

PwC Azerbaijan's 4th Annual CEO Survey

A leadership agenda  
to take on tomorrow

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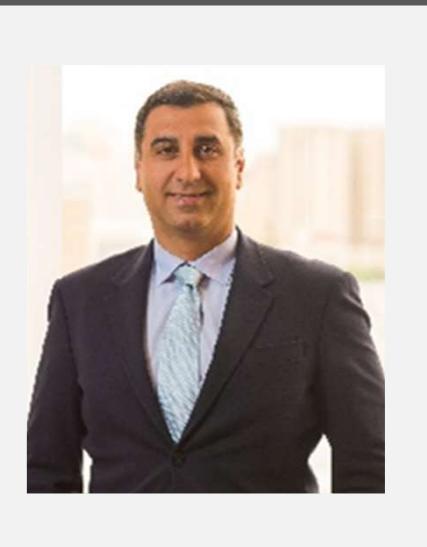
## Foreword

A lot has changed since we conducted the CEO Survey last year. Pandemic brought a clear disruption and uncertainty all over the world and Azerbaijan was not an exception.

When we conducted the survey right before the pandemic, CEOs reported a record volume of optimism towards global economic growth as well as their own companies' growth prospects. CEOs in Azerbaijan would not have imagined how dramatically the situation could change just in one year term bringing unclarity and number of threats.

However, they still believe the situation will improve and the global economy is more likely to recover in three year's term. The message from this year's Azerbaijani findings is a clear sign that CEOs are responding to the "new world" through the lessons learned in a quick and agile way. The companies have reshaped the grade of their transformation strategies - there is a clear change in priorities chain, threats and risk management strategies caused by the pandemic.

Despite unprecedented times, CEOs are progressing dynamically and reimagining the ways to capture the new opportunities by accelerating their ambitions and doing the ordinary in extraordinary ways.



**Movlan Pashayev**  
Country Managing Partner

## Key findings from this year's survey



**71%** of Azerbaijani CEOs are optimistic about global economic growth



**64%** of CEOs in Azerbaijan are planning to seek operational efficiencies in the next 12 months in order to drive growth



**60%** of Azerbaijani CEOs plan double digit investments in digital transformation



**Pandemics, exchange rate volatility and increasing tax obligation** are top three threats to growth in Azerbaijan



**Turkey, Russia and Georgia** are most important countries for growth in pipeline of Azerbaijani CEOs



**49%** of Azerbaijani CEOs have factored exchange rate volatility into their strategic risk management activities



**33%** of Azerbaijani CEOs focusing on skills and adaptability in their people to increase competitiveness



**67%** of Azerbaijani CEOs believe that a skilled, educated and adaptable workforce is a top business priority

**On March 11, 2020, the COVID-19 a global pandemic, symbolising the [World Health Organization declared<sup>1</sup>](#) official start of a period of profound disruption.**

One year later, we still find ourselves in its grip, but vaccines developed at breakneck pace have enabled us to envision recovery. Though exactly what that recovery will look like remains unknown, it's clear that we cannot simply go back to the way things were before. The pandemic has laid bare fundamental deficiencies in our global system, weaknesses in business's operating models, and challenges that will shape our world moving forward. It has also unleashed energy and creativity, as leaders seek out enduring solutions to these problems.

The pandemic's dual role as accelerator of transformation and amplifier of disruptive forces is the thread that runs through our [4th Annual CEO Survey](#). Most of the CEOs responding to the survey are bullish about a global economic

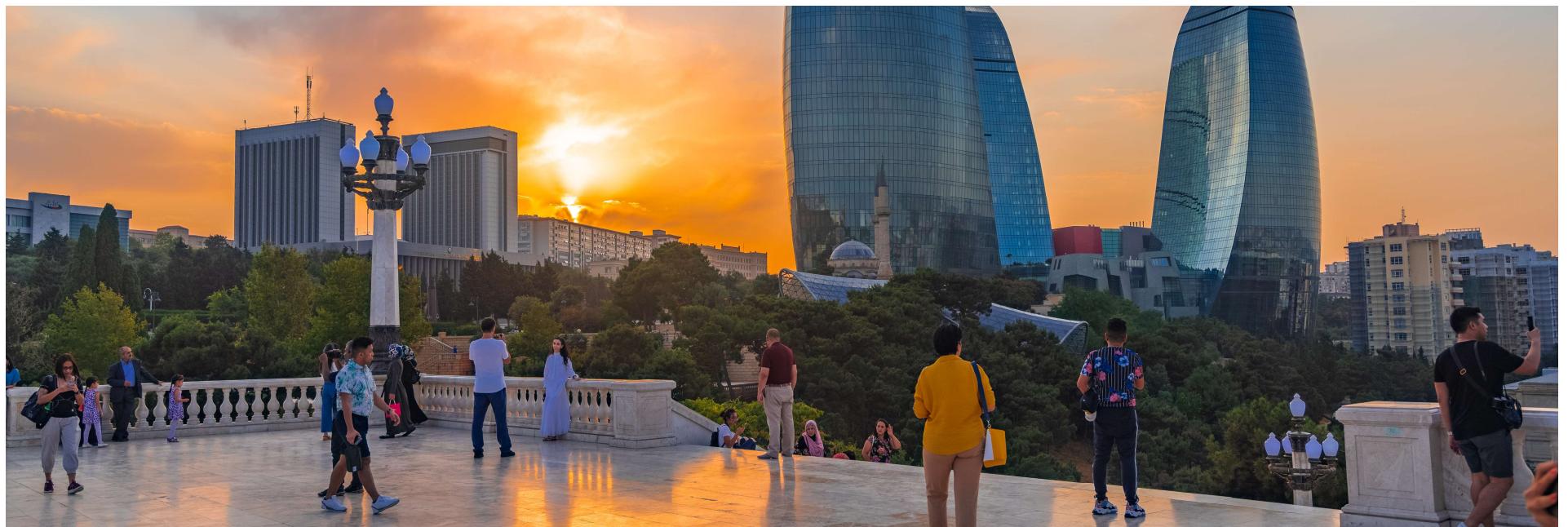
comeback. It will be enabled by a continuation of companies' pandemic-induced digital acceleration, which promises productivity and other business benefits, but also increases the threat of cyberattack and the spread of misinformation. Although CEOs' confidence in their own company's revenue prospects has rebounded, they are anxious, too — about the trajectory of the pandemic, increasing tax obligation, and to a slightly lesser extent, uncertain economic growth.

We also know that numbers tell a story, but there's more to most stories than numbers. That's why we've combined the findings from our 120 survey responses, gathered in January and February of 2021, with qualitative insights: interviews with chief executives and online completions, which tackles today's most pressing issues to help leaders as they think about what's next. When we look at the survey in this light, we see an opportunity emerge — a moment for business leaders to take a step back and ask: How can we do things better?

It is an imperative that will touch nearly every aspect

of their operating model, enabled by a significantly greater focus on trust and transparency. This is certainly the case for climate change, where thus far [corporate action trails<sup>2</sup>](#) government-mandated decarbonisation targets; companies also face growing demands from investors and other stakeholders. It is the case for cybersecurity — which many firms have relegated to the CIO's domain — when what's needed is a strategic approach aimed at taming corporate complexity while establishing a framework for governance and shared responsibility.

The list goes on, pointing to a fundamental truth: company leaders are capable of the kind of change that's needed, but they'll need to think differently and to constantly evaluate their decisions and actions against broader societal impacts. We recognise that this is a daunting challenge, and it is in the spirit of this recognition that we present our 4th Annual CEO Survey — as a snapshot of leaders' sentiment, and as a roadmap of the priorities ahead and how we can collectively address them.



# An improved outlook

This year Azerbaijani CEOs are very optimistic and the current optimism of business leaders across Azerbaijan reflects the worldwide picture, as mass vaccine programmes finally start to offer an assured exit from the pandemic. 71% of Azerbaijani CEOs, and a record 76% globally and 64% in CEE, believe that worldwide economic growth will improve in 2021. That's nearly 16 percentage points greater than the previous record high for optimism, over all the years we have been asking this question in Azerbaijan. It also marks a significant rebound from the spring of 2018, when just 45% of Azerbaijani CEOs expected improved growth.

Little could anyone have known that the coronavirus would strike, causing global GDP to contract 3.5% in 2020<sup>3</sup>—marking its worst performance since the Great Depression. In the wake of such decline, some bounce-back seems inevitable; in China and elsewhere, it's already underway.

The proportion of Azerbaijani CEOs who believe that global economic growth will decline in 2021 dropped by a significant share, from 19% to 5%. This year only 17% of the local CEOs project that global economic growth will stay the same, when in 2020 27% of local CEOs thought so. When it comes to the global results of this question, 76% of global CEOs believe that global economic growth will increase, while 10% of them think it will stay the same and 14% of CEOs consider it will decline.

71%

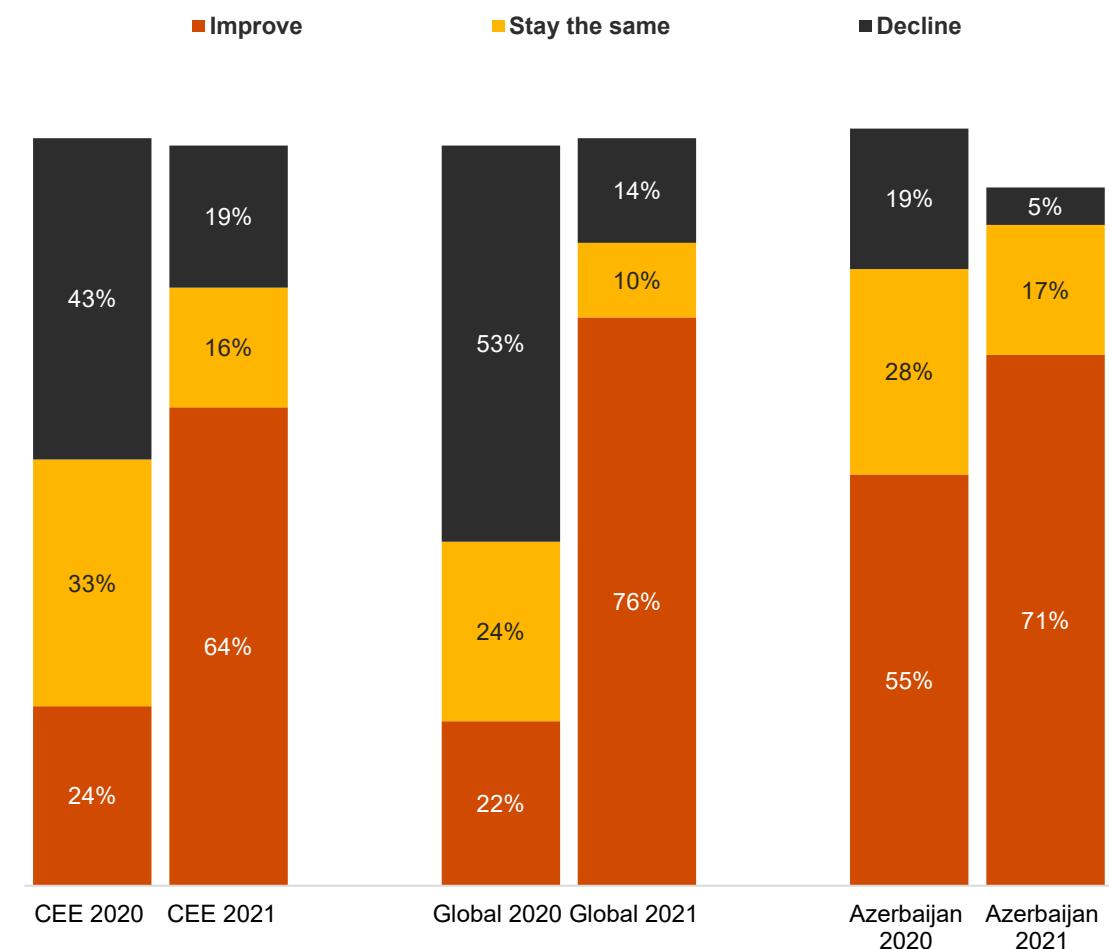
Share of Azerbaijani CEOs who believe global economic growth will improve in 2021

Exhibit 1

## A record share of Azerbaijani CEOs believe global economic growth will improve in 2021

### Question

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



Azerbaijani CEOs' optimism also reflects momentum around vaccine development and rollout in parts of the world. We are by no means out of the woods, but Azerbaijani CEOs see a path forward — for the global economy, and for their own organisations: 42% of Azerbaijani CEOs say they are very confident about their revenue growth prospects for the next year, and 56% are very confident looking ahead three years.

Despite of the fact that this year our country as well as the whole world faced the coronavirus, local CEOs confidence in their own organization's revenue growth has not declined dramatically compared to 2020 (61%).

