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20 years in POLAND

The Polish perspective

Growth reimagined

14th Annual Global CEO Survey

pwc

About the Study

In the fourteenth PwC Global CEO Survey, we asked 1,201 managers of companies in 70 countries how they assess business development in conditions of uncertain economic growth. The global study was conducted in the 4th quarter of 2010.

In January 2011, we conducted a survey among business leaders in Poland – we collected a total of 71 interviews, in which Polish presidents and CEOs evaluated the growth prospects of their businesses in response to some questions which were asked of the respondents in the global survey.

This publication is a supplement to the global report named “14th Annual Global CEO Survey” which is available through www.pwc.com/ceosurvey.

Introduction

Dear Sir/Madam,

As the effects of the recent global economic turmoil pass, business leader confidence is returning to pre-crisis levels. As many as 88% of the CEOs of the world's largest companies are optimistic about their opportunities to increase revenue in 2011. In Poland, as many as 94% of respondents share this outlook. These are among the conclusions of the 14th edition of the PwC "Global CEO Survey."

The sentiment of Polish company executives has largely changed in the direction of global averages, as would be expected, however the swings have been noticeably stronger. During the global recession, despite continued economic growth in Poland, the confidence of Polish executives dropped more than the average. Today, with the recovery well underway, their outlook on growth forecasts is even more buoyant.

Improved sentiment is translating into planned increases in employment. More than half of company presidents and general managers globally expect to increase employment. The results for Poland re similarly optimistic, with almost half of Polish company executives also expecting to increase staff.

However, company executives remain well aware of a number of current business threats. Concern about the future of the economy is the most frequently cited issue, both in Poland and globally. The effects of government budget deficit reduction activities, an excessive level of regulation, and increasing tax burdens are all also identified as concerns.

On-going unease about the future of the global economy has led companies to undertake various restructuring measures. Principally, both in Poland and globally, this has entailed systemic cost reduction. However, companies globally are intensifying business optimization efforts on a number of fronts, including showing a willingness to withdraw from past strategies that are not working. This has not been so evident in Poland to date.

We hope you find the report valuable.

Olga Grygier-Siddons
President of the Board

Witold Orłowski
Chief Economic Advisor

Summary

- Although the situation in the global economy is still far from completely calm, the sentiment of executives of Polish companies has clearly improved. 94% of the Polish company presidents and CEOs surveyed were (highly or moderately) confident of growth in their company's revenues in the coming 12 months, while 96% of respondents had such confidence over a time period of 3 years.

- The perceptions of Polish executives of the largest threats are generally similar to those observed on average throughout the world. The most significant threats are still considered the uncertainty as to the outlook for the global economy, the risk of serious instability on the capital markets, the potential effects of actions related to the stabilization of the financial situation of over-indebted governments and the instability in exchange rates, which is typical in times of crisis.

- In assessing the potential effects of the introduction of budget savings by governments, Polish executives are primarily concerned that the need to stabilize public finances in Poland will lead to a reduction in the rate of economic growth and higher corporate taxation. However, they have decidedly lesser concerns about the prospects of the introduction of austerity measures in other countries. Only a small percentage of company executives believe that, in this situation, there are also new business opportunities.

- The difficult situation for firms in times of crisis and the continuing – despite better forecasts of growth – concerns about the future development of the situation in the global economy have forced companies to implement a number of restructuring measures. Systemic efforts to reduce costs have become the main tool for adjustment. The aim to reduce costs has clearly dominated other activities – including the optimization of business processes.

- Apart from the ongoing restructuring activities, the disturbances observed in the global economy are also likely to bring about profound and lasting changes in the operating model of businesses. The areas mentioned by Polish executives as those where there will be significant changes over the coming year primarily include the area of talent management and the organization structure. Just behind them are areas of investment, risk and reputation management, as well as building confidence in the company.

- The most important area in which the surveyed executives expect change in the HR strategy is the development of non-salary and non-financial forms of motivation, as well as binding the staff to the company. This is followed by the areas for the search of young staff (aged up to 30 years) and binding them to the company, as well as the intensification of cooperation with state and private educational establishments, in order to develop the skills of talented employees (70–75% of responses). However, minor changes relate to the recruitment and retention of older workers in the company and women.

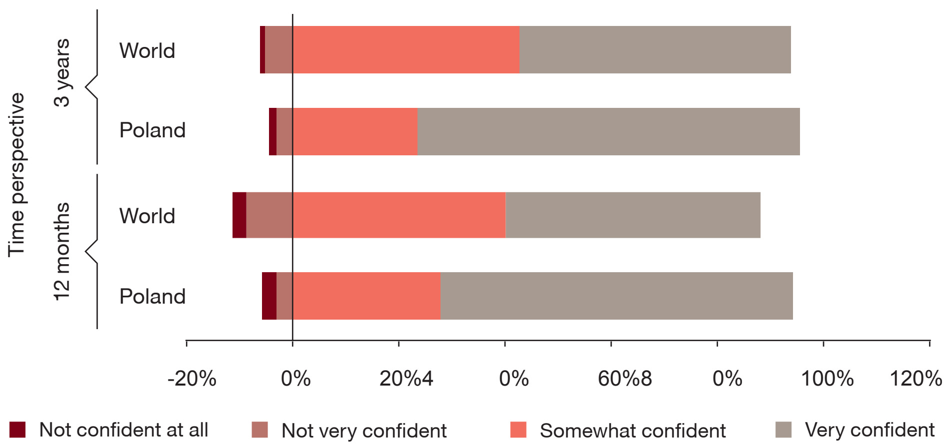
Forecasts of development: the Polish perspective

