



Leading in the new reality

Annual Global CEO Survey –
Mongolia Report

May 2023



Foreword

Every year, the views of thousands of chief executives around the world are gathered in our flagship survey, the PwC's Annual Global CEO Survey. This year we have compiled our inaugural report for Mongolia to capture a unique insight into the thinking of Mongolian corporate leaders and explore the top-of-mind issues facing companies today.

A year ago, our annual survey uncovered a high degree of optimism about the prospects for 2022 globally: more than three in four CEOs back then said they expected the global economy to improve. Far from being the year of resurgent growth, 2022 rapidly presented a complex series of challenges threatening growth opportunities, driving a state of disequilibrium in our region. This is **the new reality**: heightened geopolitical tensions, rampant inflation, supply chain fragility, new workforce challenges and the accelerating pressure for action on Environmental, Social and Governance (ESG) issues.

Against this backdrop, 4,410 CEOs worldwide, including 30 in Mongolia, shared their insights for our 26th Annual Global CEO Survey. Sentiments are clear: in the short term, manage risks to drive profitability to survive. Simultaneously, in the longer term, transform to thrive. We call the combination of these two mandates the **dual imperative**.

Executing the dual imperative is a complex undertaking. It requires businesses to accelerate innovation while delivering short term efficiency. It places pressure on the CEO agenda to collaborate broader and deeper than ever before as part of a revamped business model. CEOs who comprehensively understand the challenges, redefine priorities around value creation, build a differentiated culture of empowerment and pragmatically leverage a broad suite of stakeholders - are primed for success.

Leading has never before been more important. It can redefine both business relevance and the CEO's legacy. The time to lead is now.

Shaukat Tapia
PwC Mongolia
Country Managing Partner





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Mongolia highlights

The year 2022 posed unprecedented challenges to Mongolia, one of the largest landlocked countries in the world, in the form of a decline in international trade and a consistent rise in inflation rates. Mongolia, being heavily dependent on its neighbors, faced disruptions in export and import due to China's COVID-19 related border closure, and Russia's invasion of Ukraine. We saw modest growth in GDP at 4.8% and an annual inflation rate of 15.2%¹, mainly due to supply-chain disruptions, higher transport costs and the rising prices of imported goods.

In this reality, Mongolian CEOs have slightly more optimistic sentiments compared to their global peers, as 48% believe global economic growth will decline in the next 12 months compared to global 75%. As such, the key observations from our survey highlight that the Mongolian CEOs:

Prioritize short term profitability

- Inflation, macroeconomic volatility and geopolitical conflict are the top three risks Mongolian CEOs will focus on in the next 12 months². ESG-related risks remain a focus for the longer term.
- In response to these challenges, nearly three-quarters³ of Mongolian CEOs are considering reducing operating costs and diversifying products and services while emphasizing top talent retention.

Recognize the need for transformation

- 68%⁴ (29% more than global CEOs) believe their current business models will not survive within the next decade unless they innovate
- As part of the transformation agenda, Mongolian CEOs are shifting their focus on customer preferences, technology advancements and supply chain management⁵

Place a premium on broad collaborations to drive business value

- Compared to global CEOs, Mongolian CEOs are more likely to work with other established companies, entrepreneurs, and start-ups⁶
- The goal of these partnerships is primarily to create new sources of value rather than to solve societal challenges⁷

Sources: ¹ Asian Development Bank - Country – Mongolia

² page 5; ³ page 7; ⁴ page 8; ⁵ page 9; ^{6,7} page 14 of the Annual Global CEO survey – Mongolia Report

Today's tensions driving tomorrow's transformation

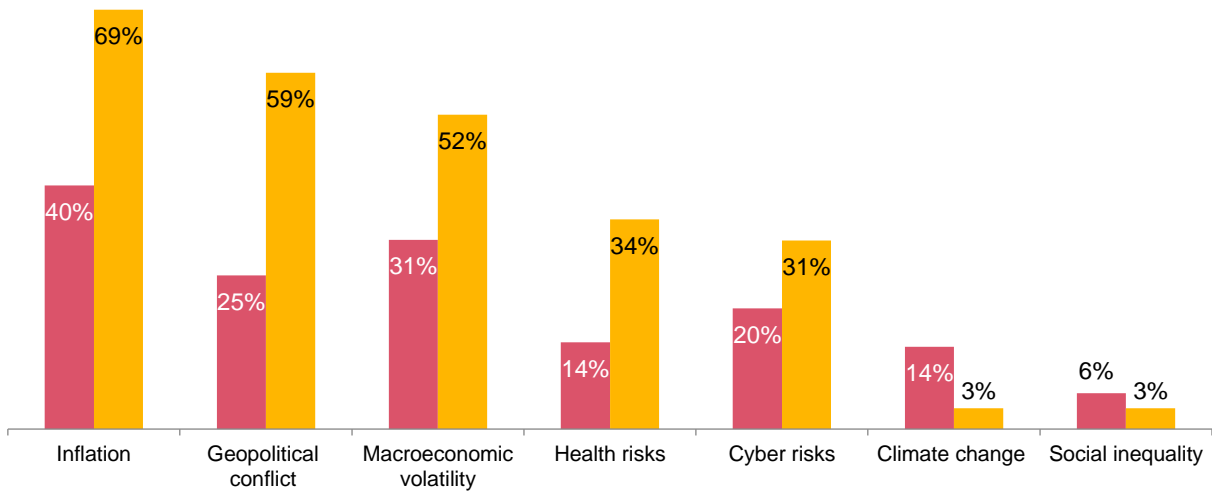
Globally, CEOs are wrestling with a series of questions that are relevant to successfully executing the dual imperative. While most of those CEOs feel it's critically important for them to reinvent their businesses for the future, they also face daunting near-term challenges, starting with the global economy, which nearly 75% believe will see declining growth during the year ahead.

