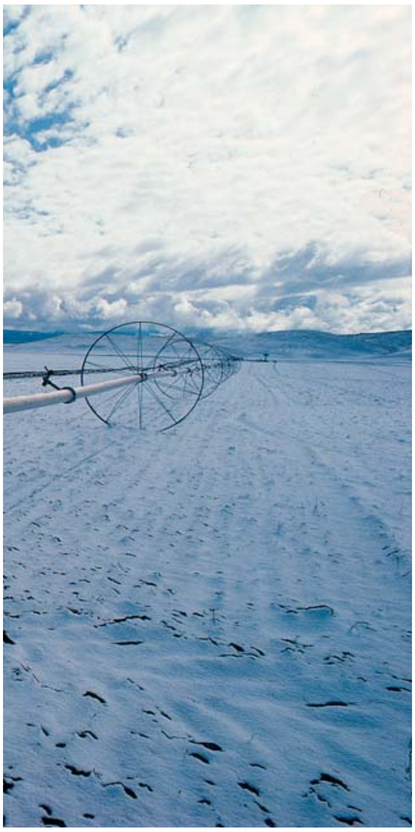
PricewaterhouseCoopers

Dear All

PricewaterhouseCoopers' 12th Annual Global CEO Survey was attended by 1,124 managers of companies from 50 countries. Just as in previous editions, the survey was focused on the most important trends and tendencies observed in today's economy. However it was a quite different survey considering the period when it was carried out. The global economy fell into the biggest financial crisis and the deepest recession for decades. Company managers all over the world expressed deep concern for development prospects, uncertainty and fears. At the same time fundamental questions about the right direction for globalisation and the economic growth of the world emerged anew.



This year's report, published during the World Economic Forum in Davos, was dedicated to the comtemplation of the following phenomena:

- Mutual connections (Connectedeness) driven by the processes of globalisation. Economies and companies which rose through globalisation are now suffering crisis conditions.
- The need for collaboration (Collaboration) in order to overcome these crisis conditions and re-enter a path of stable development. Such collaboration includes all stakeholders: companies, governments, societies, non-governmental organisations
- The need to find a balance for development (Balance) again, and in particular the ability to balance short-term requirements determined by the survival of companies with needs resulting from their development strategies.

The most important conclusion is the statement that an effective fight against the current difficulties requires a new balance between short- and long-term objectives. A key problem is the durability of such development (Durability). As the true success of companies must be measured in decades, not quarters.

Together with the global survey we also held additional surveys: Polish perspective. Polish managers were asked similar questions to those answered by respondents across the world. The similarities and differences in responses constitute material for reflection regarding the optimal development strategies for our domestic companies.

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Summary

- Polish managers are pessimistic about the development prospects for their companies, especially in the short-term. In Poland moods deteriorated more dramatically than the global average.
- Key concerns for Polish managers are: the slump in the global economy, excessive regulation, turmoil on the capital markets and cost-price competition from foreign manufacturers. Fears for the availability of qualified employees were of lesser concern.
- When speaking about the directions the global economy will follow in coming years, Polish managers are slightly more pessimistic than the average global manager.
- Polish managers expect effective government action to harmonise global tax and regulation rules and develop infrastructure, and they tend to appreciate some efforts towards government consultation with the private sector concerning policy and regulation. However they believe that regulation burdens for companies have not actually decreased, that the government fails to help companies solve their fundamental problems (access to qualified workers and natural resources) and that the long-term environmental protection policy is ambiguous and inconsistent.
- As far as the tax system is concerned, Polish managers put clarity and stability of tax regulations and easy compliance with the regulations in first place. Advisable features of the fiscal system would be moderate aggregate corporate tax charges and a friendly approach by tax authorities towards tax payers. Polish managers do not consider the nominal CIT rate to be a particularly significant problem.
- When assessing the most important sources of competitive advantage for their companies, Polish managers see their key strength to be in their ability to adapt to changes. Other factors seem to be slightly less important: reputation, innovations aimed at technological improvements in the company, good knowledge of the market and efficient supply chain management. Compared to the previous survey, this year access to highly qualified employees was considered to be slightly less important.
- A difficult match between short-term and long-term development priorities requires appropriate information regarding the key problems a company has to face. According to Polish managers, the largest information gap exists in terms of the knowledge of clients' preferences and needs, and a knowledge of the risks for the company.
- Despite the economic slowdown an important task remains to attract and retain talent within a company. Polish managers regarded a limited supply of employees with the required qualifications, pay pressures in the market of highly qualified employees, competitors' actions (taking over the most valuable employees) and the provision of sufficiently attractive professional career paths for talented employees as threats. The key remedial efforts are: transfers of key employees within the organisation, the creation of more flexible working conditions and collaboration with external specialists in order to attract talent.

