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# ***Growth during disruption*** **Croatian CEO Survey 2015**

*June 2015*



# Preface



*This is the second edition of the Croatian CEO Survey, while the Annual Global CEO Survey is in its 18th year. This survey represents an insight into the CEOs' thoughts about and attitudes towards business growth, global trends, economic situation, restructuring initiatives and major concerns. We will continue to conduct this survey and motivate CEOs to continue to share with us their insights into the Croatian market.*

*My sincere thanks go to all the corporate leaders from the Croatian public and private sector who shared their thoughts with us. Their active and candid participation is the single greatest factor in the success of the Croatian CEO Survey. We greatly appreciate our respondents' willingness to free up their valuable time to make this survey as comprehensive and accurate as possible. I hope this insight will continue to inspire the business sector to engage in further discussions on topics relevant to the success of their operations and market efforts.*

*Hrvoje Zgombić*

*Country Managing Partner  
PwC Croatia*

# Introduction

Welcome to the second Croatian CEO Survey. This report compares and analyses local views with the PwC's annual Global CEO Survey, presented annually for the last 18 years at the World Economic Forum in Davos, Switzerland. In this report, we take a close look at how the Croatian CEOs see the future shaping up for their businesses in 2015 and beyond.

We're living in extraordinary times. The Croatian CEOs are forging ahead in an environment which is getting more volatile and unpredictable. Yet most believe there are more opportunities today for their companies than there were three years ago. What's more, according to the PwC's 2015 Croatia CEO Survey, 39% of the Croatian CEOs are 'very confident' about achieving revenue growth over the next twelve months.

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# Content

## **Confidence in growth – Recovery is just around the corner**

**91%** of the Croatian CEOs are confident about their revenue growth in the next 12 months.

## **Disruptive environment – Fear of the competition**

**72%** of the Croatian CEOs see increased competition as the most disruptive trend for their industry over the next five years.

## **Company initiatives – Relieving pressure on cost reduction**

**41%** of the Croatian CEOs plan to enter a new strategic alliance or joint venture.

## **Digital - Capturing value through digital technology**

**78%** of the Croatian CEOs see digital technology as a tool to increase operational efficiency.

## **Major concerns – Tax and over-regulation still on the top of the list**

The Croatian CEOs see Government response to fiscal deficit and increasing tax burden as primary concerns which may affect their business.

## **Talent and people – Getting the right talent mix**

**88%** of the Croatian CEOs require a broader range of skills when hiring.

# ***Confidence in growth – Recovery is just around the corner***

***91% of the Croatian CEOs are confident about their revenue growth in the next 12 months***

***1***

# Economic outlook

Given the scale of the challenges and uncertainties that today's CEOs face in global markets, it's not surprising that 'adaptability' is a 'must have' attribute they point to for future success. It's clear that in 2015 disruptive change will affect all global markets. But while CEOs are less confident overall about the prospects for the global economy, many believe that there are still opportunities for their own business to grow in the year ahead.

Geopolitical tensions and a high level of uncertainty were very important factors in CEOs' attitudes and expectations globally. The number of optimists significantly decreased over the year. Cautious forecasts were made both in Croatia and globally. Only 37% of the CEOs surveyed globally and just 25% of the Croatian CEOs are absolutely sure that the global economic situation will improve over the next 12 months. In CEE the percentage is even lower, levelling at only 16%.

*„A company can't ever just sit and think that whatever business it's in today is going to keep them whole for the future. Somehow people have decided that big companies are safe and stable, and I would say the facts over the last 50 years would suggest the opposite; if companies aren't rapidly changing on a continuing basis, their risk is increasing, not decreasing.”*

— Douglas M. Baker, Jr., Chairman and CEO, Ecolab, Inc.

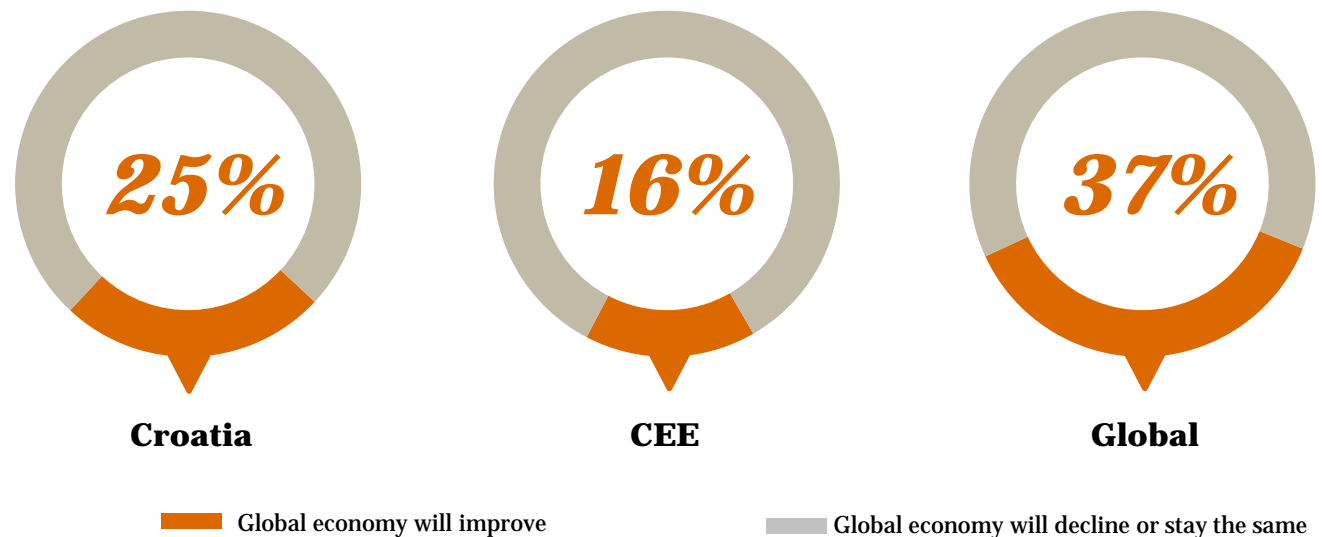
## Global CEOs are more confident of their business growth prospects than they are about global economic growth



Source: 18th Annual Global CEO Survey 2015

## Only 25% of the Croatian CEOs think the global economic outlook will improve in the next 12 months

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





# Confidence in growth

While fewer CEOs than last year think the global economic growth will improve over the next 12 months, confidence in their ability to achieve revenue growth in their own companies remains stable.