When it comes to the Global CEO Survey 2021, the confidence level was at 36% and 47% for short and long terms respectively. These results mark a reversion to the mean, and another notable turnaround from the global results in the fall of 2019.

The increasing confidence of Azerbaijani CEOs is tempered by the fact that the start of 2021 has been mixed for Azerbaijan, with a new COVID-19 wave triggering another round of travel restrictions and lockdown measures. As a result, it is understandable that Azerbaijani CEOs are slightly more cautious in the short term, with forecasting revenue growth over the next 12 months.

42%

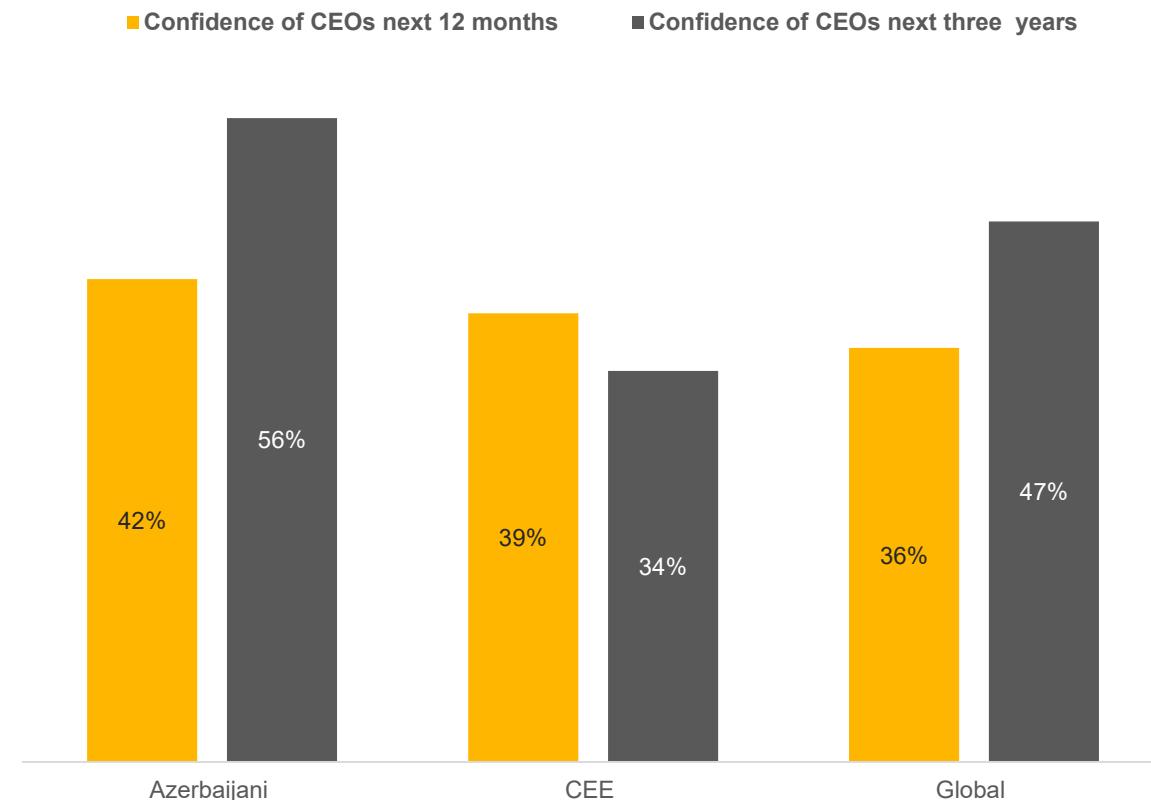
Share of Azerbaijani CEOs who are very confident about their own company's growth over the next 12 months

## Exhibit 2

### Azerbaijani CEO are less optimistic on their own companies' revenue in short-term compared to medium term

#### Question

How confident are you about your organisation's prospects for revenue growth over the next 12 months/three years? (Showing only 'very confident' responses)



Nevertheless, in terms of the profitability over the next 12 months, 63% of those polled in Azerbaijan expect increase in the profitability of their organization, while 29% think it will stay the same and 4% consider it will decline.

There is reason to bank on that sentiment. PwC has analysed CEO confidence levels dating back to 2008 to determine both the direction and strength of global GDP, and the results have consistently led to accurate forecasts. (Our 2020 results represent a rare deviation, because of the pandemic's economic impact the fourth.) Based on this year's responses, we estimate that global growth could rise as much as 5.0%—just slightly lower than recent IMF projections that the global economy will grow 5.5% in 2021 and in line with separate [PwC analysis](#)<sup>4</sup> suggesting it will return to its pre-pandemic size by the fourth quarter of 2021 or early 2022.



**Sustaining COVID-era urgency.** As leaders prepare for the anticipated rebound, a critical question will be: which management approaches should businesses retain from the rapid response mode most of them embraced during 2020? Fast, high-quality decision-making<sup>5</sup>—a hallmark of many companies' pandemic responses—will be on the top of most leaders' 'keep' lists. Priorities include ensuring top management is focused on the big issues that matter most, engaging with people up and down the organisation, revisiting critical decisions frequently, and pushing, early, to understand unintended consequences.

63%

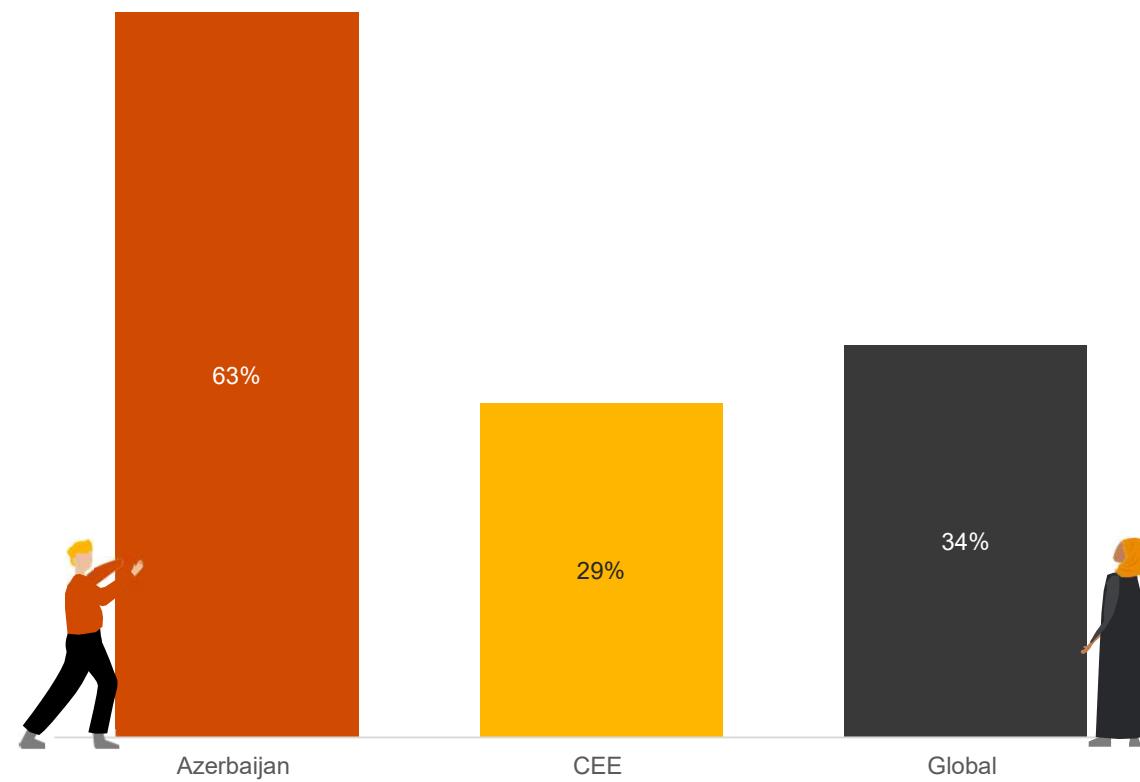
**Share of Azerbaijani CEOs who are very confident of their own company's profitability over the next 12 months**

### Exhibit 3

## Azerbaijani CEOs' confidence in their organisations' profitability over the next year almost twice ahead of CEE and Global

#### Question

How confident are you about your organisation's prospects for profitability over the next 12 months? (Showing only 'very confident' responses)



# Industry effects

In Azerbaijan industries were affected in different ways by COVID-19, as lockdowns and other restrictions changed the way we work, live, move and shop. This disparity is reflected in confidence levels, both in our survey results and in our interviews with CEOs.

It is no secret the hospitality, leisure, transportation

and logistics sectors are among the most affected sectors not only in Azerbaijan but also globally and therefore CEOs from these sectors are less confident about the future.

Asked about changes in consumer behavior in the Hospitality and Leisure industry, resulting from the COVID-19 crisis that have greatest long-term

impact on their organization, 42% of Azerbaijani respondents cite decrease in demand for in-person, large-scale events.

In contrast, technology CEOs are the most confident of all industries, a natural byproduct of the pandemic's digital acceleration.



Almost a half of Azerbaijani CEOs in Telecommunications, Entertainment, Media, Technology, Information, Communications and Entertainment industry said that "increase in demand for contactless experiences" will have the greatest long-term impact on their organisations.

Not surprisingly, CEOs of companies in industries that witnessed favorable changes in consumption patterns during the pandemic also have a positive outlook.

Obviously, beyond CEOs' control, the next one or two years seem to be bumpy in the world and Azerbaijan is no exception. And that is why the common goal of CEOs' across Azerbaijan is engaging in navigating their organisations successfully out of the pandemic, using the recovery strategies and it is a popular growth destination.



#### The pandemic experience, sector by sector.

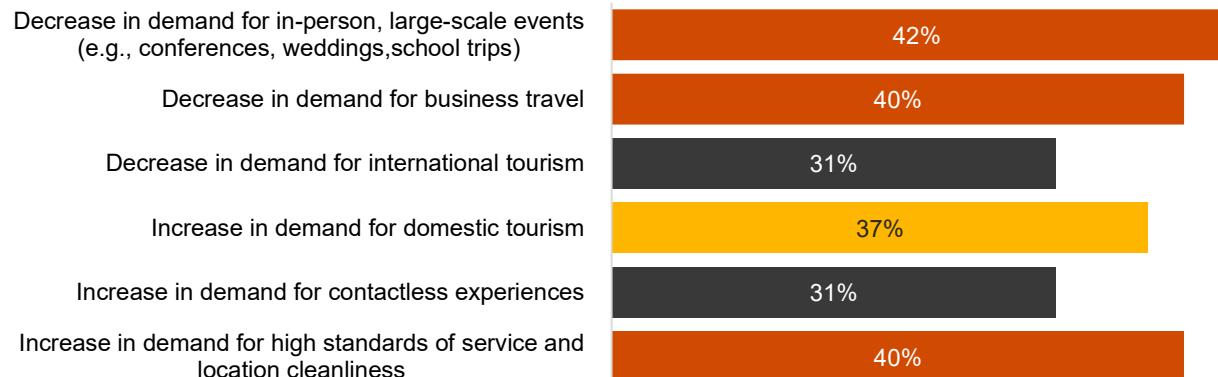
Taking a closer look at the effects on companies in different industries, we see how many will be reinventing their workplaces<sup>6</sup> as the vaccine rollout continues—with flexible work models becoming a permanent fixture for a range of roles, including sales, finance and technology. But striking the right balance will be more challenging in industries such as hospitality, transportation and retail, where business model changes are likely to require significant shifts in deeply ingrained customer behaviours and employee ways of working.

#### Exhibit 4

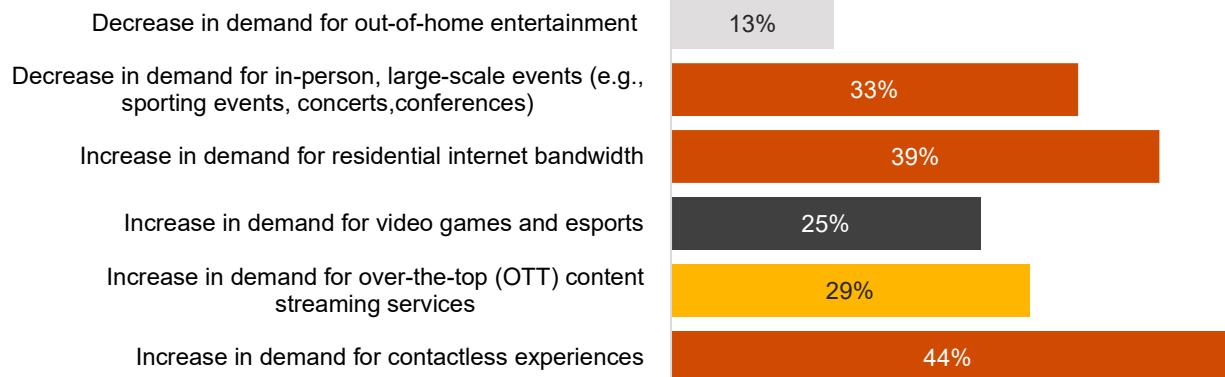
##### Question

In your opinion, which changes in consumer/client behaviour, resulting from the COVID-19 crisis, will have the greatest long-term impact on your organisation?

