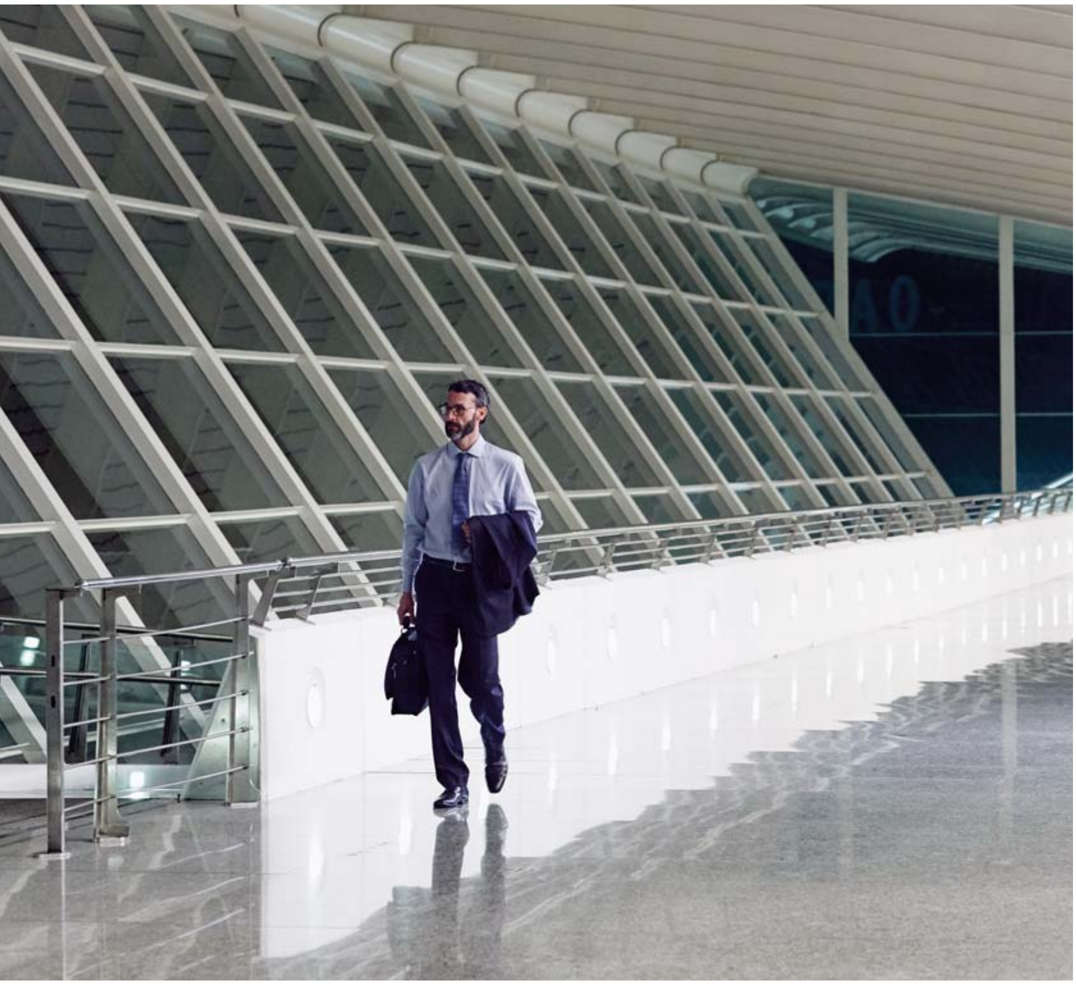
Growing in complicated times / Stakeholder Expectations / Tech, Talent, Innovation / Measuring success / Navigating complexity to exceed expectations

19th CEO Survey
Central and Eastern Europe



48%

of CEE CEOs expect continued stagnation in the global economy

52%

see more growth opportunities for their companies than there were 3 years ago

71%

of CEE CEOs agree that business success in the 21st century will be redefined by more than financial profit

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Introduction

CEOs in Central and Eastern Europe, like their counterparts around the globe, are working to redefine business success as the world around them changes. In addition to global pressures from geopolitical uncertainty, regulatory uncertainty and governments' responses to the fiscal challenges of recent years, business leaders in our region face unique challenges of managing transition from a business model based on low costs to one that's based on using human and technological resources to add value through innovation.