> ***"The crisis has contributed to a change in approach to risk, as well as causing the verification of overgrown investment projects and the return 'to the roots'. Firms have focused on their core business instead of looking for new areas in which they did not have sufficient competencies."***

The 14th annual CEO Survey was conducted in the autumn of 2010 – at a time when the global economy was just recovering after a period of sharp financial decline and a serious recession in 2009. Although the situation is still far from completely calm, the sentiment of executives of global companies has clearly improved. It is worth recalling that, in 2008, only 17% of respondents to PwC's questionnaire expected revenue growth in their business, whereas, in 2009, the proportion was still only 31%. Today, however, the share of executives who are certain that their company revenues will increase over the coming 12 months is already 88% and the proportion of those who are certain that their company revenues will increase over the coming 3 years is as high as 94%. More importantly, however, the generally positive forecasts of company growth are accompanied by a great deal of concern and uncertainty about the growth of the global economy as a whole, particularly regarding the situation on the financial markets and the condition of over-indebted countries.

Once again, the sentiment of Polish company executives has changed even faster than the global average. While the scale of the drop in the sentiment index was stronger during the global recession (despite continued economic growth in Poland), today, once again, we are experiencing even greater certainty related to the outlook for company growth. 94% of the executives of Polish companies surveyed were (highly or moderately) confident of growth in the company's revenues in the coming 12 months, while 96% of respondents had such confidence over a time horizon of 3 years. On the one hand, this should not be so surprising, considering the fact that Poland remained a "solitary island of growth" on Europe's economic map during a time of the turbulence. However, on the other hand, the statements of the executives of Polish companies suggest concern about many phenomena observed in the Polish and global economies. This demonstrates both the considerable mistrust of the environment in which Polish companies operate, as well as a high degree of confidence and faith of Polish companies in their own strength and growth capability.

Confidence of company's prospects for revenue growth (% of responses)



Source: PwC

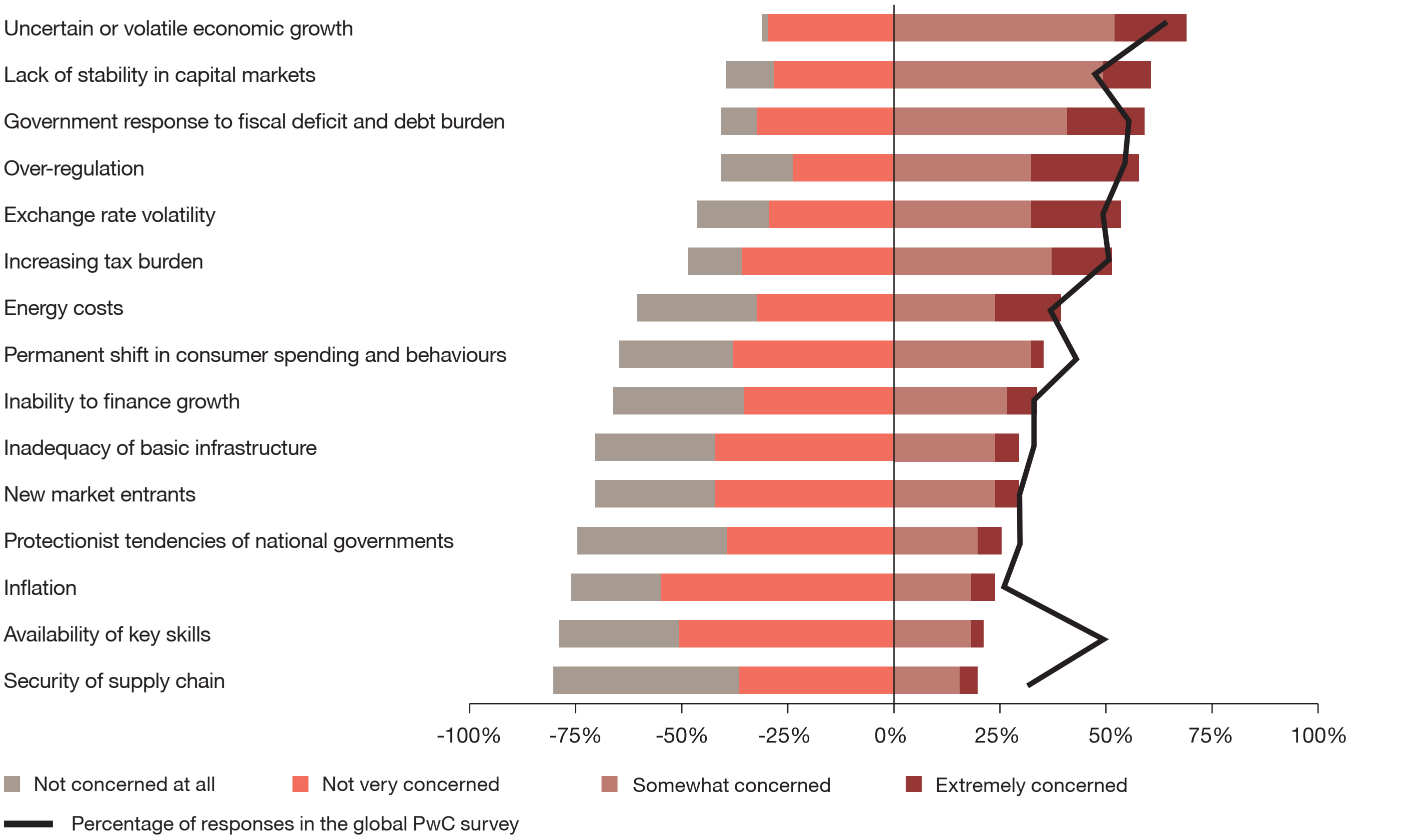
Assessment of the economic landscape: the Polish perspective