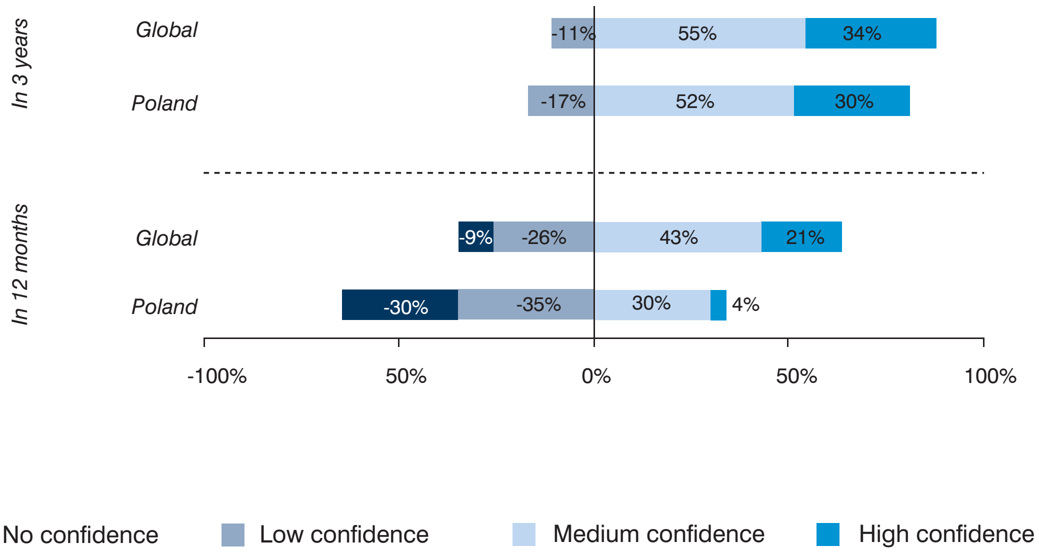
Survey methodology and participants

Our global survey was attended by 1,124 company managers from 50 countries (420 from Western Europe, 80 from Central and Eastern Europe, 276 from Asia and Pacific, 168 from South America, 138 from North America and 42 from the Middle East and Africa).
Companies represented various sectors and industries. About 35% of the surveyed companies reported revenues of over US$ 1 bn.
The survey was held in autumn 2008 mostly through phone calls, and in some countries through questionnaires sent by post or through direct interviews.
The survey was coordinated by PricewaterhouseCoopers International Survey Unit in Belfast.

Supplementary survey: Polish perspective was a questionnaire-based postal survey responded to by 23 managers of Polish companies. It included companies of various sizes from different sectors and industries of the economy. The survey took place in the 1st quarter 2009.
The survey was carried out by PricewaterhouseCoopers Polska.

Development prospects: Polish perspective

1.0 Confidence in the company's profit growth (% of answers)



"Governments and business leaders were surprised by a global financial crisis which quickly changed into a global economic recession"

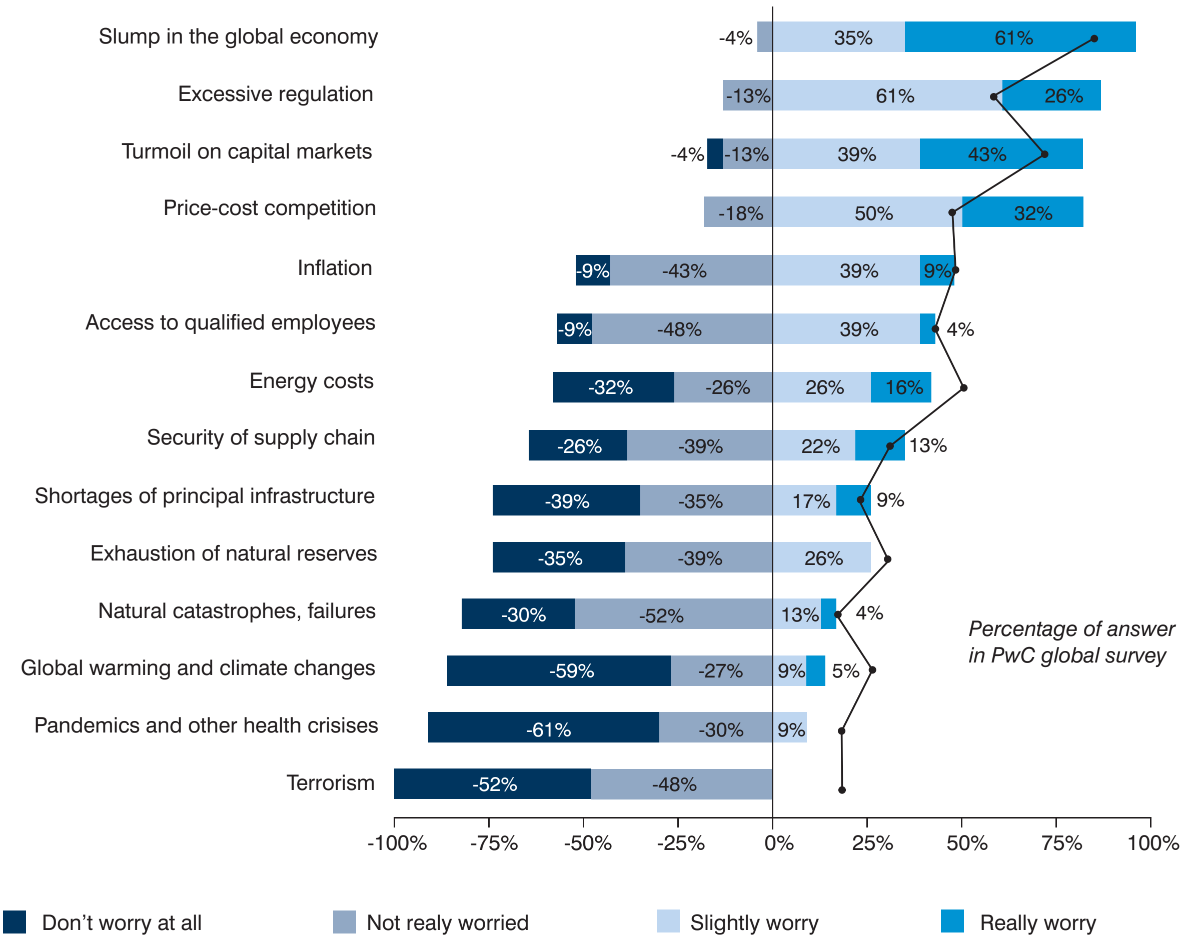
12. Annual CEO Survey, PricewaterhouseCoopers