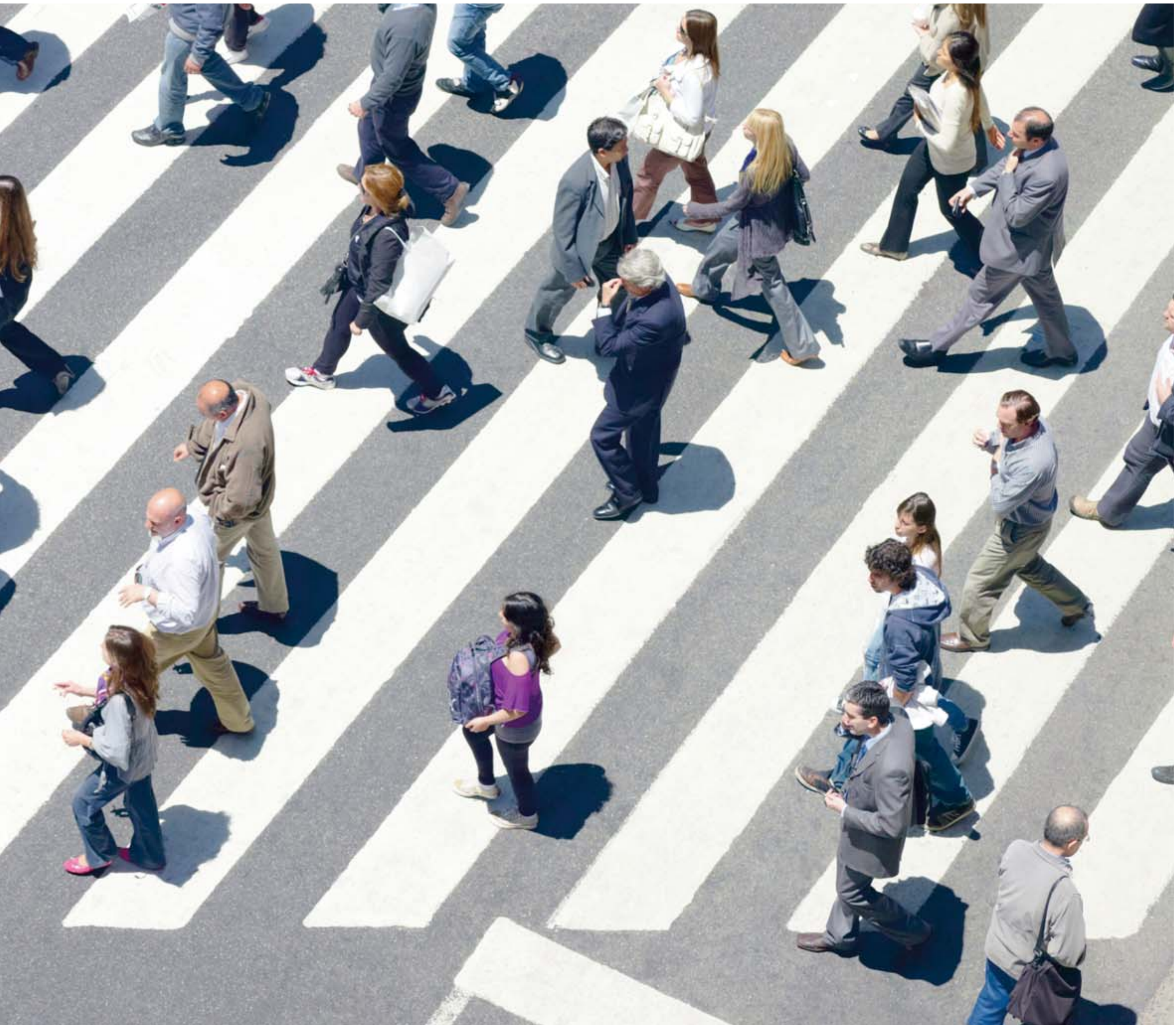
As that trend sweeps across the region, this year's survey shows a slow awakening of awareness that the old, transactional model of doing business is being replaced by one where values and relationships must be taken into account alongside dollars and cents. That's calling into question the traditional ways of doing business, leading CEOs to compete on more than just low price.

Still, the old ways die hard, as seen by the high number of executives planning cost reduction initiatives – a favourite tactic for as long as I've been working in this region. But I would argue that instead of just reaching for the axe, companies need to ask themselves a tough question: Do they really intend to compete solely on price, faced with ever-increasing, head-on competition from China and other truly low-cost operators from Asia? Instead, I believe leaders need to be more courageous in looking for ways to differentiate their products and services by creating more value. And the survey results show that indeed, CEOs are increasingly choosing this path.

Another tough question: Why do relatively few CEOs plan to establish new alliances to meet the challenges of the changing world – just 32%, compared with a global level of 49%? The answer, I believe, lies in the tradition of self-reliance, of going it alone, that has developed among companies in this region. While being able to do absolutely everything in-house can have its benefits, there are limits to how far companies can grow with that kind of strategy – and the region's companies and CEOs are now bumping up against those limits. Instead, it's time for business leaders to start trusting other companies to act as reliable partners.

Fortunately, the invisible hand of the market is beginning to overcome this trust deficit, through two processes. First, the biggest companies in the region are getting big enough that they have to expand abroad if they want to continue growing. And foreign expansion by nature involves trust – e.g. an alliance with a distributor. The second factor is technology: Today's technologies are changing so fast that it's impossible to just acquire them and build up in-house capacities to use them. Technology today inherently brings with it the idea of collaboration with technological partners.

Olga Grygier-Siddons,
Chief Executive,
PwC Central and Eastern Europe



1. Growing in complicated times

21%

of CEOs in CEE region listing Russia among their top 3 target markets.

CEOs in Central Europe show growing confidence in their companies' short- and long-term revenue growth prospects, even as they share their global peers' concerns about the persistent challenges facing the world's economy. While their perception of the greatest threats generally fits with that of their global peers, the particular shape of concerns is unique to the region and includes greater emphasis on geopolitical factors.

Within CEE, 48% of CEOs expect continued stagnation in the global economy, similar to the 49% global level and down just slightly from 50% a year ago. But optimism about their own companies is increasing, with 37% saying they're "very confident" in their prospects for the next 12 months, and 41% for the next 3 years (up from 30% and 37% respectively last year). That bodes well for the region as it continues its shift away from a model of competing solely on costs.

