

# Corporate sector: little optimism



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The findings of PwC's survey were published at the last World Economic Forum in Davos, Switzerland. In the last three months last year the survey addressed 1,124 chief executive officers from companies in 50 countries worldwide. 500 of them came from Europe (including the Czech Republic), others from Asia, the Pacific, Latin and North Americas, and even Middle East and Africa. A lack of optimism was exhibited by corporate managements in all regions and at all levels of economic development, without any differences between sectors. Merely 15% of the executive officers in North America and 15% in Western Europe expect economic growth this year. In Central and Eastern Europe, the figure is 21%, similarly to Latin America; in Asia and the Pacific, they show slightly more confidence in the future - 31% of the respondents there believe in future growth.

## Three bad years?

The world's economic leaders are also pessimistic as regards long-term outlooks - most of them predict only a slow improvement of the situation. Merely 34% of the respondents believe their profits will grow in the next three years; last year the figure was 42%, as only the first signs of the credit crisis on the global economy started cropping up. The changing results in the course of the survey (from September to November 2008), declining with the influx of new negative reports, pointed at the deteriorating mood. "The speed and intensity of the recession took its toll on the mental state of top businessmen and causes a global crisis of business confidence," Samuel A. DiPiazza Jr., PwC's Chief Executive Officer, commented the results, pointing out that the respondents are currently concerned about the survival of their companies most of all: "Even rapidly developing economies are fighting credit crunch problems, slow capital markets and collapsing demand." Jiří Moser, of PwC ČR, adds: "As regards the possible impacts of the crisis, there was some optimism in the Czech Republic a short time ago. Today, however, it seems that even though the economy will be hit with a delay, the global moods and problems will fully overspill to the Czech Republic in 2009."

## Greatest threats

The respondents think that the greatest threats to their business are the impacts of the recession on the world's major economies (85% of the respondents). Other mentioned threats included defunct capital markets (72% of the respondents), excessive state regulation of the economy (55%), growing energy prices (50%) and poor availability of qualified personnel (46%).

Chief executive officers expect that the global banking crisis is going to have a large impact on corporations in all geographical regions and all business sectors. Almost 70% of the respondents said the crisis would have direct impacts on their businesses. Almost 80% of the enterprises are already facing higher costs of funding, and almost 70% of them stated that they would postpone scheduled investments in consequence. The banking crisis is said to have the worst impact on banking itself, but also on public services, construction, entertainment and automobile industries.

### **Priority: human resources**

Apart from the seriousness of the current economic situation, the corporate managements worldwide continue dealing with the long-term needs of their companies, especially human resource issues. One of the principal fears is the risk of a shortage of talents - therefore only 26% of the companies said that they planned to cut their workforce, while 35% of them wish to leave it intact.

Most chief executive officers consider the recruitment and stabilization of top-quality workforce as a key priority. Almost 70% of them said that they encountered the problem of a shortage of qualified job candidates. Other mentioned personnel issues included the integration of new employees, drafting of attractive career promotion schemes and intra-sector competition for talented workers. To tackle these problems, the companies are prepared to create a more flexible working environment, shift their key personnel and involve them in social activities. In this respect it should be noted that almost a half of the respondents blame the deficit of qualified workforce on their governments and state institutions. Likewise, 38% of the respondents think that the state should do more for transport infrastructure development. However, the business sector does not magnify the role of the state: 55% of the respondents are afraid of excessive state regulation as an obstacle to economic growth.

### **Ways out of recession**

The chief executive officers participating in the survey see the biggest potential for business growth particularly in obtaining a larger portion on their existing markets (37%), expansion to new markets (17%) and development of new products and services (17%). The percentage of respondents who think that joint ventures will play a larger role than mergers and acquisitions in foreign expansion plans grew significantly. The trend is particularly obvious in Western Europe and Latin America. It probably mirrors the lower costs and risks associated with joint ventures and the growing popularity of mutual cooperation on foreign markets. The total volume of mergers and acquisitions has also declined recently - only 20% of the respondents said that they had performed any such transaction in the last year; this decline has been most pronounced in the developing economies of Asia and Eastern Europe. As their fears, the chief executive officers contemplating mergers and acquisitions most often mentioned cultural differences, unforeseeable costs and uncertainty about the maximum transaction value.

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