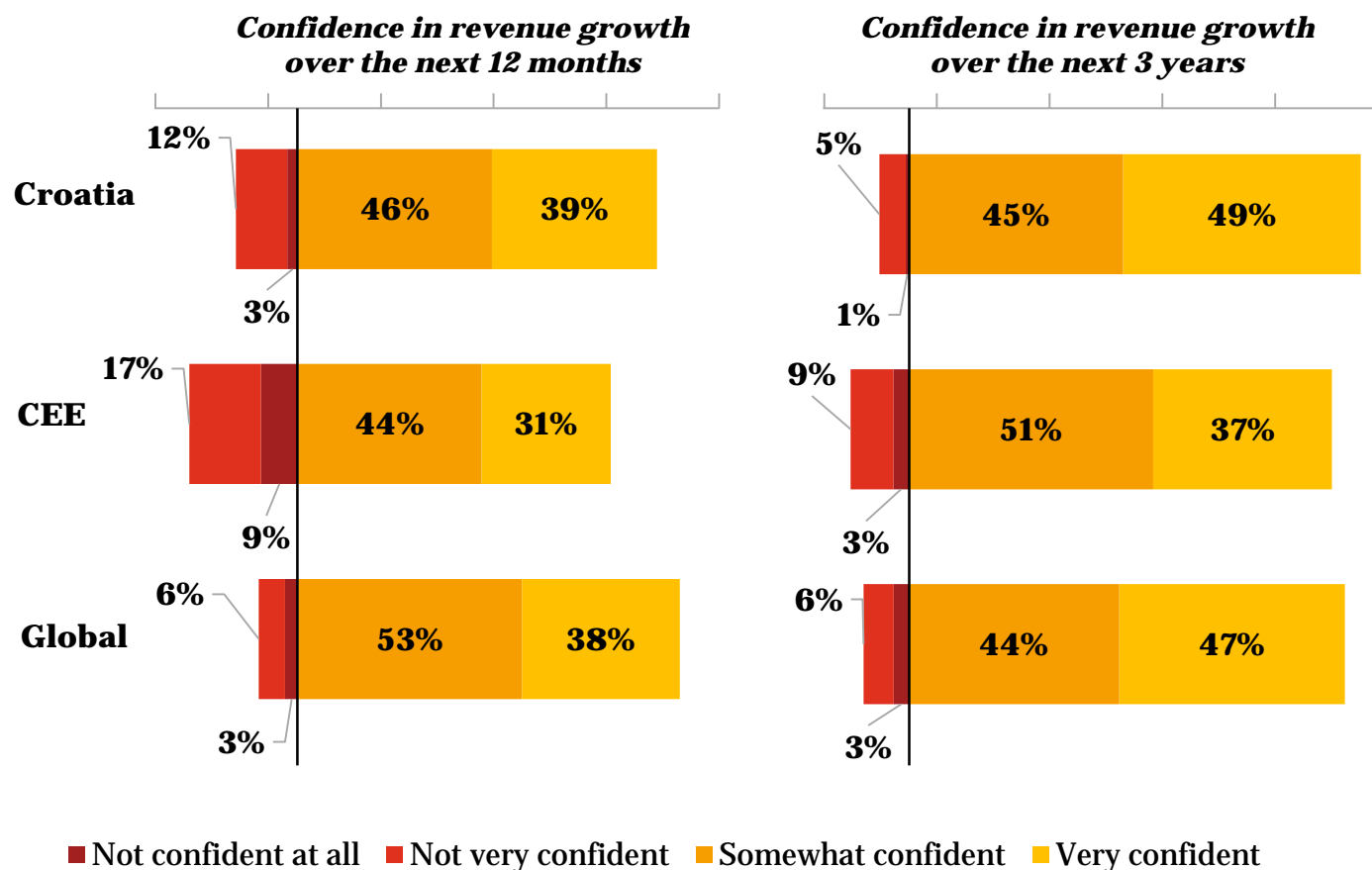
Our 2015 CEO Survey shows that Croatian leaders see more growth prospects than their CEE peers. Nine out of ten Croatian CEOs expect improvements over the short and long haul. This is primarily due to the fact that most see the recession near/at its low point and expect the restructuring initiatives to unleash its effects.

Globally, CEOs are a bit less confident in the revenue growth (85%) in the short term, as optimism has been slightly tempered by the concerns about access to key skills, disruptive trends and geopolitical uncertainty.

The challenges brought on by these changes are set against a competitive landscape that is also rapidly and radically reshaping. Competition is now coming from new and previously unseen sources. A wide range of industries are being disrupted by regulatory changes, increasing competition and new patterns of consumer behaviour. But still most expect to leverage new trends and adjust.

## The CEOs are confident about achieving revenue growth in the upcoming period

Q: How confident are you about your company's prospects for revenue growth?



*"The confidence in growth of Croatian CEOs is surprisingly high, taking into consideration the current economic environment. While the year 2014 has been marked by restructuring activities, most CEOs clearly expect effects to catch up. But the key question is still how they can leverage their growth taking into consideration strong competition and technology disruptions. In such a fast-changing environment, deciding where to place their bets in order to achieve growth will be crucial."*

**Hrvoje Zgombić**, Country Managing Partner, PwC Croatia

# ***Disruptive environment – Fear of the competition***

***72% of the Croatian CEOs see increased competition as the most disruptive trend for their industry over the next five years***

2

# Opportunities for growth

Global CEOs view current environment as more supportive of growth opportunities than 3 years ago. The CEE and Croatian CEOs are in line with Global CEOs, where 50% and 47% respectively consider this economic environment to have more growth opportunities than 3 years ago.