Prioritizing short term profitability

Over the next 12 months, CEOs around the world feel most exposed financially to inflation, economic volatility and geopolitical risk. All three are immediate, headline-grabbing issues that can reinforce and compound one another, as, for example, Russia's war in Ukraine pushes up prices, encouraging central banks worldwide to intervene through growth-dampening interest rate hikes. Mongolian CEOs are on par with their global counterparts - more than half of the CEOs feel highly exposed to inflation, geopolitical conflict and macroeconomic volatility.

Inflation, geopolitical conflict and macroeconomic volatility stand out more prominently than other key threats

Question: How exposed do you believe your company will be to the following key threats in the next 12 months?



Source: PwC's 26th Annual Global CEO Survey
(Showing only 'highly exposed' and 'extremely exposed' responses)

Global Mongolia

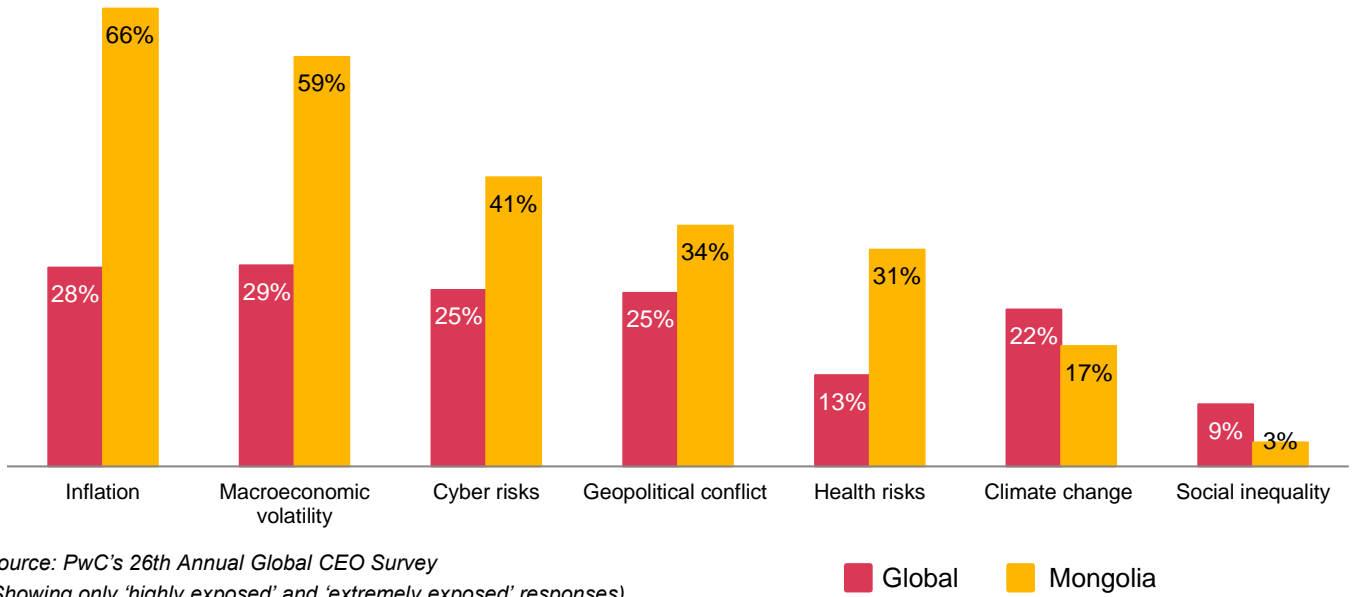
The picture changes for CEOs' medium term (five year) outlook. Over that time frame, for global CEOs, cyber risks and health risks join inflation, macroeconomic volatility and geopolitical conflict in the top tier of risk exposure. The disconnect across time horizons begs the question of whether CEOs run the risk of being blindsided in the near term as they focus on here-and-now threats. In the case of cybersecurity, it's easy for important business technology investments—launching a new consumer-facing app, developing a business line built around artificial intelligence (AI), expanding into a new market—to inadvertently create cyber vulnerabilities.



Mongolian CEOs stay focused on inflation and macroeconomic volatility in the medium term, and cyber threats join the top-tier risk exposure. In terms of geopolitical conflict, while we see no change from the global perspective, Mongolian CEOs are hopeful for a geopolitical storm to calm down, and the threat of conflict will decrease from 59% to 34% in the next five years.

Cyber risks take over geopolitical conflict, as Mongolian CEOs are hopeful for the threat to decrease from 59% to 34%

Question: How exposed do you believe your company will be to the following key threats in the next 5 years?



The climate change exposures, although still not high on CEOs' agenda, grow from 3% to 17% in the medium term for Mongolian CEOs. Mongolia has been actively advocating for sustainable green development, adopting the "Green Development Policy" and the "Sustainable Development Vision 2030" (later updated to Vision 2050)¹. Moreover, the shift for the green economy has met with a positive attitude in the business community, and in 2020 the Green Finance Corporation was established in partnership with the Mongolian Government and the Green Climate Fund². Mongolian CEOs also work hand in hand with international development organizations such as the EBRD, ADB, UN Page in fueling the green economy locally.

In the 2022 PwC Investor Survey, it has been noted that innovation is the number one priority for investors, which could help temper both cyber and climate risks and even open up new market opportunities³.

