

# *Innovation and new technologies are game changers*

*Key findings for Romania  
from the 17th Annual Global  
CEO Survey (2014) conducted  
by PwC*



## Introduction



*Change has always been the pulse within the intricate fabric of the world in which we live. At different times and places, it has brought about progress or standstill, peace or revolution. During the last decades, the speed of transformations, especially in science and technology, has almost outrun our imagination.*

*Our survey of Romania-based company CEOs shows that there is*

*widespread consensus as to the indisputable role technological advancements will play in reshaping businesses in the coming years. In the context of a shared growing feeling that the future started yesterday, innovation is an ever more prominent growth opportunity. And innovation is no longer confined to product manufacturing techniques or methods of rendering services, as it is now particularly relevant when approaching and attracting target clients. Oversaturated with information from multiple channels, with a wide variety of “one of a kind” offers available, consumers are ever more selective about the products they use, their favourite brands and makes, the preferred suppliers and how they interact with them. And today’s generation, which uses telephones and other smart devices before they can talk, are the ones who in a few years’ time will redefine buying and consumption behaviours in a way we cannot even begin to imagine today.*

*The successful leaders of tomorrow’s world will be those who manage to identify and capitalise on demographic changes in order to ensure the needed workforce is available and to prepare them for the new requirements of the global economy. Technological advancement will definitely drastically transform the labour market. There is ever more talk of the professions of the future which will bring requirements for new competences sought in future employees, who in their turn will have ever more specific requirements from organisations. Under those circumstances, human capital continues to be a priority for CEOs. Creating a highly-skilled workforce is an improvement area acknowledged by the majority of the respondents.*

*Going through a crisis with the magnitude of that which started back in 2008, and which has gradually turned into the “new reality”, CEOs in Romania have learnt how to navigate troubled waters, to survive with ever dwindling resources of every kind and with the planet raising red flags. As a result, cost cutting is still on the agenda as a way to streamline operations and to render them cost-efficient. The lessons of the downturn cannot be easily forgotten, but now it is time to focus on the next stage – resuming growth. Thus, our respondents are still optimistic about the revenue growth prospects of the companies they lead, while confidence in global economy development is substantially on the rise. CEOs will have to experiment with new business models, without affecting the business profit margin and public trust.*

*CEOs in Romania rolled up their sleeves and took on the trainer role for their workforces, but they expect the Government to show a more focused effort towards the actual improvement of the infrastructure. In order to enhance the competitive edge internationally, solutions should be sought to invest more money in research, development and innovation, both in the private and public sectors. Focusing on high added-value industries is a must for the economy. The Romanian economy should grow from its cheap workforce supplier status into a state-of-the-art technological equipment producer. In the service sector, too, there are promising prospects for switching to high added-value activities such as outsourcing and off shoring.*

*I would like to thank the CEOs who answered our invitation to contribute to this survey this year. It is only by working together that we can provide a bird’s eye view of the outlook and trends in the business environment in Romania.*

A handwritten signature in black ink, appearing to read 'V. Iuga'.

**Vasile Iuga**

Country Managing Partner

PwC Romania

# CEOs agenda in Romania

## Technology and innovation

92%

of the CEOs believe that technological advancement is the factor most likely to change their businesses during the next five years

47%

see innovation of products and services as the main business growth opportunity

## Growth prospects

86%

are confident about revenue growth prospects during the next year

## Human capital

69%

have the creation of a highly skilled workforce as the main priority

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## Mega-trends that will transform businesses

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CEOs believe there are three main mega-trends with a major impact - technological advancement, changes in demographics, and the resource shortage and climate change. Technology and information, clients, employees and organisational models are common topics on the change agenda of companies seeking to adjust to global trends.

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## Confidence in development; what does growth stem from?

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Optimism about business growth prospects, as shown in the previous issue of the survey, seems to continue. CEOs also appear confident about the global economic environment. The main business growth opportunity is innovation used for products or services. Cost cutting is still on the agenda of most CEOs.

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## Risks

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The tax burden, authorities' response to the deficits and rising debts, and the persistence of slow or negative growth in developed economies are the main concerns.

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## Dealings with employees and third parties

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Relationships with clients, suppliers and employees have improved, but CEOs feel diminishing trust on the part of the Government, providers of capital, media and local communities. CEOs believe that promoting an ethical culture is a major factor and think organisations should pay their "fair share" of tax liabilities.

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## Government, fiscal administration and regulation

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Among the top priorities the authorities should have are improving the infrastructure, ensuring access to affordable capital, and creating a more competitive and efficient tax system internationally. CEOs recommend that the Government ensure clear-cut regulations designed with the long-term in mind and correctly, transparently and consistently implemented and enforced.

# Mega-trends that will transform businesses

When asked what the future holds, the CEOs in Romania said that there are three main mega-trends that will change businesses significantly during the following years. For almost everyone, **technological advancement** will have a major impact. More than half of the respondents stated that they would feel the impact of **demographics changes**, and that of the **resource shortage and climate change**. Urbanisation is another global trend that may reshape businesses.

92% of the CEOs named technological advancement as one of the top three global trends to most change their business during the next five years. This figure is higher than that estimated by CEOs worldwide and in Europe (81%).

Demographic changes, resources shortages and climate change were named by 51% of the CEOs in Romania, while urbanisation was mentioned by 47% of them.

Technological advancement and demographic changes are also seen by CEOs worldwide as major trends. In their answers, changes in the global balance of economic power ranks third in the trend top. This trend is mentioned by 59% of the respondents worldwide, whereas a mere 41% of their counterparts in our country include it among the first three trends to change businesses.

These developments are undoubtedly no news, but their pace has quickened and the way they are converging and significantly changing the face of the world we live in is different. Breakthroughs in nanotechnology that substantially boost production potential, the digital economy, social networks, mobile telecommunication devices and managing an unprecedented volume of data in electronic format all cause new professions, and even new industries, to emerge. Relationships both at the economic and social level are changing significantly, with consumers and the public having multiple channels available to make their voices heard and exchange opinions, thereby enhancing their influence.

The population is booming in certain regions while decreasing in others. Some parts of the world are facing an ageing population and pressure on social security systems, while other countries still have an ever larger number of able-bodied youngsters and wider outlet markets. All this, combined with the change in the traditional family unit pattern, contribute to redefining the centres of economic power and to changing social standards.

By 2050, the urban population worldwide will have risen by 75% from its current level. Cities generally offer better job opportunities and ensure the basis for a higher degree of welfare. Urbanisation and rising population numbers cause significant changes in consumption behaviour, while population density is essential for the success of sectors such as retail.

It remains to be seen how these trends will impact the business environment worldwide and in various regions of the world. The years to come will undoubtedly bring to our attention some other factors that will change the world as we know it.

92%

of the CEOs in Romania believe that technological advancement will change businesses during the next five years

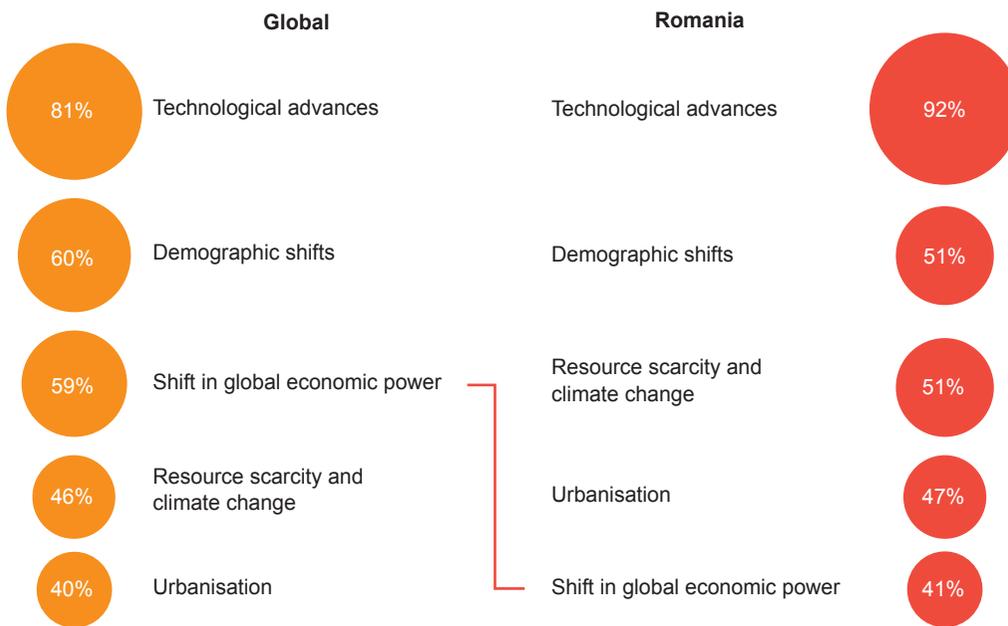


Respondents in Germany rate demographic changes first (78%), while to those in France the change in the balance of global power leads jointly with technological advancement (72%). Respondents in China rate urbanisation second (62%), after technological advancement.

<sup>1</sup>United Nations, Department of Economic and Social Affairs, Population Division (2012). World Urbanization Prospects: The 2011 Revision.

## Technological advances - the main mega-trend that will transform businesses

Which global trends do you believe will transform your business the most over the next five years?



Note: Maximum of 3 responses were provided  
Base: All respondents

## Plans for strategic changes

Identifying the ways to put these mega-trends to use for the benefit of businesses is the key to success. Technology and information, customers and employees, and organisational models are the most frequent topics on the agenda of change.

In order to capitalise on these trends, **almost all CEOs in Romania (96%) state that changes are under way at present, in terms of investments in technology.** According to 35% of them, they are implementing or have already completed change programmes in this area. This figure is similar to the global one.

**96% of the respondents state they are operating changes pertaining to strategies to expand and retain their client base.** Approximately one quarter (24%) are implementing or have completed these change programmes, which is lower than the figure specified by their counterparts worldwide (34%).

Most of the CEOs (95%) say their companies are already well under way with transforming how they use and manage data and data analysis, or are at least in the early stages. As to human capital and talent management strategies, although most of those interviewed (92%) admit the need for change and are developing strategies or action plans, a mere 8% of them can say they are implementing or have completed coherent programmes for change. The figure in our country is relatively low compared to the worldwide figure (32%).