#### In Hospitality and Leisure industry



#### In Telecommunications, Entertainment and Media, Technology, or Other Technology, Information, Communications and Entertainment industry





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Today Bakcell company's purpose is to enable its customers to communicate anytime and everywhere with a superior customer experience in order to stay close to people and things that matter most to them.

**Rainer Rathgeber**  
CEO of Bakcell



## Lingering anxiety

Despite their confidence, local CEOs are acutely aware of threats in the external environment, starting with the obvious: pandemics and other health crises are the number one threat on this year's list, with 64% of Azerbaijani CEOs stating they are "extremely concerned" slightly more than the global and CEE average. When it comes to global peers, 52% of them are extremely concerned about

64%

Share of CEOs extremely concerned about pandemics and other health crises

pandemics and other health crises. The last time PwC globally asked this question, six years ago, it was selected as an extreme concern by just 9% of respondents.

It is worth noting that Azerbaijani CEOs express increasing concern about cyber threats (33%), tax policy uncertainty (29%) and misinformation (24%). This growing anxiety about cyber threats across Azerbaijan is an inevitable by-product of fast and increasing digitisation by organisations as they implement new technologies and upskill their workforces. A growing number of Azerbaijani CEOs have started to bolster resilience against external and internal cyber threats by utilising technologies that prevent attacks before they begin.

At the time our survey was in the field, new variants of COVID-19 were being tracked around the world, vaccine rollout efforts were uneven in many wealthier nations, and governments in the developing world were struggling to procure doses. The pandemic's staying power raised a host of business-specific questions for

CEOs. It is believed that the anxiety isn't going away and many of these measures will be permanent. Public health officials are speculating that COVID-19 will be endemic, with sporadic repeats thanks to globalisation.

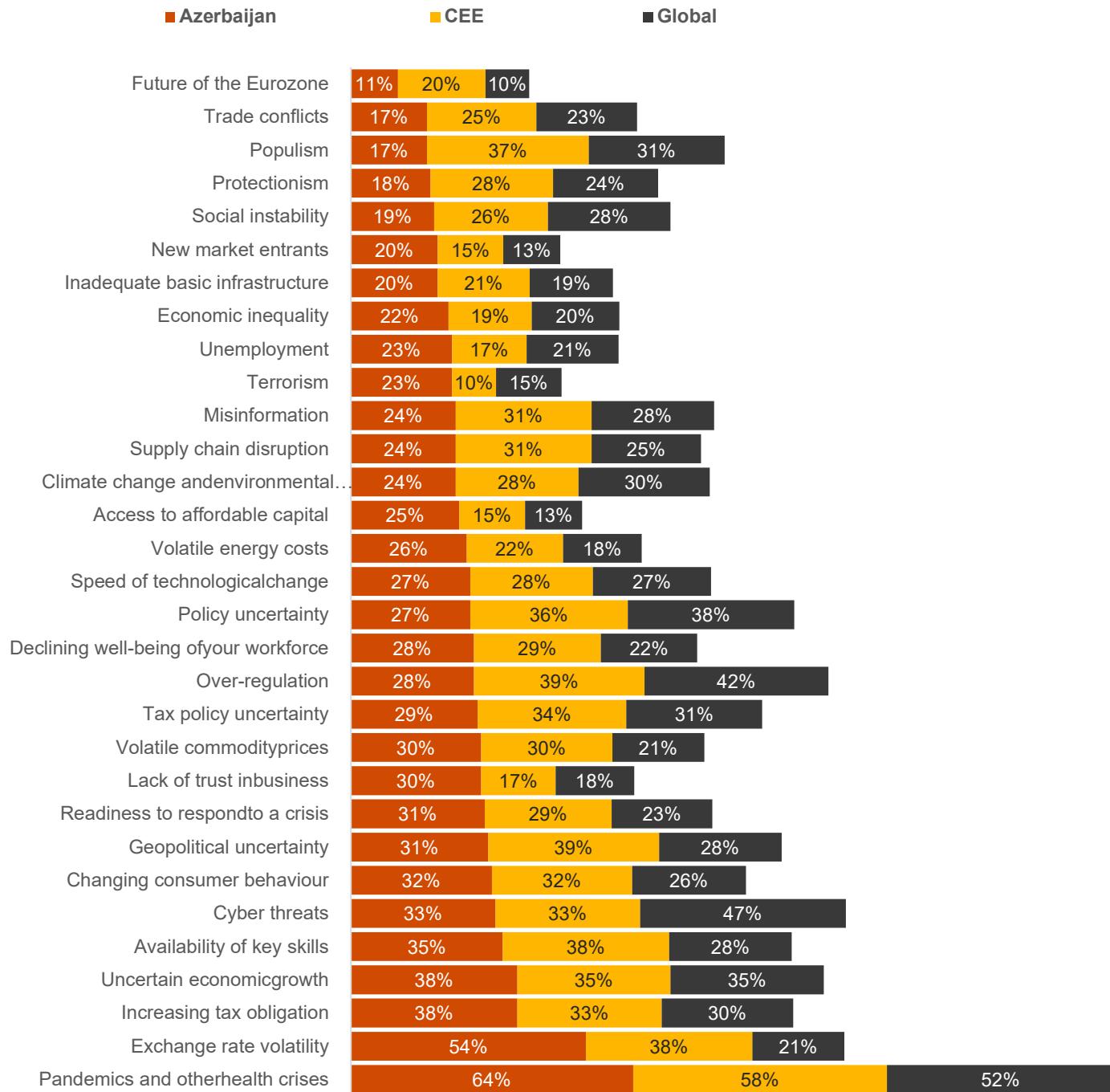
There is also a significant gap between the global survey average and Azerbaijani CEOs on the question of lack of skills as a major threat. 35% of Azerbaijani business leaders cite this shortfall as a specific issue for their organisation, compared with 28% worldwide, illustrating why upskilling features as a business priority for Azerbaijani CEOs. The good news is like their peers worldwide, business leaders across Azerbaijan aware of criticalness of improving the skills of their workforce in the digital era.

Not surprisingly, 46% of respondents in PwC's latest Hopes and Fears survey of employee attitudes in the GCC region say their employer is allowing them opportunities to improve their digital skills outside their normal duties.

## Pandemics is the #1 threat to growth in Azerbaijan

### Question

How concerned are you, if at all, about each of these potential economic, policy, social, environmental and business threats to your organisation's growth prospects? (Showing only 'extremely concerned' responses)



Exchange rate volatility is of significantly greater concern to Azerbaijani respondents than for the global and CEE ones: 54% express extreme concern about this threat (up from 32% in 2020) versus 21% globally and 38% in CEE.

Remarkably, Azerbaijani executives don't share the same level of concern regarding over-regulation, policy uncertainty and populism as their global and CEE peers.

For Azerbaijani leaders geopolitical uncertainty is the eighth-most-pressing concern and 32% of them include geopolitical uncertainty in their risk planning and management, compared with 29% worldwide and 26% in CEE.

Lastly, most Azerbaijani CEOs do not see trade conflicts and future of the Eurozone as a threat to their organisations. Only 19% of them say they include these issue in their risk management planning.



**The wall of worry.** Overall, the sheer magnitude of concern about most threats has increased since our 2020 survey, despite CEOs' rise in confidence. Navigating this tension is a perennial leadership challenge that feels particularly acute at the moment. When we convened PwC's global network leaders in

mid-February to review 24<sup>th</sup> CEO survey results, they observed that, although CEOs tend towards optimism, many had been asking questions about the potential for inflation and the possibility that global markets had priced in too perfect a recovery. The tug-of-war between anxiety and optimism has only increased in recent weeks, with market volatility on the rise.



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Today Yelo Bank's purpose is to be a profitable bank serving entrepreneurs and individuals, and at the same time making their daily life easier by providing simple and accessible financial solutions.

**Anar Gasanov**  
CEO of Yelo Bank



# The climate change challenge

Far more surprising than the rocket-like rise of pandemics on the threat lists of CEOs was the modest rise of climate change as a priority. Last year, 13% of Azerbaijan executives selected climate change as an extreme concern; this year, it was selected by 24%. This may seem like a notable jump, but in the context of rising anxiety about nearly all threats, it represents just a marginal increase.

What's more, another 8% of CEOs report being "not concerned at all" and 26% "not very concerned" about climate change. And 84 % of local CEOs have not yet factored climate into their strategic risk management activities. This may be because climate change is not seen as an immediate threat to growth compared to other

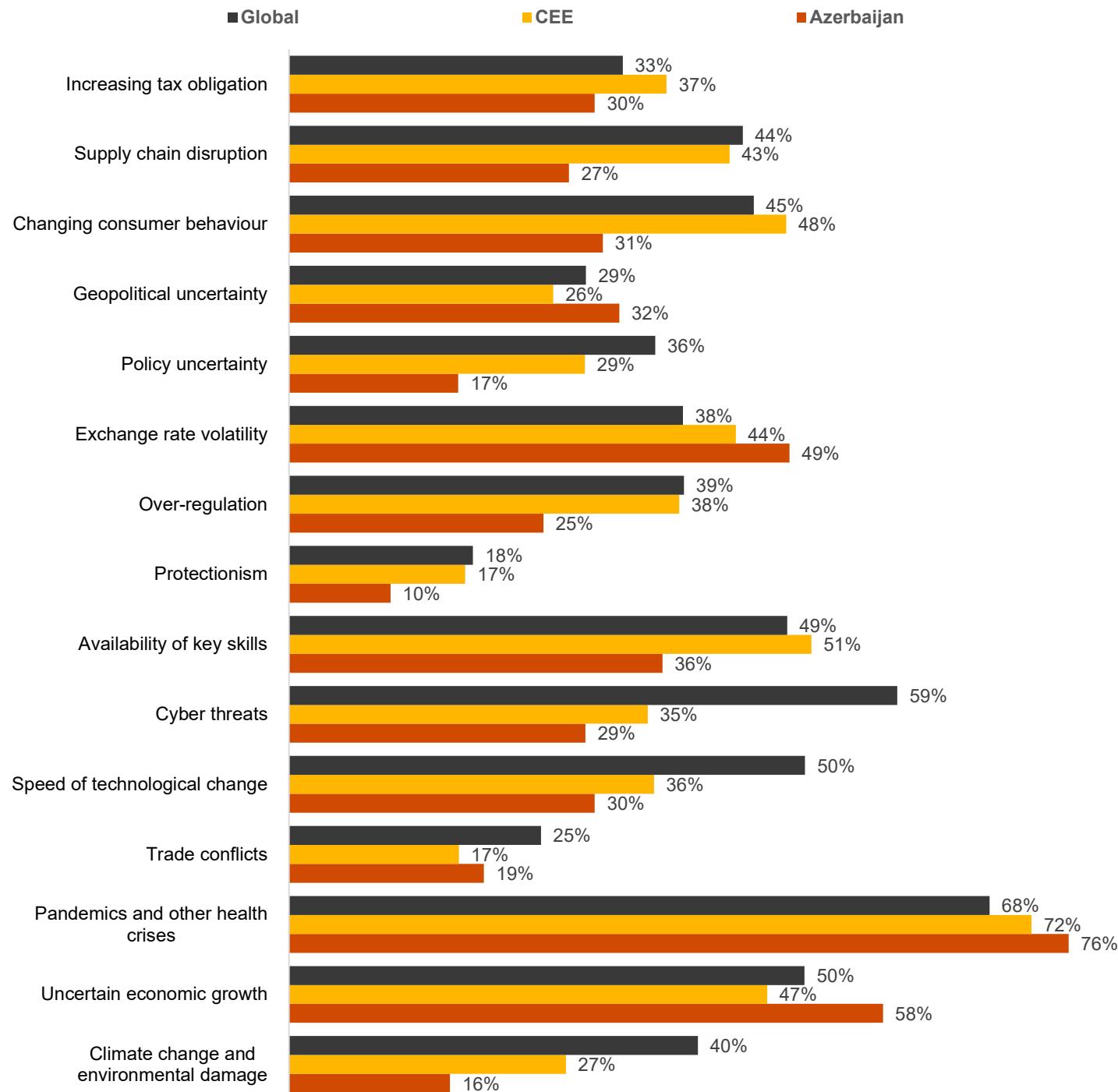
issues such as the pandemic, over-regulation and geopolitical uncertainty. But unlike local CEOs, 40% of global CEOs have factored climate change into their strategic risk management activities.