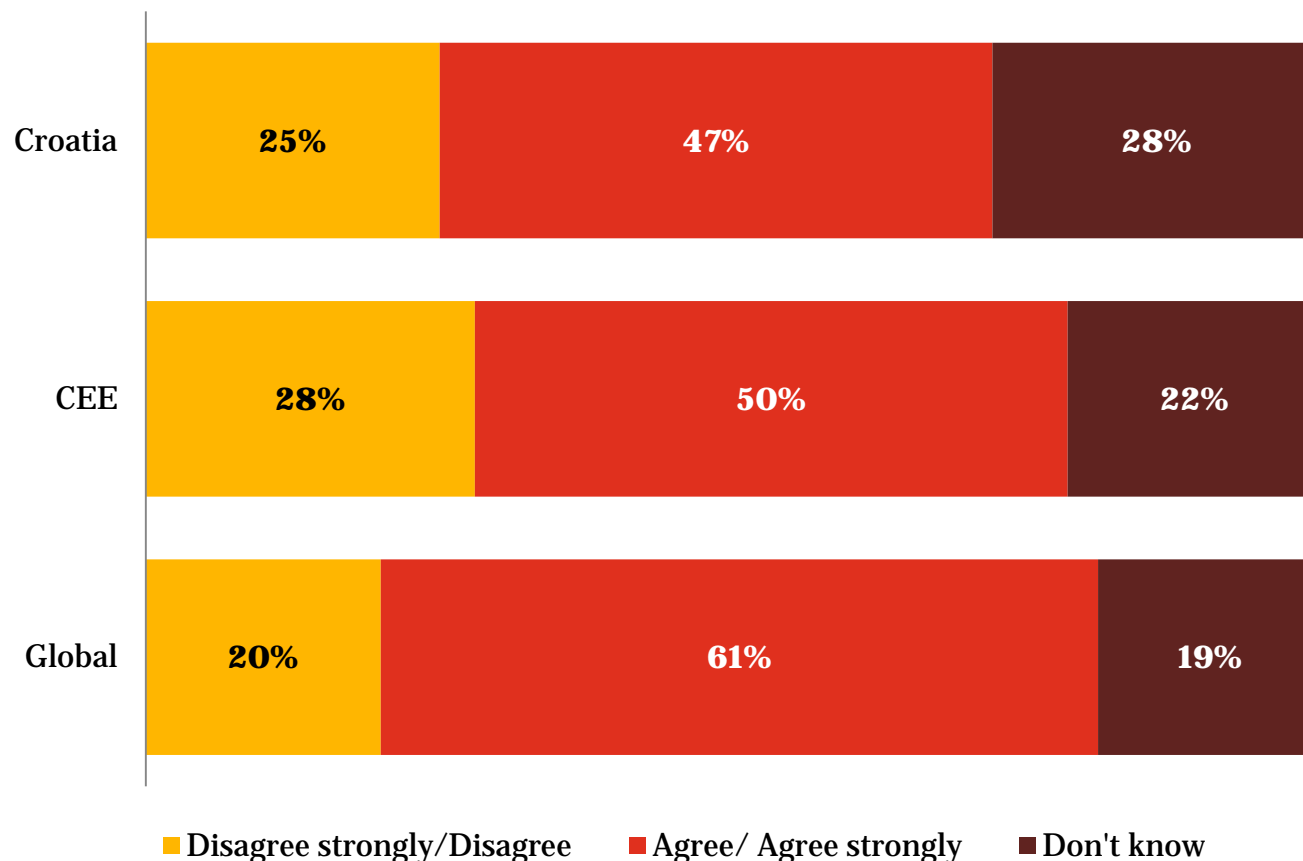
A view of growth opportunities comes after a prolonged recession has come to an end in almost all European countries.

The Croatian CEOs consider the first signs of recovery of the Croatian economy to support their view of an improved economic situation, especially after recent statistical indications that the recession in Croatia might be at its low point.

In these extraordinary times, the businesses that want to grow profitably must rethink how to create value for customers. Operating within traditionally defined demographic segments, channels, product/service offerings, geographies or industries doesn't work anymore. The focus on customers, rather than traditional competitive boundaries, is broadening the competition. Indeed, forward-thinking CEOs are increasingly questioning just what business they're really in. That also means actively taking businesses into adjacent or completely new sectors.

## Nearly half of the Croatian CEOs think there are more opportunities for their companies than there were 3 years ago

Q: Do you agree there are more growth opportunities for my company today than there were 3 years ago?



*"A shift in thinking is evident among companies this year. Rather than waiting for mature markets to recover from the global financial crisis, they now accept that the duration of the downturn is uncertain. But they are once more looking for growth opportunities."*

**Mrvoje Zgombić**, Country Managing Partner, PwC Croatia



# Disruptive environment

New market entrants are disrupting the existing models, largely by better-serving customer needs at distinct points of the value chain. New entrants are able to use technology to provide a better customer experience, at lower cost, unencumbered by legacy infrastructure or business models.