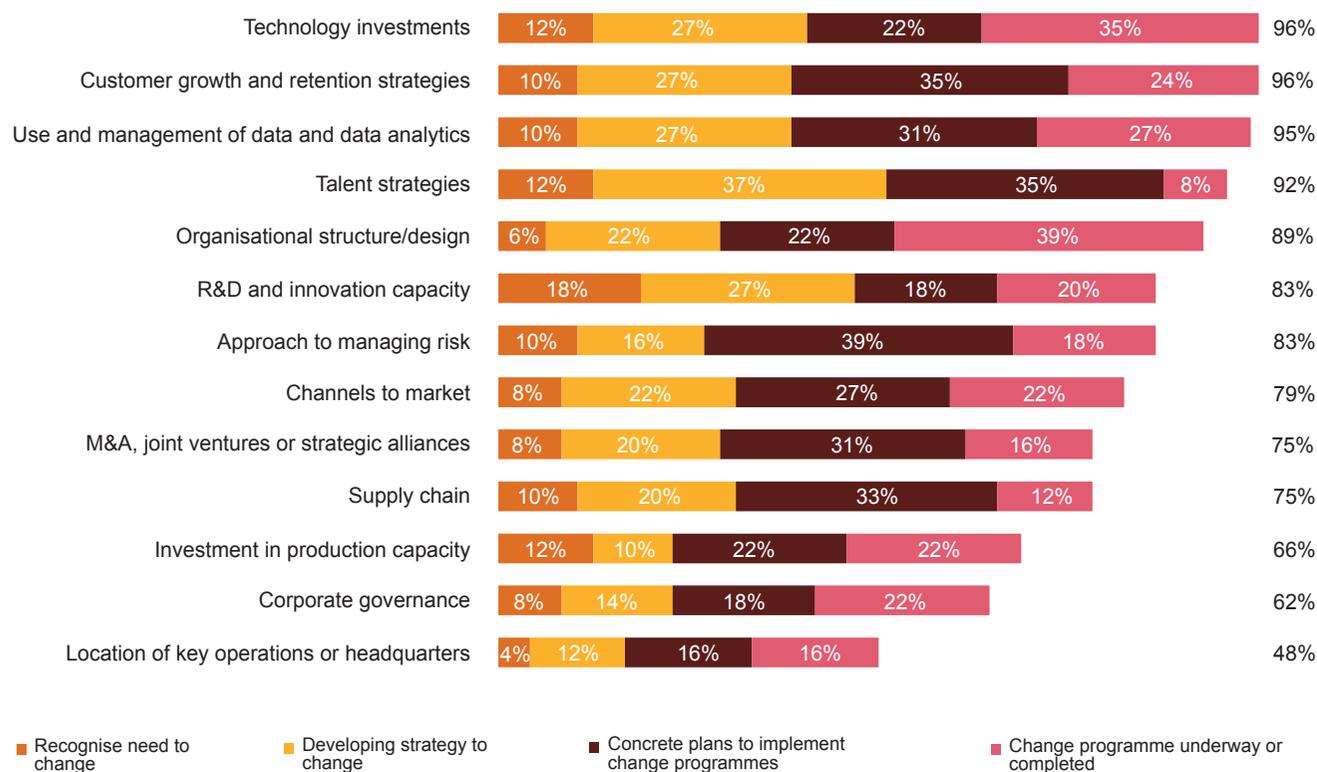
Like their counterparts worldwide, CEOs in Romania have change programmes already completed or being implemented, especially where organisational structure is concerned (39% in Romania, 35% worldwide).

In terms of research & development and innovation capacity, 83% of the respondents in Romania are working on changes, but only 20% of them say they are implementing or have already completed major change programmes, compared to 27% worldwide.

 *In terms of customers and talents, one of the highest rate of CEOs stating they are implementing or have completed change programmes in these areas was in France (72%).*

**Technology, attracting and retaining clients, data management, human capital and organisational design are the main areas where CEOs in Romania anticipate strategic changes**

To what extent are you currently making changes, if any, in the following areas?



Base: All respondents

**Organisations are generally prepared to make strategic changes**

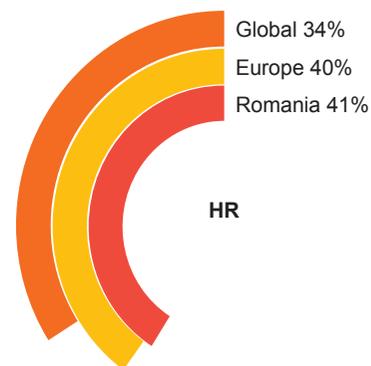
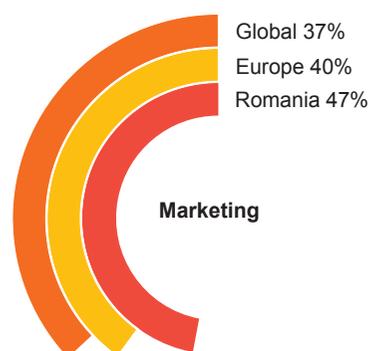
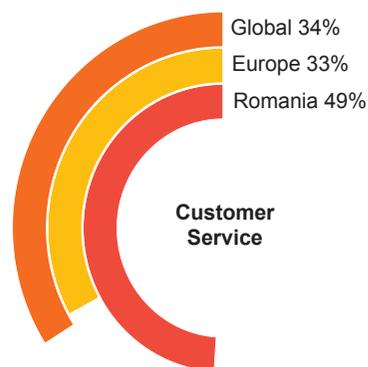
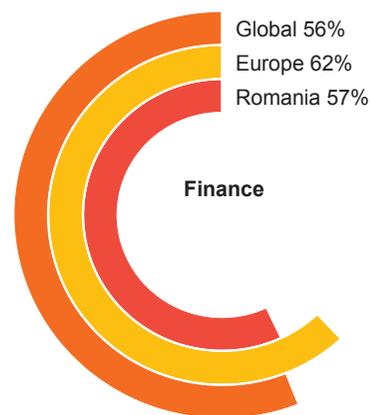
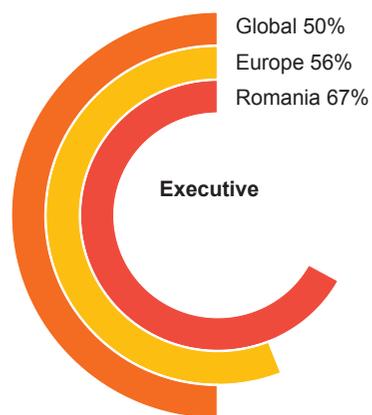
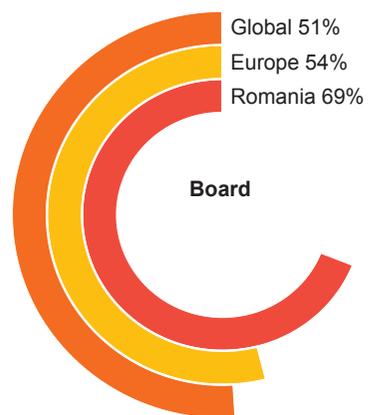
Under the impact of innovative technologies, businesses will reinvent themselves. The traditional organisational model will change, as will the cost structure and talent-drawing strategies, so businesses will be prepared to provide a 24/7 experience to their ever more “connected” customers.

Most of the CEOs in Romania who became aware of the need for change state that all the operational areas of the organisations they lead are generally prepared to make the changes required to capitalise on global trends. In terms of research & development, however, a mere 27% of the respondents say their organisations are well prepared for changes (as compared to 28% worldwide and 35% in Europe). This needs swift improvement, considering that product and service innovation is the main growth opportunity according to most respondents. CEOs could look for ways to invest more in research & development, consolidating the high added value economy sectors. This would lay the foundation for a national economy turning from a provider of cheap workforce into a producer of advanced technology equipment.

To most of the other operational areas, the rates of the respondents in Romania who believe their organisations are well equipped to implement changes are generally higher than worldwide figures.

## Most operational areas are well prepared to implement changes

Thinking about the changes you are making to capitalise on transformative global trends, to what degree are the following areas of your organisation prepared to make these changes?



According to the 13th annual survey of companies in the energy and utilities sector, **“Energy transformation; the impact on the power sector business model”**, carried out by PwC through interviews with officials within 53 organisations from 35 countries, including Romania, 94% of the respondents anticipate radical or major changes in their business model, partly due to the decentralised energy generation (on the basis of renewable energy sources).

Note: Respondents who stated „well prepared”

Base: Respondents who stated „recognise need to change”, „developing strategy to change”, „concrete plans to implement change programmes” or „change programme underway or completed” to the question „To what extent are you currently making changes, if any, in the following areas?”

## CEOs in Romania would like to be able to make medium and long term planning

According to their answers on the time horizon considered in current planning, CEOs in Romania fall relatively evenly into three categories:

- Most CEOs, both in Romania and worldwide, say that the time horizon considered in their development plans is **three years**. The rate of respondents in Romania (37%) is lower than the worldwide (51%) and European (48%) figures, however.
- Around one third (31%) of the CEOs in Romania currently plan for **one year** only. That rate is relatively high when compared to the worldwide and European figure (12%), but also to Central and Eastern Europe (23%). This may be partly due to economic uncertainty and the numerous changes in legislation, especially fiscal law.
- 27% of the respondents say they can plan on a **five-year** basis, which is close to the worldwide and European rate.