The perceptions of Polish executives of the largest threats facing the companies they manage are generally similar to that observed on average throughout the world. The most significant threats, as everywhere, are still considered the uncertainty as to the outlook for the global economy (69% of responses), the risk of serious instability on the capital markets (61% of responses – slightly more than the global average), the potential effects of actions related to the stabilization of the financial situation of over-indebted governments (59% of responses) and the instability of exchange rates, which are typical in times of crisis (53% of responses). The excessive level of regulation (58% of responses) is still high in the hierarchy of perceived threats to company growth, but the role of this factor during the crisis has significantly declined (in 2009, almost 90% of respondents were concerned about excessive regulation). However, the prospects of the stabilization efforts of governments are causing an increase in the significance of concerns about the rising levels of tax burdens (51% of responses).

The poor state of the global economy, the continuation of the phenomena of financial chaos and realignment are clearly moving other threats away. It can, therefore, be plainly seen that, for Polish executives, the problem today is still largely the current economic situation, while unresolved structural problems and challenges of a long-term nature are secondary. Problems with energy costs, the underdevelopment of the infrastructure, increasing competitive pressure and a possible escalation of protectionism, the availability of skilled workers and supply chain security seems to be less important today. However, this is almost certainly only a temporary phenomenon – as today's problems fade, all long-term problems will almost certainly return with even greater vigour than before the crisis.

"The crisis has caused a reduction in the turnover of our tenants, bankruptcies in the real estate sector and a general decline in frequency at shopping centres. Everything started from the fact that there was a decline in consumption among retail customers."

Potential threats to company's growth prospects (% of responses)



Source: PwC

"By its nature, the financial sector in Poland felt the global crisis more strongly than many other sectors – the problems which we encountered were a sharp reduction in the level of interest in investments in shares and a mass withdrawal of funds from investment funds. For DM BZ WBK, this has meant lower sales and profitability. From the spring of 2009, however, that there has been a gradual improvement in the economic situation and increasing appetites of investor for risk. Today, we are looking to the future with optimism and thinking about expansion onto new markets."

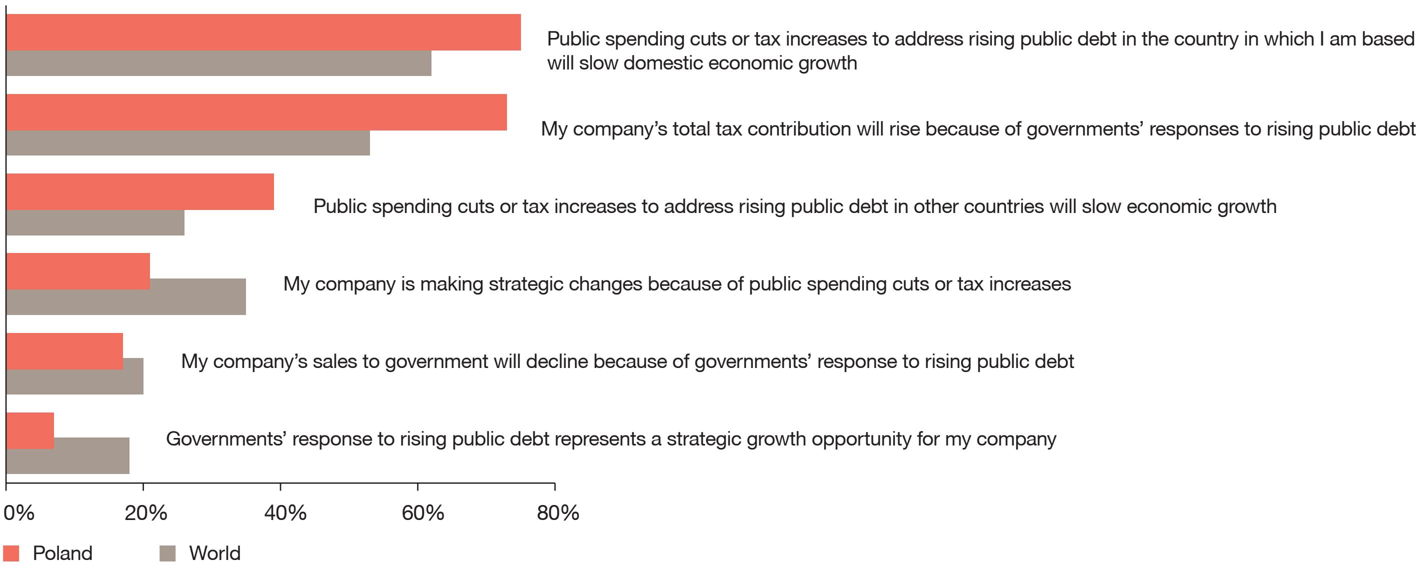
Mariusz Sadłocha
President of the Management Board of DM BZ WBK

Comparing the responses of the company executives in Poland and worldwide, it is worth noting that they are scattered mainly around three points: in the global survey, a much greater threat is associated with the problem of availability of qualified staff, supply chain security and permanent changes in consumer behaviour. This requires serious reflection by Polish companies – perhaps today's troubles have, to some extent, obscured the important long-term challenges.