The 12th Annual CEO Survey was held in the period when the global economy was sliding into the deepest financial crisis for decades. Forecasts prepared by managers of global companies deteriorated drastically month by month, nervous tension and pessimism prevailed. That affected not only the next 12 months during which respondents expected a huge economic slowdown or recession, but mid-term prospects too. Compared to the first group of participants questioned in September about the development prospects for their companies for the next 3 years, where 60% expressed a relatively high confidence in further growth, in October that percentage had dropped by half.

Among Polish managers moods deteriorated more dramatically than the global average. Confidence in the development prospects for their companies for the following 12 months (high or medium) was declared by 34% of respondents, and for the next 3 years by 82%. The scale of pessimism itself does not really vary from global levels (there is a difference in short-term perspective but it might be explained by the survey in Poland having been held later than elsewhere). However, the suddenness of the observed changes is striking as only as far back as spring 2008 almost 100% of Polish managers surveyed were optimistic about the development prospects for their companies. Such a drastic deterioration in mood means that for Polish companies the change in economic conditions was a complete surprise. It should also be noted that the mood of Polish managers is not particularly affected by the fact that Poland handled the crisis the best out of all OECD countries and that it is the only economy in the European Union still reporting output growth. That indicates an essential lack of confidence in the environment where Polish companies operate.

Assessment of the economic picture: Polish perspective

2.0 Potential threats for a company (% of anwers)



"Globalization of markets allowed a more intensive and quicker wealth growth than ever in the past. However that brings risks too. Today managers of large corporations believe that in order to succeed it is more important to accurately forecast risks associated with mutual dependencies of world economies than to focus on profits".

12. Annual CEO Survey, PricewaterhouseCoopers

“Today companies don’t go bankrupt as they’re short on profits. They go bankrupt as they’re short on cash”

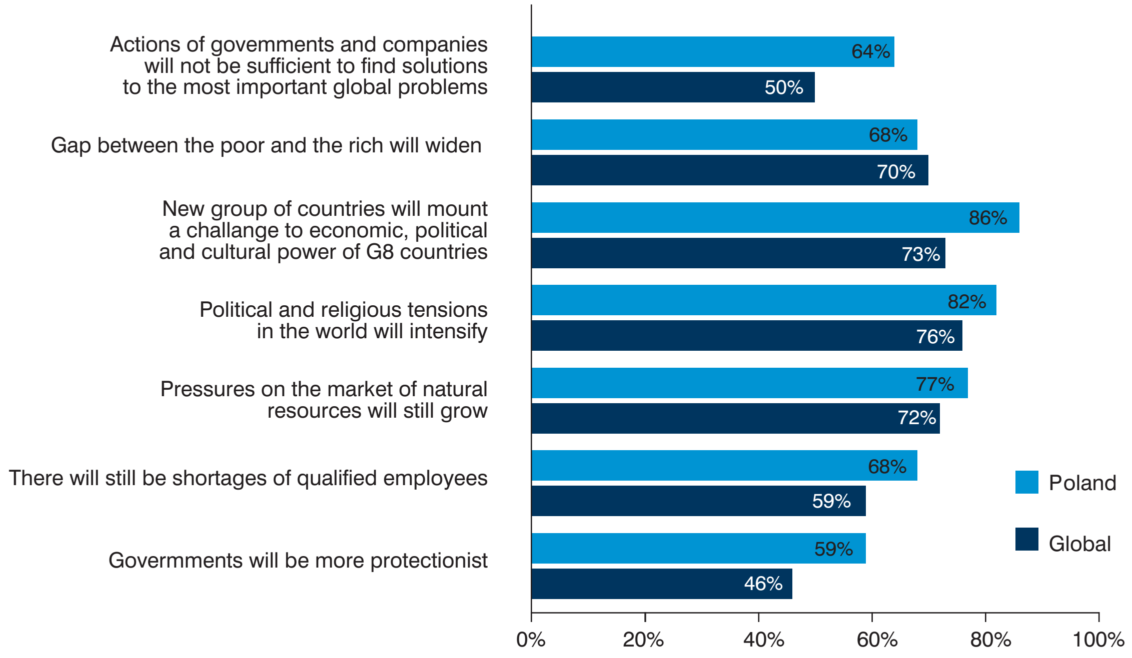
CEO from the US

But Polish managers view the largest threats facing the companies they manage, in a quite a different way to the global average. The largest threat, as everywhere, is considered to be a further slump in the global economy (as much as 96% of respondents are concerned about such prospects, compared to 62% a year before and 85% on average in the world). In second place there is overregulation (87% of answers, compared to 70% a year before and only 55% on average in the world). In third place are disturbances on capital markets (83% of answers), and in fourth place is cost-price competition from foreign manufacturers (82% of answers, just as a year before).