Sources:

¹ Government of Mongolia, 2050 Vision Long term development policy, 2020

² Green Climate Fund, 2020

³ PwC Global Investor Survey

Your next move: mobilize the C-suite.

CEOs have an important role to play in staying ahead of cyber challenges—ranging from speaking publicly about their commitment to cybersecurity to using their influence to inspire sweeping changes and creating a united front against attacks. Unity starts in the C-suite, according to PwC's recent Digital Trust Insights Survey, which found that a critical contributor to cybersecurity improvements at leading companies was a C-suite collaboration to make the most of sustained, cumulative investments in risk mitigation.

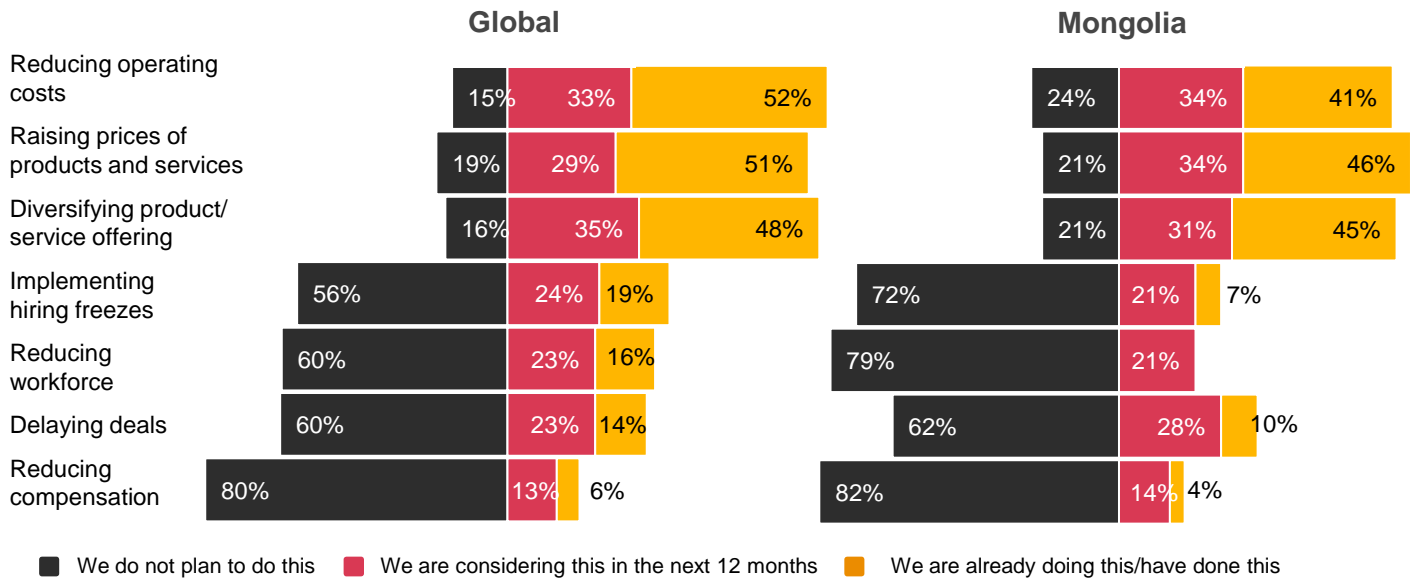


Business resilience and workforce strategy

In response to near-term economic challenges, CEOs say they are taking actions to spur revenue growth and cut costs, without delaying strategic M&A initiatives. Interestingly, although 52% of CEOs say they have already begun cutting costs, just 19% are implementing hiring freezes, and only 16% are reducing the size of their workforce. This, in turn, suggests CEOs' interest in retaining employees and scouting new talent. In the traditional sense, cutting costs is related to reducing the workforce—instead, now CEOs are interested in upskilling or reskilling their human capital, who already know the organization and its culture.

In the current environment, CEOs report cutting costs and spurring revenue growth – but most don't plan to reduce workforce or delay deals

Question: Which of the following options best describes any action your company may be considering to mitigate against potential economic challenges and volatility in the next 12 months?



Note: Percentages shown may not total 100 due to rounding, "Don't know" answers are not included
Source: PwC's 26th Annual Global CEO Survey

Mongolian CEOs are reducing operating costs at a slower pace—only 7% are implementing hiring freezes, and none are reducing the size of their workforce, perhaps due to a persistent shortage of talented workforce and changes in the Labour Law, which became effective as of 1 January 2022. As such, many companies are increasing their compensation, as the national minimum wage increased from 420,000 MNT to 550,000 MNT per month¹.

The survey data suggests CEOs aren't laying people off, in part, because of their recent experience with employee attrition, which surged over the past year or so in many markets, a phenomenon that's been referred to as the "great resignation." For the most part, survey respondents, global and Mongolian, appear to believe that those elevated churn rates will continue.