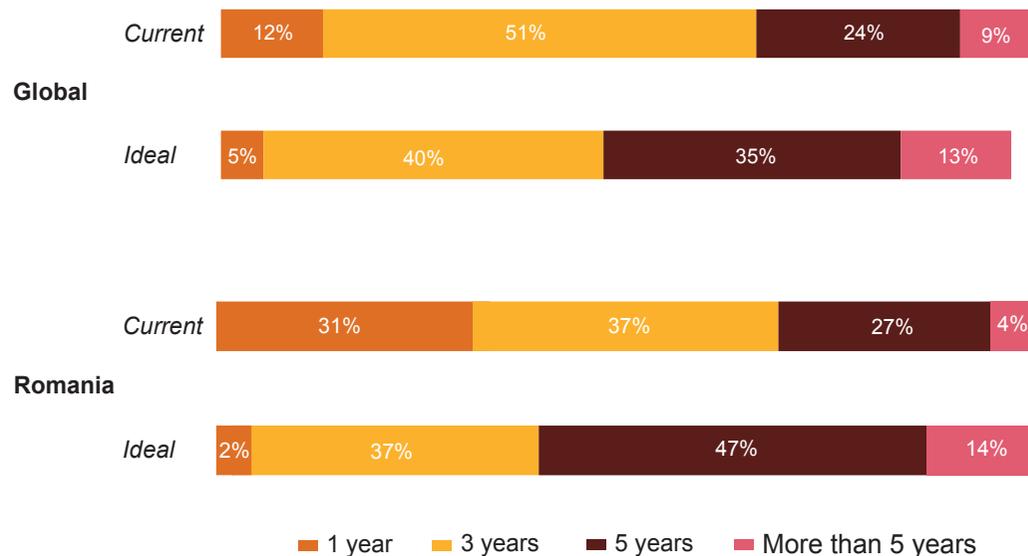
But when asked about the ideal time horizon, **almost half (47%) of the CEOs in Romania would like to be able to plan for the next five years**, a figure higher than the worldwide (35%) and European rates (34%).

Another 37% of the respondents in Romania would like to set their development plans for three years, which is the ideal time horizon according to most of their counterparts worldwide (40%). A mere 2% of the CEOs in Romania believe that the ideal planning horizon is one year.

## Most of the CEOs in Romania would ideally like to plan for 3-5 years

What is your current planning time horizon?

Where would you like your planning time horizon to be?



Base: All respondents



One of the highest rates of CEOs now planning for five years is reported in Germany (42%). But in other states with strong economies most respondents use a planning horizon of three years, with the highest rates reported in Japan (64%) and the US (62%). And in terms of the ideal planning horizon, most of the CEOs in the developed states go for the same three-year period: Italy (53% of the respondents), the UK and Japan (50%), and the US (48%).

# Confidence in development; what does growth stem from?

## Optimism is back, but new concerns are looming

The optimism regained last year about the growth prospects of businesses seems to live on, with **86% of the CEOs in Romania expressing their confidence in their companies' prospects for revenue growth in the coming year**, compared to 85% worldwide and 79% in Europe. Of them, 39 % say they are very confident (the same rate worldwide and 32% in Europe), which is slightly lower than in the previous edition, while 47% are quite confident (the same rate as in Europe and 46% worldwide). Figures in Romania also show slightly higher trust as compared to Central and Eastern Europe, where 73% of the CEOs are optimistic about their companies' growth prospects.

Data on Romania's economic growth in 2013 (3.5%) provides sufficient reason for optimism on our country's prospects in 2014. Last year's growth, the highest since the onset of the downturn, occurred against the backdrop of continued export expansion, a very good farming year, recovery of consumption and foreign investment, and higher absorption of European funds.

But worldwide, 2013 was a suspenseful year, economically speaking. Impaired by a recession it had strenuously managed to overcome, the Euro zone kept its slow growth rate, while the unemployment rate stayed high in many EU member states. Towards year-end, after more numerous signs of economic recovery from the US, the American Federal Reserve started to lower the amount of liquid funds injected into the money market, resulting in a wave of investment withdrawals from the emerging markets and in pressure on the currencies of several countries.

Despite these developments, Romania has enjoyed outstanding stability and significantly improved its macro-economic indicators during the last five years, unlike many of its neighbours. As such, the medium-term optimism of the CEOs in Romania is even higher.

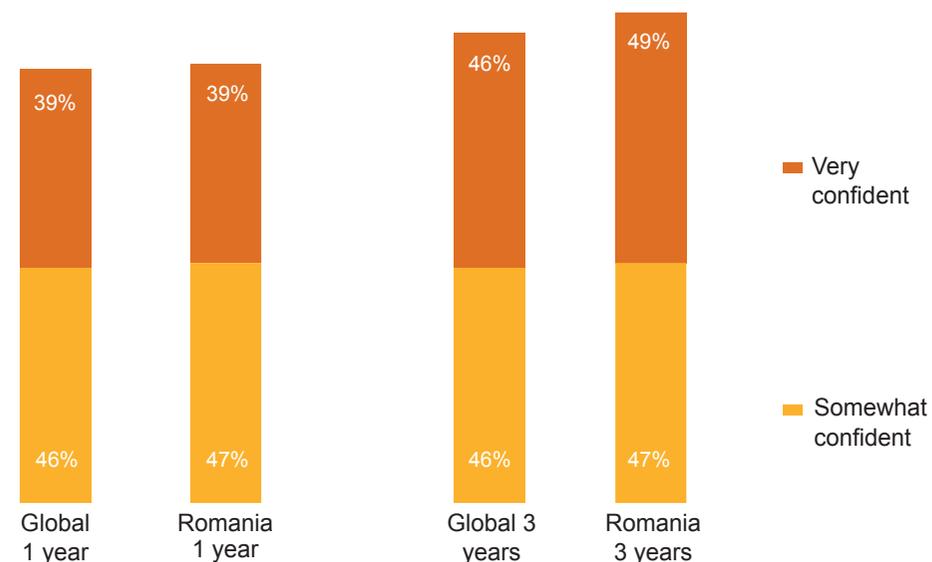
**96% of the respondents are confident in their companies' prospects for revenue growth during the next three years**, which is slightly higher than the worldwide (92%) and European (88%) rates. Of them, 49 % are very confident (higher than the worldwide, 46%, and European figures, 40%), but down from the previous edition, while 47% are quite confident (as compared to 46% worldwide and 48% in Europe).

CEOs in Romania are more optimistic about the three-year growth prospects than their counterparts in Central and Eastern Europe, where 84% of those interviewed are confident in their companies' prospects to boost medium-term revenues (out of which 42% are very confident).

## CEOs are more optimistic regarding their companies' prospects for revenue growth in the medium-term than on short-term

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

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



Note: Respondents who stated „somewhat confident” or „very confident”  
Base: All respondents

Yet when it comes to the revenue growth prospects of their industry in the next 12 months, CEOs in Romania are much more reserved, with only 55% of them confident compared to 68% worldwide and 57% in Europe. If the planning horizon considered is three years, not one, then there is a significant increase in the rates: 78% of the respondents are confident, slightly below the worldwide figure of 79%, but above the European 71% and the Central and Eastern Europe 66%.

CEOs are also optimistic about the global economic environment, with Romanian figures close to the worldwide and European ones. 45% of the respondents in Romania believe global economic circumstances will improve in the next 12 months, with 47% believing that they will remain unchanged and a mere 8% anticipating deteriorating circumstances.

As compared to the previous edition of the survey, both in Romania and worldwide, one can note a **substantial increase in the rate of those who believe economic circumstances will improve** (from 13% to 45% in Romania and from 18% to 44% worldwide, respectively).

Optimism is lower among the CEOs of companies operating in Central and Eastern Europe: only a quarter (26%) of the respondents think global economy will pick up, whereas over half of them (56%) estimate that things will remain unchanged.

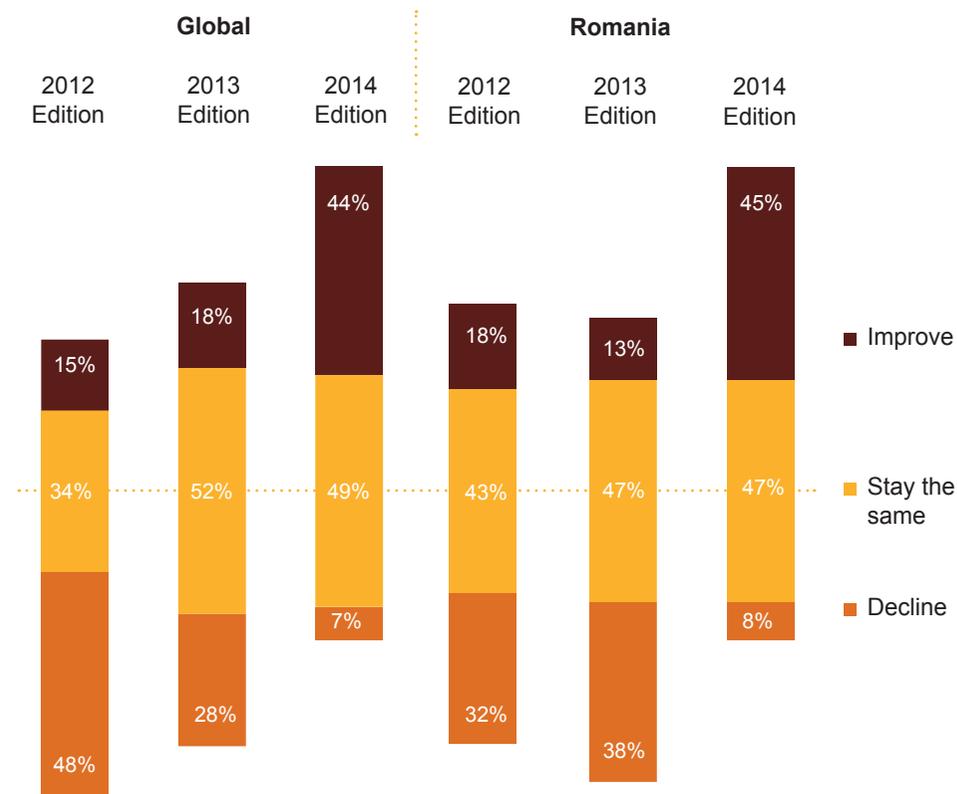
Economically and demographically speaking, the significant growth areas will be located outside Europe during the next 40 years. In order to ensure its access to “one slice” of the worldwide growth potential pie, Romania will have to learn again how to compete in the emerging states’ markets it abandoned after 1989, after having mainly directed its exports to Western European markets during the last 20 years.