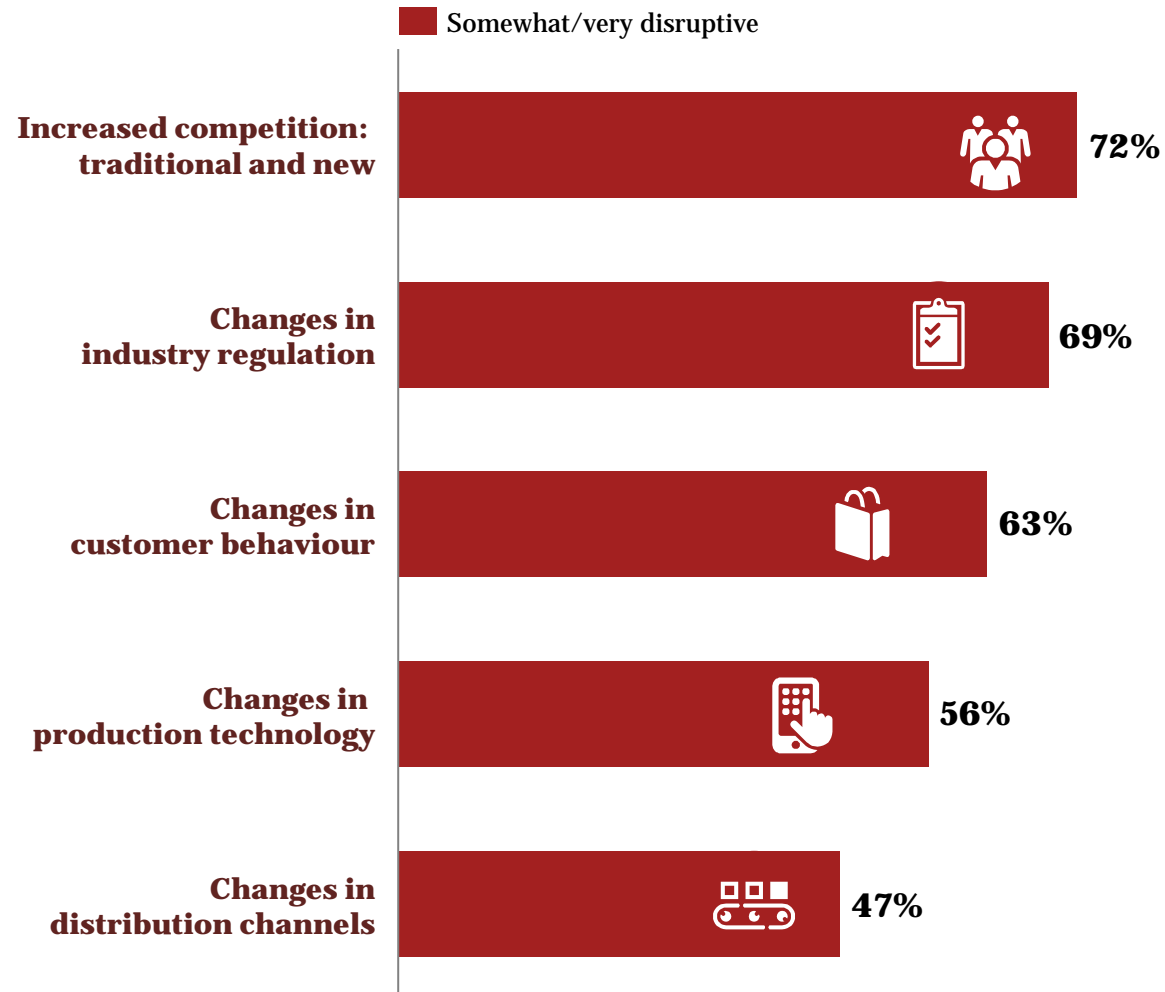
72% of the Croatian CEOs see increased competition from both traditional and new entrants as the most disruptive trend over the next five years.

The regulatory demands continue to rise, and compliance is both expensive and operationally challenging. These demands also have the potential to divert the investment and management focus needed to address the transformation trends in the industry.

The second most important disruptive trend for the Croatian CEOs are changes in industry regulation where 69% of the CEOs see disruptive potential from this trend.

## The Croatian CEOs see an increased competition and changes in industry regulation to be the most disruptive trends for their industry over the next five years

Q: How disruptive do Croatian CEOs think the following trends will be for their industry over the next five years?



*“Digital dynamics slowly begin to undermine barriers to entry, enabling competition to emerge from other industries, sectors and sub-sectors. With further pressure from the ‘traditional’ competition and industry regulations, limiting response capabilities, it is no wonder that those factors are seen as the key disruptive trends.”*

**Dejan Ljuština**, Partner, Advisory – Consulting, PwC Croatia

# ***Major concerns – Tax and over-regulation still on top of the list***

*The Croatian CEOs see Government response to fiscal deficit and increasing tax burden as primary concerns which may affect their business*

3

# Major concerns for CEOs

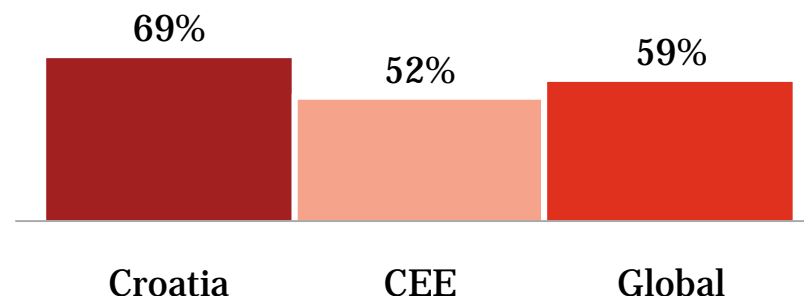
The CEOs are grappling with a wide range of risks. 69% of the Croatian CEOs think there are more threats to the growth of their company now than there were 3 years ago, compared to 52% of the CEE CEOs.

The top threat to business growth prospects in Croatia is the Government response to fiscal deficit (91% of answers) and increasing tax burden (88% of answers). But high unemployment and overregulation are also perceived as major threats by 78% and 75% of Croatian CEOs respectively.

In fact, the CEOs are getting more worried about almost all the threats we asked about. Social instability, bribery and corruption are also high on the list of threats seen by the Croatian CEOs.

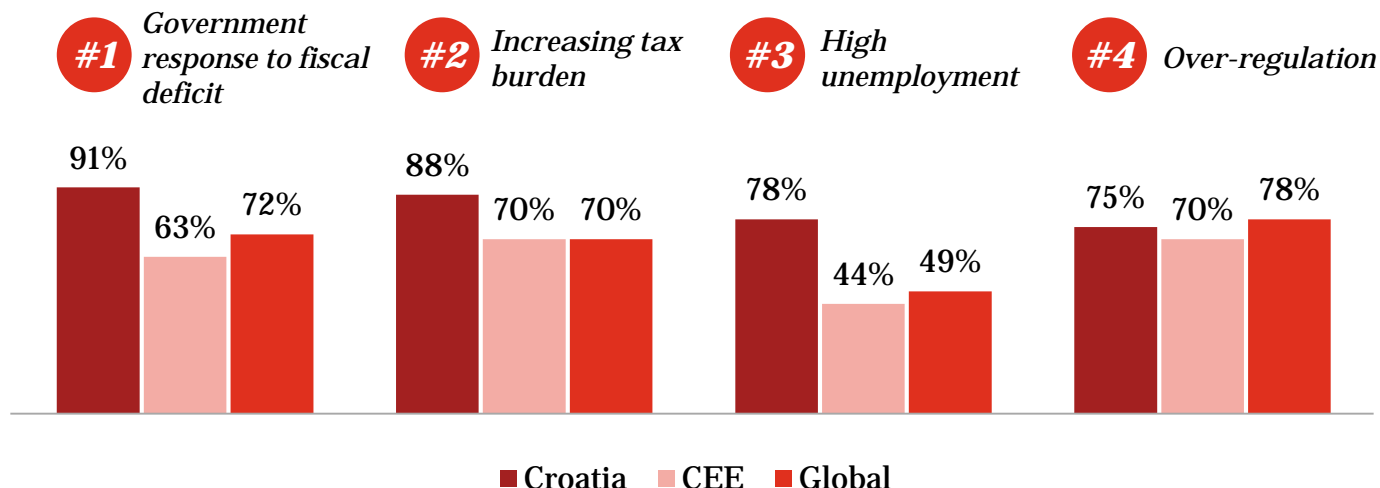
High unemployment threat shows the biggest difference in CEOs viewpoint, where 78% of Croatian leaders see this as a threat while only 49% and 44% of Global and CEE CEOs respectively, consider this as a threat. On the other hand, inadequate infrastructure is not seen as a threat in Croatia while it is high on the threat list both globally and in the CEE region.