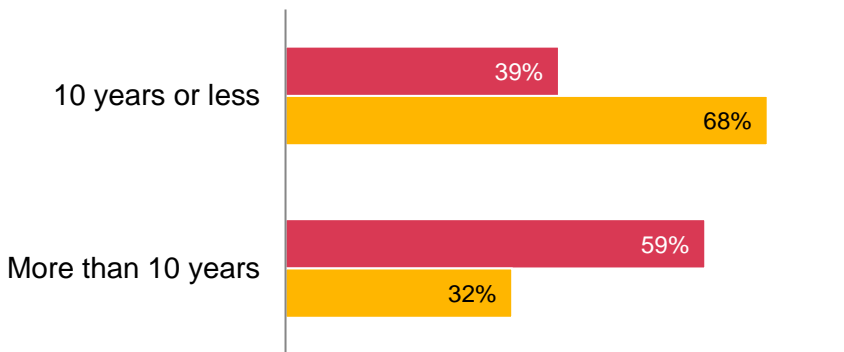
Source: ¹ Ministry of Labour and Social Protection of Mongolia, 2022

Transform to remain viable

In parallel to the near-term threats, CEOs globally and in Mongolia have recognized the potential for disruption ahead as the global pandemic and unstable geopolitical situations gave the global community forewarnings ahead. Nearly 40% of global CEOs think their company will no longer be economically viable a decade from now if it continues on its current path.

More than half of responding CEOs in Mongolia are concerned about the long-term viability of their businesses, recognizing the need to reinvent to stay relevant amidst large-scale disruptions and to thrive in a climate-challenged world.

Question: If your company continues on its current path, for how long do you think your business will be economically viable?

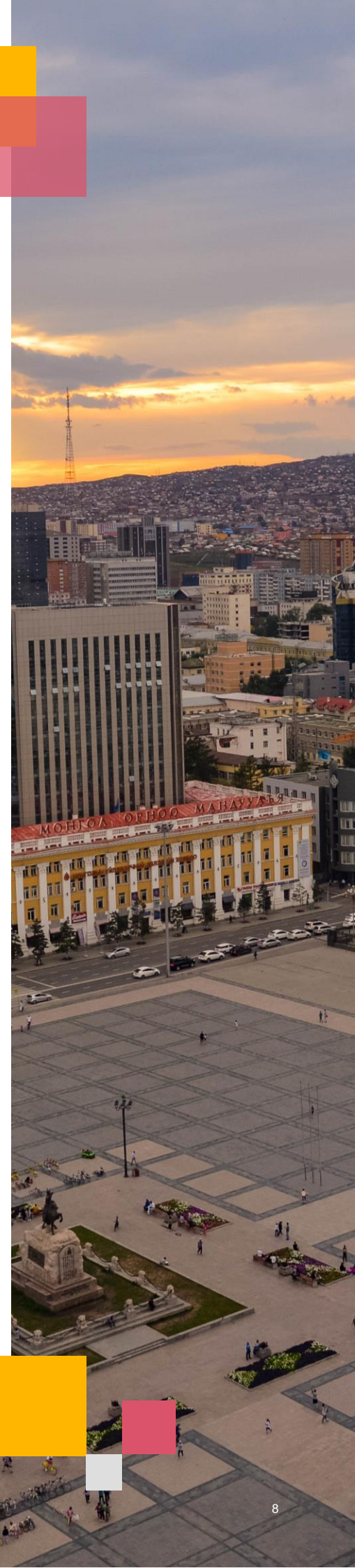


Source: PwC's 26th Annual Global CEO Survey

Global Mongolia

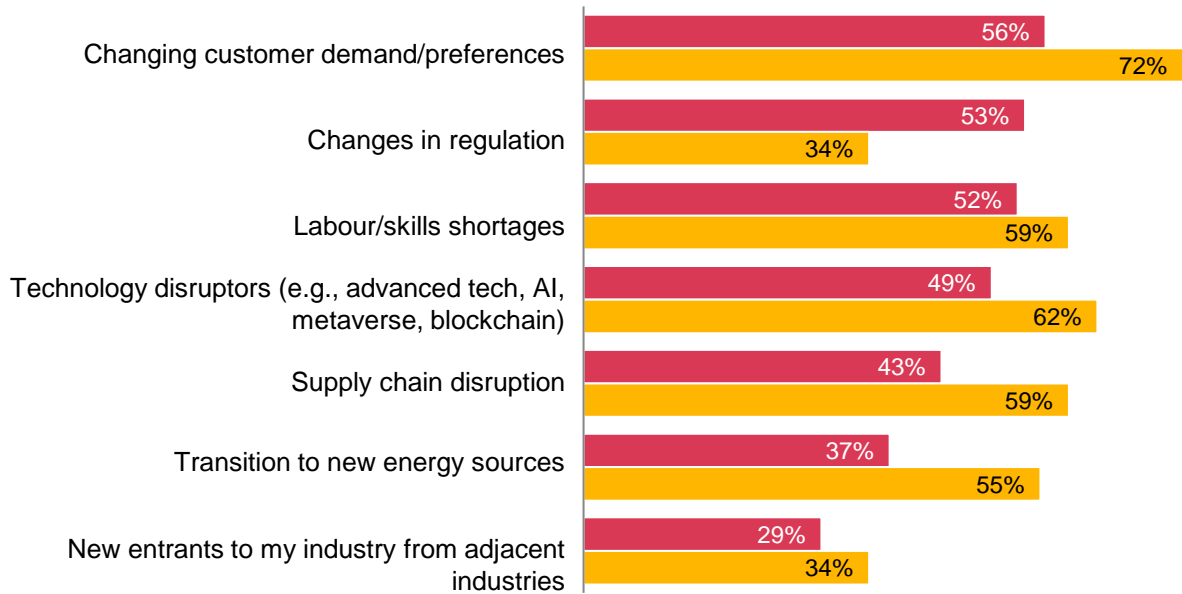
When asked about the forces most likely to have an impact on their industry's profitability over the next ten years, more than half of surveyed CEOs globally cited changing customer preferences, regulatory change, skills shortages and technology disruption. Roughly 40% flagged the transition to new energy sources and supply chain disruption. And nearly one-third pointed to the potential for new entrants from adjacent industries.