## Azerbaijani CEOs stand out for being more concerned about climate change relative to preparedness for climate change risk

### Question

Which of the following threats, if any, are explicitly factored into your strategic risk management activities?





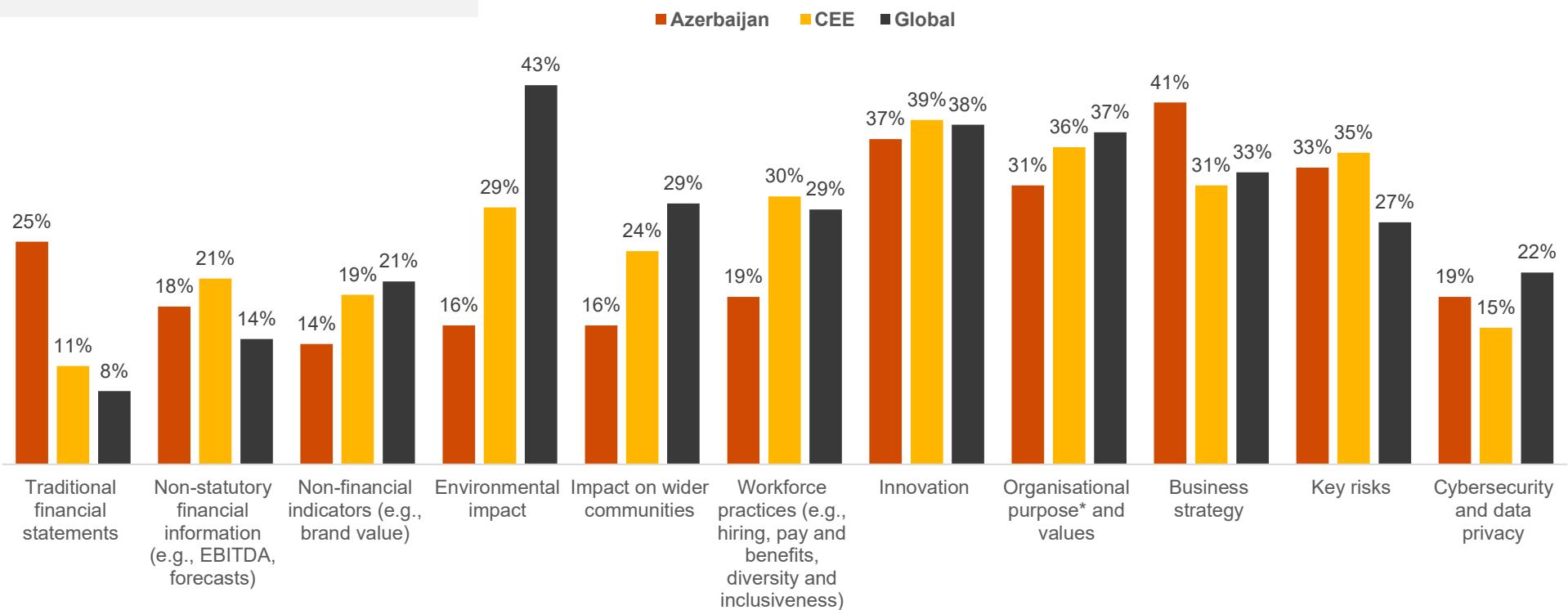
**Transparency and transformation.** Despite extraordinary challenges, 2020 brought a burgeoning number of net-zero commitments.<sup>7</sup> Although business participation continues to lag government targets, CEOs are driving for greater reporting: When asked which areas of their business they should be doing more to report on, 16% of CEOs in Azerbaijan chose environmental impact, almost the lowest share of any area in contrast to the results of the global survey where 43% of CEOs chose environmental impact.

Exhibit 7

## CEOs in Azerbaijan believe their organisations need to do less to 'measure' and especially less to 'report' on their environmental impact

### Question

In which of the following key areas of impact and value do you believe your organisation should be doing more to report?





## Danger lurking online

Cybersecurity and lack of skills both feature as significant business concern for Azerbaijani CEOs, who understandably also remain preoccupied, like their global peers, by the threat from COVID-19. Based on our results, the road ahead in 2021 will still contain many obstacles and dangers – but for CEOs who learn the right lessons from the crisis, potential growth opportunities beckon.

24%

Share of Azerbaijani CEOs who are extremely concerned about misinformation

In contrast with the slow ascent of climate concerns, cybersecurity leapt up the threat list and become the number six concern: it was cited by 33% of Azerbaijani CEOs, compared to 47% of Global results. Likely influencing the response in both Azerbaijani and Global results was the uptick in high-visibility cyberattacks<sup>8</sup> during 2020.

Cyber threat is the top concern for CEOs in the asset and wealth management, insurance, private equity, banking and capital markets and technology sectors. While COVID has brought about a significant increase in digital adoption and transactions, it has also increased the risks associated with digital. <sup>9</sup>

As Azerbaijani CEOs reported, the Covid-19 pandemic caused a drastic decline (47%) in cash usage due to the risk of contamination in Azerbaijan and it is obvious that this trend will continue. The unprecedented surge in the demand for contactless payment has also led to outstanding performances for major companies offering cashless methods. Not surprisingly, therefore, cyber threats explicitly factored into Azerbaijani CEOs strategic risk management activities as a number nine priority.

Also rising rapidly on the list of local CEO concerns is the spread of misinformation (24%), the recent impact of which on reputation and public health has been profound.

At its core, misinformation reflects today's historically low levels of trust<sup>9</sup>; it creates discord and can also be dangerous. Consider, for instance, the falsehoods about COVID-19 vaccines spreading online.

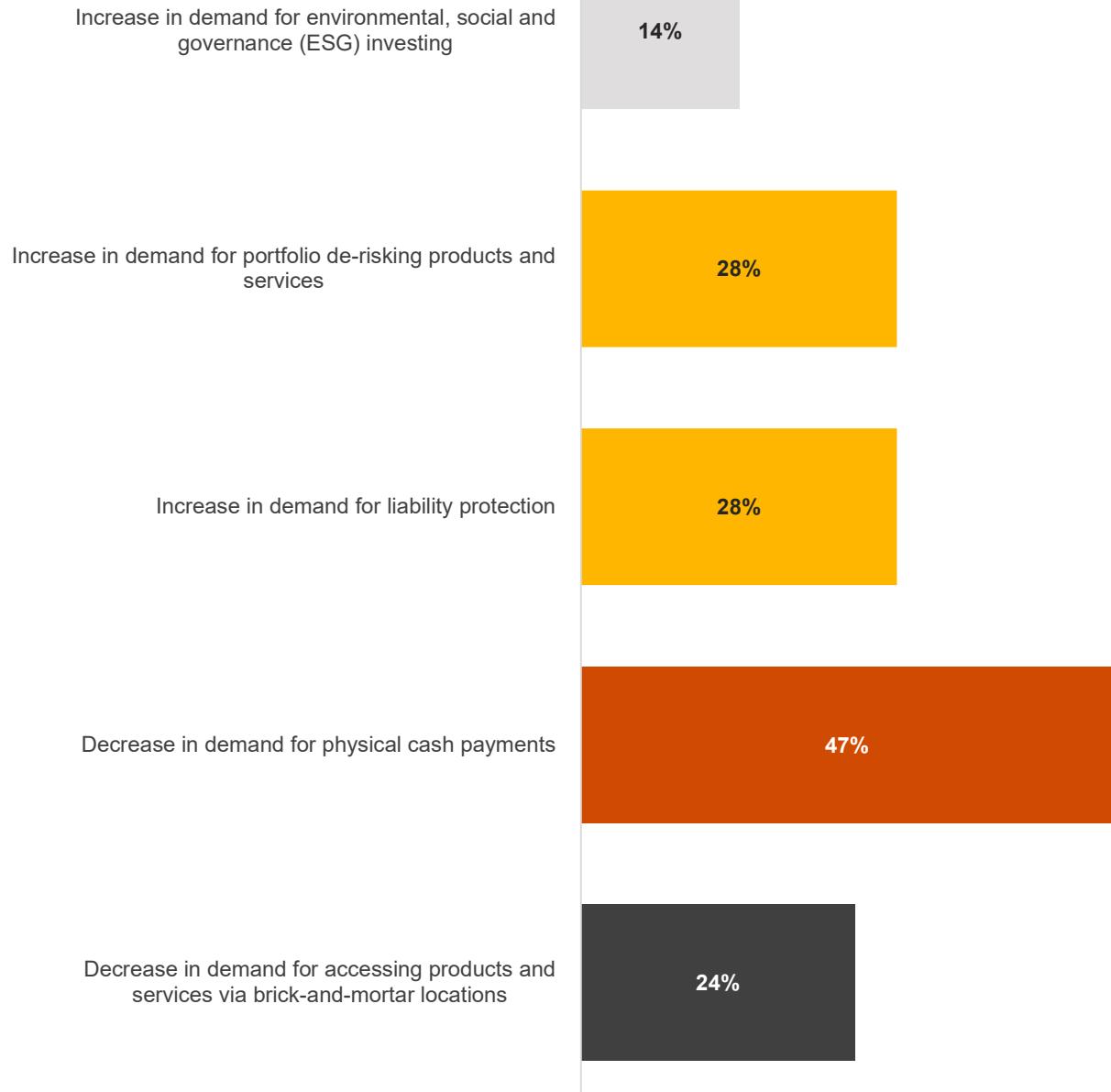
Albert Bourla, chairman and CEO of U.S.-based pharmaceutical company Pfizer – which partnered with the German firm BioNTech to develop one of the first vaccines to earn widespread regulatory approval — acknowledges these challenges: "...Let's focus on getting as many people possible vaccinated and generate data that will convince even the more skeptical.... We have to teach people that the decision to not take it isn't a decision that will affect only themselves. It is a decision that will affect society."

## Exhibit 8

### Decrease in demand for physical cash payments have the greatest impact on Azerbaijani CEOs organisations

#### Question

In your opinion, which changes in the Asset and Wealth Management, Private Equity, Banking and Capital Markets, Insurance or Other Financial Services industry, resulting from the COVID-19 crisis, will have the greatest long-term impact on your organisation?

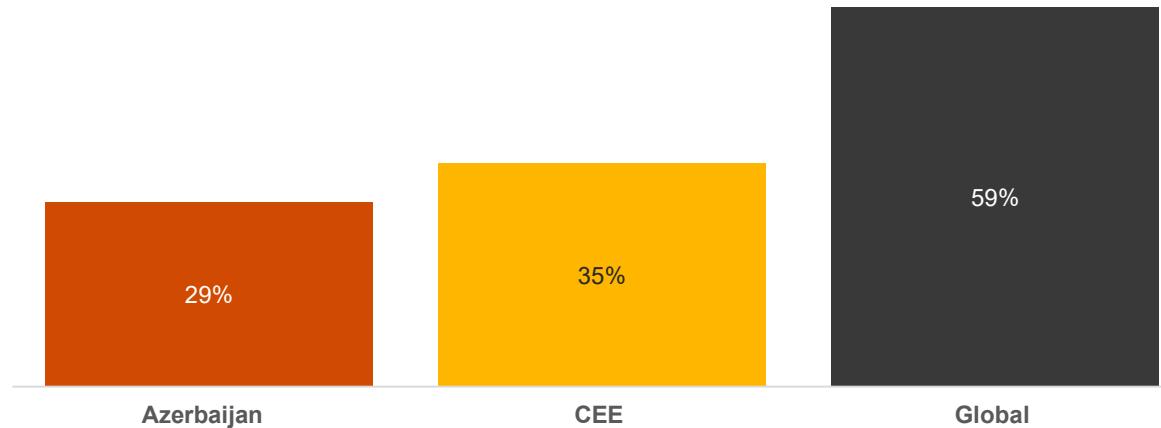




**The perils of corporate complexity.** As companies expand their use of external partnerships to enable digital solutions and layer them onto legacy IT structures, the complexity created tends to generate ever-greater cyber risk. The temptation is to focus security efforts on risk dashboards, surveillance and technical initiatives. But leaders who are serious about cybersecurity also need to embrace simplicity<sup>11</sup> in their strategic dialogue about their business models, ecosystems and in-house processes.

### Exhibit 9

Share of CEOs factored **cyber threats** into their strategic risk management activities





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Today PASHA Bank's purpose is to keep leading corporate bank position in the region with undisputed reputation and financial trends. We dedicated to proactive support of customers, businesses and well-being of employees as well as digitising retail and private banking services.