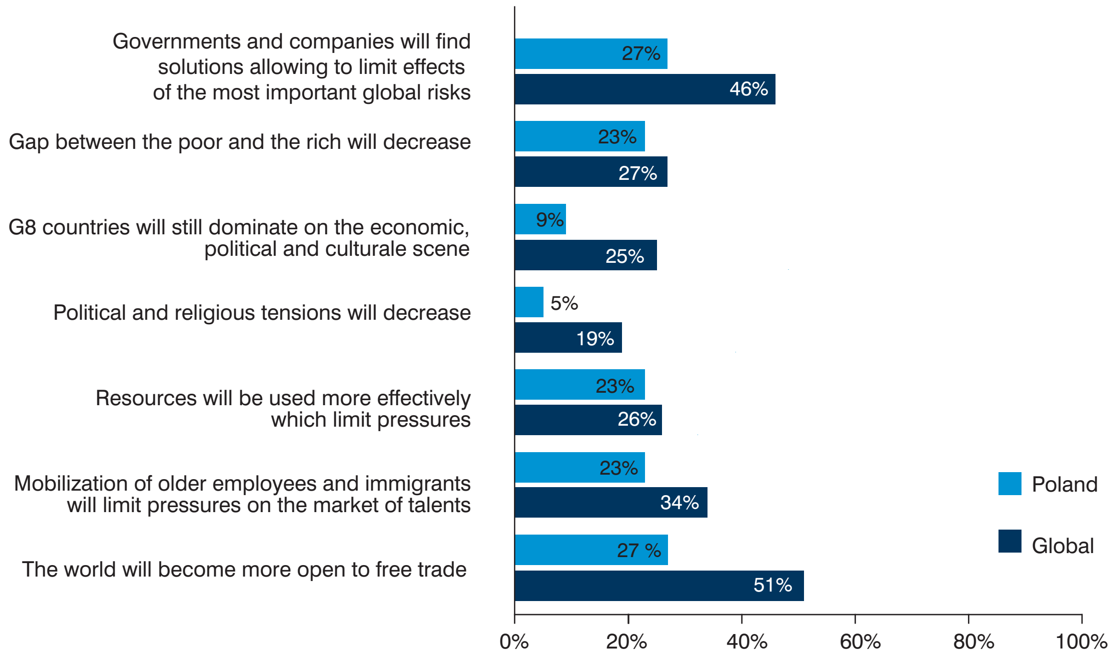
An economic slump, overregulation, financial chaos and price competition by far outpace all other threats. So it seems clear that for Polish managers problems lie not only in the current economic situation but in unsolved structural problems and long-term challenges as well. It is interesting, for example, that the weakening of the Polish zloty within the last year, combined with stabilising labour cost growth rates did not contribute at all to lessening the fears of competition from foreign manufacturers.

Just as last year, Polish managers do not regard most global risks that managers all over the world are concerned about as serious threats to their companies: climate change, pandemics, the exhausting of natural reserves or the explosion of terrorism.

3.0 Scenario 1 (% respondents who agree with a given statement)



4.0 Scenario 2 (% respondents who agree with a given statement)



“Do I make such decisions today that my grandchild will one day reflect and say: *My grandfather made decisions which still make sense?*”

CEO from the US

When asked about the direction the global economy will follow in the years to come, Polish managers expressed views similar to those encountered on average in the world. But in answer to almost all questions the percentage of answers considering Scenario 1 (generally pessimistic) as more probable is slightly higher for Poland, and the percentage of preferences for Scenario 2 (optimistic) is significantly lower.

So Polish managers expect (over 80% of responses) that there will be tensions resulting from economic struggles between old G8 economic powers and the group of dynamic new economic giants, accompanied by rising political and religious tensions. They also expect (68-77% of answers) growing pressure on the market of natural resources (perhaps price growths and lower security of supply too) and a widening gap between rich and poor. According to most respondents (59-64%), governments and private companies will not find effective methods of solving global problems and strong protectionist tendencies may appear over the world.

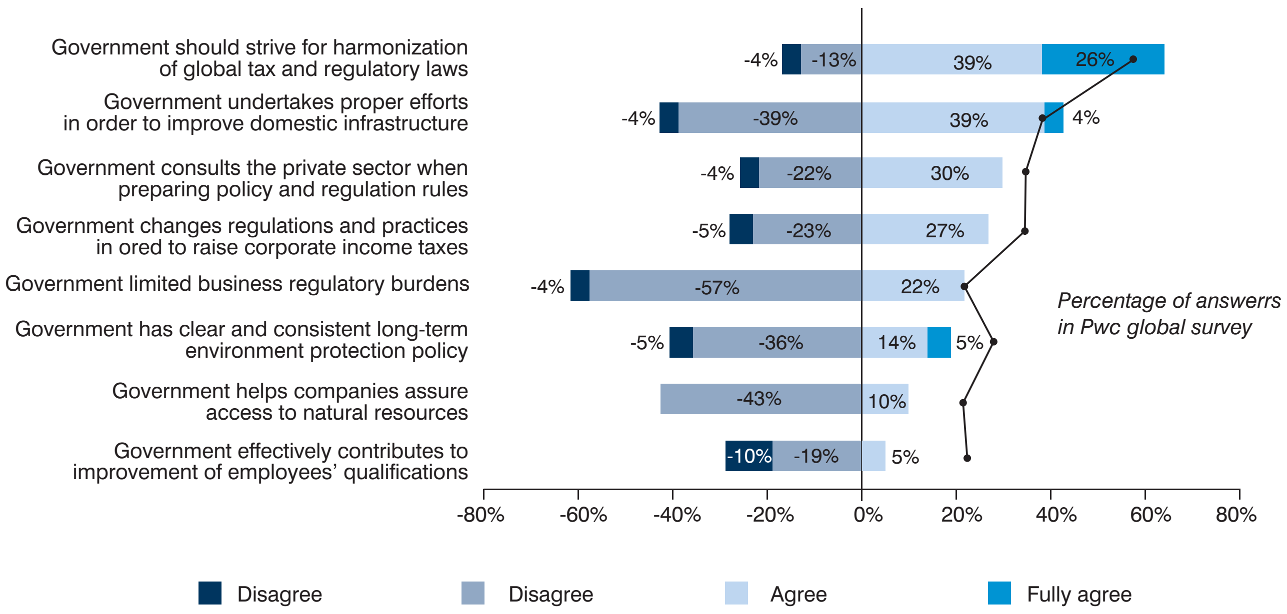
Though Polish companies are in a difficult financial position, they look for cash mainly by extending terms of payment of their liabilities to counterparties (over 60% of respondents) and of loan installment repayments (a half of respondents). Other solutions are much less popular. Only every fourth participant of the survey considers a possible consolidation of loans or disposal of a part of their assets. Leaseback arrangements or securities issues as potential ways to improve the structure of financing are indicated by every fifth Polish manager surveyed.