Mongolian CEOs also understand that their transformation journey must address the disruptive forces impacting the industry from multiple fronts. They must keep pace with their customers (72%), adopt technological advancements (62%), and manage labour/skills shortages (59%) and supply chain disruptions (59%).



CEOs see multiple challenges to profitability in their industry

Question: To what extent do you believe the following will impact profitability of your industry over the next 10 years?



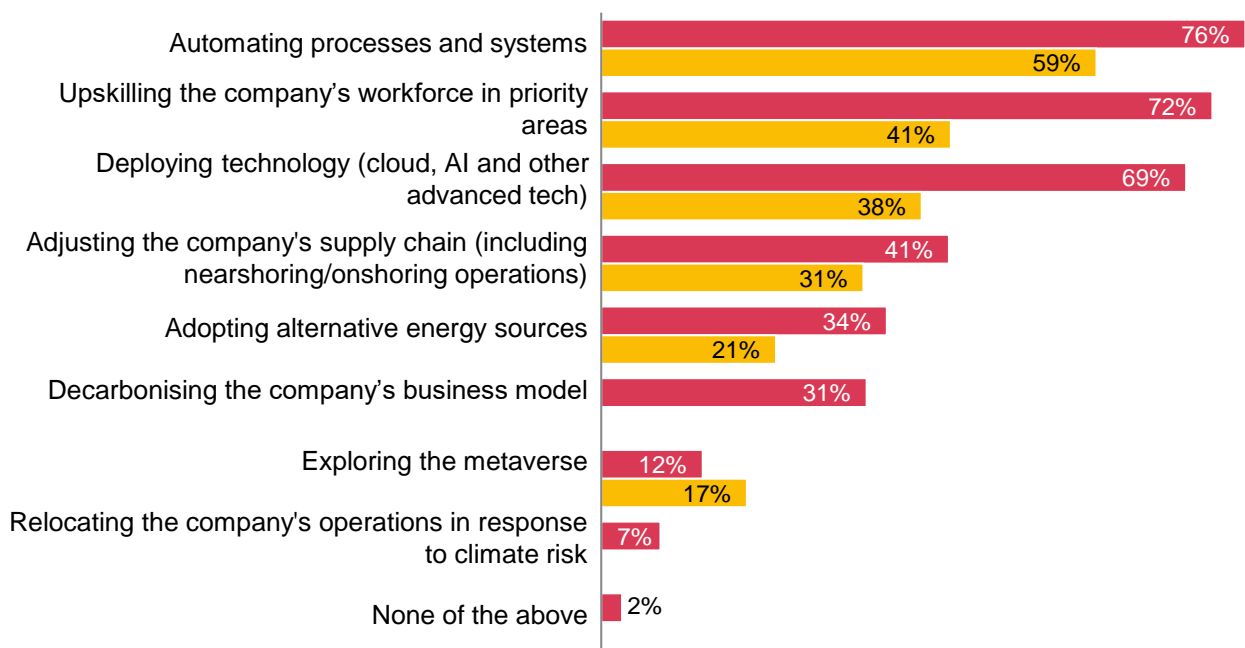
(Showing only 'to a large extent' and 'to a very large extent' responses)
Source: PwC's 26th Annual Global CEO Survey

■ Global ■ Mongolia

The need for transformation is further highlighted by how Mongolian CEOs are building resilience today and are pivoting towards more technology and innovation-oriented investments as well as prioritizing upskilling their workforce. In the next 12 months, the top priority of Mongolian CEOs is making investments in automating processes (59%), followed by upskilling their workforce (41%) and deploying advanced technologies (38%).

Technology and reinvention-oriented investments loom large for many CEOs

Question: Which of the following investments, if any, is your company making in the next 12 months?



Source: PwC's 26th Annual Global CEO Survey

■ Global ■ Mongolia



Your next moves: **reimagine and choose.**

The upshot is a race to reinvent. As PwC authors described in their 2022 book, *Beyond Digital*, the starting point for enterprise transformation of this sort often is a reimagination of a company's place in the world—looking beyond the current portfolio of businesses and products to determine what value an organization will create, and for whom. Such reimagination often involves hard choices about what not to do. For example, when Philips reinvented itself as a health technology company, bringing together the Amsterdam-headquartered multinational's consumer-insights capabilities, depth in medical-device technologies, and strengths in data analytics and artificial intelligence, it also exited some businesses and deemphasised others. As Frans van Houten, the CEO at the time, described it in *Beyond Digital*, 'I recognized that the chances that we would transform lighting and healthcare simultaneously were not so high. And so we made a choice.'

How central are you to your company's reinvention?

To reinvent their business while navigating near-term operating challenges, CEOs need the help of their people—C-suite leaders, middle managers and frontline employees alike. Engaged, empowered organizations move faster, innovate more readily and collaborate more effectively to get things done. For CEOs hoping to enjoy such benefits, this year's survey suggests some warning signs and areas of opportunity. Forty-three per cent of global CEOs said that leaders in their organization don't often encourage debate and dissent. Fifty-three per cent said their leaders don't often tolerate small-scale failures. And seventy-seven per cent said their leaders don't often make independent strategic decisions for their function or division.


Compared to their global counterparts, 59% of Mongolian business leaders are more open to dissent and debate and the same per cent are more tolerant of small-scale failures, yet the functional-level strategic decision making are highly dependent on the presence of CEOs at 90%.

Many CEOs question whether critical preconditions for organizational empowerment and entrepreneurship are present in their companies

Question: For each of the statements below, please indicate how frequently these occur in your company.