## 69% of Croatian CEOs agree that there are more threats to the growth of their companies today than there were 3 years ago



## The Croatian CEOs consider Government response to fiscal deficit and increasing tax burden the top business threats

Q: What is your primary concern which may affect your business?



*"The Government response to fiscal deficit (and the related indebtedness), as well as a very high tax burden, are directly linked to a full range of economic aspects that underlie functioning of every organization on the market. Overregulation and frequent and sudden changes in that field create operational difficulties for entrepreneurs and a feeling of legal uncertainty. Long term inefficiencies in public bodies are, unfortunately, still present and are a major threat to business."*

**Hrvoje Jelić**, Partner, Tax & Regulatory Services, PwC Croatia

# Government effectiveness

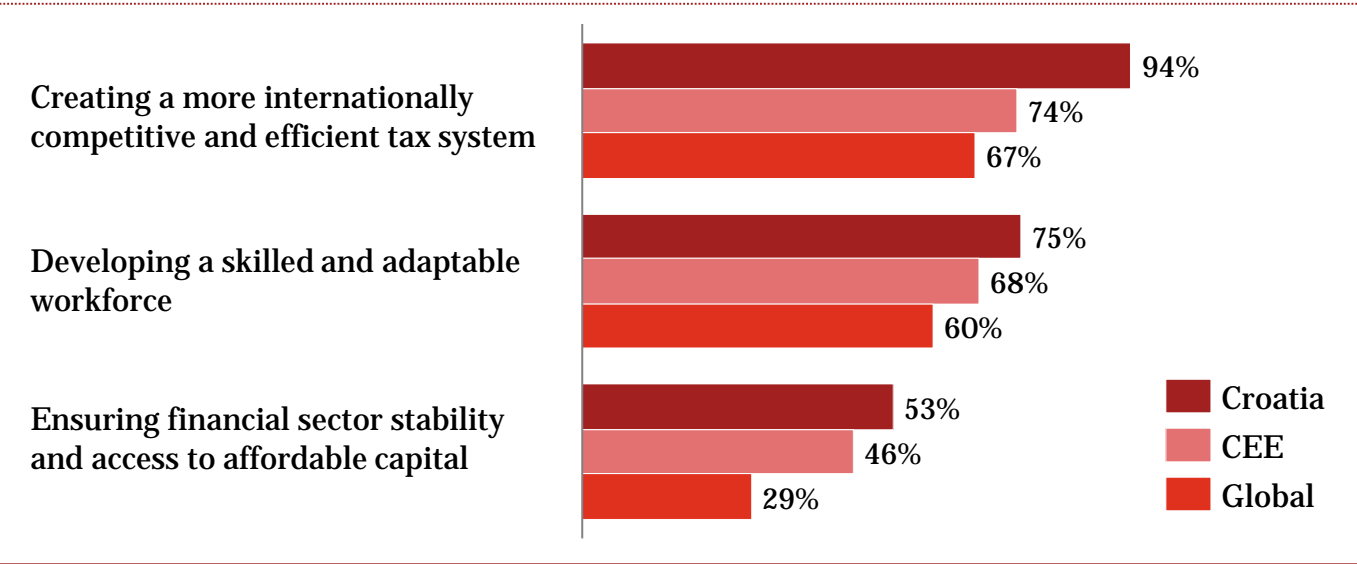
Business leaders in both Croatia and globally find their local tax systems non-compliant with business requirements to act on the global market and as one of the most restrictive factors in international business development.

Consequently, CEOs believe that adjustments of local tax frameworks should be put on top of the list in developing Government initiatives. This can be especially stated in Croatia where 94% CEOs state this measure as a priority and 97% believe that current activities on the matter are inefficiently executed.

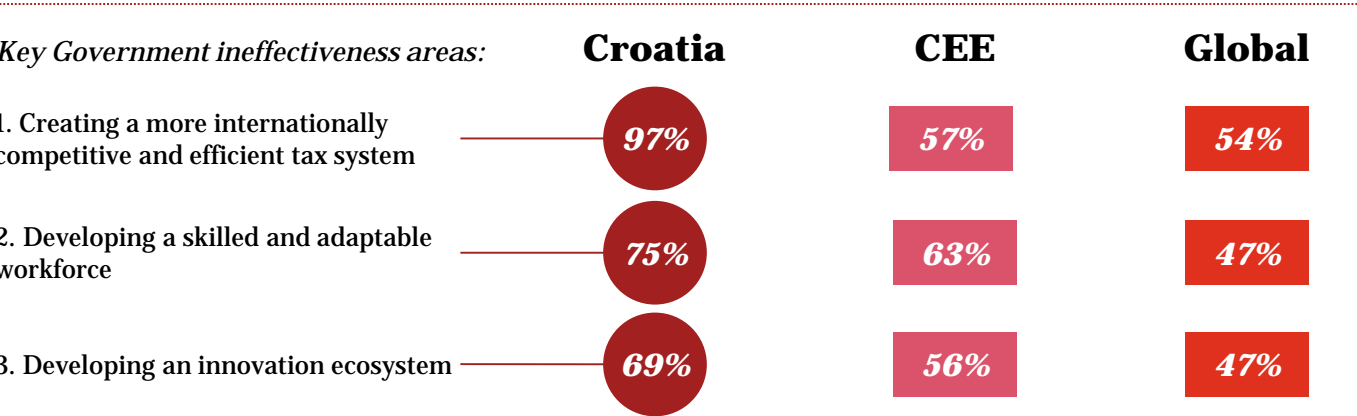
Importance of Government involvement in developing a skilled and adaptable workforce, has also risen on the CEOs' list in comparison to last year. While the local economy is still struggling with the business environment caused by the crisis, 75% of Croatian CEOs see an improved labour pool as a leverage to maintain profitability and capture growth.