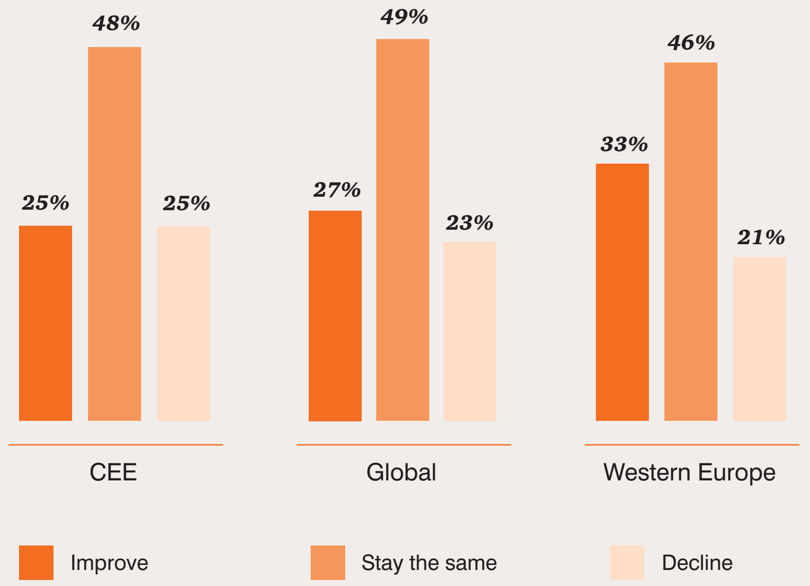
Still, almost two-thirds of CEOs say there are more threats than there were three years ago. In particular, CEE business leaders named geopolitical uncertainty as the biggest threat to their companies' growth prospects, with 86% "extremely" or "somewhat" concerned. That's a full 12 percentage points above the global average. Instability in the Middle East spilled over into Europe, bringing a refugee crisis and terror attacks in Paris; closer to home for CEE executives, EU and U.S. sanctions against Russia continued unabated, bringing geopolitical risk to the doorstep both of Russian companies and of exporters in EU member states.

Also among the top concerns, the government's response to the fiscal deficit and debt burden was cited by 81% of CEOs in the region (compared with 71% globally). That concern is likely being driven by respondents in Russia, where the government has been moving aggressively to balance its books to cope with a lower oil price. In Central Europe, by contrast, as economies are finally bouncing back from the global financial crisis, many governments have begun taking steps to reduce debt levels.

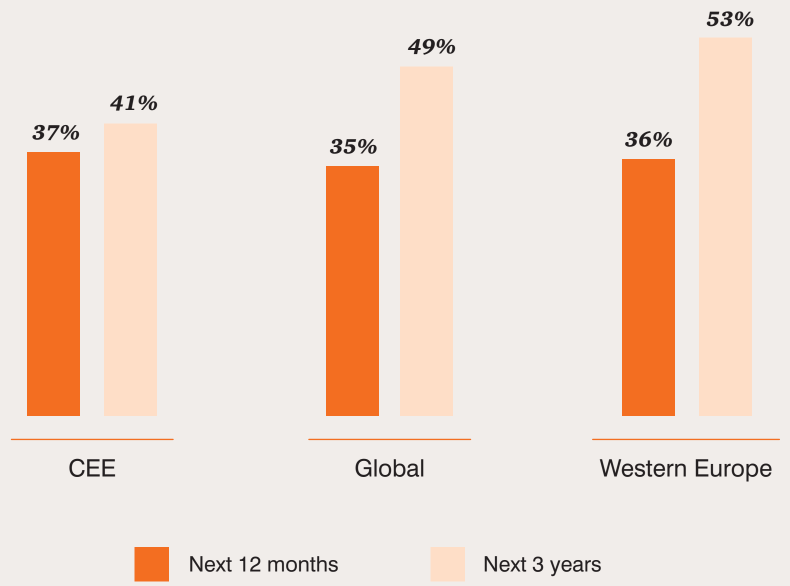
Germany remains the most important foreign market for the region as a whole, while Russian companies seem to have followed their country's geopolitical pivot to China. While Russia and other resource-based economies of the former Soviet Union tend to engage with China directly, the Central Europeans, by and large, do so as suppliers to German manufacturers. Look for this to change over the next few years, as Central European manufacturers move up the value chain and begin building their own global brands.