*The countries with the most optimistic respondents include France and the UK, where 63% and 61%, respectively, of the CEOs believe that the global economy will improve. CEOs in Russia are among the most pessimistic, with a mere 17% of them anticipating growth, whereas 30% expect economic circumstances to deteriorate.*

### Substantial more confidence in improvement in global economy

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



Base: All respondents

## Growth stems from innovation

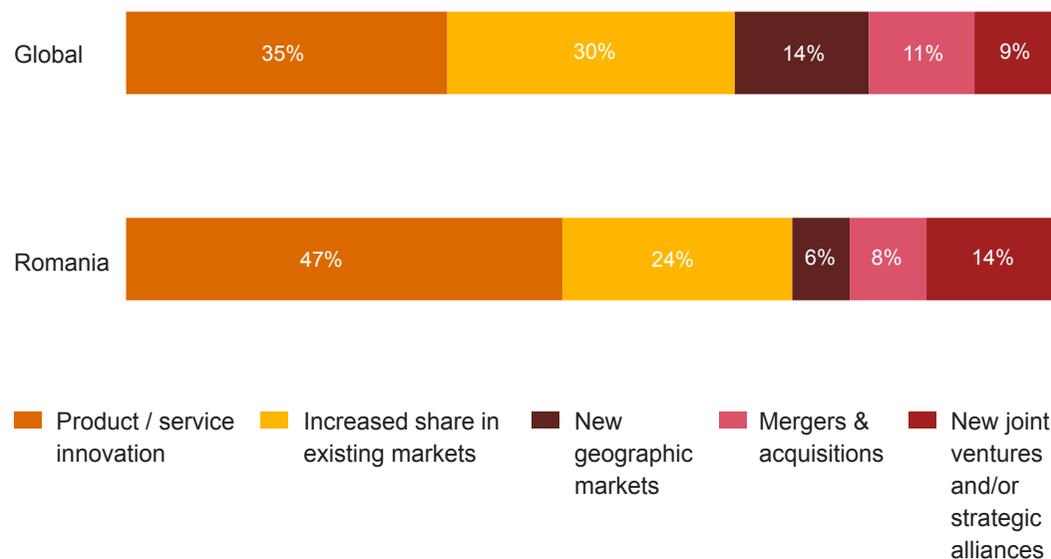
The CEOs in Romania, after the last five years' experience of trying to keep their companies profitable in straining economic circumstances, in their majority rely on the organic growth of their businesses. 47% of them see **product and service innovation as the main growth opportunity for their companies**, which is higher than their counterparts worldwide (35%) and in Europe (33%). This trend is more prominent both in Romania and worldwide compared to the previous edition of the survey, when 29% of the respondents in Romania believed that creating a new product or service was the major source for business growth (25% worldwide).

CEOs in Romania also plan to focus efforts on the markets where their organisations are already present to a larger extent than they plan expansions to new markets. Thus, 24% of the CEOs see the increase of their market share on the existing markets as the main opportunity, a figure lower than the worldwide (30%) and the Central and Eastern Europe (34%) ones. Only 6% of the respondents see their entry to new geographical markets as the main opportunity (compared to 14% worldwide and 12% in Central and Eastern Europe respectively).

*Technology today plays a vital role in all major business decisions, according to one of the almost 1,500 respondents (CEOs and managers of IT departments alike) in 36 countries, who participated in the sixth edition of the global “Annual Digital IQ Survey” conducted by PwC. The survey showed that 71% of the respondents say that in their companies CEOs are active promoters of technology use as means to attain the strategic objectives of their organisation. The active involvement of CEOs in the “digital changeover” of businesses is also one of the five strategic approaches organisations may use to improve their “digital IQ”, according to the survey.*

## Innovation is the main source of business development

Which one of these potential opportunities for business growth do you see as the main opportunity to grow your business in the next 12 months?



Base: All respondents

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## Germany and Russia remain the most important countries for business growth prospects

When asked which three countries are the most important for their companies' growth prospects next year, 27% of the CEOs in Romania mentioned Germany, 18% Russia, 12% said France and another 12% said Hungary, followed by several countries on 10% - China, the US, the UK, Austria, the Czech Republic, Italy and Turkey. This list includes a number of our traditional trading partners. Central and Eastern Europe respondents are oriented more towards global economic superpowers: Germany (35%), China (27%) and the US (25%).

For CEOs worldwide, the top three countries considered to have a significant influence on business growth are China (33% of the respondents), the US (30%) and Germany (17%).

Romania itself, however, is among the top three countries in terms of growth prospects for 1% of the respondents worldwide (on a par with countries like the Netherlands and Switzerland, and ahead of the Czech Republic, Hungary, Greece, Austria and others) and in the US, and 3% of the CEOs in Europe and Central and Eastern Europe. Poland is viewed as more attractive than Romania, being nominated by 2% of respondents worldwide and in the US, 6% in Europe and 8% in Central and Eastern Europe.

Germany also leads the way in the opinion of most CEOs in Romania (24% of the respondents) in terms of the top three markets with high growth rate for the growth prospects of their business in the next three to five years, except for BRIC countries and South Africa. The other top places in terms of attractive markets are occupied by the US (16%) and the UK (12%).

Respondents worldwide see good growth prospects for their companies in the medium- and long-term in the US (26%), Indonesia (16%), Germany (13%) and Mexico (10%). The two emerging markets, Indonesia and Mexico, were mentioned by only 4% of respondents in Romania. European respondents most often mentioned the markets of the US (22%), Germany (20%) and Turkey (14%) as areas of potential growth for their companies.

Aside from the global players, a new wave of dynamic states is emerging that will come to play an increasingly important role on the international stage, both economically and politically - Mexico, Indonesia, Turkey, Vietnam and Morocco.



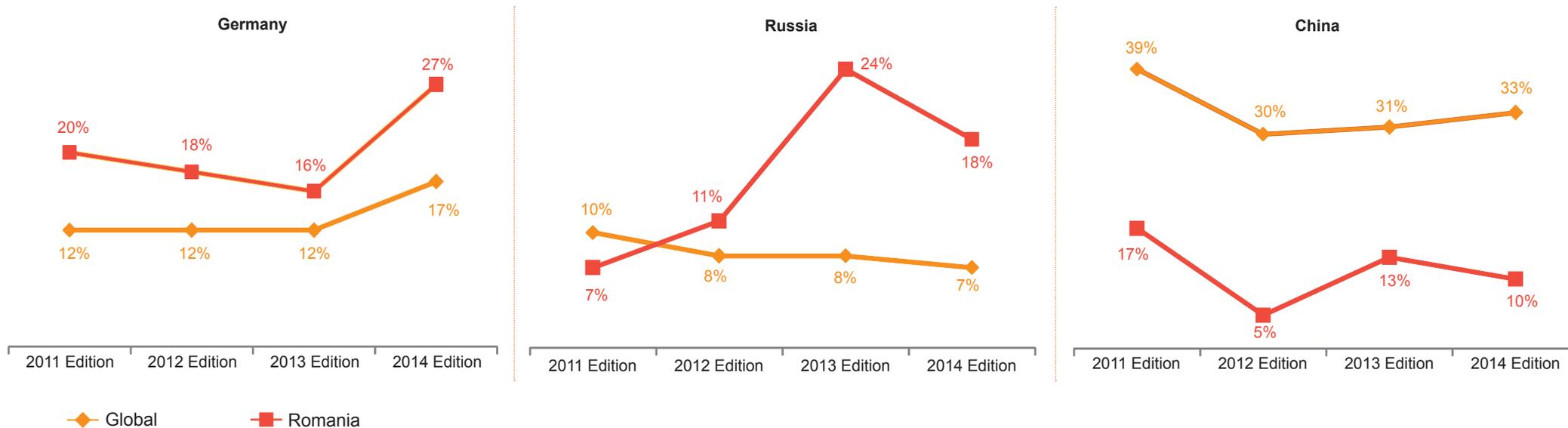
*Most respondents in the US (42%) view China as one of the most important countries for their companies' growth prospects in the coming year. Conversely, respondents in China name the US (39%) as the top market for their businesses. CEOs in Russia mentioned China (44%), followed by Germany (36%) and the US (31%).*



*Germany is considered the most important market for the growth prospects of companies in Romania, in the short-, medium- and long-term*

**Germany is the most important country for the growth prospects of companies in Romania**

Which countries, excluding the one in which you are based, do you consider most important for your overall growth prospects over the next 12 months?



Note: Maximum of 3 responses were provided  
 Base: All respondents

## Cost reduction is the main method of restructuring

CEOs' returning optimism regarding economic growth does not necessarily mean the end of the operational optimisation period for the organisation they lead.

Three main methods of restructuring are noted by CEOs in Romania and worldwide, both in terms of measures initiated in the last year and those considered for the next 12 months:

- **Cost reduction** remains the most commonly used method of restructuring for CEOs in Romania, worldwide and across Europe. 84% of the respondents say they implemented such an initiative last year. This is close to the figure recorded in Europe (85%), but higher than those worldwide (76%) or in China (62%). There has been a decrease in the percentage of CEOs in Romania who initiated such restructuring activity during the last year compared to the previous edition of the survey (96%), however.

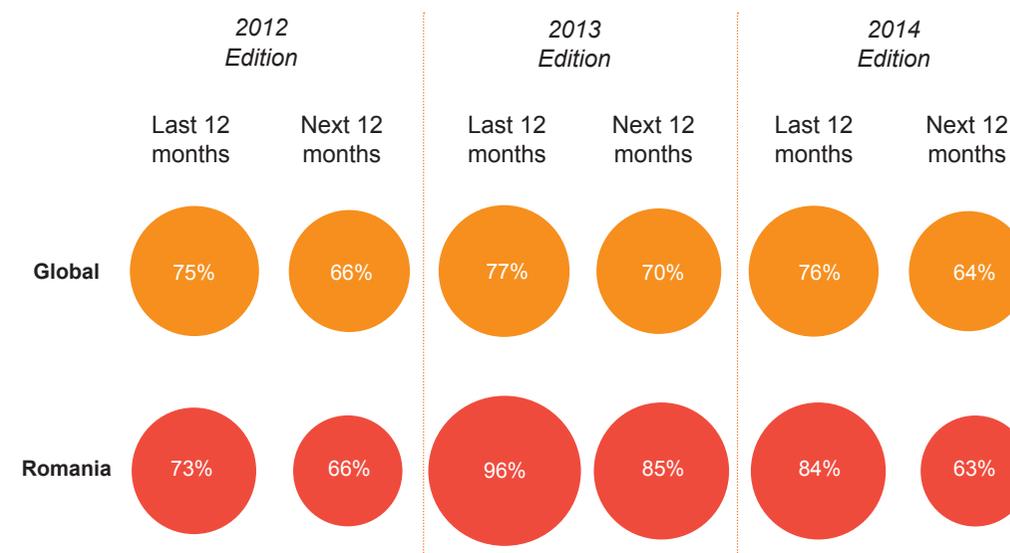
In the next 12 months, cost savings will stay on the agenda for many CEOs in Romania (63%), although that is a significant decrease from the previous edition (85%). The percentage is relatively similar to that worldwide (64%), but lower than that of European counterparts (71%).