The effects of the austerity policy, which the governments of many countries around the world will need to follow in the coming years, have a prominent position among the phenomena which are of particular concern to executives throughout the whole world. The level of government debt of the main economic powers of the Western world (especially Japan, Italy, USA and the UK) has reached an unprecedented level in history. The phenomenon of an excessive growth of debt has recently been observed in Poland. As is widely expected, governments will need to take radical measures in the coming years to reduce the scale of state deficits and debts. This must mean both a reduction in public spending, as well as a probable increase in tax burdens and therefore a phenomenon which will adversely affect the market situation and development prospects of companies.

In assessing the potential effects of the introduction of budget savings, Polish executives are primarily concerned that the need to stabilize public finances in Poland will lead to a reduction in the rate of economic growth (72% of responses). A similar percentage of respondents also fear that it will involve in an increase in corporate taxation (73% of responses). However, of decidedly less concern is the outlook of the introduction of austerity policies in other countries (for example, in the largest countries of Western Europe, which are the main customers of Polish exports). At the same time, it should be noted that the scale of concerns expressed by Polish executives about these phenomena is generally higher than the global average. However, Polish executives, less frequently than the global average, are concerned about the effects of a drop in sales of goods and services to state institutions. A much smaller percentage of Polish executives also see the need for strategic changes in the company for this reason, while only a small percentage (7%) believe that new business opportunities will appear in such a situation.

Expected impact of tackling rising government debt (% of responses)



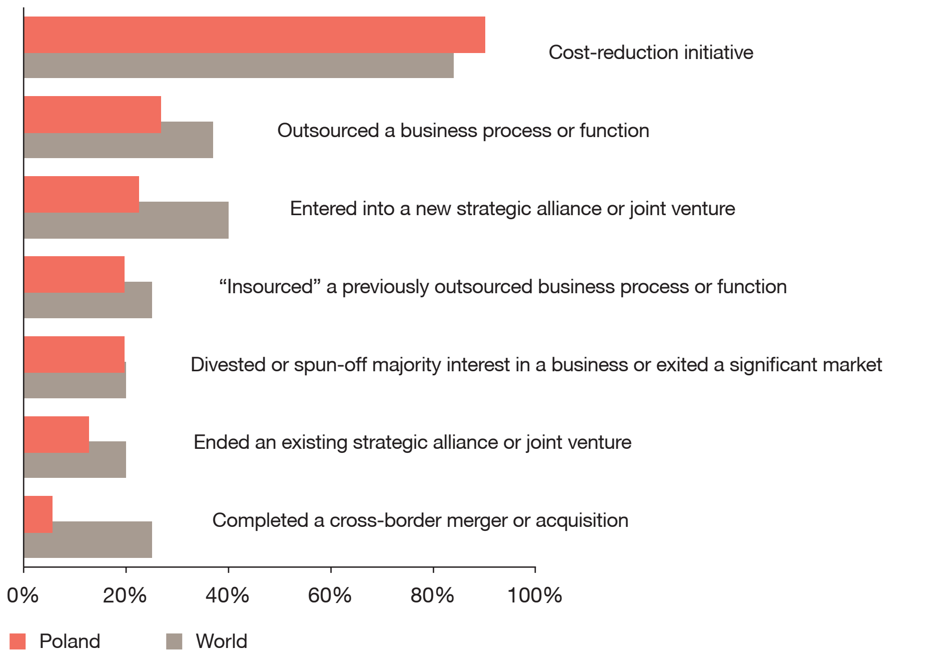
Source: PwC

New development strategies: the Polish perspective

The difficult situation of businesses in times of crisis and the continuing – despite better forecasts of growth – concerns about the future development of the situation in the global economy have forced companies to implement several restructuring measures. The main tool for adjustment – equally in Poland and around the world – has become the systemic effort to reduce costs (90% of Polish executives and 84% of respondents in the global survey indicated that they had implemented such measures in the past year).

In the case of executives of Polish companies, measures to reduce costs clearly dominated other activities – including the optimization of business processes by increasing or reducing the scale of outsourcing, the establishment of, or withdrawal from strategic alliances, entry into or exit from foreign markets. As the results of the global survey show, cost-reduction measures dominated throughout the whole world. However, apart from direct cost reductions, the executives questioned in the global survey also used tools of restructuring other than direct cost reductions, on average more frequently than Polish executives. It is worth pointing out that they are multidirectional – the phenomena of searching for new areas for outsourcing was also accompanied by a very strong phenomenon of companies restoring certain business processes previously outsourced (so-called insourcing), while entry into new strategic alliances was almost as frequent as terminating existing alliances. In other words, companies around the world have been moving very intensively towards optimizing their business, without being afraid of withdrawing from activities initiated in the past which have not brought the expected results.

Restructuring activities initiated over the last 12 months (% of responses)



Source: PwC

Apart from the ongoing restructuring activities, the disturbances observed in the global economy are also likely to bring about profound and lasting changes in the operating model of businesses. The areas mentioned by Polish executives as those where there will be significant changes over the coming year primarily include the area of talent management (80% of responses) and the organization structure (79% of responses). Just behind them (from 70 to 75% of responses) are areas of investment, risk and reputation management, as well as building confidence in the company.

"Confidence clearly declined on the part of contractors, which means that greater care needs to be taken and provisions of contracts need to be precisely formulated, so the services of lawyers need to be used. We assess the whole business environment as much more risky."