It should be noted that Polish managers focus on the optimization of operations through cost reduction initiatives. According to managers' statements such initiatives mainly cover the area of purchases of external services and administration (almost 90% of respondents) and to a much more limited extent purchases of materials, marketing and sales (about 70-75% of respondents). On the back of the tough situation on the market nearly 75% of surveyed managers do not exclude the introduction of more strict expense authorization rules or changes in reporting policies.

It should be however underlined how Polish managers approach the market. They prefer an "escape forward". Almost 90% of respondents do not exclude the extension of their product range or entry into new segments as methods for fighting the crisis. In addition two thirds intend to initiate more aggressive actions on their current markets. Only a limited group of respondents shares the opinion that nowadays they should withdraw from selected products and market segments.

Relations between the business world and the government: Polish perspective

5.0 Expectations of the government (% of answers)



"Managers expect that governments will take a leading role, thus undermining the old motto *the less government the better for the business world.* […] However on the other hand they believe that active measures undertaken by the government are advantageous only if they are to support the economy, and bad in all other cases"

12. Annual CEO Survey, PricewaterhouseCoopers

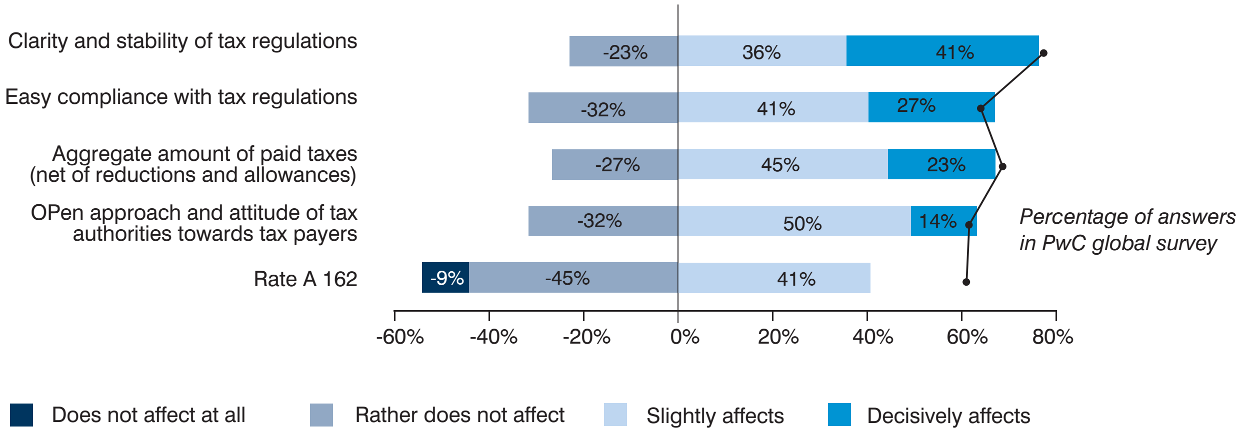
“Polish companies have to face difficult market conditions just like companies from all over the world. But their huge strength is their ability to adapt.”

Jacek Socha
PricewaterhouseCoopers

As indicated by the global survey, the current crisis led to a re-evaluation and restatement of many popular opinions expressed in the past. During previous surveys respondents generally declared that limitations in government intervention would be beneficial for the economy. Today, faced with the largest economic crisis for decades, they expect governments to resort to active measures and play a leading role. That does not necessarily mean their support for any government action but only for measures which really contribute to strengthening economies and accelerating recovery.

The managers of Polish companies surveyed expressed much more moderate views than the global average and they tended to have lower opinions regarding the quality of actions undertaken by the government in order to mitigate the effects of the global crisis. Polish managers would gladly see effective government measures in the area of harmonisation of global tax and regulation rules (which might facilitate the expansion of Polish companies, increase the security of trade and investments and, to a certain, extent save the world from protectionism). As usual, they noticed an important role for the government in developing infrastructure and they appreciated some efforts towards consultation with the private sector concerning the preparation of policy and regulation rules (a slight majority of favourable opinions). However, they believe that regulation burdens for companies have not actually decreased, that the government fails to help companies solve their fundamental problems (access to a qualified workforce and natural resources) and that the long-term environmental protection policy, being of critical importance for the competitiveness of the economy, is ambiguous and inconsistent.