- **Outsourcing a function or business process** as a means of restructuring was used in the last year by 31% of the respondents. This is higher than the worldwide percentage (25%). For the coming 12 months, 29% of the CEOs say they will implement such a method (25% worldwide).
- A third of CEOs in Romania declared that they had launched **a new strategic alliance or joint venture** in the last year, which is similar to the worldwide response rate. 39% of the respondents in Romania are considering such a restructuring method for the next 12 months, as compared to 44% worldwide.

## Less CEOs plan to initiate cost reduction initiatives

Have you initiated cost reduction initiatives over the past 12 months?

Are you planning any cost reduction initiatives in the coming 12 months?



Base: All respondents



Only 34% of the respondents in the Middle East and 49% in Russia are considering cost cutting during the next 12 months. This is a much lower rate than for their counterparts in other countries. In Germany and Italy, 82% of the respondents declared plans to implement such measures. In the UK and Canada, 59% and 67%, respectively, of those interviewed intend to establish a new strategic alliance or joint venture in the coming year.

Another method of restructuring, as mentioned by 21% of the respondents worldwide, is the completion of a merger or acquisition in the domestic market. 14% of CEOs in Romania have implemented such an initiative in the past year. In terms of cross-border mergers or acquisitions, none of the respondents in Romania has initiated such an approach in the past 12 months, unlike their counterparts worldwide, 17% of whom say they have used this method of restructuring.

During the next 12 months, 20% of the CEOs in Romania intend to complete a domestic merger or acquisition (23% worldwide). Only 6% of those interviewed are considering the same approach on the global market, compared to 21% worldwide.

Of CEOs in Romania who say they plan to establish a new strategic alliance / joint venture or to complete a merger or acquisition on global market, 80% intend to achieve this task in Central and Eastern Europe / Central Asia. Only 5% of the respondents indicated Western Europe, which is significantly lower than in Central and Eastern Europe (23%).

Half of CEOs from Europe (51%) chose Western Europe as a location for new business partnerships or mergers and acquisitions, while 30% are targeting Central and Eastern Europe / Central Asia. Worldwide, only 15% of the respondents mentioned Central and Eastern Europe / Central Asia, with most preferring North America (30%), Western Europe (25%) and Southeast Asia (23%).



 *Most interested in Central and Eastern Europe / Central Asia as a region for future strategic alliances, merger or acquisitions are CEOs in Italy (33%), the UK and Scandinavian countries (30%), with CEOs in the US (17%), Germany and China (12%), and France (5%) being considerably less interested.*

### Almost half of CEOs expect headcount growth

It will be interesting to see how new technologies overlap multiple areas, for example health and retail, giving rise to hybrid industries. These will boost the demand for labour, but will also require new employee skills and create new jobs.

Almost half (46%) of respondents in Romania expect a headcount growth. This percentage is higher than that of Europe (42%) and that of Central and Eastern Europe (33%). CEOs worldwide are more ambitious with their staffing plans, with half of them expecting growth.

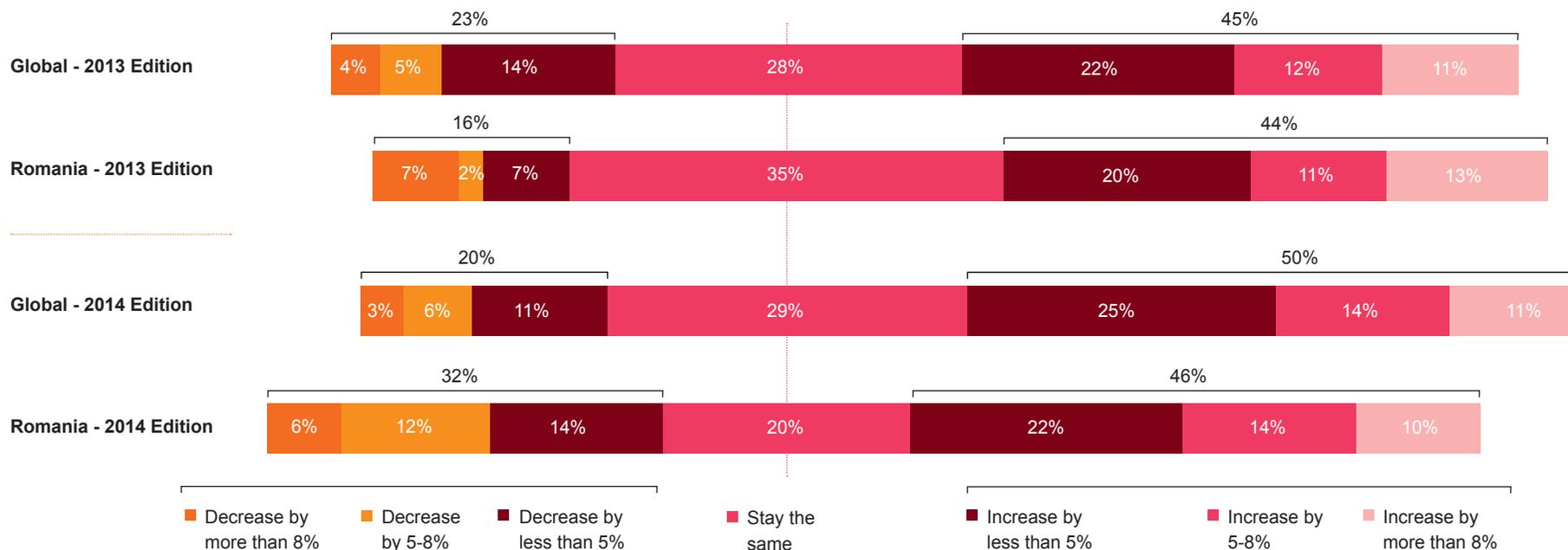
About one third (32%) of CEOs in Romania expect to decrease the headcount, however, which is the fourth highest percentage in the world, after Italy (43%), Australia (39%) and Spain (37%). Worldwide, 20% of the CEOs share this opinion, with 28% of Central and Eastern Europe respondents agreeing.



Among the most optimistic respondents on the issue of increasing employee numbers are CEOs in the Middle East (77% of respondents), the UK (65%), the US (62%), France (59%) and Germany (58%). In contrast, the Italians are much more reserved, with only 26% of them anticipating a headcount growth.

### CEOs in Romania are more reserved than those worldwide regarding headcount growth prospects

What do you expect to happen to headcount in your company globally over the next 12 months?



Base: All respondents

# Risks

## The tax burden is rated top of the economic and political factors which may threaten growth prospects

At the current stage of regained optimism and focus on growth strategies, one thing is certain: important challenges remain. CEOs' concerns persist, which sends a clear message to authorities about the business community's preoccupation with over-regulation, budget deficits and tax burdens.

Worldwide, according to most of the CEOs the main challenges are over-regulation (72% of the respondents) and governments' responses to the tax deficit and debt burden (71%). Indeed, this figure is the highest ever recorded in any such PwC report. The percentage of Romania-based CEOs including over-regulation in the list of factors that may affect growth prospects is lower, at 63%, but up from the previous edition (62%) and two years ago (39%). The number of CEOs in Romania concerned about authorities' responses to the deficits and rising debts has increased, to 86%, from 84% in the previous edition and 52% two years ago.

This correlates closely with the number of respondents in Romania (92%) who say they are concerned about tax burden. This degree of concern is significantly higher than in the previous edition (67%), with Romania now ranked second in the world, after France (100%). Worldwide and across Europe, the percentage of CEOs concerned about this threat has increased over last year to 70% and 67%, respectively.

Increasingly aware of the effects of globalisation on their businesses, 86% of those interviewed noted persistent slow or negative growth in developed economies as one of the factors that may threaten growth prospects. Again, the percentage is higher than that recorded worldwide (70%) and across Europe (68%). Also, over half (53%) of CEOs in Romania are concerned about national governments' protectionist tendencies, up from the previous edition (36%).

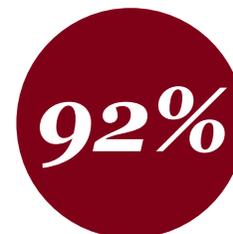
Time is money, with response speed to consumer wishes becoming increasingly important. An underdeveloped infrastructure leads, among other things, to increased delivery times and production costs. As such, 84% of the respondents in Romania included inadequate basic infrastructure in the list of potential threats. This is the second highest rate in the world, after Brazil (85%). CEOs in Central and Eastern Europe are also concerned about this issue, but to a lesser extent, with their percentage (48%) being closer to the worldwide response (47%). In contrast, only 33% of the respondents in Europe and 24% in China are worried about the quality of infrastructure.

Exchange rate instability is a concern for almost three quarters (73%) of CEOs in Romania, down from 82% in the previous edition. Concerns were lower worldwide (60%) and in Europe (only 47%).

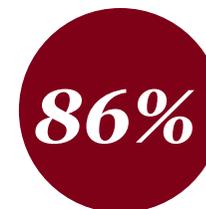
Of CEOs in Romania, 63% declared concerns over the slowdown in high-growth markets and capital market instability.