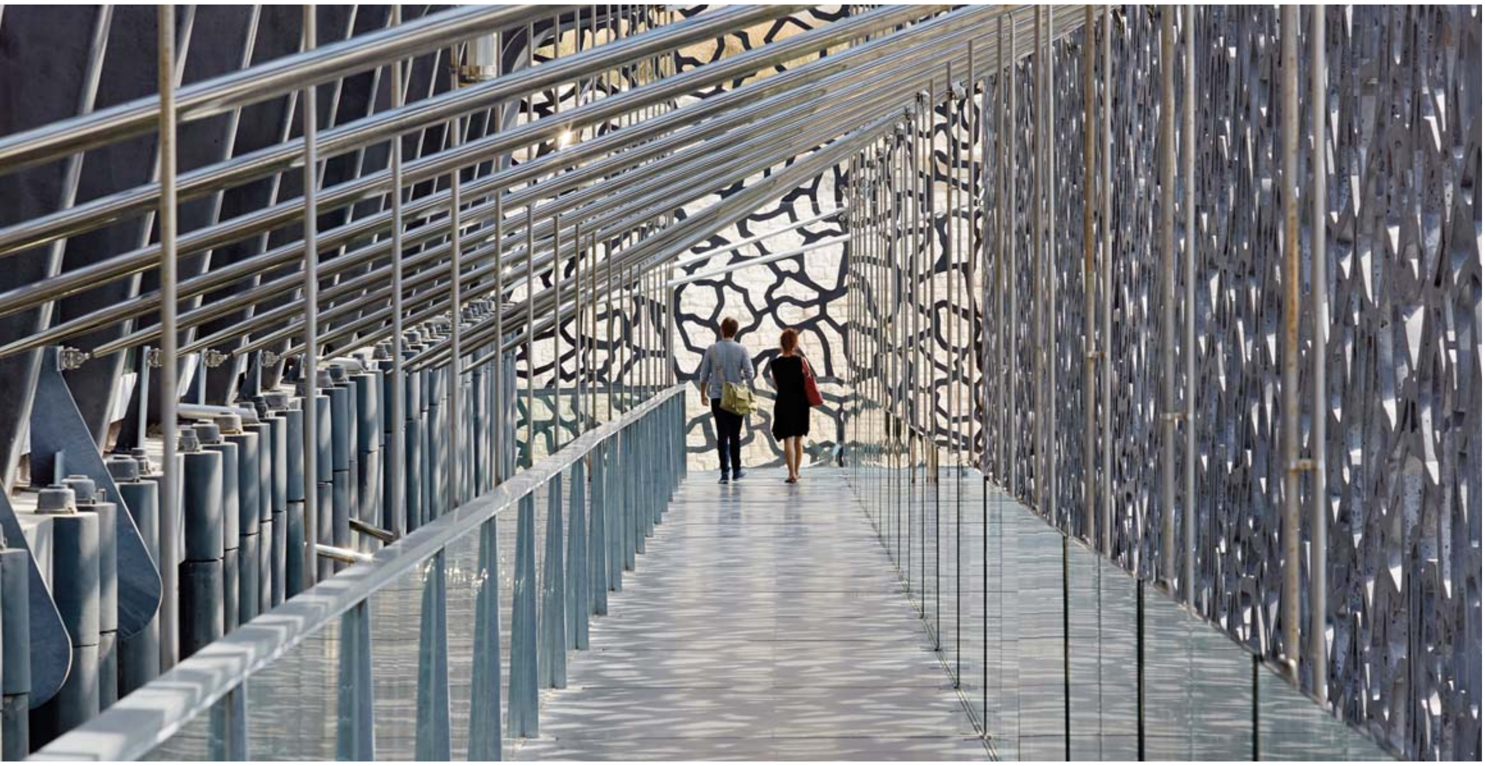
Finally, the data indicate that even after two years of EU sanctions, Russia remains a key market for other countries in the region, with 21 percent of CEOs from other countries in the region listing it among their top 3 target markets.

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

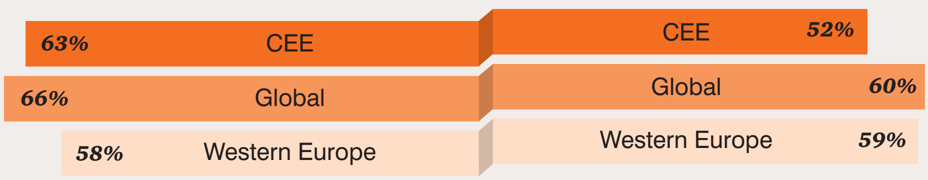


How confident are you about your company's prospects for revenue growth over the next 12 months & 3 years?





To what extent do you agree or disagree with the following statements about threats and opportunities facing your business? *(Respondents who stated 'Agree' or 'Agree strongly')*



There are more threats to the growth of my company today than were 3 years ago

There are more growth opportunities for my company than there were 3 years ago

2. Stakeholder Expectations

The transitional state of Central and Eastern Europe's business mentality is clearly displayed in CEOs' attitudes toward stakeholder expectations: While the region is shifting toward a way of doing business that's based on shared values and partnerships, in comparison with global peers the mind-set remains more transactional, based purely on payment for goods and services rather than building long-term relationships that go beyond pure financial metrics.

This can be seen in attitudes toward suppliers, customers and employees. Among CEOs in the region, 42% said employees have "high" or "very high" impact on their strategy; that compares with 51% worldwide. In Russia, the figure was just 29%. Meanwhile, supply-chain partners were named by 49% (48% globally), with customers chosen by 94% (90% globally).

That reflects traditional, top-down leadership styles in the region, with management issuing orders to be carried out by the troops.
And employees seem to share this transactional mind-set: 56% of CEOs say workers prefer organisations with competitive compensation, with 41% looking for those with social values aligned with their own.

This attitude persists despite CEOs beginning to express concern about a lack of access to key skills, and it suggests a way for savvy leaders to compete for talent: By focusing on issues such as shared values and workplace culture rather than just competing on pay, CEOs can position their companies to compete for the higher-skilled workers that can help propel their companies up the value chain.

And indeed, the region's business leaders sense that change is afoot. In five years, they say, these proportions will be reversed, with 55% of workers at successful companies looking for aligned values, and 41% prioritising compensation.
In response, 32% of CEOs are deliberately seeking to improve their company's reputation as ethical and socially responsible employers, slightly above the 29% global rate.

The numbers are similar for relationships with customers: 79% of CEOs said clients are looking primarily for cost, convenience and functionality, ahead of the 70% global figure, with just 16% saying clients want relationships with organisations that address wider stakeholder needs (27% globally). Globally, 64% of CEOs agreed with the statement "corporate responsibility is key to everything we do," compared with 52% for the region.