**Taleh Kazimov**

CEO and Chairman of the Executive Board of PASHA Bank

# Digital acceleration

The increase in Azerbaijani CEOs' concern about cyber threats and misinformation coincides with the

60%

Share of Azerbaijani CEOs plan to invest in digital transformation

rapid acceleration of many companies' digital transformations during the pandemic, with no plans to slow down.

The sudden shift to remote working last year acted as an urgent wake-up call that digitisation and upskilling are critical to future success, in rapidly evolving country economies underpinned by AI, robotics and other emerging technologies. The good news is that 60% of Azerbaijani respondents, compared with 49% globally and 50% in CEE, aim to increase their investments in digital transformation and it's a direct response to the impact of COVID-19.

The key role digitisation will play in the country's recovery and future growth has been underscored by the mass shift to remote working across all sectors.

Azerbaijani government are supporting this transition, as they pursue strategies to build knowledge economies that leverage digital technologies.

The majority of Azerbaijani CEOs realize that digital transformation is absolutely essential. There's no way of getting away from it.

Azerbaijani CEOs try to expand the benefits of technology to everyone, everywhere. To achieve this, they developed a digital inclusion strategy that focuses on three areas: technology, applications, and skills. Azerbaijani CEOs believe that technology will make life better for every individual, home, and organization. In short, adaptation to digital business is smoothly transforming from a choice into a constraint.



Paradoxically, despite the level of concern Azerbaijani CEOs registered about cyberattacks, just 39% plan to invest their spending on cybersecurity and data privacy compared with global average of 23%. And 29% of Azerbaijani respondents, versus 59% globally, say that cyber threats feature in their organisation's risk management.

In addition, 22% of Azerbaijani CEOs think their organisation should be doing more to measure cybersecurity.



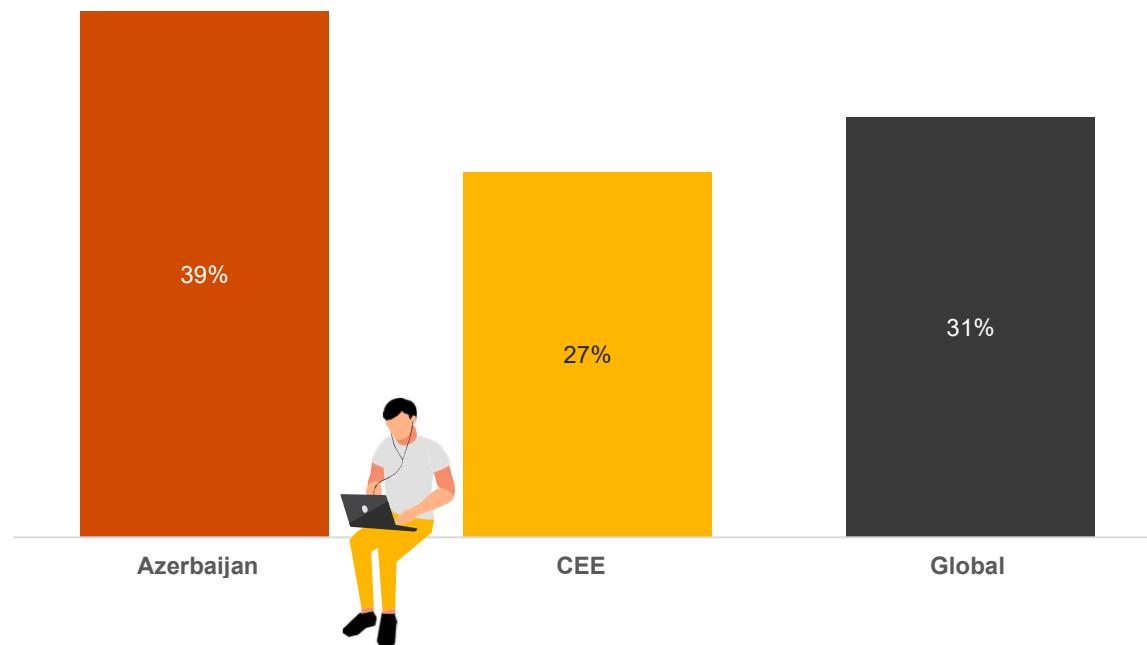
#### Making the most of tech investment.

Quietly riding on the back of the pandemic-induced digital acceleration was a less-visible surge in the adoption of advanced analytics and artificial intelligence (AI) to inform decision-making. Partly as a result, the gap between AI leaders and laggards is widening, according to PwC research. Companies on the leading edge are more deeply embedding AI<sup>12</sup> in customer-focused applications, back-office applications and risk management—while addressing algorithmic bias so that stakeholders trust the outputs.

#### Exhibit 10

## 39% of Azerbaijani CEOs plan increases in cybersecurity and data privacy investments over the next three years as a result of the Covid-19 crises

Share of Azerbaijani CEOs planning to increase **cybersecurity** and data privacy investments



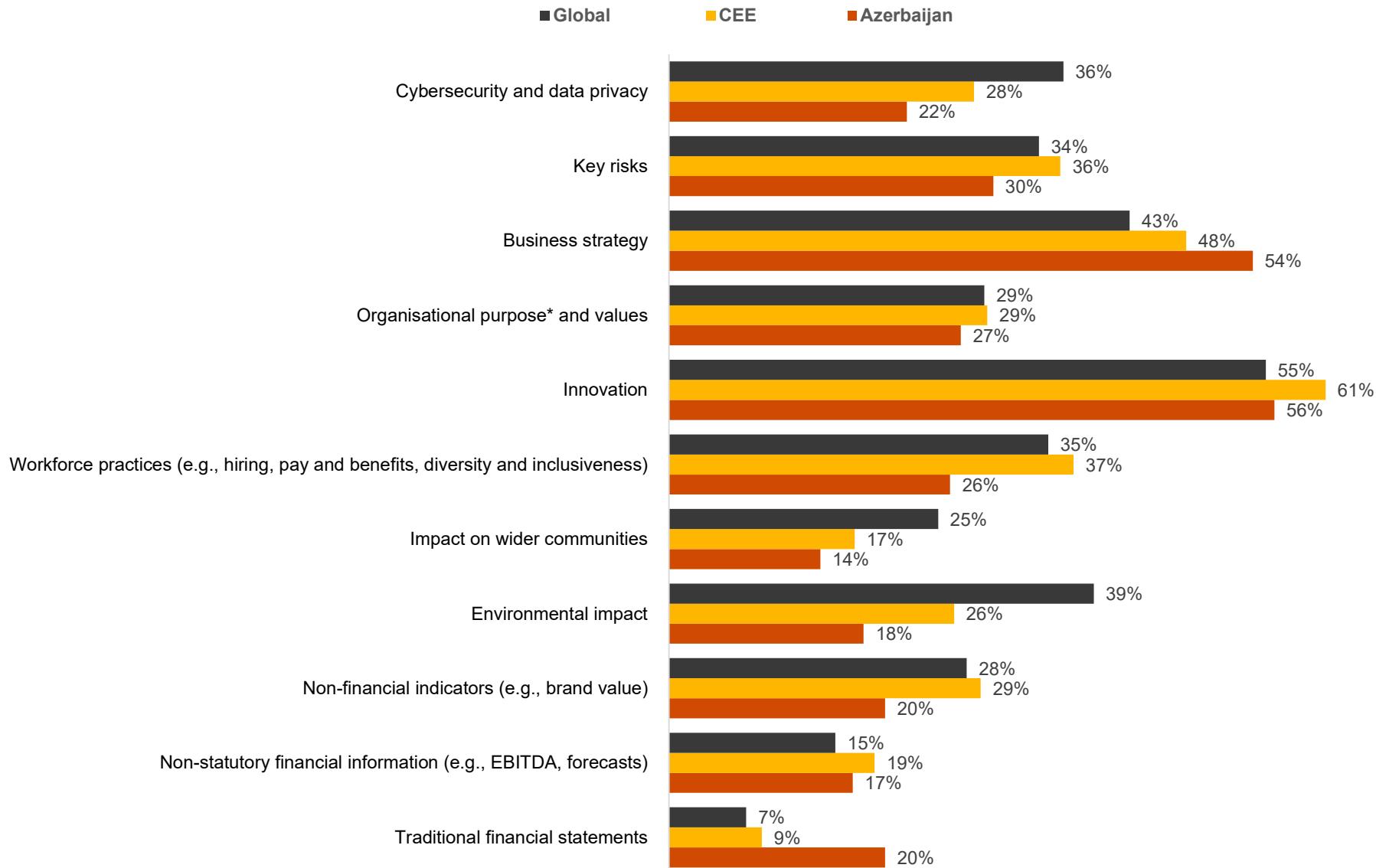
Share of CEOs **adequate physical and digital infrastructure** as a priority



## Azerbaijani CEOs believe their organisations need to do more to ‘measure’ innovation

### Question

In which of the following key areas of impact and value do you believe your organisation should be doing more to measure?





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Today Unibank focuses on increasing the bank's value, it's market share, efficiency as well as technological development to keep the competitiveness.

**Faig Huseynov**  
CEO of Unibank

## People and productivity

Given the diverse scope of challenges that Azerbaijani CEOs are facing as the country undergoes deeper economic transformation, proactively securing and retaining a digitally-enabled, robust and agile workforce is no longer optional for businesses. While there is a keen shortage of new talent in many growth sectors especially in the realm of emerging technology, many companies are now putting faith in their existing employees by upskilling them for the future.

When asked to prioritise the societal outcomes that business should help deliver, Azerbaijani CEOs put the creation of a skilled, educated and adaptable workforce at the top of the list as the same as CEE and Global CEOs. At the same time, a growing number of Azerbaijani CEOs are seeking to boost their organisations' competitiveness through their focus on skills and adaptability in their people; although from this point of view, global and CEE leaders are very different from Azerbaijani ones: 40% of CEE and 36% of global CEOs aim to focus on productivity through technology and automation, which is more than double the share of global CEOs who said the same in 2016.

It is worth noting that across the Azerbaijan, employees as well are increasingly aware that they have to upskill to keep their jobs or qualify for new roles as new technologies are implemented.

67%

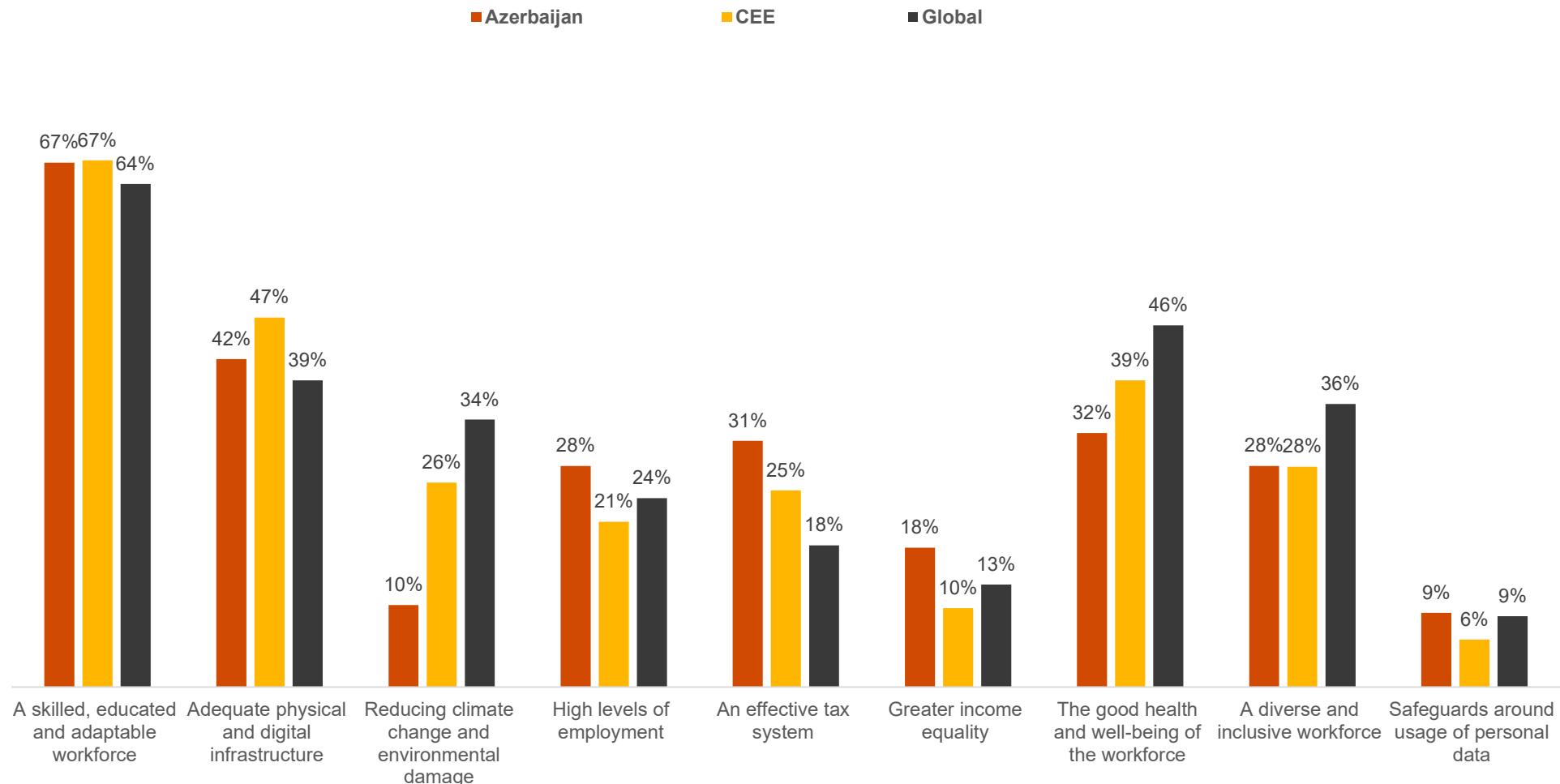
Share of Azerbaijani CEOs believe that a skilled, educated and adaptable workforce is a top business priority



## Azerbaijani CEOs agree that a skilled and healthy workforce are top outcomes for businesses to help deliver

### Question

Which three of these outcomes do you think should be priorities for business to help deliver in the country/territory in which you are based?