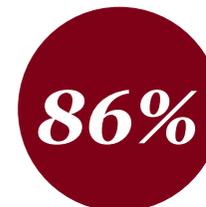
*The US (92% of the respondents) was most concerned about the Government response to tax deficit and debt burden. Over-regulation was the top potential threat perceived by respondents in France (88%), the UK (77%) and Germany (76%).*



of the CEOs in Romania are concerned about the tax burden



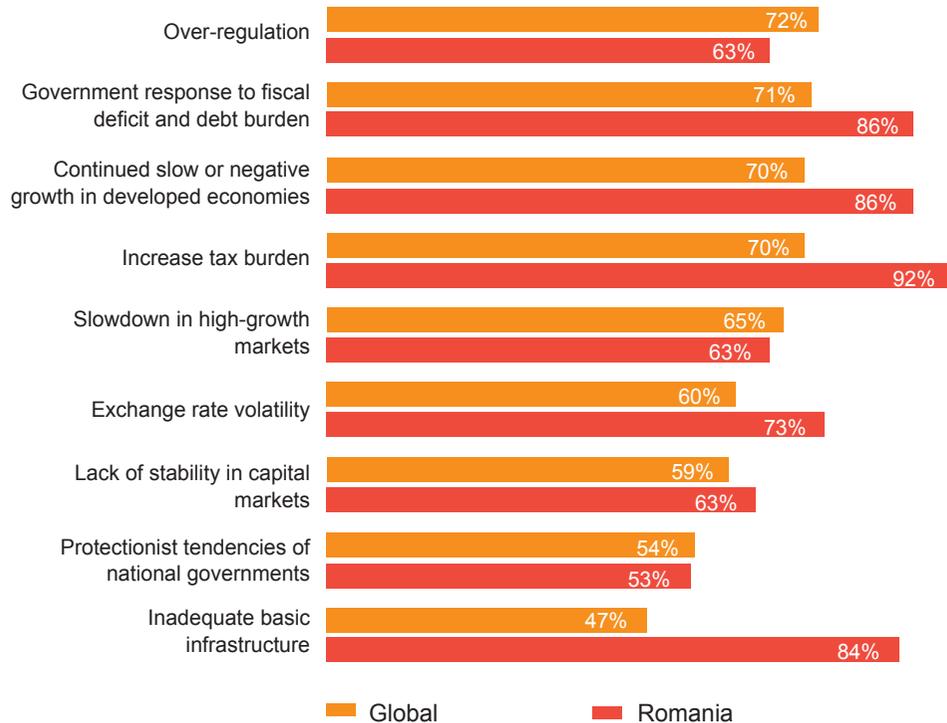
are concerned about the authorities' response to the deficits and rising debts



are concerned about the persistence of slow growth or negative growth in developed economies

**Tax burden, authorities' response to deficits and rising debts, continued slow or negative growth in developed economies and inadequate basic infrastructure are the top potential economic and policy threats perceived by CEOs in Romania**

How concerned are you about the following potential economic and policy threats to your organisation's growth prospects?



Note: Respondents who stated „somewhat concerned” or „extremely concerned”  
Base: All respondents

**Among the factors that could threaten their business growth, bribery and corruption most concern CEOs in Romania**

About three-quarters (73%) of respondents in Romania expressed concerns about bribery and corruption, which is slightly less than in the previous edition. Although worldwide and European responses increased to 52% and 44%, respectively, the level of CEO concern in Romania about this aspect is still significantly higher.

Energy and raw materials are becoming ever more expensive, with these increased costs being reflected in the final price of products. If we were to add into the equation fierce competition and pressure on consumer prices, the result would be lower profit margins, with profound implications for the long-term development of companies. Due to this, 63% of the CEOs in Romania stated their concerns over high or volatile costs of energy (56% worldwide) and an equal number (63%) mentioned high prices of raw materials (55% worldwide).

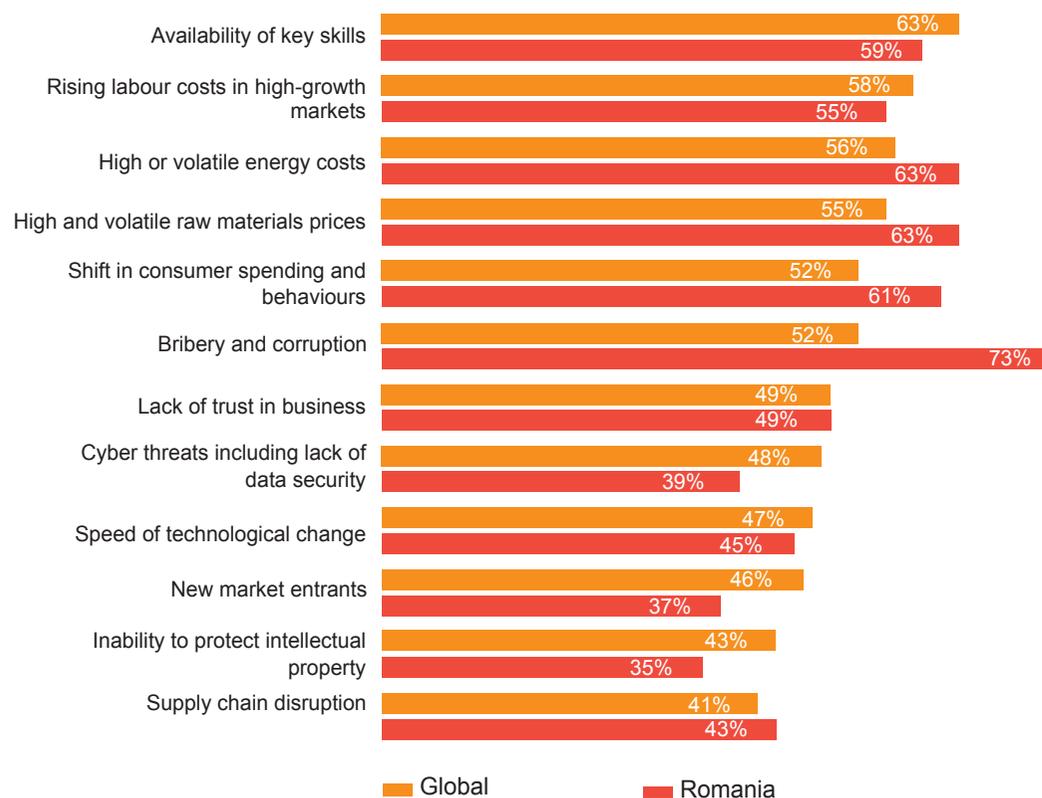
The percentage of CEOs from Romania who list changes in consumer behaviour and spending as potential threats to growth prospects remains relatively high (61%).

Availability of key skills staff is the main challenge worldwide. Most respondents (63%) indicate this as a potential risk. CEOs in Romania are ever more worried about this issue, with 59% citing it as a concern. This level of concern correlates closely with that perceived by CEOs worldwide regarding rising labour costs on high-growth markets (58% of the respondents).

In Central and Eastern Europe, the potential threats most often mentioned are the availability of staff with key skills (73% of the respondents), bribery and corruption (69%).

**CEOs in Romania are concerned about bribery and corruption, energy and raw materials prices, shift in consumer spending and behaviours and the availability of key skills**

How concerned are you about the following potential business threats to your organisation's growth prospects?



Note: Respondents who stated „somewhat concerned” or „extremely concerned”  
Base: All respondents

CEOs in Romania who expressed their concern about the speed of technological change increased to 45% from 18% in the previous edition. Supply chain disruption is also a concern for 43% of the CEOs, recording a significant increase from just 16% in previous editions. One can often lose sight of the fact that technology issues always come bundled with security dangers in cyberspace. Only 39% of the CEOs in Romania are concerned about cyber threats and lack of data security, compared to 48% worldwide and 69% in the US.

The percentage of respondents in Romania who consider new competitors in the market as a threat increased from 24% to 37%, though this is still below the worldwide figure (46%). The future holds a market with a higher number of competitors, but also a change in the very nature of competition. Companies can sometimes become an important aspect of state foreign policy. For example, in the last 10-15 years, Chinese companies have greatly increased their penetration of African markets.

Consumers are using ever more social networks and mobile applications for shopping, according to PwC's survey **“Achieving Total Retail: Consumer expectations driving the next retail business model”** developed based on a sample of 15,000 online buyers from 15 countries. More than half (59%) of respondents say they follow favourite brands on social networks, 55% of them discuss their experiences, while 48% have purchased products using social networks. At the same time, 41% of online shoppers state they have bought products by using a tablet and 43% a smartphone. Companies have to innovate all the time, developing new business models that enable them to stay as close to the “place”, time and manner in which clients consult on, choose and buy products or services.

# Dealings with employees and third parties

## Improved customer, supplier and employee trust in business

Organisations need to be more careful about how they relate to and are perceived by large audiences, in order to be prepared for a future that promises to be different in many respects.

Communication approaches and community involvement undertaken by companies in Romania have resulted in a relative improvement in the level of confidence in the industry in which they operate over the past five years. 41% of the CEOs say that they have experienced improved levels of customer confidence. It seems that the actions of companies worldwide have been more effective, since 52% of those CEOs have seen an increase in confidence from buyers. Equally (41% of the respondents), CEOs in Romania noted improvements in relation to supply chain partners, which is close to the worldwide level.

The results show that activities carried out by companies in recent years to improve relations with customers and suppliers are beginning to bear fruit. Almost all (96%) of Romania CEOs who participated in the previous edition of the survey stated that customers influence business strategy, with 89% considering developing programmes to engage and attract them. Similarly, 82% of the CEOs declared a year ago that suppliers are one of the factors influencing their strategy, with 80% of them considering initiatives in this area.

Nearly a third (31%) of CEOs believe that relationships with employees have improved, though this is lower than the worldwide figure (39%).

## CEOs perceive an erosion of Government, providers of capital, media and local community trust

In contrast, almost half (45%) of those interviewed say that the last five years have damaged Government and Regulatory Organisation trust in the industry in which their organisations operate. This percentage is higher than worldwide (31%).

Clearly CEOs in Romania still have work to do to achieve the desired results, as the objectives stated in the previous edition have not been met yet. 89% of the CEOs stated a year ago that their business strategy was influenced by the Government and regulators, with 69% of them recognising the need for good relations and were considering enhanced communication and involvement.

39% of the CEOs in Romania believe that providers of capital trust (creditors and investors) has decreased. CEOs worldwide view the situation somewhat differently, with only 16% of them stating that the level of confidence has deteriorated, while 43% believe it has improved.

Regarding relations with the media, a third of CEOs in Romania believe that press confidence has declined. 31% of the respondents had also experienced a deterioration of relations with local communities, which is the second highest percentage in the world, after Spain (35%). In comparison, the percentage is 11% worldwide.

Note that CEOs in Romania are affected by the deterioration of relations with stakeholders to a greater extent than their counterparts in Central and Eastern Europe.