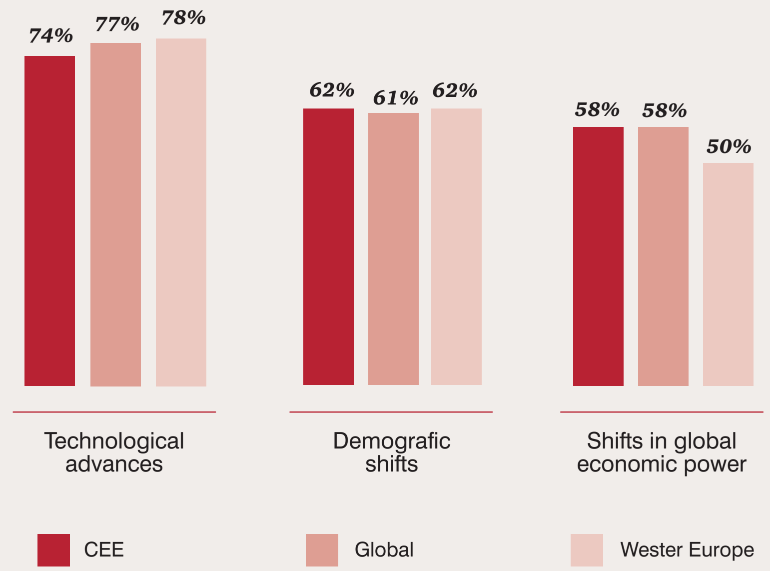
32%

of CEOs in CEE region are deliberately seeking to improve their company's reputation as ethical and socially responsible employers.

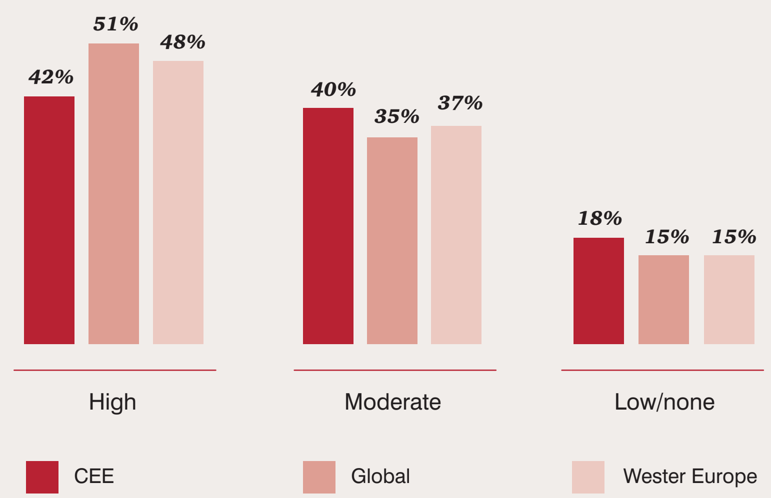
This seems to reflect the transitional nature of social activism by consumers in the region. Customers in Central and Eastern Europe want to buy from companies that have good prices and that don't get into trouble, but they have yet to move to the next level of paying a premium for companies that go the extra mile to make a positive difference.

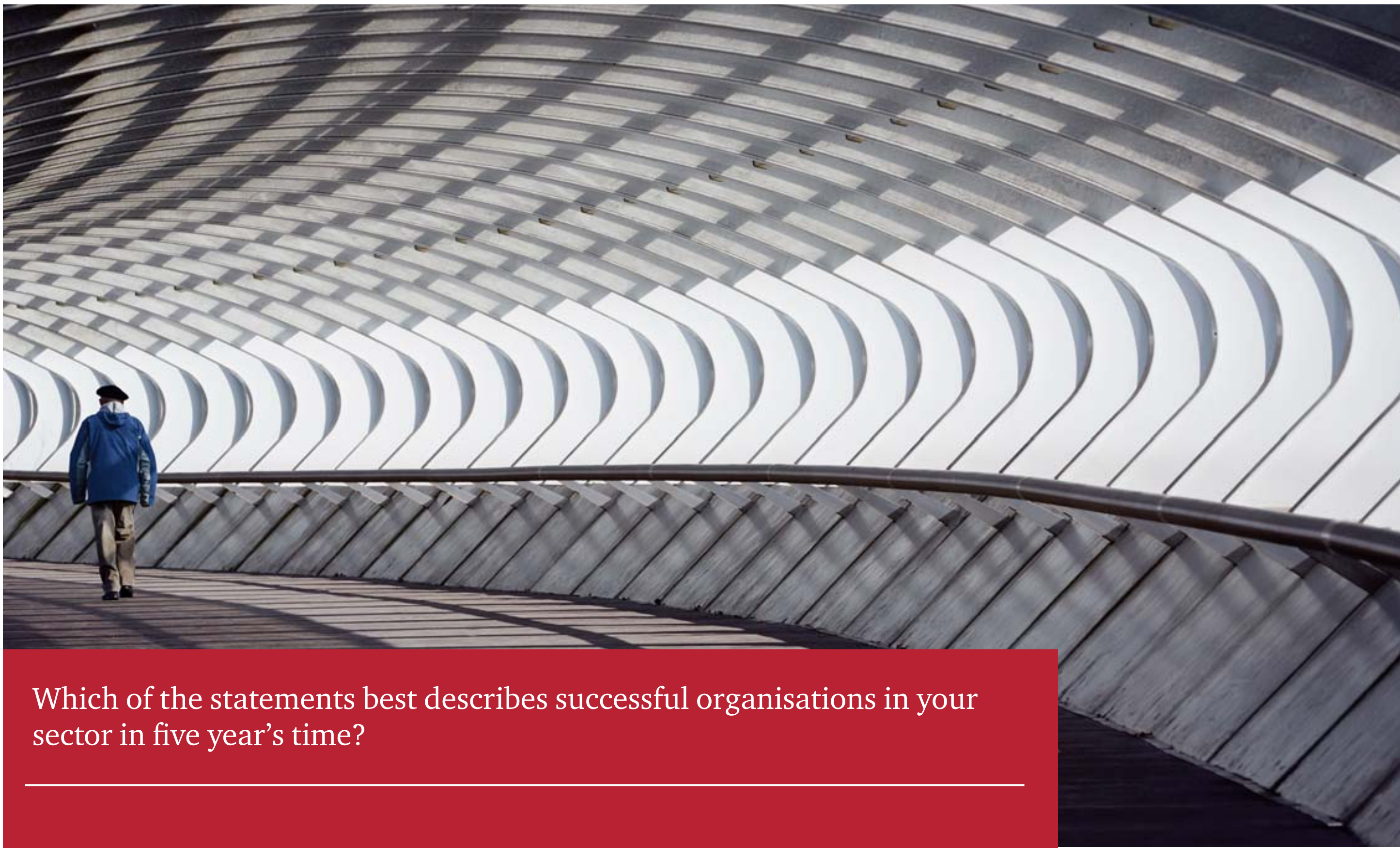
Once again, change is under way. Asked to describe successful organisations in their field in five years' time, 31% of CEOs said customers will be seeking relationships with those that address wider stakeholder needs. This indicates that a trend toward sustainability, which first took root in the region about a decade ago, will continue, driven by forces including the greater scrutiny offered by the rise of social media.