"Many clients have withheld their investment budgets, while a high level of uncertainty about the future has increased prudence in the long-term planning of expenditures."

"The crisis had no impact either on us or on our trading partners. 2010 was a year of planned and achieved growth."

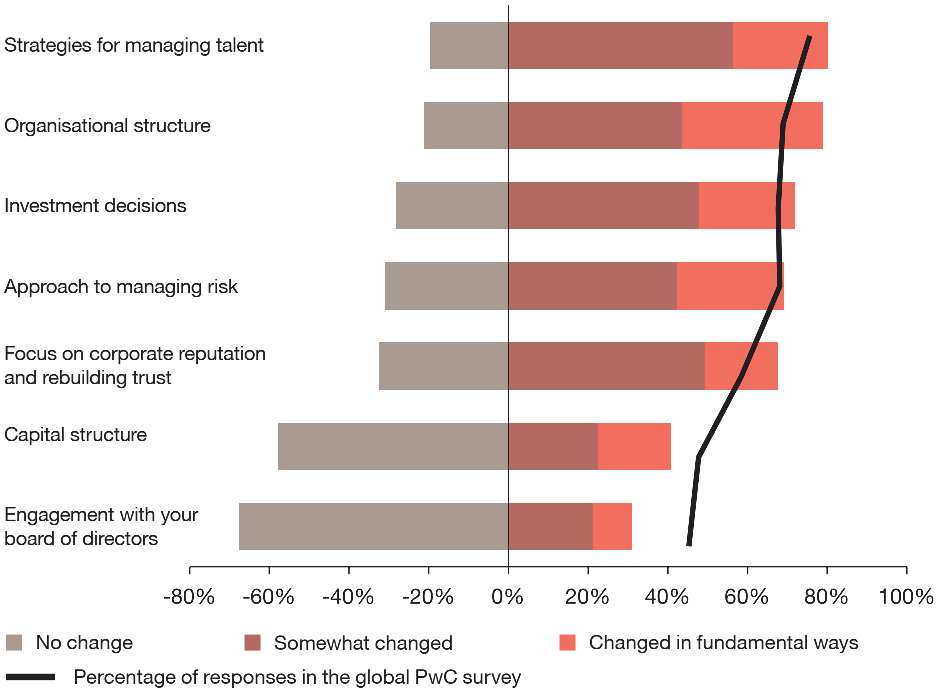
"We felt a slowdown, because we are operating in the automotive industry. But, today, the crisis is a thing of the past and we are benefiting from the market's recovery. The crisis has forced restructuring onto our company, which increased the competitiveness of the enterprise."

This means a sharp and significant movement toward the changes which were defined in PwC's terminology as "healthy development". Fewer changes are declared in the ownership structure and new principles of cooperation between management boards and supervisory boards and hence measures to improve corporate governance. To some extent, the important role assigned to activities in the area of talent management compensates for the relative lack of concern commented on above by Polish companies about the problem of availability of qualified staff. Therefore, a slightly easier situation on the labour market – from the point of view of availability of workers – does not mean that Polish executives have lost sight of the problem of the need to develop the company's most valuable human capital.

It is worth noting that the responses given by the Polish executives do not differ significantly from the responses obtained for this on average throughout the world. In the global survey, only activities improving corporate governance were of clearly greater importance.

The observations formulated above necessitate a particularly careful analysis of the responses given by the Polish executives regarding the planned changes in the coming 12 months in the

Areas of change of your company's operational model over the next 12 months (% of responses)



Source: PwC

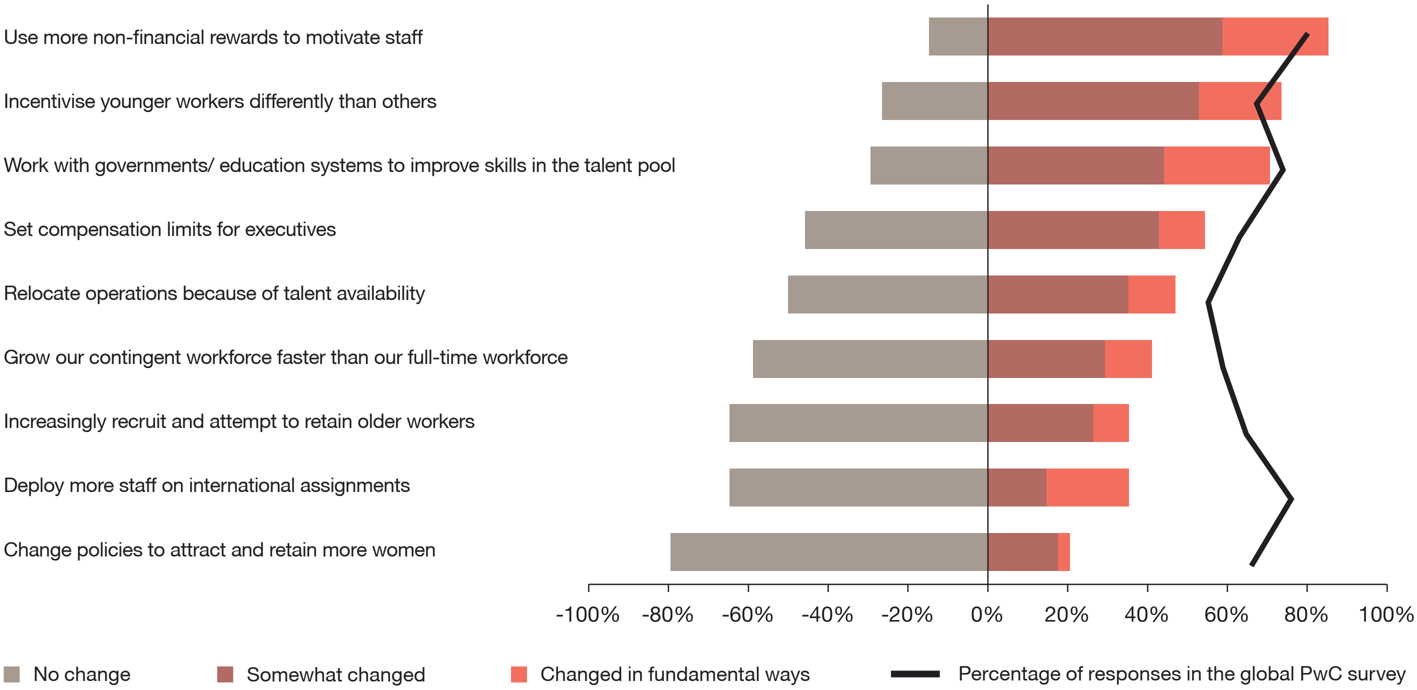
"Every crisis presents both threats and opportunities. Because we were able to quickly rationalise costs during the current crisis, we significantly increased market share in both Poland and Lithuania."