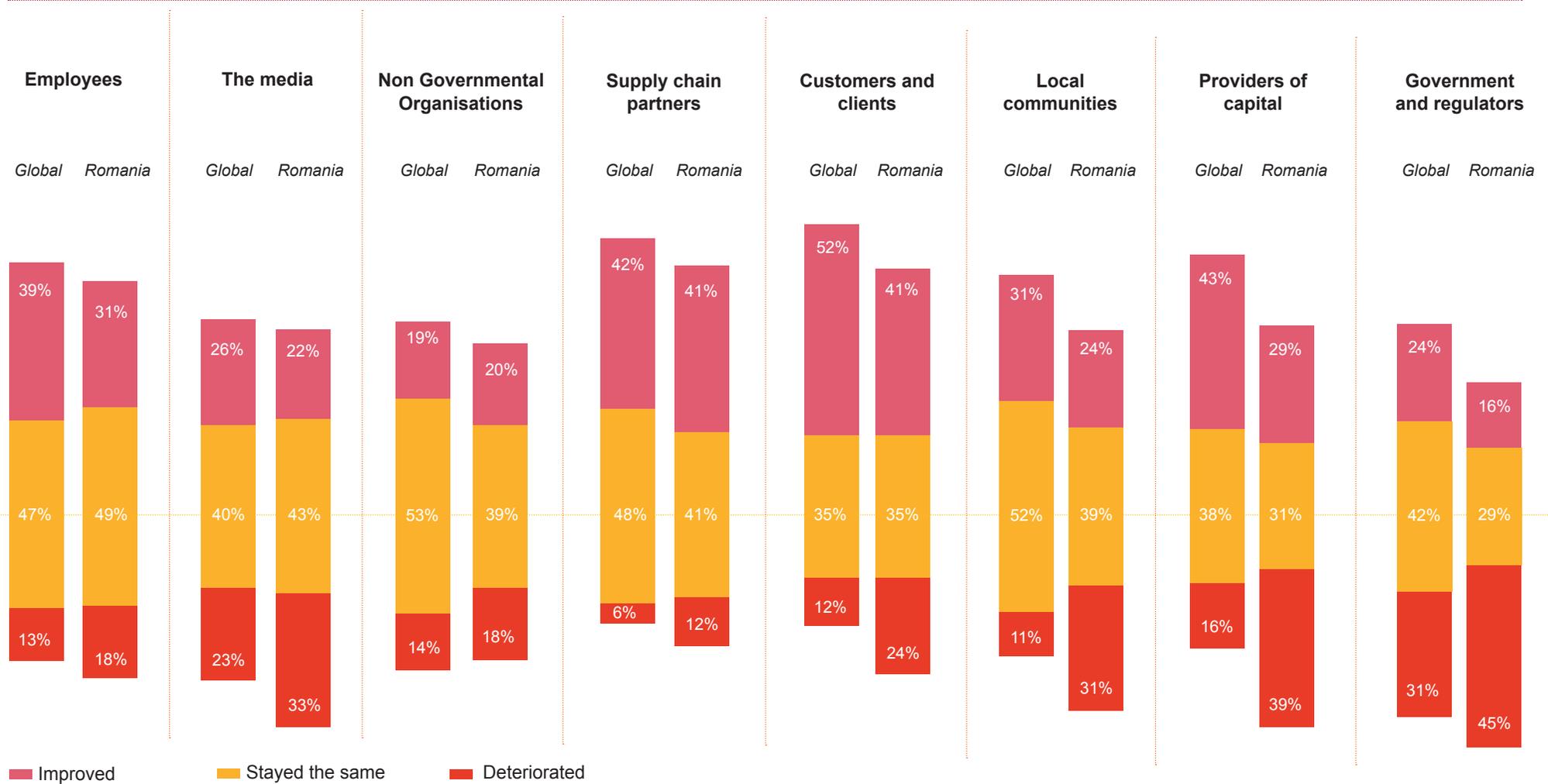
*Almost half (49%) of CEOs in Romania are concerned about lack of trust in business as a potential threat to growth prospects of the organisation.*



*One of the highest percentages of respondents which have experienced a decrease in the level of confidence of the Government and Regulatory Organisations was registered in the US (56%). CEOs in Spain were affected to a greater extent by damaged relationships with providers of capital, with 52% being of the opinion that investor and creditor confidence had diminished.*

**CEOs in Romania need to be more focused on their relationships with Government and regulators, providers of capital, media and local communities**

To what extent has the level of trust the following stakeholders have in your industry changed over the past five years?



Base: All respondents

### What can be done to build trust?

It has long been said about business initiatives that “if we do not do it, someone else will”. The new aspect is that, in the context of rapid technological change, “someone else” may not necessarily be a known and predictable competitor. Increasingly, previously unknown companies, with new technologies, innovative visions and a different way of doing things, are interposing themselves between established players in the market and their customers, and creating value for the consumer in unexpected ways. The proliferation of applications for mobile devices, 3D printing, the use of drones and the increasingly common pooling of resources, goods and services to consumers around the world are just a few ways technology is changing our world and, thus, how businesses will develop in the future. In the new reality, organisations need to rethink the way they define and position themselves in society, thereby improving their image in the market and in local communities.

CEOs in Romania are largely aware of the importance of actions towards creating sustainable development of their businesses. Almost all (98%) think it is important to promote a culture of ethical behaviour. 96% agree that ensuring supply chain integrity is essential for the smooth running of the business.

Despite the heavy tax burden, 92% of the CEOs believe that organisations must pay their “fair share” of tax liabilities, which is an opinion shared by 75% of CEOs worldwide.

Furthermore, 92% of the respondents in Romania believe that monitoring and reporting the total impact (non-financial) of their work contributes to the long-term success of the business, with 88% stating it is important to reduce the environmental impact. This is one of the highest rates for this aspect in the world.

Almost as many (88% of the respondents) CEOs declared that meeting social needs (besides investors, customers and employees) and protecting the interests of future generations are important for their business. This is higher than the figure recorded worldwide (76%).

Finally, 82% of the respondents expressed the view that improving diversity in the workforce and on the board is important for their business.



of the CEOs in Romania consider it important to promote a culture of ethical behaviour



agree that ensuring supply chain integrity is essential for the smooth running of businesses



believe that organisations must pay “fair share” of tax liabilities

# Government, fiscal administration and regulation

## Government priorities

CEOs expect governments to be a catalyst for economic growth. In the opinion of respondents in Romania, the top three Government priorities should be:

- **infrastructure improvements**, were mentioned by 88% of those interviewed - the highest percentage in the world, above those worldwide (50%), in Europe (36%) and Central and Eastern Europe (44%);
- **ensuring the stability of the financial sector and access to affordable capital**: 65% of the respondents, higher than the worldwide result (53%) and for Central and Eastern Europe (51%);
- **creating a more competitive and efficient tax system at the international level**, 53% of the CEOs.

When it comes to the most important resource, human capital, companies rely less on the authorities and more on self-help. Only 35% of CEOs in Romania believe that creating a highly skilled workforce should be one of the top three priorities of the Government, as compared to 41% of their counterparts worldwide and 48% in Central and Eastern Europe. The percentage is lower from last year's figure of 44%.

Although innovation is regarded as one of the main growth sources, only 12% of CEOs in Romania believe that developing an ecosystem of innovation fostering growth should be a Government priority, as opposed to 30% of the CEOs worldwide, 42% in China and 75% in France. Similarly, only 12% of CEOs in Romania expect the Government to create jobs for the youth, which is half the worldwide figure (22%) and in Europe (26%).

Although none of the respondents in Romania named the reduction of climate change risks and biodiversity protection among the top three priorities of the Government, this is an aspect which should not be overlooked.

Water, for instance, is anticipated to become one of the most sought resources of the future. Only 3% of world water reserves are drinkable, while 70% of extracted water is used for irrigation purposes. It is estimated that over the next 20 years the global demand for water will increase by 50%, which is 60% more than the current exploitable sustainable reserves. Given our country's agricultural potential and the contribution of agriculture to GDP growth, climate change and biodiversity protection should occupy a more prominent place on the Government and CEO agenda.

88%

of the CEOs in Romania believe that improving infrastructure should be one of the top three Government priorities



France recorded one of the highest rates in the world (84%) of CEOs asking the authorities to create a tax system more competitive and efficient internationally. To a greater extent than their counterparts in other countries, CEOs of Switzerland (70%) and the UK (66%) want their governments to intensify efforts to create a highly skilled workforce. Faced in recent years with high unemployment rates, more than half (54%) of CEOs of Spain consider that creating jobs for young people should be one of the main Government priorities.

84% of the respondents in Romania consider that the authorities have not created enough jobs for young people (compared to 53% worldwide and 64% in Central and Eastern Europe). To a similar degree (82%), CEOs believe that the authorities have not taken the necessary measures to reduce poverty (only 46% worldwide and 64% in Central and Eastern Europe).

78% of the respondents in Romania spoke about the need for the authorities to increase efficiency in relation to infrastructure improvements, compared to 37% worldwide and 42% in Central and Eastern Europe.

57% of the CEOs are not being satisfied with the access to affordable capital (double the amount recorded worldwide, 29%). In terms of creating a tax system more competitive and efficient internationally, 71% of the CEOs believe that this goal is not achieved, compared to 51% worldwide and in Central and Eastern Europe.

Over three quarters (76%) of CEOs in Romania believe that the authorities have not done enough to ensure workforce healthcare, which is significantly more than recorded worldwide (29%) or in Central and Eastern Europe (40%). Similarly, 73% of the CEOs believe that the state has not taken steps to develop an ecosystem of innovation that will support growth (51% worldwide).



*National governments considered efficient by those interviewed include those of: Canada - ensuring the stability of the financial sector and access to financing (81% of the respondents), France - improving infrastructure (78%), Switzerland - a fiscal system competitive and effective internationally (77%) and creating a highly skilled workforce (74%) and Denmark - maintaining the health of workforce (74%). The actions of these governments in these areas could become, following a process of analysis and adaptation to local circumstances, examples of good practice for the authorities in other countries.*



### The priorities of organisations

Given that the availability of staff with key skills is one of the main perceived threats to growth prospects, it is no wonder that the type of intervention most viewed as a priority for organisations during the next three years by respondents in Romania (69%) is the creation of a highly-skilled workforce, with this view being shared by 64% of the counterparts worldwide.

Betting on innovation as the main business growth opportunity, 39% of the CEOs in Romania have as a priority the development of an ecosystem of innovation to support growth (slightly below the value recorded worldwide, 44%).