# 33%

**Share of Azerbaijani CEOs focusing on skills and adaptability in their people to increase compositeness**

Since vaccines offer hope of an end to the pandemic worldwide, Azerbaijani CEOs are emerging from a year of unprecedented upheaval in a notably upbeat mode. Almost half of the Azerbaijani business leaders that we surveyed are very confident about their organisation's medium- term growth prospects.

As our survey findings show, one reason for their positive outlook is that CEOs across Azerbaijan are putting their experience of weathering the COVID-19 storm to good use as they seek to build more agile, resilient organisations.

The physical and mental health of their employees is a business priority, in a world where the pandemic will continue to disrupt work and home life during 2021.

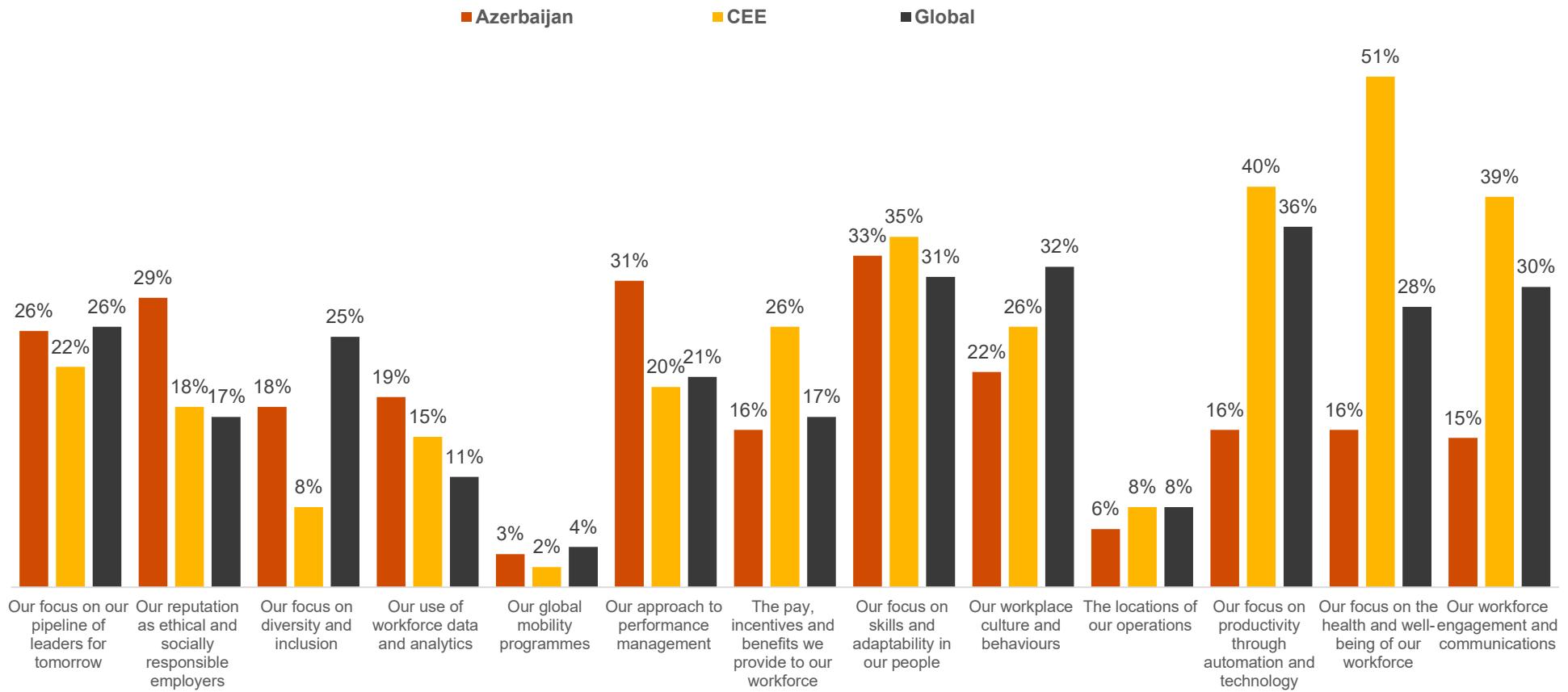
32% of Azerbaijani CEOs regard the good health and wellbeing of the workforce as a priority that businesses should help to deliver. In this context, the mental health of employees is a particular concern, after a year when working and family lives have been severely disrupted.



## CEOs are prioritising skills and adaptability but with a significant sense of the health and well-being of workers

### Question

Which aspects of your workforce strategy are you changing, if any, to make the greatest impact on your organisation's competitiveness?



The increasing focus by Azerbaijani CEOs on technology to raise productivity does not necessarily mean that they envisage smaller workforces when growth returns. In the short term, a few number of Azerbaijan CEOs businesses responded to the COVID-19 crisis by cutting payrolls – 19% of them report that they have reduced their organisation's headcount over the past 12 months by between 8% and 3%, a significantly lower proportion than the global and CEE average respectively. The relatively gentle headcount reduction by Azerbaijani CEOs may in part reflect the instruction of government not to lay off employees because of COVID-19. But despite the government instruction, due to the collapse of many small and medium-sized businesses as a result of the Covid-19, this process has become inevitable for some organisations.

By the start of 2021, some Azerbaijani CEOs appear to feel that they partially decreased their payrolls in the first wave of the crisis, and our findings indicate that as business confidence revives, CEOs are starting to hire again. 39% of Azerbaijani CEOs, more than globally and in CEE, plan to moderately increase their headcount. Technology that delivers growth also requires digitally skilled workers, creating a virtuous circle.



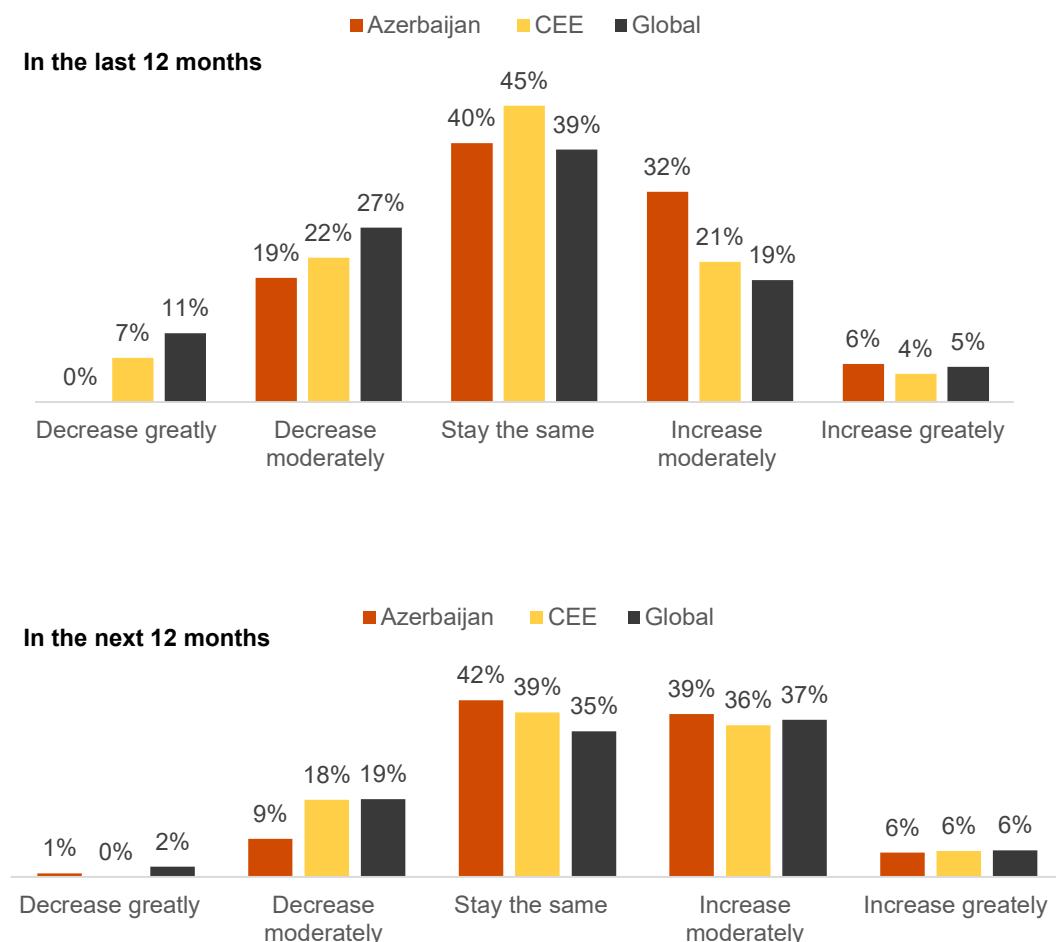
**Addressing asymmetries.** There is another side to this conversation, of course, as productivity through automation threatens to leave some behind. Although just 22% of Azerbaijani CEOs are extremely concerned about economic inequality as a threat to their growth prospects, the pandemic has amplified asymmetries among individuals, companies and countries and raised questions about how we recouple social and economic progress. "Upskilling" or "reskilling" employees to enable their full [participation in the workforce](#)<sup>13</sup> means creating more inclusive and sustainable economies and societies that pull people along and catalyse deeper connections between humanity and the economic marketplace.

Exhibit 14

## Only a small portion of CEOs in Azerbaijan decreased their headcount over the past 12 months

### Question

How has your organisation's headcount changed in the last 12 months, and how do you expect it will change in the next 12 months?



“

Business environment in Azerbaijan is still very much male-dominated. That said, I am starting to see some good improvements which is encouraging. I believe that if we keep diversity and inclusion in mind as we approach the workforce, it can create many opportunities. D&I is not only about gender, but also is about difference of experiences, cultures, perspectives, points of views etc. If we leverage D&I in an effective way, we can actually accelerate the country's development and progress even further.

**Asif Zeynalov**  
CEO of GL LTD



# Taxing times ahead

Increased productivity will be an important driver of Azerbaijani economic recovery, but in the meantime, the government seeking to mitigate the impact of the

29%

**Share of Azerbaijani CEOs who are extremely concerned about tax policy uncertainty, a 20% increase compared to 2020**

pandemic both on the domestic economy and on individuals has taken on substantial debt.<sup>14</sup>

It is perhaps no surprise, that tax policy uncertainty made a notable rise up the list of threats (the #12 ranked concern, up from #18 last year).

Azerbaijani CEOs are undoubtedly watching debts accumulate as governments intervene with stimulus packages, and realise that business will eventually need to pay its fair share.

Cross-border competition seems likely, as governments develop tax schemes to benefit their national interest—creating significant complexity for multinationals with global operations.

CEOs opinion in Azerbaijan on Tax is mixed: Some of them are pretty confident that in a couple of years' time,

the economy, by and large, will be back on its trajectory: less steep, less global, and maybe less interwoven or more balanced, others don't think it will be completely back, since a couple of fundamental changes in local and global trade are expected. That has [mainly] to do with the impact of geopolitics, local politics, the closing of borders, and introducing cross-border taxes.

Platform-based companies over the country, for example, which have profited during the pandemic,<sup>15</sup> could face rising digital taxes from multiple sources. Moreover, greater tax transparency is coming; although already the norm in some parts of the world, this will represent a sea change in Azerbaijan. Anxiety and accountability for how much companies pay in taxes, and where they pay them, appear to be rising in tandem.