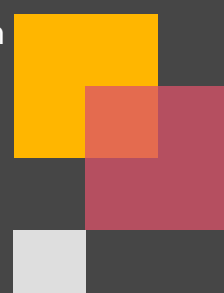
Numbers like these suggest that in many organizations, the conditions aren't in place for managers and employees to run on their own towards major new opportunities or to independently spot and respond to disruptive threats. Business reinvention will be a full-contact sport for CEOs and their top teams during the years ahead, and the data suggests that a special kind of leadership will be required because deep change is possible only when individuals at all levels adapt and grow. CEOs need to double down on setting a shared vision, empowering people to make decisions, and being visible champions for change.



According to PwC's Global Workforce Hopes and Fears Survey (2022), an increase in pay is a main motivator for making a job change (71%), wanting a fulfilling job (69%) and wanting to truly be themselves at work (66%) round out the top three things workers are looking for. Nearly half (47%) prioritized being able to choose where they work.

Your next move: decentralize project-level decisions.

Organizational empowerment and autonomy are important contributors to effective corporate resource reallocation, which is a critical lever for leaders seeking to drive major change in business direction. Recent analysis of data from our last year's PwC's Annual CEO Survey showed that not only was resource reallocation, in general, a major determinant of corporate performance, but smaller scale, project-level resource reallocation (initiating investments in new projects, doubling down on promising ones and killing low-potential initiatives) contributed as much as the larger scale moves (such as acquiring or investing businesses) that CEOs typically lead. CEOs can stimulate project-level dynamism by encouraging innovation and small-scale risk-taking, discouraging excessively centralized approval requirements for small-scale initiatives, and devising "kill switches" to ensure that small-scale projects don't get out of control.





The sustainability agenda

Ranked 67th in the Climate Vulnerability Index¹ and 96th in the Human Development Index², Mongolia feels the impacts of climate change and environmental degradation contributing to the decline of pasture productivity, herding livelihoods, tourism and increase in water resource management risks.

Showing respect for our environment and human rights is becoming an important requirement for businesses. As an example, the Supply Chain Due Diligence Law was adopted in 2021 in Germany and became effective in January 2023. Due to the application of this law, Mongolian exporters of goods and products to Germany and companies that work with German companies will immediately need to understand the importance of human rights due diligence, assess their business risks and take necessary action by carrying out human rights risk assessment³.

Climate risk

While a majority of global CEOs expect some degree of impact from climate change in the next 12 months—primarily in their cost profiles and their supply chains, Mongolian CEOs indicated their focus on supply chain management at more than 50%. Mongolian business leaders are far less worried about climate-related damage to their physical assets (where 57% do not expect any impact and 43% expect the impact to a limited extent), while global CEOs stand at 34% and 41%, respectively.

A deeper statistical analysis of the survey shows that the CEOs who feel most exposed to climate change are more likely to take action to address it. This kind of reactive approach is understandable, but it creates risks of its own.

Mongolia is among the most heavily coal-dependent countries in the world, and its energy sector is the largest contributor to its greenhouse gas emissions, accounting for about two-thirds of the total. To decarbonize Mongolia's energy sector, the government aims to increase the country's share of renewable energy, especially wind and solar, which is promised to hold great potential for Mongolia⁴.

Sources:

¹ Based on ND-GAIN Index (2020), developed by University of Notre Dame

² Based on Human Development Index (2021), developed by UNDP

³ PwC Legal Mongolia

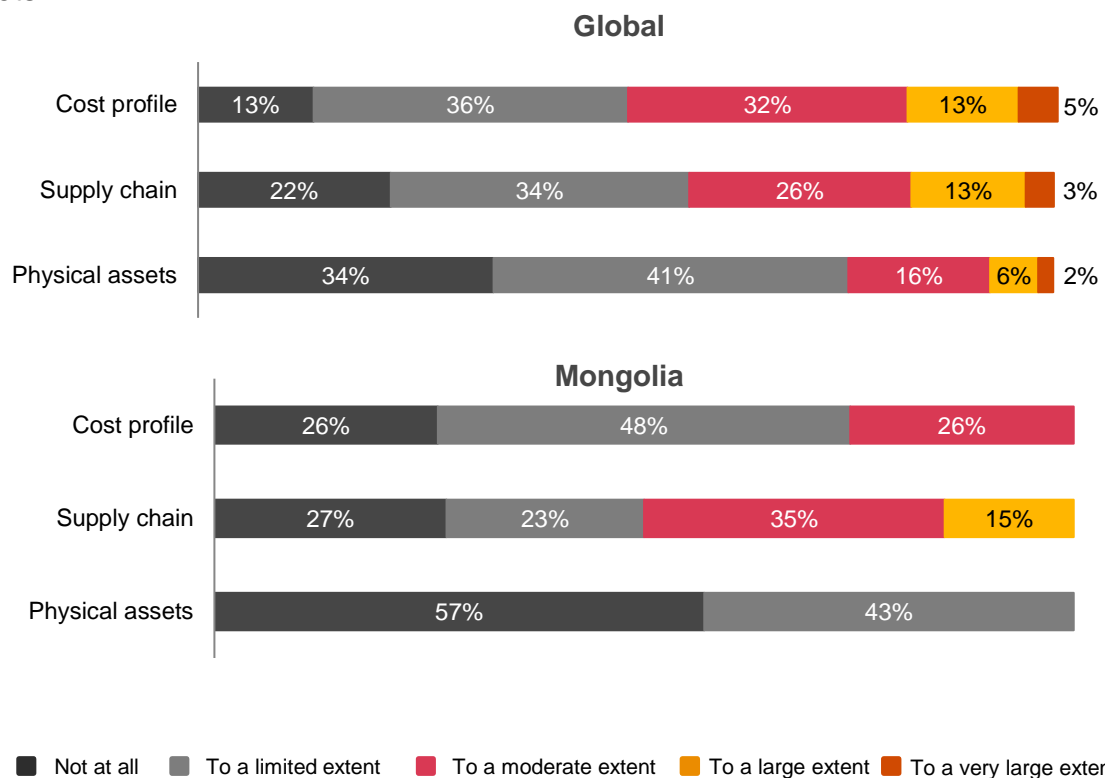
⁴ Asian Development Bank. (2020, June 2). *Unlocking Mongolia's Rich Renewable Energy Potential*