6.0 How the tax system affects investment decisions? (% of answers)



"We believe that profits are only a side effect of what we are doing. We say: *Profits support our actions but do not define them.*"

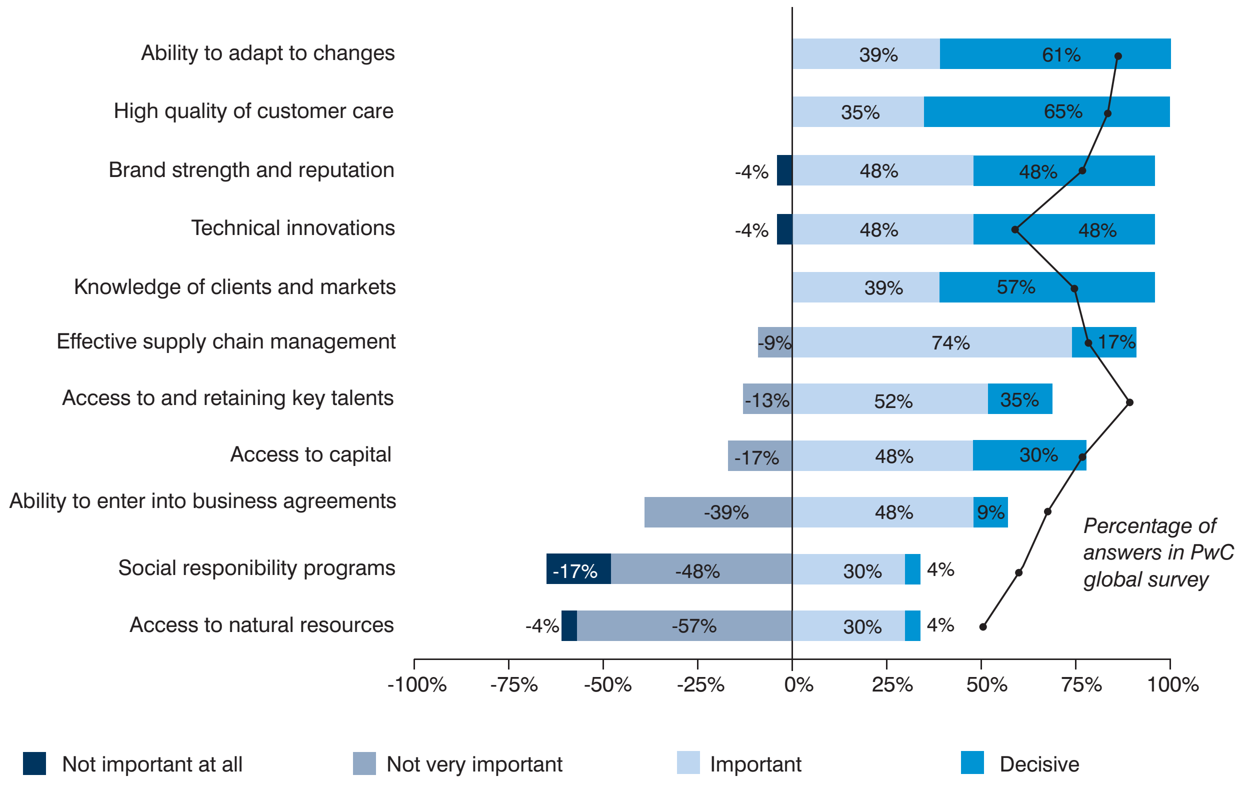
CEO from the UK

Among the most important areas where managers could expect the government to improve the current situation is tax policy and the working of the fiscal system. Polish managers, just like company managers all over the world, put the clarity and stability of tax regulations and the easy compliance with regulations in first place (which is associated with the clarity and logical structure of laws, the efficient operation of tax offices and a limit to the extent of discretionary decisions). The advisable features of the fiscal system, favourably affecting any investment decisions made, would be moderate aggregate corporate tax charges and a friendly approach by tax authorities towards tax payers. However, Polish managers do not consider a nominal corporate income tax rate to be a real problem which precedes all others in political debates over taxes.

The opinions expressed by Polish managers are generally consistent with the answers obtained in the global survey. However, it is noticeable that in Poland there is much less interest than elsewhere in the nominal corporate income tax rate which may suggest that the CIT rate, as currently in effect in Poland, is considered satisfactory by companies.

Development balance: Polish perspective

7.0 Key long–term corporate competitive advantage factors (% of answers)



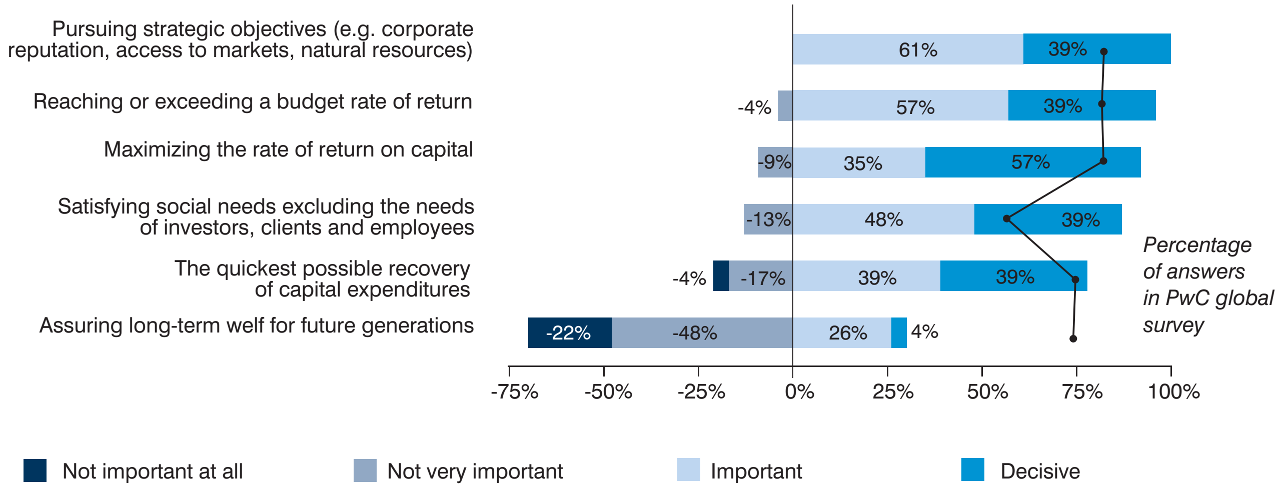
"Today companies strive for survival but not for the price of abandoning their development priorities. Managers believe that now success depends on the ability to match short-term and long-term expectations of stakeholders"