With the priorities identified, concerns arise from the level of distrust in the Government's effectiveness. The Croatian CEOs have not seen results from initiatives executed in the past, lowering expectations of tangible Government impact in the future. This also impacts the willingness for joint collaboration, where Croatian CEOs are more reluctant than global colleagues.

## The Croatian CEOs suggested three main areas the Government should focus on



## Croatian CEOs show higher distrust in the Croatian Government effectiveness



*"It's no surprise that government policies are such a big issue for CEOs as attempts to create a competitive landscape fail to provide results, leaving companies tackling high tax burdens and costly inflexible workforce. Getting government and businesses on the same page clearly requires collaboration of a different sort. Part of this is a change in the mind-set, starting with the ability for businesses and government to understand each other's perspectives."*

**John M Gasparac**, Partner, Territory Assurance Leader, PwC Croatia

# ***Company initiatives – Relieving the pressure on cost reduction***

***41% of the Croatian CEOs plan to enter a new strategic alliance or joint venture***

**4**

# Restructuring initiatives

The CEE companies remain in crisis mode and cost reduction is still the #1 restructuring activity, with 76% leaders stating it as a priority measure. However, a year ago, 72% of the surveyed Croatian CEOs told us that they were implementing initiatives to cut back on expenses, while this year only 56% have the same plans, clearly indicating a focus shift on top-line improvements.

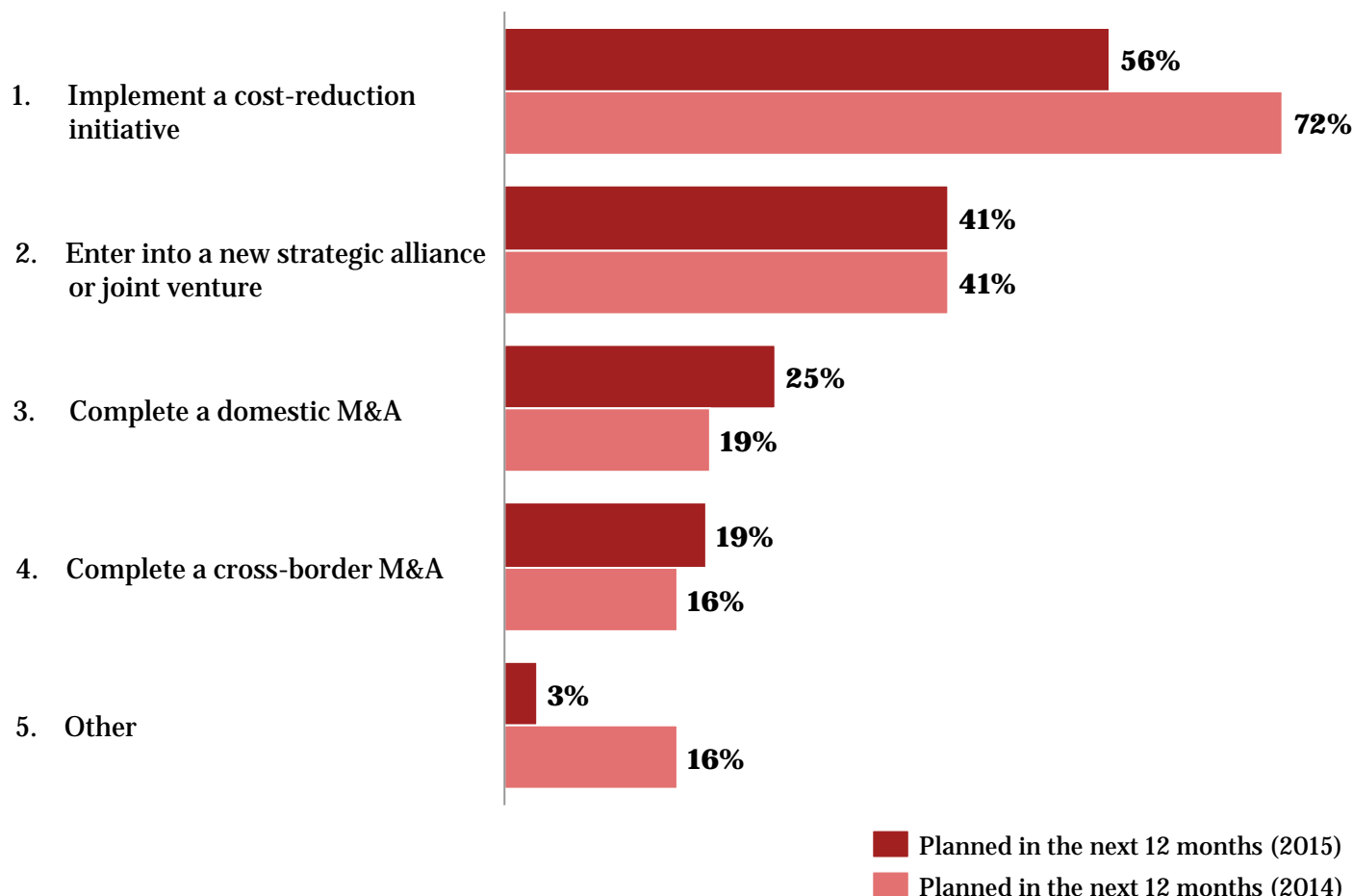
The Croatian CEO are now considering which capabilities they need in order to differentiate themselves, and are looking at alliances and M&A to fill the gap. They want to better react to increasing customer requirements, meet growing technology demands within their organizations, as well as realize potential synergies that favour the bottom-line.

In the medium to long term, leading Global CEOs will lean towards alliances as opposed to traditional M&A, by developing a systematic and structured approach towards building enterprise-wide capabilities.

The Croatian CEOs further see partnerships and M&A as opportunities to stabilise its financial position since such agreements may increase liquidity, maintain a stable cash flow and spread financing options.

## Although still a major initiative, the focus on cost reduction has fallen, leaving more room for CEOs to focus on revenue growth

Q: Which, if any, of the following restructuring activities do you plan to initiate in the coming twelve months?