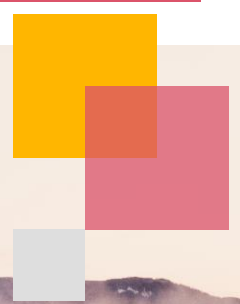
Combating climate change requires a coordinated, long-term plan. It won't be solved if the only companies working on it are those that face immediate financial impact. We also don't know how much the actions that are being undertaken most frequently—decarbonization initiatives, along with efforts to innovate climate-friendly products and services—will move the needle, particularly in the near term, which, in light of emissions already in the atmosphere, promises continued warming under virtually every scenario.

Over the next 12 months, CEOs see climate risk impacting their cost profiles and supply chain more than the safety of their physical assets

Question: To what extent do you expect the following areas of your business to be impacted by climate risk in the next 12 months?



Source: PwC's 26th Annual Global CEO Survey



Your next move: break it down.

PwC's experience shows it's crucial for leaders to break the climate challenge down into manageable chunks. For example, instead of looking in the abstract at climate risk, a manufacturer of smartphones¹ might assess the potential for high-heat-stress days affecting a critical goldmine in the southern hemisphere, for flood risks at a coastal airport and for wildfire risk in the western US. Similarly, leaders looking to curb their Scope 3 emissions (those generated in a company's upstream and downstream value chain) should focus on the 20% of suppliers that typically generate 80% of Scope 3 emissions; on data and modelling that is extremely granular, moving beyond industry averages; and on sharp processes for estimating, quantifying and extrapolating Scope 3 data across the business as a whole.

Source: ¹PwC, Understanding climate risks through smartphones, 2022

Working with your ecosystem

The diversity and complexity of today's business challenges are placing a premium on the ability to collaborate across the boundaries of the corporation. To get a window on these dynamics, we asked CEOs how they forge partnerships—with whom and to what objective.

The results show that companies work with a wide network of collaborators and that those relationships are most often struck to create new sources of value. Addressing societal issues such as climate change was more often a goal of collaboration with non-business entities such as NGOs and government agencies.

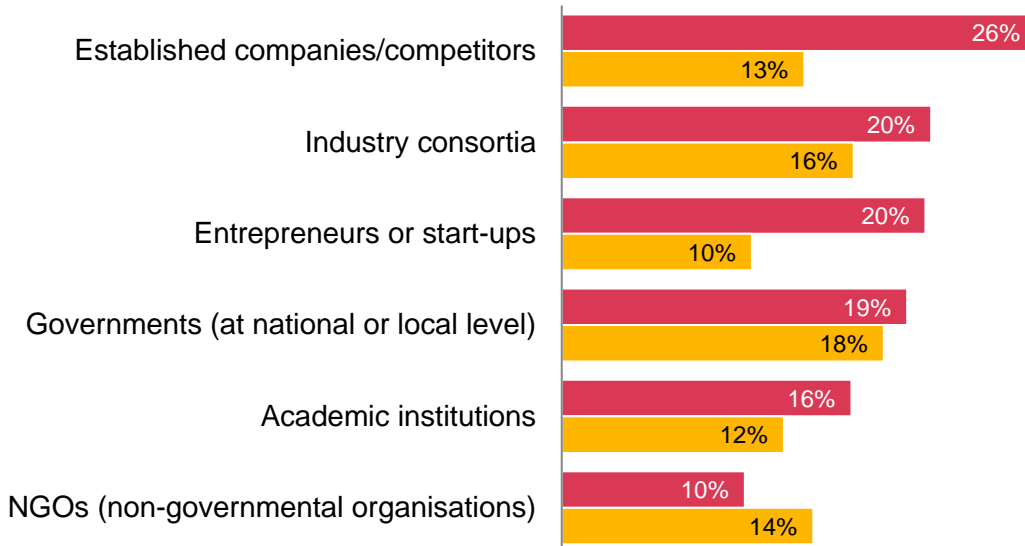
CEOs in Mongolia are 19% more likely to collaborate with established companies/competitors to create new sources of value than organizations globally. As for the collaboration to address societal issues, Mongolian companies tend to choose governments (at national or local level) and NGOs (17% both). Even though larger companies are more likely than smaller ones to address societal issues, in recent years, many up-and-coming start-ups are working actively on diverse social projects.