Top three global trends, which you believe will be most likely to transform wider stakeholder expectations of businesses within your sector over the next five years

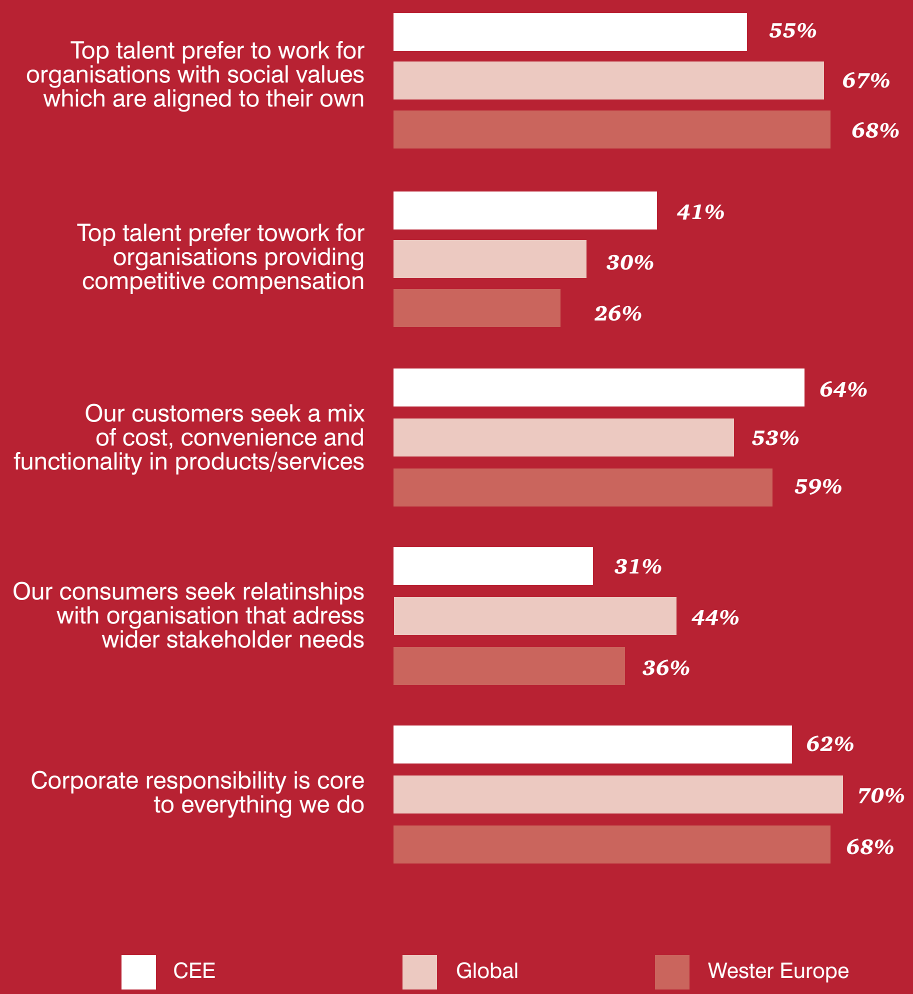


What impact do the employees have on your organisation's strategy?





Which of the statements best describes successful organisations in your sector in five year's time?



3. Tech, Talent, Innovation

Technology, innovation and talent will be key as CEE companies seek to move up the value chain and begin to compete on quality and value added rather than remaining low-cost producers.

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Companies across the region are entering a war for talent as they seek to recruit and retain the employees they need to compete at a higher level, and corporate leaders are starting to realise that there is a lack of key skills. After a decade of investment across the region in shared services centres, companies are beginning to reach the limits of the talent pool in professional services. And as technology become more central to the economy, demand is increasing for IT, programming and engineering skills.

However, employers in the region seem to be fighting the battle for talent with a narrow range of weapons: pay, incentives and benefits were named by 42% as an area where they're making changes to ensure they attract and retain talent, compared with 33% globally. In areas such as focusing on the pipeline of leaders for tomorrow, and particularly workplace culture and behaviours (36% in the region and just 27% in Russia), CEE trailed behind the global level (41%).

That provides an opportunity for companies that are willing to go beyond the traditional, transactional way of managing the region's human resources – a method that has often boiled down to throwing money at recruits and then managing performance according to strict guidelines. PwC research consistently indicates that employees are looking for more purpose and meaning in what they do at work; not engaging them culturally will have a detrimental effect on business. And while the generation gap between managers and entry-level Millennials may be wide in the West, it's even greater in CEE, between those who grew up in the communist decades of the 1980s and earlier, and those entering the workforce today with no memory of the previous system.