*"After intense cost reduction activities in the previous year, where companies were trying to remain profitable and competitive, Croatian CEOs are shifting their focus towards growth. Company leaders are looking for ways to create revenue growth and expand their customer base, leading to increased M&A and strategic partnership activities."*

**Siniša Dušić**, Partner, Assurance/Advisory-Deals, PwC Croatia



# ***Digital - Capturing value through digital technology***

***78%** of the Croatian CEOs see digital technology as a tool to increase operational efficiency*

5

# Digital – Doing things right

Importance of digital technology has been globally recognized, but it is merely the perception of required technology upgrade sufficient for utilization of its benefits? Both Global and Croatian CEOs agreed on key factors for making the most out of the digital investments.

86% of the Global and 84% of the Croatian CEOs have prioritised defining a clear vision of developing a competitive advantage through digital technologies. It's obvious that implementing solutions without clear strategic directions will not yield the desired results.

84% of the Croatian CEOs recognise the importance of the CEO as the champion of digital technologies in helping to make the most of their digital investments. This states the importance of the leadership from the top rather than simply delegating responsibility for the digital innovation and management to technology teams.

Our research into what develops the highest 'digital IQ' underlines the following factors as well: planning & tracking realisation (75%), developing a responsibility model (75%) and specific hiring and training (72%).

## The Croatian CEOs have outlined several guidelines on doing it right in digital

Q: How important are the following factors in helping your organisation get the most out of its digital investments?



*"Great advances in technology are giving us building blocks to solve problems. For a business, it means great opportunities to extract value in areas they have not gone into before, by combining the right building blocks. But getting digital right today is significantly more complex and will require strong involvement of key stakeholders, a comprehensive and structured implementation approach and an appropriate mix of talent."*

**Dejan Ljuština**, Partner, Advisory – Consulting, PwC Croatia

# Growing through digital technology

The survey highlights CEOs' recognition of the importance of executing digital solutions across their organisations. It illustrates how digital truly has the potential to transform their businesses – by delivering better customer experience, optimising distribution, improving operational efficiency, and enabling better management of both internal and external risks.

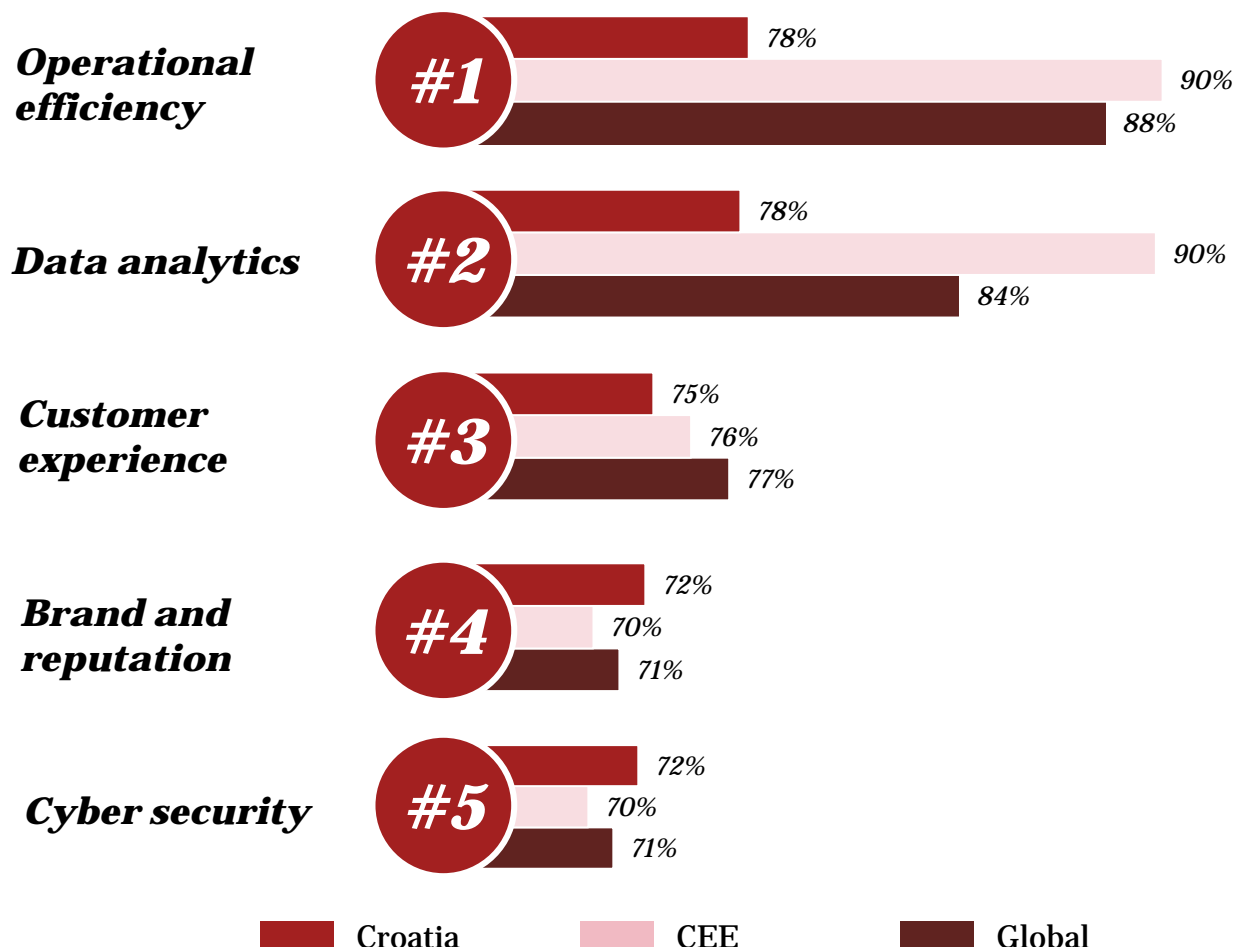
According to the Survey, the Croatian CEOs have become digitally aware, but are still lagging behind their CEE and Global peers. Nevertheless, almost eight out of 10 Croatian leader say digital is adding value in terms of operational efficiency (78%), upgrading data analytics (78%) and customer experience (75%).

89% of the Global CEOs see that data mining and analysis is strategically important to their organisation – the analysis is not only used to better understand customer needs, but also to drive operational efficiency and effectiveness throughout the organisation.

On the other side there is no doubt, locally or globally, that digital technologies have revolutionised how customers perceive value. Mobile technologies, easy access to information and global connectivity, further raise the bar for the CEOs, clearly indicating that disruptions in digital technology are a „two-way street”.