Maria Pasło-Wiśniewska
President of Central European Pharmaceutical Distribution (CEPD NV)

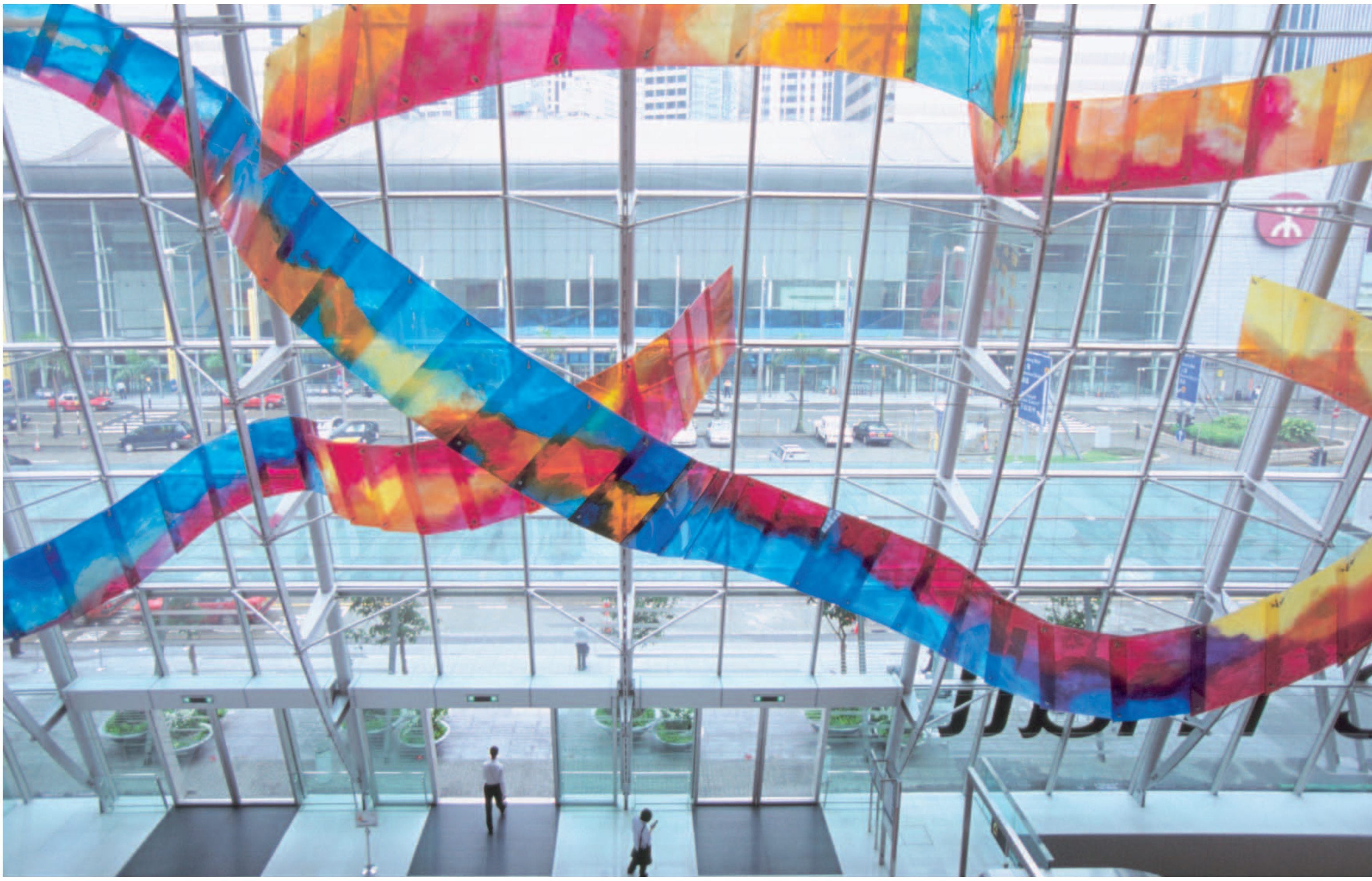
company's human resources strategy. The most important area in which the surveyed executives expect change is the development of non-salary and non-financial forms of motivation, as well as binding the staff to the company (85% of responses). The activities of the Polish companies surveyed will probably be stronger in this area than the world average, which could suggest the inadequate development of such tools in the past. In terms of the intensity of the expected changes, this is followed by the areas of the search for young staff (aged up to 30 years) and binding them to the company, as well as the intensification of cooperation with state and private educational establishments, in order to develop the skills of talented employees (70–75% of responses). Likewise, in both of these cases, the percentage of responses of Polish executives is higher than in the case of the global survey. A similar situation can be observed in the case of capping executive salaries, the adjustment of operations to the availability of talents and a more flexible approach to the use of external workers. However, the situation is the opposite with regards to the recruitment and retention of older workers and women in the company. In neither of these cases do Polish companies foresee any major changes in the HR strategy, while remaining, in this respect, clearly behind the world average.