54% of Azerbaijani CEOs strongly agreed that “Tax policy changes to address rising government debt levels in the country/territory in which they are based will increase their organisation’s total tax obligation,” compared with 15% CEE and 20% globally. But in response to a broader question, about concern over an “increasing tax obligation,” 38% Azerbaijani CEOs said they are extremely concerned versus 33% CEE and 30% Global CEOs.

Increasing tax obligation is also factored in Azerbaijani CEOs strategic risk management activities. So that with 30% increasing tax obligation is #7 activities in their list while for Global CEOs it ranked #12. It is an indicator that in Azerbaijan this moment poses more of a threat.

Azerbaijani CEOs also think that an effective tax system should be number four outcome for business to prioritise to help deliver.

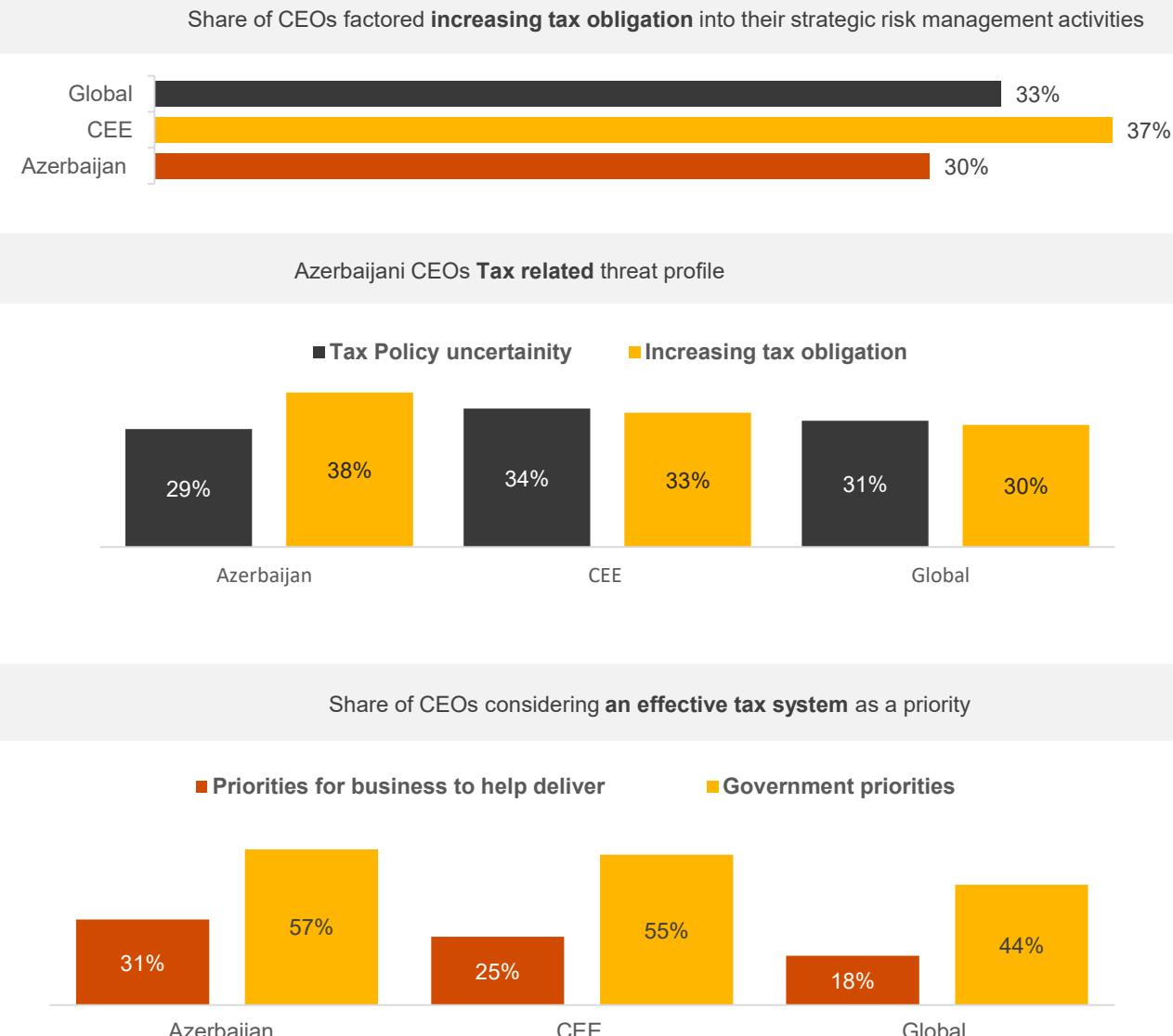


**A new era of compromise.** The tone of tax policy discussion, especially during challenging economic times, tends towards the confrontational. But what we need right now is collaboration based on balance and fairness.<sup>16</sup>

Balance is needed because tax is a global issue; it affects where countries invest, where companies operate and where people work. Fairness may get a boost from stakeholder capitalism metrics that set standards for tax contribution reporting: transparency goes a long way in building trust. .

Exhibit 15

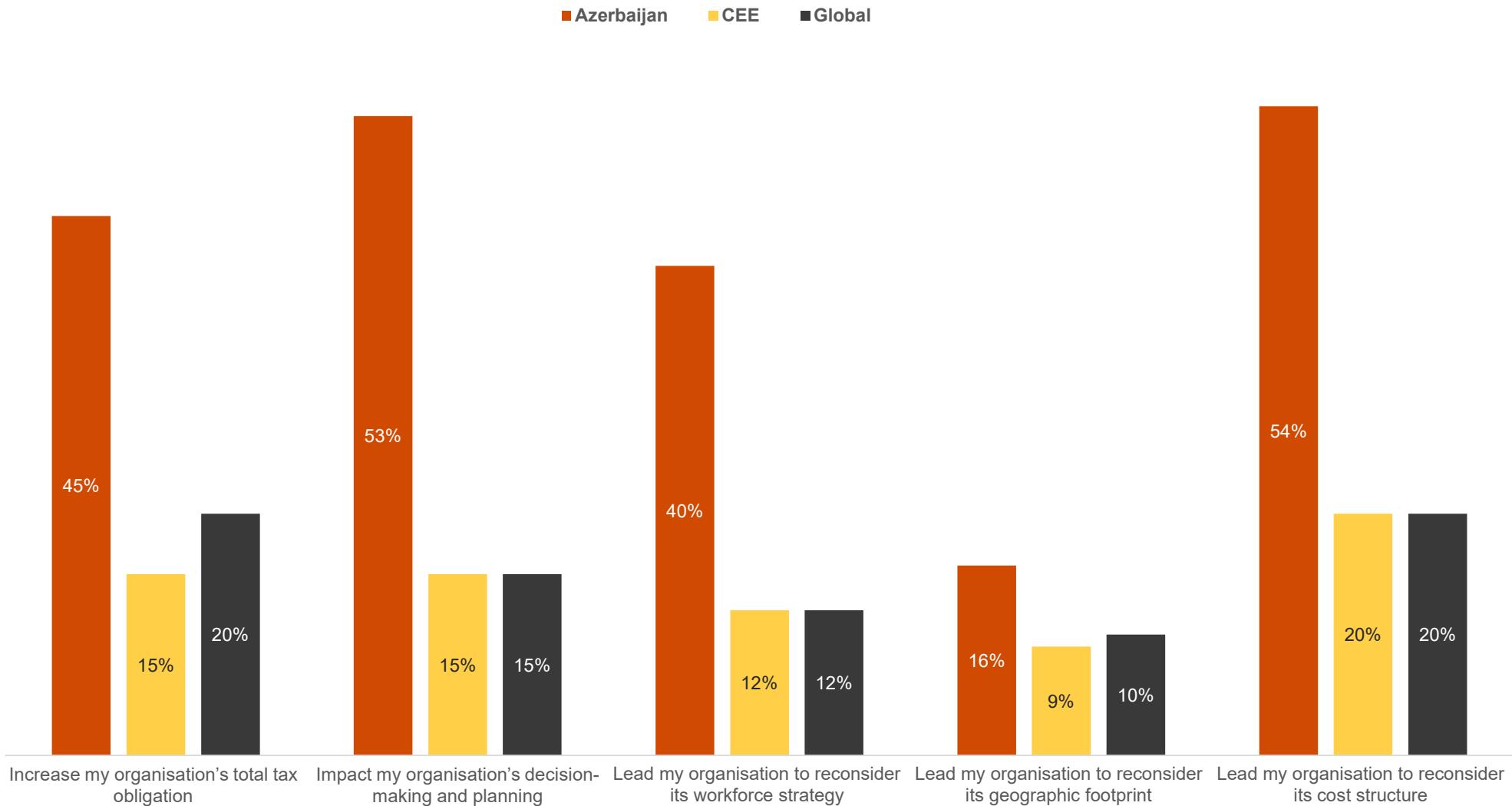
## 30% of Azerbaijani CEOs have factored increasing tax obligation into their strategic risk management activities



## Azerbaijani CEOs believe their organisations' tax obligations will lead them to reconsider cost structure and impact their organisation's decision – making and planning

### Question

Tax policy changes to address rising government debt levels in the country/territory in which you are based will: (Showing only "Strongly agree" responses)



# Global nuance

As cross-border competition heats up global tax debates, Azerbaijani CEOs foresee some cooling of global trade tensions. Both trade conflict and protectionism dropped on the Azerbaijan CEO threat list, in relative and absolute terms.

But there's considerable nuance behind that top-line story. Trade conflict still does not rank as a top-ten threat in Azerbaijan which shows that our country does not depend on export- driven growth. If we look at global results then see that in countries, which have often found themselves at the center of debates, trade conflict is CEOs' top source of worry.

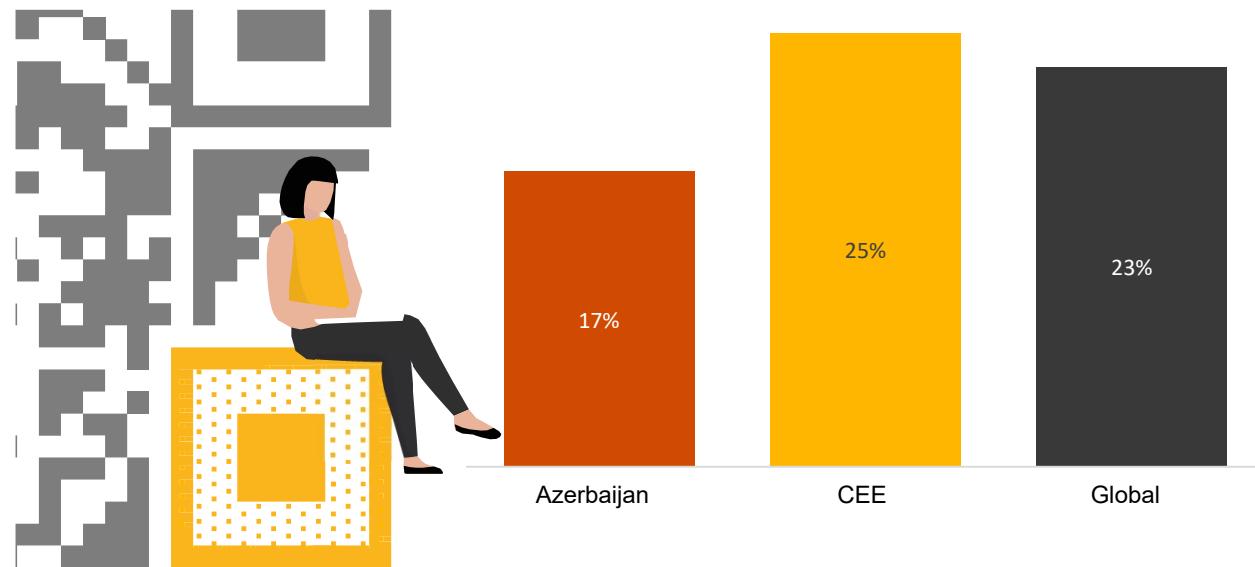
Not surprisingly, share of Azerbaijani CEOs who factored trade conflicts into their strategic risk management activities is well below the global figures.

It's also important to recognise that trade patterns and partnerships are in flux. For example, CEOs in Azerbaijan are reducing their emphasis on Russia as a growth driver, and increasing their focus on Turkey; compared to the findings in our last survey, Azerbaijani CEOs' interest in Russia decreased by 11%.