12. Annual CEO Survey, PricewaterhouseCoopers

Uncertainty as to operating conditions for Polish and global companies in the coming years requires the careful planning of development strategies based on the full use of the most important strengths. When speaking about the most essential sources of competitive advantage for their companies Polish managers regard the following as the principal success factors: the ability to adapt to changes and the high quality of customer care (100% of answers). Only slightly lower results (over 90% of answers) were attributed to: reputation, innovations aimed at technological improvements in the company, a good knowledge of the market and efficient supply chain management. Compared to last year's responses, this year access to highly qualified employees (attracting and retaining talent in a company) was considered to be slightly less important. That was probably an effect of a much cooler labour market driven by a drop in demand. However, it should be noted that such a situation will probably be of a temporary nature only. At the same time interest in access to capital rose as in the previous years that item was hardly ever noticed on the list of development problems.

As against the global average, managers in Polish companies pay much more attention to technological innovations and the knowledge of the market, and less attention to the ability to enter into alliances and agreements, social responsibility of the business and access to natural resources.

8.0 What factors affect investment decisions (% of answers)



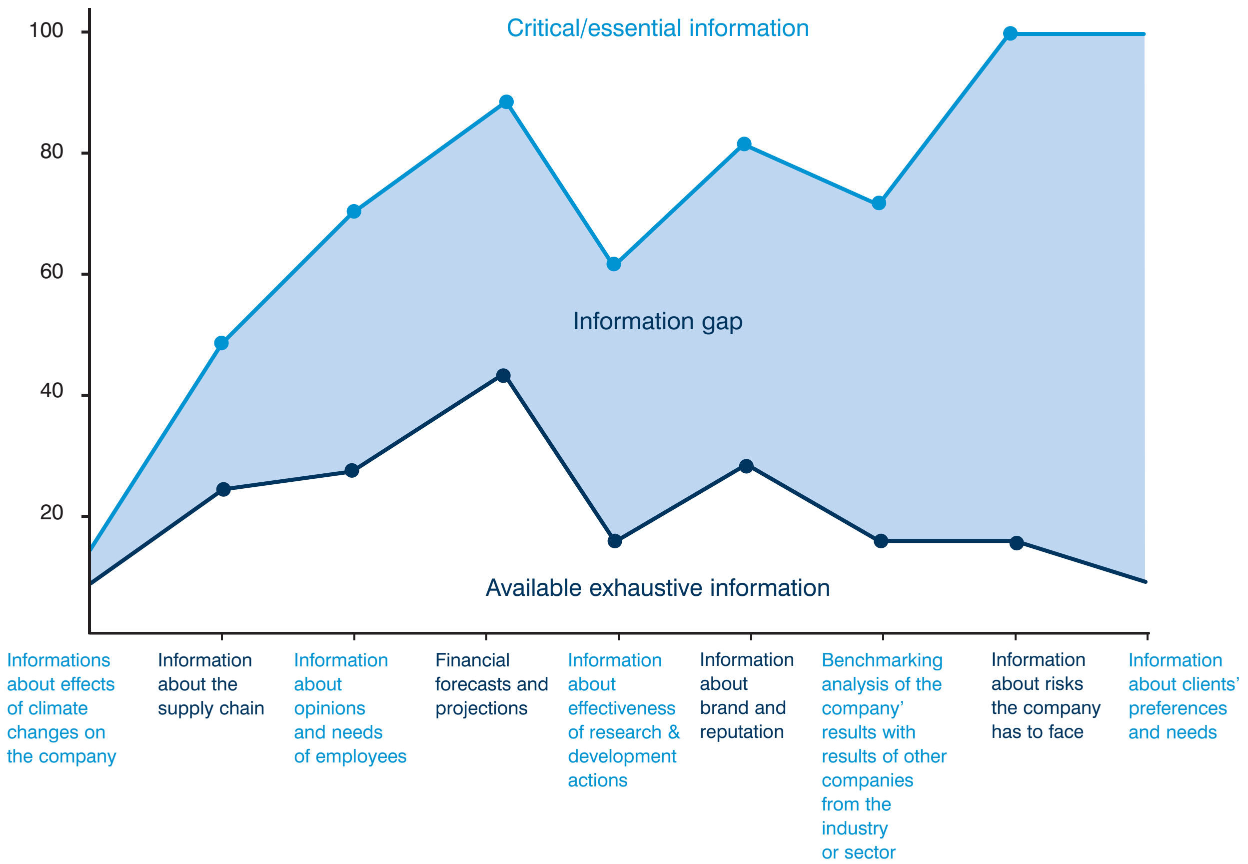
"In the period of unprecedented economic and financial disturbances, though there is a temptation to focus on short-term tasks only, we can't afford to forget about long-term development objectives."