Therefore, in general, it should be noted that, although the Polish executives clearly recognize the need for the more intensive use of the talents of employees, their planned actions are directed mainly towards traditional methods (attracting and motivating young people). This requires deeper reflection, because it is worth drawing on the resources of talents as much as possible, searching for them among various groups of workers.

Change of your company's people strategy over the next 12 months (% of responses)



Source: PwC



Global survey summary

"The crisis reached Poland late - we are only just starting to feel its effects. However, although this is not the end, its course is milder than in the countries of Western Europe."

1. How is global recovery shaping corporate prospects?

CEOs have a renewed confidence in their growth prospects and they are taking a targeted approach to growth with a discipline honed by the recession and an awareness of the nuances of recovery. As a result, the 1,201 chief executives in 70 countries polled for PwC's 14th Annual lobal CEO Survey were nearly as confident in their outlook for revenue growth in 2011 as in the boom years of 2006 and 2007.

Growth in the current recovery means coming to grips with a global market marked by one dominant feature: only half the world is growing at a robust rate. Although the International Monetary Fund forecasts global growth at 4.2% for 2011, developed economies are managing only half that rate. In contrast, emerging markets are booming.[1]

These post-recessionary forces are a pronounced driver for change. Most CEOs (84%) say they've changed their company strategy in the past two years – and a third believes the change has been fundamental.

Why are so many corporate strategies changing? Nearly half of CEOs who reported at least some change in strategy pointed at either uncertainty of economic growth or customer demand as the primary reason. So CEOs are getting ahead of changes in demand by stressing innovation – a clear strategic focal point for CEOs. Talent is a second focal point: As they look across their own organisations, CEOs are most concerned they won't have the right skills to compete effectively as recoveries take hold.
In a third strategic focal point, CEOs tell us they share many priorities with their governments: they expect to take broader roles as part of a shared agenda with governments to support areas deemed critical for business growth.

> ***"The crisis has doubtlessly affected the whole financial sector in Poland, albeit to a lesser extent than in other countries. Poland was seen to be a solitary island of growth on the map – it directly arose from many of my conversations with representatives of the financial sector that Poland's situation was and is extremely positive compared with other European countries."***

Global rebalancing to capture growth

CEOs have based their growth expectations on this emerging picture of diverging economic fortunes. The divide is striking: twice as many Western European CEOs expect growth in their Asian operations over those in Europe. High expectations are placed on Latin America and Asia, and most clearly, on China. Thirty-nine percent of CEOs named China one of the three foreign countries most important to their company's growth. The growth of 'south-south' trade plays a role in spreading confidence.

As a result, emerging markets may become hyper-competitive battlegrounds for global companies from around the world. Many of the toughest competitors are making reasoned bets in key markets, signally intensifying competition in the regions experiencing the most growth. In China, for example, revenues are rising steadily – but margins are falling.[2] Companies will need to approach growth markets with a careful eye on sustainable operating models.

Global strategies respond to macro risks

Just as overall confidence hinges on patterns in the world's economic development, the greatest collective concerns for CEOs revolve around the direction of global economy. This is the top threat to growth, with 29% of CEOs 'extremely concerned'. Also, concerns over the ability of highly-leveraged countries to refinance their debt – and the volatile, knock-on effect in currency markets – greatly complicates strategies geared towards more trade across more borders.

CEOs have changed their strategies with 'eyes wide open' regarding accompanying risks. Risk management is increasingly on the agenda for boards and senior management, and incorporated in formal strategic planning processes, according to the survey.

2. Are customers at the centre of innovation?

The targeted approach many CEOs are taking in markets they deem critical for growth requires innovation to move the needle in one key market, rather than to push a generic product or service out to every market. Thus, CEOs signalled a significant shift in innovation priorities this year. Since 2007, business leaders had reported that their best opportunity for growth lay in better penetration of core markets. Now they're just as likely to focus on driving the innovations needed for new products and services. CEOs are confident their innovations will succeed. But that will mean getting to know the customers of key markets very well.

Indeed, strategies to address particular customer segments are redefining approaches to innovation. Many companies are bringing their innovation activities closer to their customers, for example, giving customers their say in the design of offerings, or opening innovation up to more partners. Innovation takes place at each stage of the value chain and increasingly with different partners along the way.

Making innovation local

Innovation is considered an essential ingredient to a global model. But to get closer to customers, some CEOs are shifting the development process closer to customers – literally. They're creating products for faster-growing markets, in those markets, and then distributing worldwide.