## The Croatian CEOs see digital technologies adding most value to operational efficiency and stronger analytical support

Q: To what extent are digital technologies creating value for your organization in the following areas?



*"Not all Croatian CEOs see digital technology as a favourable leverage like their Global peers. In fact, they are more likely to see a range of emerging business trends as being disruptive to their industry over the next five years. The digital innovation and its irrevocable impact on the customer behaviour is a particular concern. The customer expectations – based on their online experience both here and abroad – are way ahead of what many companies can currently deliver."*

**Dejan Ljuština**, Partner, Advisory – Consulting, PwC Croatia

# ***Talent & people – Getting the right talent mix***

***88%** of the Croatian CEOs  
require a broader range of skills  
when hiring*

6

# Talent & people

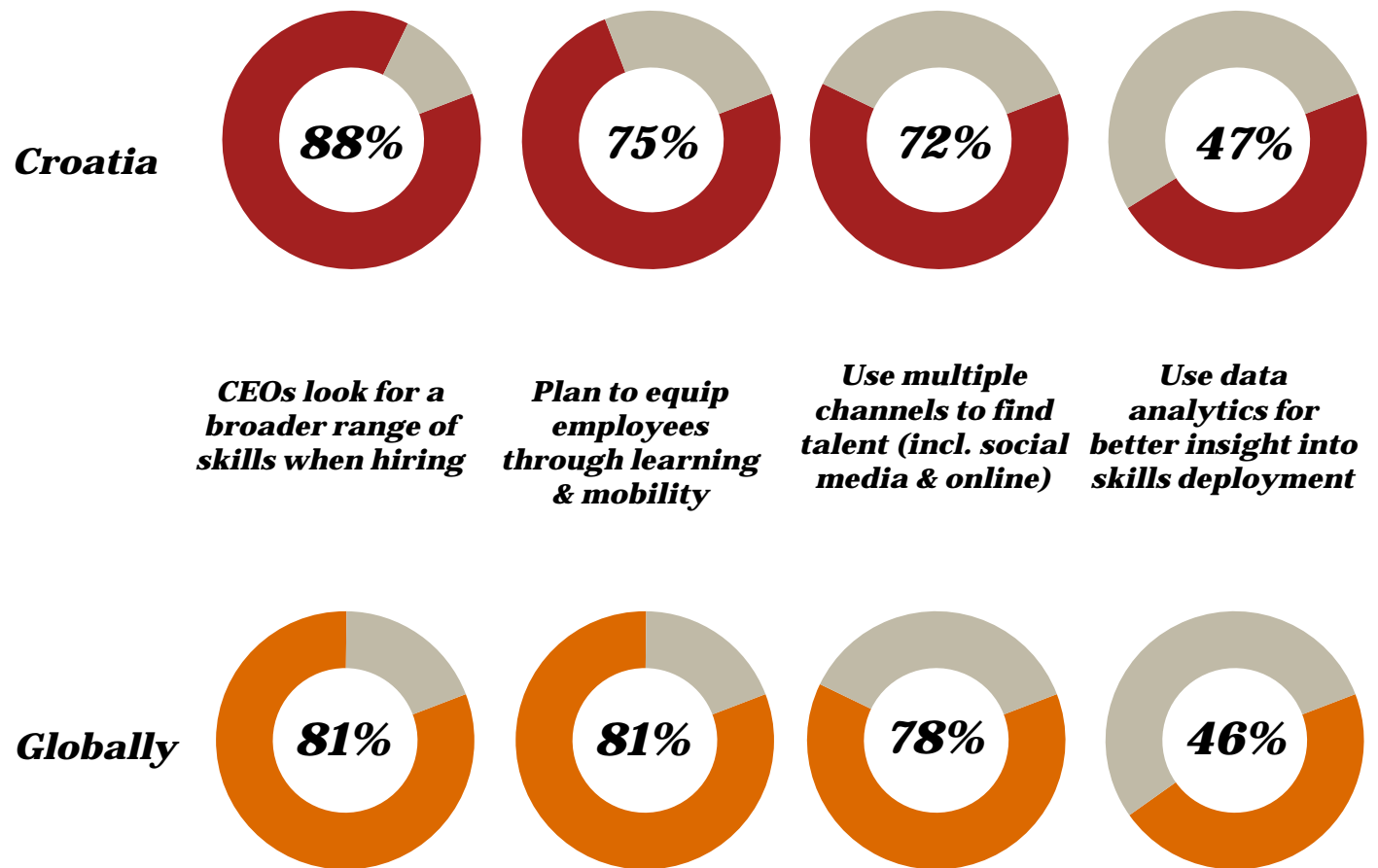
CEOs globally are not seeing talent diversity and inclusiveness as a soft issue anymore. Using a diverse range of strategies to get a good mix of talent is now a core component of competitiveness – and most CEOs (77%) have, or intend to adopt a strategy that promotes it. On the other side, the Croatian CEOs have not yet fully adopted importance of that (54%) and are still primarily focused on employee efficiency and flexibility rather than capturing new value.

This is also reflected in the of hiring procedure where Croatian CEOs are lagging behind CEE' colleagues in searching for talent in different geographies, industries or demographics, even though it may offer additional leverage to seize business opportunities. But they do acknowledge these evolving talent demands and 88% of them now look for a much broader range of skills.

Another trend in Croatia going against CEE & Global colleagues is that 50% of CEOs stated its increasing reliance on contractors, part-time workers or outsourced functions.

Technology has also assumed a vital role in hiring, with over 72% Croatian CEOs using social media and online tools, while 47% has developed data analytics as tracking tools.

**CEOs both globally and in Croatia are recruiting with higher expectations and plan to develop diverse skills**



*"CEOs, led by market developments, expect even more from their talent, primarily focusing on their broader set of skills, enabling them a flexible organization and maintaining profitability. The Croatian CEOs still tend to hire local workforce, primarily cost driven, which may result in the lack of adequate capabilities necessary for capturing full potential of market opportunities."*

**Breda Ivanović, HC Manager, PwC Croatia**

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We'd also like to thank the following colleagues for their guidance and expert insight:

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Siniša Dušić  
Hrvoje Jelić

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The research was coordinated by PwC UK, located in Belfast, Northern Ireland

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