Education holds much of the solution, for both technology and talent. CEE is known for its high number of technology graduates. But while those graduates have plenty of factual knowledge, they often lack the soft skills they need to apply them efficiently in the real world – skills like teamwork, collaboration across working groups, and trust. Businesses are looking for ways to partner with universities to ensure students develop more of those practical abilities during their time in formal education.

CEE also needs to expand spending on research and development, to keep home-grown talent from leaving for greener pastures in the West (a trend that's been accelerated, for the Central Europeans, by the free movement of labour within the EU).

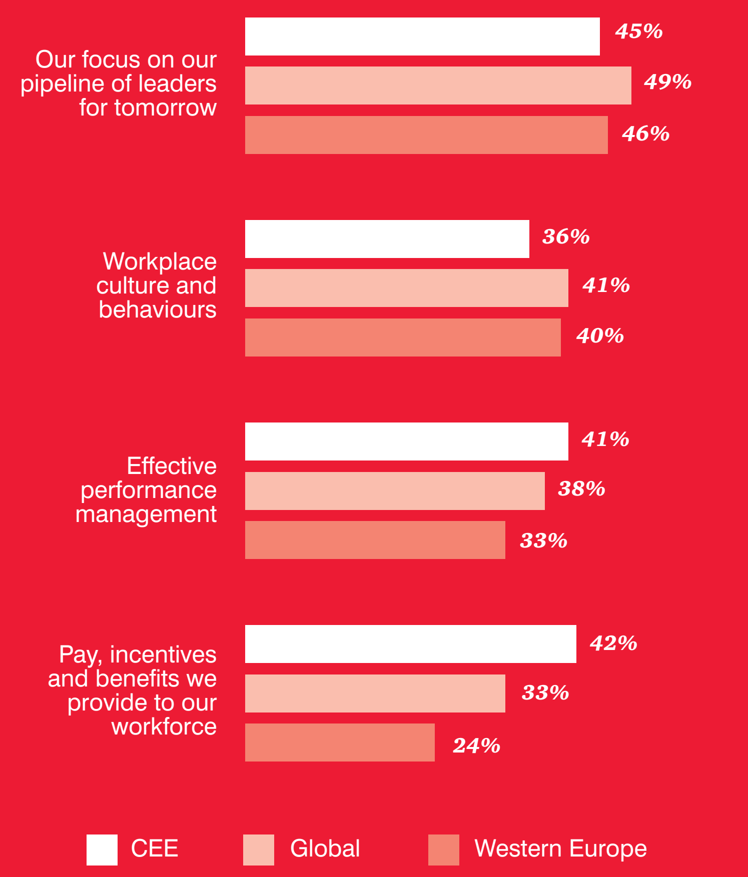
Spending on R&D is as high as 3% of GDP in Germany, compared with an average of approximately 1% in CEE – part of what keeps Germany's brand so valuable.

In addition to money, companies and governments also need to support R&D by building and maintaining the environment for start-ups, including tax and legal structures, and services such as banking that are receptive to the unique needs and challenges that entrepreneurs face. Keeping creative talent in the country – and happy – is the key to building an ecosystem of innovation.

4%

Only 4% of Millennials, who took a part in YouthSpeak 2015 survey, pointed salary as an important part of work, while 24% said it's international experience, 16% progressive learning and 15% the work which make sense.

What aspects of your talent strategy are you changing to make the greatest impact on attracting, retaining and engaging the people you need to remain relevant and competitive?



4. Measuring success

82%

of CEE leaders see a skilled, educated and adaptable workforce as a society's top need.

Central and Eastern Europe's war for talent shows up in responses throughout the CEO survey, and particularly when leaders are asked about how companies and societies measure success in today's world. A skilled, educated and adaptable workforce was seen as society's top need by as many as 82% of leaders, compared with 76% globally. That reflects growing awareness in the boardroom that in order to move up the value chain and stop competing on price alone, companies need a deep pool of people with the right skills.

Still, responses to another question showed once again the tradition of transactional thinking when it comes to employee relations: 48% of CEOs say they need better tools to measure employee practice. Of their global peers, only 39% mentioned that, preferring to focus on other areas such as branding and environmental impact.

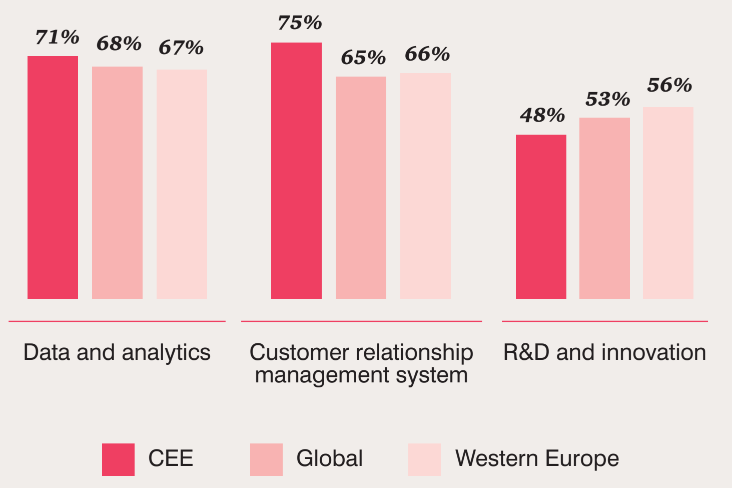
In second place on the list of society's top needs, in which respondents were asked to name a maximum of three priorities, CEOs placed a clearly understood, stable and effective tax system, echoing years of data that show frustration with unclear, shifting requirements, including efforts to close up loopholes that only seem to open up new ones. On an optimistic note, PwC's most recent annual Paying Taxes report found that 20 of the region's 25 economies have fully implemented electronic filing and payment systems. Still, research also shows growing frustration among businesses who play by the rules, only to see fraudsters go unpunished because of lax enforcement.