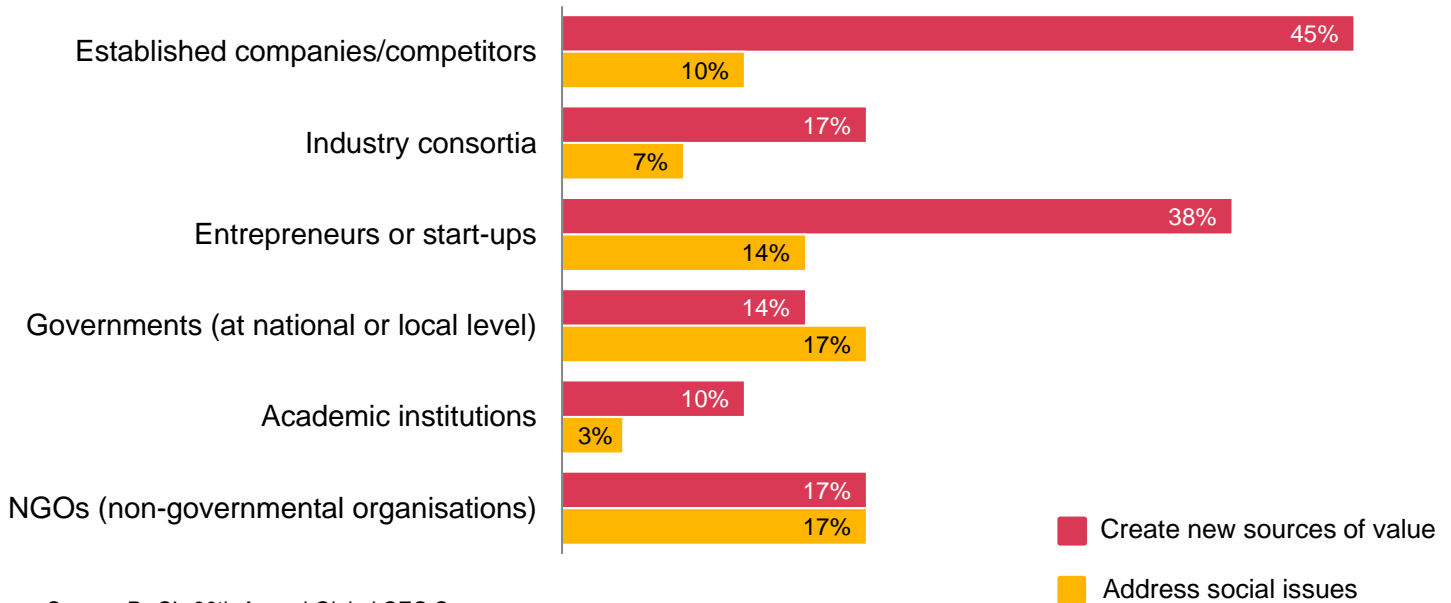
Companies are more likely to collaborate to create business value than to solve societal issues

Question: To what extent is your company collaborating with the following groups to:
 a) Create new sources of value
 b) Address societal issues

Global



Mongolia



Source: PwC's 26th Annual Global CEO Survey

Your next move: commit to collaboration.

PwC's work in ESG strategy development suggests that organizations are best able to create business and societal value in tandem when they tackle partnering and ecosystem building with rigor and sophistication. CEOs need to commit their organizations to an ESG identity and focus area and make the commitment real. This often involves mapping the interests of critical ecosystem partners; identifying the combinations of talent, technology, processes and insight that those partners can provide; building trust through reciprocity; and nurturing a corporate culture that embraces collaboration across traditional institutional lines.



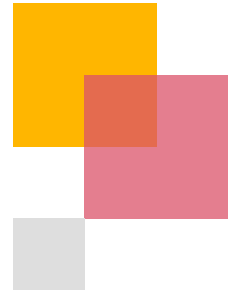
Actioning the dual imperative

Features of our market provide a unique backdrop for Mongolian CEOs while the increasing role of businesses in our society places extra pressure. These all add to a series of complex questions which are generally consistent with global CEO challenges.

Actioning the dual imperative is a complex undertaking – it requires CEOs to demonstrate transformative leadership that builds trust and delivers sustained outcomes. In our report, we highlighted the actions that could aid the CEO's to navigate and lead in the new reality.

- 1 Mobilize the C-suite** to stay ahead of cybersecurity risks imminent in the near and mid term horizon, while also taking reinforced action towards the challenges facing the company
- 2 Reimagine and choose** your company's place in the world – looking beyond the current portfolio of businesses and product to make choices about what value to create and what not to do.
- 3 Decentralize project-level decisions** to management team and aspiring talents in the mid-management level. Organizational empowerment and autonomy are important contributors that create critical levers for leaders seeking to drive major transformation
- 4 Break down the climate challenge** to smaller manageable chunks. Instead of looking in the abstract at ESG risk, collaboration with professionals to identify the specific needs the business faces in Mongolia (e.g. supply chain due diligence).
- 5 Commit to collaboration** with your ecosystem nurtures corporate culture that embraces collaboration, while also creating value through talent identification, and technology insights that those partners can provide etc.





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About the survey

Methodology:

PwC surveyed 4,410 CEOs in 105 countries and territories in October and November of 2022, amongst which were 30 CEOs from Mongolia. Country level figures were based on unweighted data whereas in comparative analysis we stacked local data against the global and regional figures which were weighted proportionally to country or regional nominal GDP to ensure that CEOs' views are representative across all major regions.

Notes on interpreting charts and graphs:

Throughout this report, not all figures in bar and stacked bar charts will add up to 100% as a result of rounding percentages, and in some cases answers are either combined or excluded “don't know”, “none of the above” responses.

Acknowledgement

For our inaugural report for Mongolia, key reference and sources were the “26th Annual Global CEO Survey - Asia Pacific” report and the “PwC's 26th Annual Global CEO Survey”. We appreciate the support and guidance provided by the PwC Eurasia Marketing Communications and Business Development team.



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