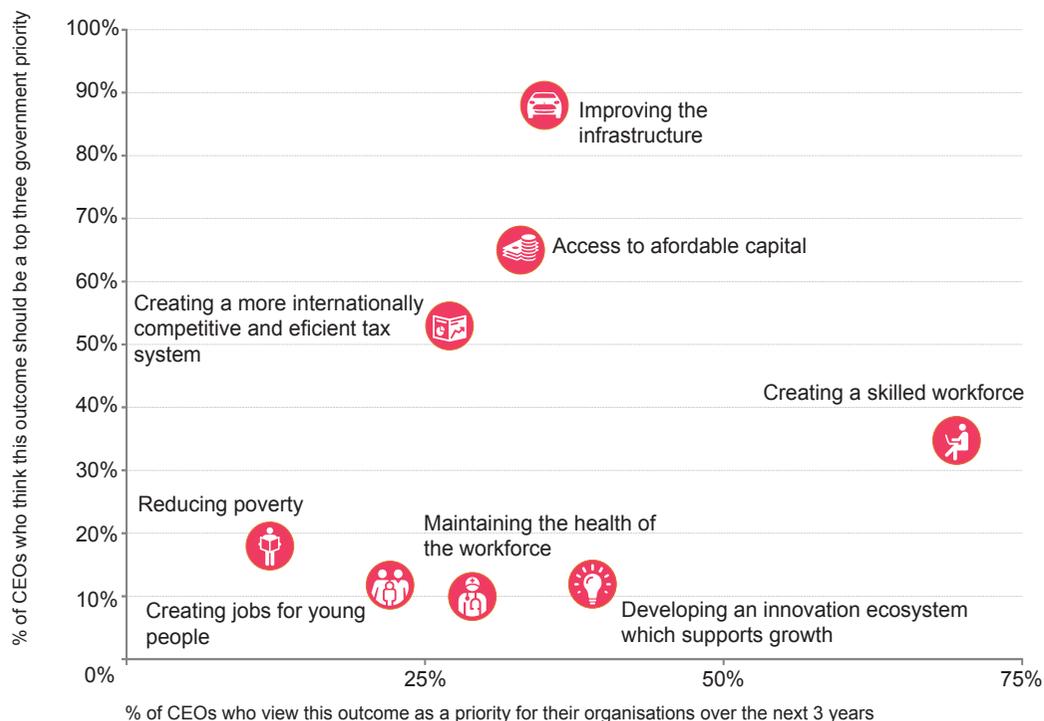


*One of the highest percentages of CEOs whose agenda includes the creation of a highly skilled workforce is recorded in the UK (82%). Canadian CEOs are concerned about a greater degree of development of an ecosystem of innovation to support growth, with 65% of them saying that this is a priority for their organisation. In Italy, 82% of the respondents aim to create jobs for young people, with 80% focused on maintaining the workforce health.*

**Improving infrastructure should be the Government's main priority, while organisations will focus on creating a skilled workforce**

Which three areas should be Government priorities, in the country in which you are based?

Which, if any, of these national outcomes is your organisation focusing on as a priority over the next three years?



Note: First question - maximum of 3 responses were provided  
Base: All respondents

**Tax policy and administration**

CEOs in Romania seem most concerned about the transparency of financial reporting than their counterparts in other countries. 84% of the respondents (compared to 59% worldwide) agree that, generally, **multinational companies should be required to publish information on revenues, profits and taxes paid for each country where they operate.**

In the same spirit of transparency, four out of five of CEOs in Romania consider that tax authorities around the world need to communicate with each other regarding information they have about companies. This view is shared by 58% of their counterparts worldwide.

Fiscal policy has a major impact on the competitiveness of businesses. 80% of the CEOs agree that fiscal policy and competitiveness of local tax regimes are key factors in organisation decision-making about where to operate. Romania recorded the second highest percentage in the world after Brazil (88%), compared to 63% worldwide.

Nearly two thirds (65%) of CEOs in Romania believe that the current international tax system has not changed to reflect how multinational corporations work today and needs reform. A similar percentage was recorded worldwide.

 *Almost a third (31%) of respondents in Germany take account of Government fiscal policy and competitiveness of local tax regimes when choosing geographic markets for their organisations. On the other hand, 82% of those interviewed in this country are in favour of reforming the international tax system.*

## Impact of regulations

When asked about the impact regulations have had on companies in the last 12 months, 69% of CEOs in Romania expressed the view that **regulations have led to increased operational costs**. This opinion is shared by more worldwide counterparts (79%).

53% of the respondents in Romania say that **the quality standards of production and / or services have improved**.

47% of the respondents in Romania and 52% worldwide are of the opinion that it was difficult to find or attract a highly-skilled workforce. 41% of the CEOs in Romania stated that they could not capitalise on market opportunities. But while 29% of those interviewed have exploited a new opportunity, this is less than recorded worldwide (35%) and in Central and Eastern Europe (40%).

Nearly a third (35%) of CEOs in Romania declare that the regulations have prevented them from innovating effectively and only 16% of them consider that the innovation efforts have been more efficient, which is half of the percentage recorded worldwide (33%).



*Some of the highest percentages of CEOs who say that regulations have increased the operational costs are recorded in countries with strong economies such as the UK (95%), the US (89%) and Germany (80%). Three quarters (74%) of CEOs in Russia believe that it was difficult to find or attract a highly-skilled workforce. In contrast, half (52%) of the respondents in Spain find that regulations have eased the process of identifying and attracting well-trained employees. CEOs from Russia and China have used the rules in their favour to achieve a better position than their counterparts in other countries, 66% and 74% of them managed to capitalise on new opportunities. In Italy, around half (49%) of the respondents say their innovation efforts have been made easier by regulations.*

## Regulation has led to improved quality standards but also to increased operational cost

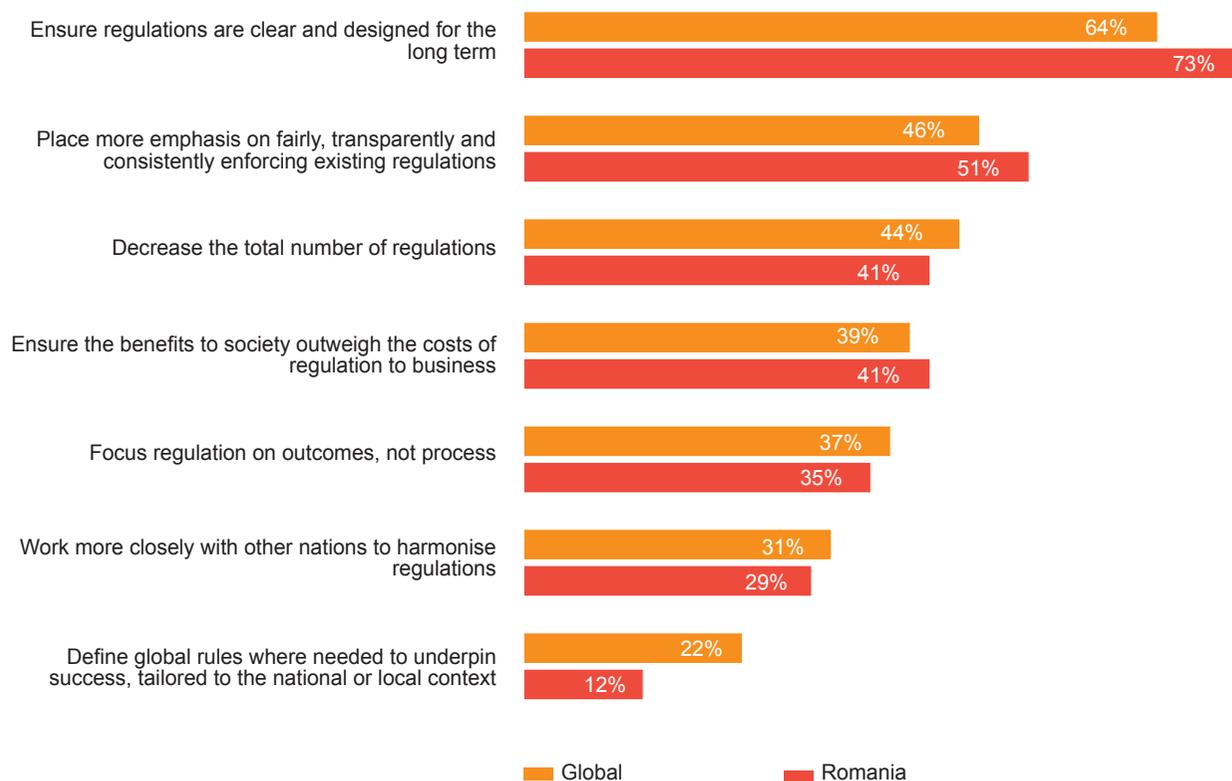
Which of the following statements most accurately describes how regulation has impacted your company over the past 12 months?



Base: All respondents

**CEOs in Romania would like regulations to be clear, designed for the long term, and fairly, transparently and consistently enforced**

With regards to government improving the policy-setting process which of the following would have the biggest impact?



Note: Maximum of 3 responses were provided  
Base: All respondents

Legislative uncertainty continues to make it more difficult for companies to manage costs and, implicitly, to plan investments.

In terms of ways in which the authorities could improve the regulation framework, almost three quarters (73%) of the respondents in Romania suggest clear-cut regulations designed with the long term in mind. The figure is higher than the worldwide percentage (64%). Half (51%) of CEO suggest that the authorities should particularly focus on correct, transparent and consistent enforcement of the existing regulations.

41% of CEOs would like to see the total number of regulations reduced. A similar proportion (41% of the respondents) point out that the benefits to society should outweigh the costs faced by businesses. More than one third (35%) of the CEOs recommend result-oriented rather than process-oriented regulations.

**73%**  
of CEOs in Romania recommend that the authorities produce clear-cut regulations designed with the long term in mind

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*To have a discussion about the 2014 Romania CEO Survey findings, please contact us:*

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**Survey Methodology**

For the 17th edition of the PwC Global CEO Survey we conducted 1,344 interviews with CEOs in 68 countries during the last quarter of 2013. There were 49 interviews conducted in Romania.

NB. Percentages may add up to less than 100% due to the exclusion of variants “neither / nor” or “I don’t know / I prefer not to answer”.



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