Tax is also an area where technological innovation may change the playing field: for example in Poland, where tax authorities are planning systems that would track invoices better and give inspectors a clearer picture of transactions across the economy.

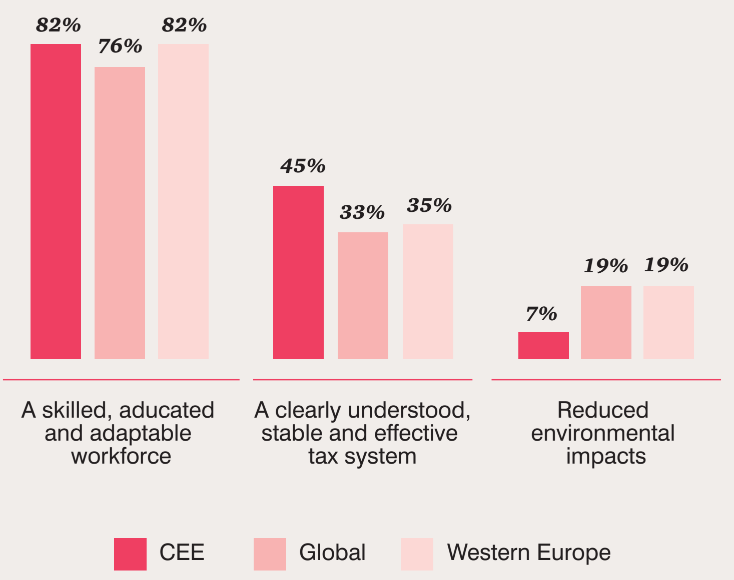
In terms of technology within companies, CEOs placed a higher emphasis than their global peers on customer relationship management systems, with the highest number (75%) citing them as a technology that generates the greatest return in terms of engagement with wider stakeholders (compared with a global level of 65%). That may reflect a time lag in CRM implementation compared with the rest of the world, but it probably also reflects a common view in the region that success is very closely linked with being able to understand customers – rather than a focus on employees or other stakeholders. Intriguingly, the value placed on social media is lower than the global figure, at 34% rather than 50%.

Just 7% of leaders in the region cited reduced environmental impact as a key measurement of success, well below the 19% global benchmark. In addition to reflecting the global principle that environment is a luxury good, which societies focus on once they can afford it, it may also reflect a lingering legacy of the communist mentality.

Please select the connecting technologies you think generate the greatest return in terms of engagement with wider stakeholders



Which three of the following outcomes do you think are most important to society today, in the country in which you are based?



5. Navigating complexity to exceed expectations

Faced with increasing complexity and rising demands from broader groups of shareholders, what is the recipe for success for Central and Eastern European companies seeking to stop competing on price alone and start moving up the value chain? There are five key behaviours that will increasingly determine success or failure.

1. Move beyond the lowest-cost mentality.

Successful CEOs are driving change in their companies' mind-set, looking for ways to compete beyond just offering the lowest price. That applies to relationships with suppliers, as they seek higher-quality inputs that will allow better performance, and with customers, where companies are reshaping the way they do business in response to growing pressure for active social responsibility.

2. Change the workplace culture to attract and retain talent.

Management based on shared values, trust and creativity is replacing traditional methods of management based on tight oversight and long lists of key performance indicators.

3. Invest in employee skills.

In addition to finding new ways to attract and retain talent, successful companies in CEE are taking responsibility for nurturing their employees' skills, and finding new ways of rewarding talent to replace the old-school method of throwing money at people.

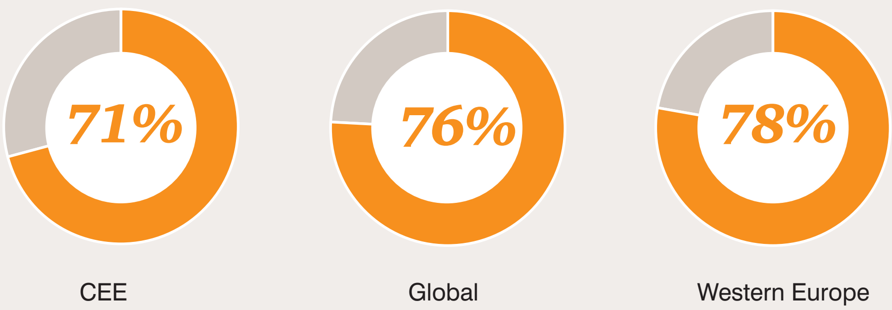
4. Cultivate innovation in the universities.

Companies are reaching out to the academy to ensure graduates have the skills they need to succeed, including the soft skills that the region's numerous technical graduates will need in order to put their impressive knowledge to work in the service of innovation. While the response from the educational establishment is mixed, progress is possible, and successful CEOs are finding innovative ways to engage with the academic community.

5. End the cult of self-reliance.

The successful CEOs will be the ones who are able to reach out and build alliances outside their companies – both in moving across borders to do business, and also within their industries, to push for the policy changes needed by all companies in their sector. Both in individual countries and in the region as a whole, the voice of business has been weak or completely unheard, as fragmentation in the business community has meant politicians can ignore what it has to say. This is also true at the EU level, and while large multinationals are able to make their voices heard, the region's small private businesses are almost totally drowned out.

To what extent do you agree that business success in the 21st century will be redefined by more than financial profit?



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