> *“All Polish banks increased their costs or reduced the ability to finance operations outside Poland. The crisis also brought a volatility of the exchange rate.”*

> *“The crisis ended our exports to other EU member stated and countries outside the EU.”*

Giving consumers their say

You can’t get closer to customers than involving them directly in product and service development, a trend that many CEOs see coming. Frequently, that involves having customers test new offerings before they’re launched. Consumers now expect that level of engagement from businesses, and technology has become a key enabler. Close to half of consumer-facing CEOs in the survey foresee social media and mobile devices prompting a ‘significant change’ to their strategy as consumers turn to these media to voice their preferences.

Companies are responding in other ways. For example, 64% of CEOs said that developing environmentally friendly products or services are an ‘important part’ of their companies’ innovation strategy, a nod to the influence of green consumers.

Opening innovation to supply chain partners and beyond

It’s not uncommon for supply chain partners to work together in the search for innovation; thirty-nine percent of CEOs this year expect the majority of their innovations will be co-developed with external partners, following established models for supplier innovation. Entirely new industries are evolving with supplier partnerships in innovation at the core: Utilities are working jointly with electric car, battery makers and IT companies around the smart grid, for example.

In part, the willingness to team-up reflects post-recessionary challenges with working capital. R&D spending among the world’s top innovators declined in 2009 for the first time in 13 years.[3] An approach to innovation that envelops employees, partners and alliances makes sense, both from a cost perspective and by improving the odds of success.

Ultimately, customers also care about costs. In the survey, businesses are as likely to expect innovation from suppliers in product development as from new processes. In what could be called ‘ambidextrous innovation’, CEOs are looking for both efficiencies and differentiation at the same time: 80% of CEOs in the survey believe innovation will drive efficiencies and lead to competitive advantage. Technology is one way of embracing ambidextrous innovation.

3. Can global skills gaps be bridged?

The ‘war on talent’ was declared more than 10 ears ago, but few CEOs are prepared to declare victory. Given that 84% of CEOs have changed strategies in the past two years, companies’ talent needs are changing, too. And with emerging markets representing a key strategic driver, talent strategies will naturally shift to address that theme.

So talent is now at the top of the CEO agenda for 2011. More companies expect to add jobs in 2011 than in 2010, but two-thirds of CEOs believe they’re facing a limited supply of skilled candidates. Filling skills gaps begins with companies making themselves more attractive to employees, and devising a strategy for the development and deployment of personnel globally. Identifying under-utilised pools of talent is another means of both filling key roles. But all goes for nought if the firm can’t retain top talent.

Thinking globally and locally

In high growth markets talent shortages are critical. Businesses are stepping up overseas deployments of key employees in response. Nonetheless, close to half of CEOs are also encountering difficulties deploying experienced employees in other countries.

Global deployments are a first step to address shortages as company footprints change, but many CEOs know they need to nurture local talent in the long run. Many of today’s multinationals are seeking greater independence for managerial talent locally, and that is contributing to talent shortages.

Casting wider nets in the global talent pool

Some companies are tapping women as an under-utilised source of talent. For example, in South Korea, foreign multinationals have gained advantages ‘by aggressively hiring an excluded group, women, in the local managerial labour market’, according to research from the Harvard Business School.[4] It is an emerging opportunity: only

11% of CEOs globally are planning 'significant change' to policies to attract and retain more of their female employees today.

Older workers are another under-utilised pool of talent. In many countries, populations are ageing and Baby Boomers are becoming eligible for retirement. Nonetheless, despite the fact that many valuable workers nearing traditional retirement ages state their intention to continue working, only 10% of CEOs expect 'significant change' to workforce strategies to address the retention of older workers.

Similarly, over half of CEOs (54%) foresee challenges in recruiting and retaining younger employees – the mercurial Generation Y workers that have their own distinct expectations about their relationships with employers. However, only a minority of businesses are changing the way younger employees are incentivised as a measure to improve recruitment.

These three pools of talent are particularly vital in thinner talent markets where skills are scarcer – but they require specific strategies to approach. You can't just pay lip service to them. Successfully attracting, developing, deploying and retaining from these talent pools also helps to address the creativity challenge. A diversity of backgrounds on a well-managed team tends to foster diversity of thought – which is a key driver for innovation.

4. Where do businesses and governments share priorities?

While CEOs need to focus on their own growth plans, many also see a common purpose with governments with regards to social well-being at home and abroad. Constrained public budgets will force difficult decisions on governments; CEOs are keen to protect shared priorities that are critical to business growth.

In the survey, nearly three-quarters of CEOs report they will actively support new government policies that promote 'good growth' that is economically, socially and environmentally sustainable. It will take both political will and private sector commitments, as many CEOs told us. This means that corporate and government leaders have a shared agenda. True collaboration will take sustained engagement that extends beyond lobbying to define ongoing risk sharing, effective governance and accountability, and a focus on outcomes. This model of cooperation could become a reality in two highest priority items on the shared agenda: infrastructure and workforce improvements.

"We sell the majority of services to the power sector, where investments are made with loans, while their availability last year was limited – especially investment loans. This was reflected in our company's results. Direct investments of large corporations have virtually disappeared in Poland."

1 IMF World Economic Outlook (October 2010).

2 "Where are the profits?" The Economist (11 December 2010).

3 "The Global Innovation 1000: How the top innovators keep winning", strategy+business, Booz & Co. (Winter 2010).

4 J. Siegel, L. Pyun, and B.Y. Cheon, "Multinational Firms, Labour Market Discrimination, and the Capture of Competitive Advantage by Exploiting the Social Divide", Harvard Business School working paper (2010).

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