Samuel DiPiazza
CEO, PricewaterhouseCoopers

Under the current difficult market conditions companies have to formulate investment programs so that short-term and long-term development requirements are reconciled and balanced. Asked about the most significant factors affecting their investment decisions, Polish managers indicated the following as three equally important goals: pursuing the strategic objectives of the company, reaching a budgeted rate of return and maximising the rate of return. Those responses, confirming a continuing determination to pursue long-term development plans, are consistent with the answers obtained in the global survey. The willingness to recover expenditure as soon as possible was expressed by a similar, though slightly lower, percentage of respondents.

The differences between answers provided by Polish managers and the average global results touched two issues: a slightly higher importance for satisfying the social needs of stakeholders other than investors, clients and employees, and a much lower importance for building welfare for future generations. The last response may suggest that under the specific operating conditions created by the transformation, European integration and in catching up the distance from more developed neighbours, Polish companies are still more interested in short- and medium-term challenges than long-term ones.

9.0 Gap in information about key development problems for the company (% of answers)



"What is happening today will shake foundations of many areas of the economy."

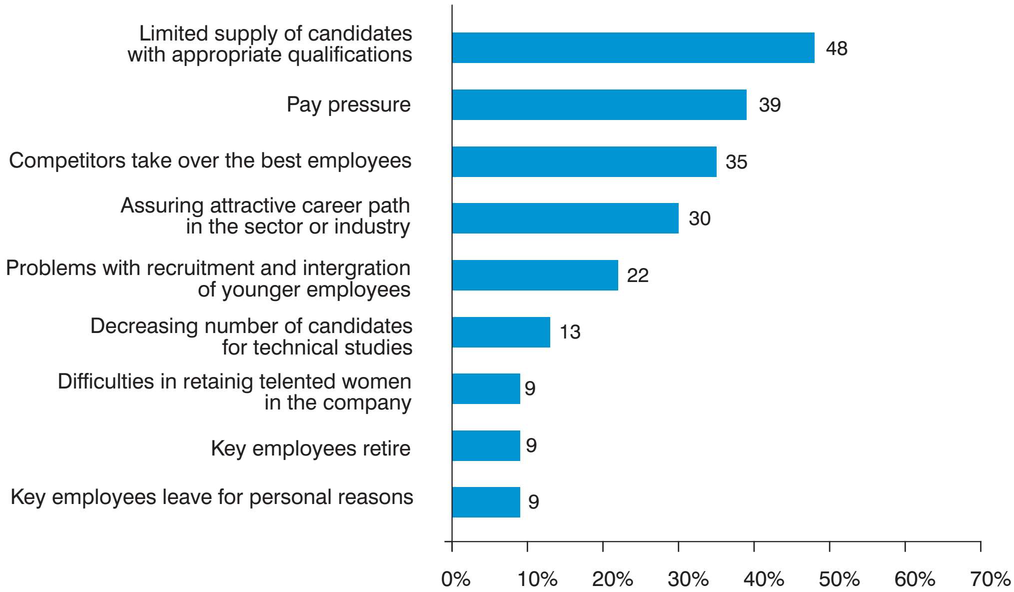
CEO from India

A difficult match between short-term and long-term development priorities requires appropriate information regarding the key problems a company has to face. In the survey there were questions concerning the information which company managers considered crucial to key decision making processes and concerning the current availability of such information. After combining both charts we obtained an estimate of the information gap, i.e. the difference between the weight of certain information and its availability.

According to Polish managers, the largest information gap exists in terms of the knowledge of clients' preferences and needs and the knowledge of risks to the company (in both cases all respondents regarded such information as crucial to the decision making process, but only 13-17% of respondents declared an exhaustive knowledge in that area). Less dramatic, but also significant, estimates of an information gap referred to almost all the examined areas with the exception of knowledge of the supply chain and climate change. The global survey revealed similar views.

People in the period of changes: Polish perspective

10.0 The largest threats for retaining talented employees (% of answers)



11.0 Strategy for attracting and retaining talented employees (% of answers)

"A long-term supply of talents depends more on the education system than on economic fluctuations, and many managers think that governments fail to do sufficiently enough to take care about the supply of qualified employees"

12. Annual CEO Survey, PricewaterhouseCoopers

Until recently in Poland and abroad finding employees with the required skills on the market was one of a manager's key concerns. As shown by the results of the survey, together with the economic slowdown, the problem became a little less urgent. However, in the long-term it still remains one of the toughest challenges companies will have to face. When fighting short-term problems we should not forget that talented employees have to be attracted and retained by companies even if savings and cost reductions are priorities.

Responding to the question about the largest threats in that respect, Polish managers mostly indicated the limited supply of employees with the appropriate qualifications (similar answers were provided by managers all over the world). Despite the economic slowdown, Polish managers still regarded pay pressures on the market of highly qualified employees, competitors' actions (taking over the most valuable employees) and the provision of sufficiently attractive professional career paths for talented employees as threats. Contrary to the results obtained in the global survey, Polish managers did not frequently mention the problems of recruitment and integration of young employees.

Among the remedial efforts undertaken, the Polish managers surveyed (just like managers all over the world) spoke of the transfer of key employees within the organisation, the creation of more flexible working conditions and of collaboration with external specialists in order to attract talent. Compared to the global results it is noticeable that Polish managers were not particularly convinced by creating opportunities for employees to get involved in socially responsible initiatives, i.e. actions which took third place among the responses provided by managers all over the world

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