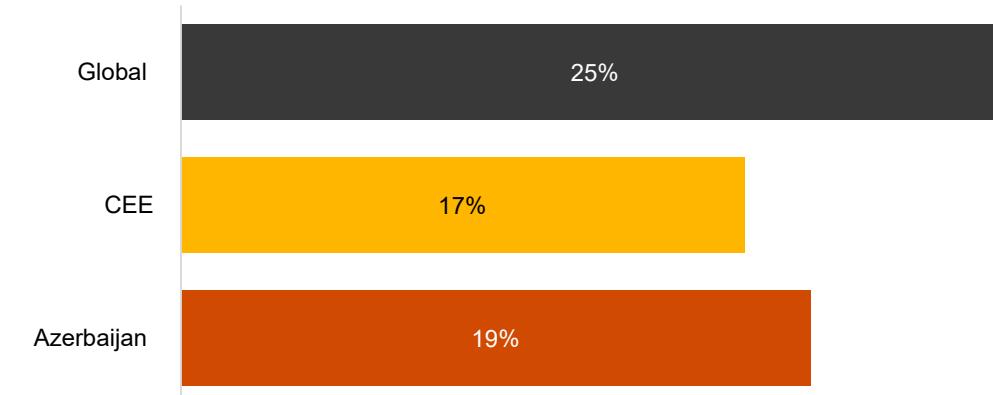
It is obvious that COVID-19 have undoubtedly urged companies in Azerbaijan to reassess their supply chains and focus their attention on alternative markets for growth mainly on Turkey.

## Exhibit 17

Azerbaijani CEOs **trade conflicts** related threat profile



Share of Azerbaijani CEOs factored **trade conflicts** into their strategic risk management activities



The survey results this year confirm this as the US has dropped out of the ranking of top three territories that are most important for executives' overall growth prospects in the next 12 months and Georgia took its place (17%). China is not longer among the top five the most favorable destinations for Azerbaijani CEOs. There are also significant changes in the fifth place. This year Azerbaijani CEOs regarded UK as their fifth most important growth market while in 2020 this place belonged to Germany.

At the global level, the ranking of the countries remains unchanged from 2018 with the USA, Mainland China and Germany being the top three territories that are most important for overall growth prospects over the next 12 month.

The data also shows that with the rise of protectionism, the proportion of Azerbaijani CEOs are increasingly focusing on inward-looking strategies and looking to their domestic markets for growth. 5% of Azerbaijani respondents stated that no other territory was important for growth prospects, compared to 1% that chose this option last year.



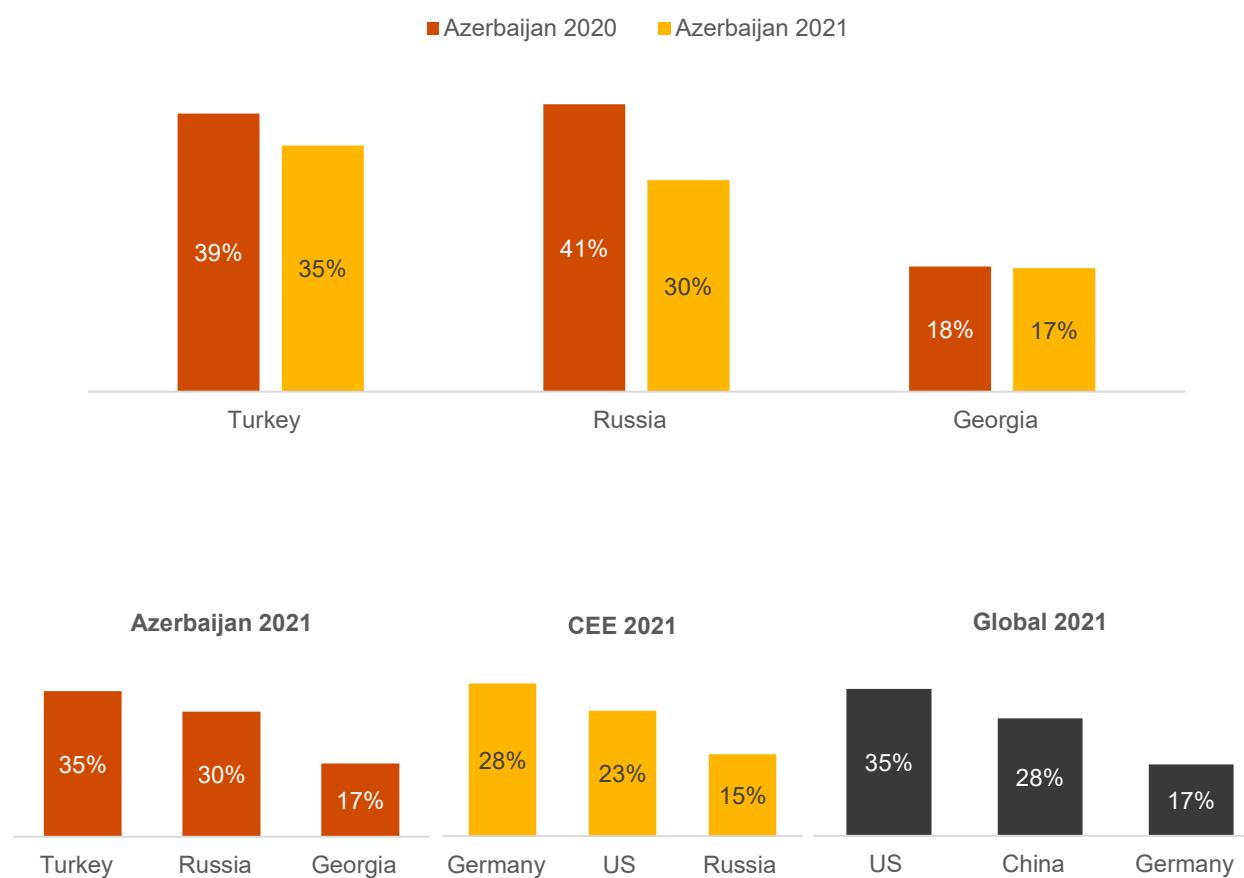
**Is localisation the new globalisation?** Given today's uncertainty, leaders must be prepared to rethink their supply chains, and to develop the ecosystems necessary to make localisation succeed.<sup>17</sup> On what is an already crowded agenda, in other words, CEOs need to understand the implications of policy changes, and to take a more selective approach to new market entry, investing internationally only if they have the acumen and capabilities to compete in a more geopolitically charged world.

Exhibit 18

## Turkey and Russia, two neighbors of Azerbaijan, remain the most favorable destination for local CEOs in terms of their organization's overall short-term growth prospects.

### Question

Which three countries/territories, excluding the country/territory in which you are based, do you consider most important for your organisation's overall growth prospects over the next 12 months?



Our latest findings suggest that Azerbaijani CEOs are drawing on their experience of withstanding the dual shock of COVID-19 and an oil price collapse to build smarter, more resilient organisations. Two lessons in particular feature in our results. Firstly, the abrupt mass shift to remote working last year amid worldwide economic upheaval has pushed employee welfare up corporate agendas.

Secondly, COVID-19's wrenching social and economic impact has prompted CEOs across the Azerbaijan, in line with their peers worldwide, to reassess and overhaul business and operating models, as well as corporate transformation programmes, that were conceived and developed before the pandemic. All business activities are under intense scrutiny, as CEOs seek to reconfigure their companies to make the most of market opportunities that are starting to emerge from the upheaval, with 64% planning operational efficiencies to drive growth.

We have seen an increase in restructuring activity, with Azerbaijani CEOs seeking improvements in operational and financial management as the key to survival and success. Relevant actions include better inventory management, instilling a cash-conscious culture, keeping cash collections under

**64%**

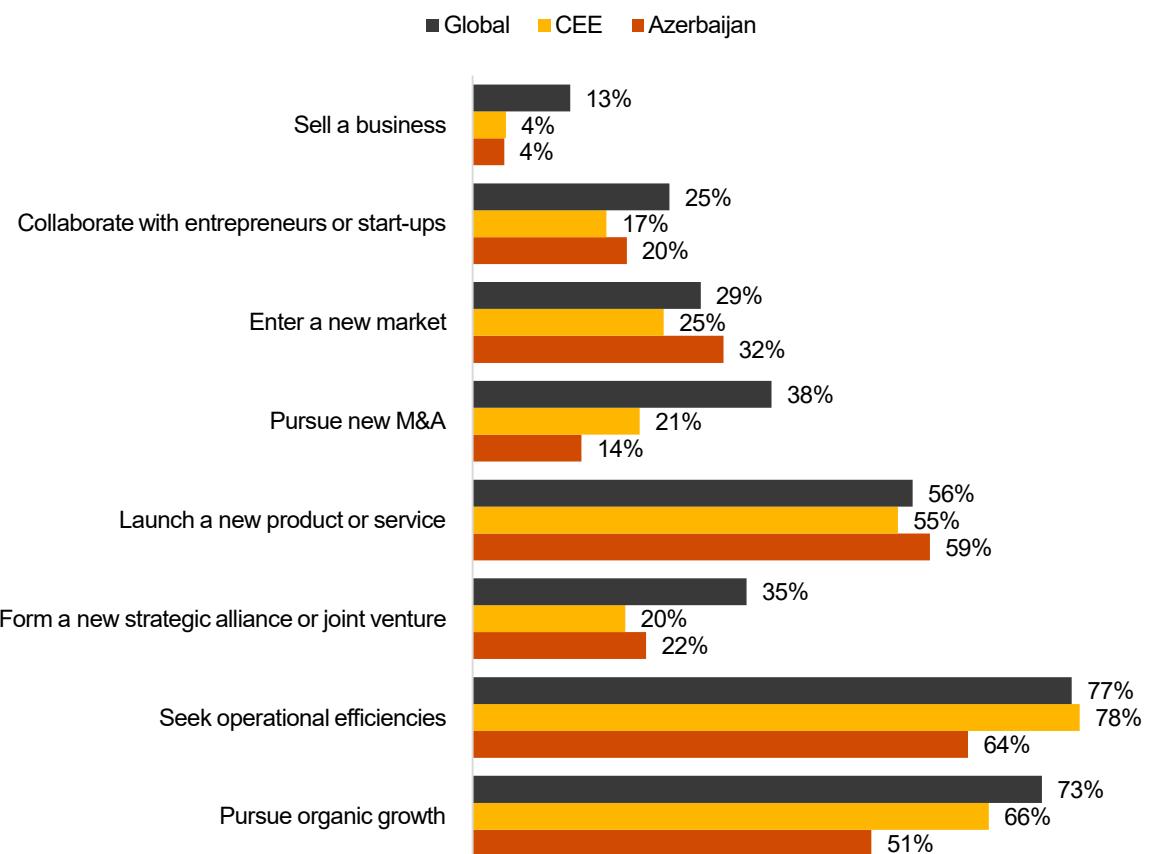
of Azerbaijani CEOs are planning to seek operational efficiencies in the next 12 months in order to drive growth.

Exhibit 19

## Given uncertainty over the pace of the recovery, Azerbaijani CEOs are continuing to primarily rely on operational efficiencies to drive growth

### Question

Which of the following activities, if any, are you planning in the next 12 months in order to drive growth?



constant scrutiny, and only investing in products and services which can rapidly deliver cash returns.

In this transitional landscape, the only certainty is that digitisation and the use of new technologies will be central to corporate transformation in Azerbaijan. The result of survey show that for Azerbaijani CEOs M&A will not have that importance which it has for global CEOs over the next year or two. Around 22% of Azerbaijani CEOs said they hope to form a new strategic alliance or joint venture in the next 12 months.

We also expect to see in Azerbaijan deals linked to government privatisation and economic stimulus programmes, localisation (as companies seek to reduce dependence on imports following the disruption to supply chains caused by COVID-19).

When it comes to driving growth, Azerbaijani CEOs alongside with operational efficiencies plan to launch a new product and pursue organic growth. Significant number of Azerbaijani respondents say they are planning to enter a new market in the next year, more than Globally and in CEE. Nor are they planning to sell businesses (4% versus 13%).

Despite quite positive forecasts for revenues at their own organisations, executives in Azerbaijan seem leaping into new initiatives to realise much more cost efficiencies rather than taking a wait-and-see attitude.

For the next 12 months, less than half of Azerbaijani CEOs are considering to increase Leadership and talent development investments, compared with 24% globally, while 35% are planning R&D and new product innovation investments.

The Covid pandemic is causing leaders in Azerbaijan to reconsider their companies' role in the community: 56% are making or considering changes to their organisational purpose to better reflect the role their organisation plays in society, significantly more than the global total of 43%.



As part of post-pandemic transformation planning, Azerbaijani CEOs are also starting to incorporate ESG and sustainability goals into corporate planning. Although they still lag their global counterparts, 17% of Azerbaijani respondents say they aim to increase investments in ESG and sustainability initiatives over the next three years.

This trend not only reflects rising social awareness among Azerbaijani CEOs. It also makes good business sense, given that younger Azerbaijani consumers are increasingly conscious of ESG issues when buying products and services.

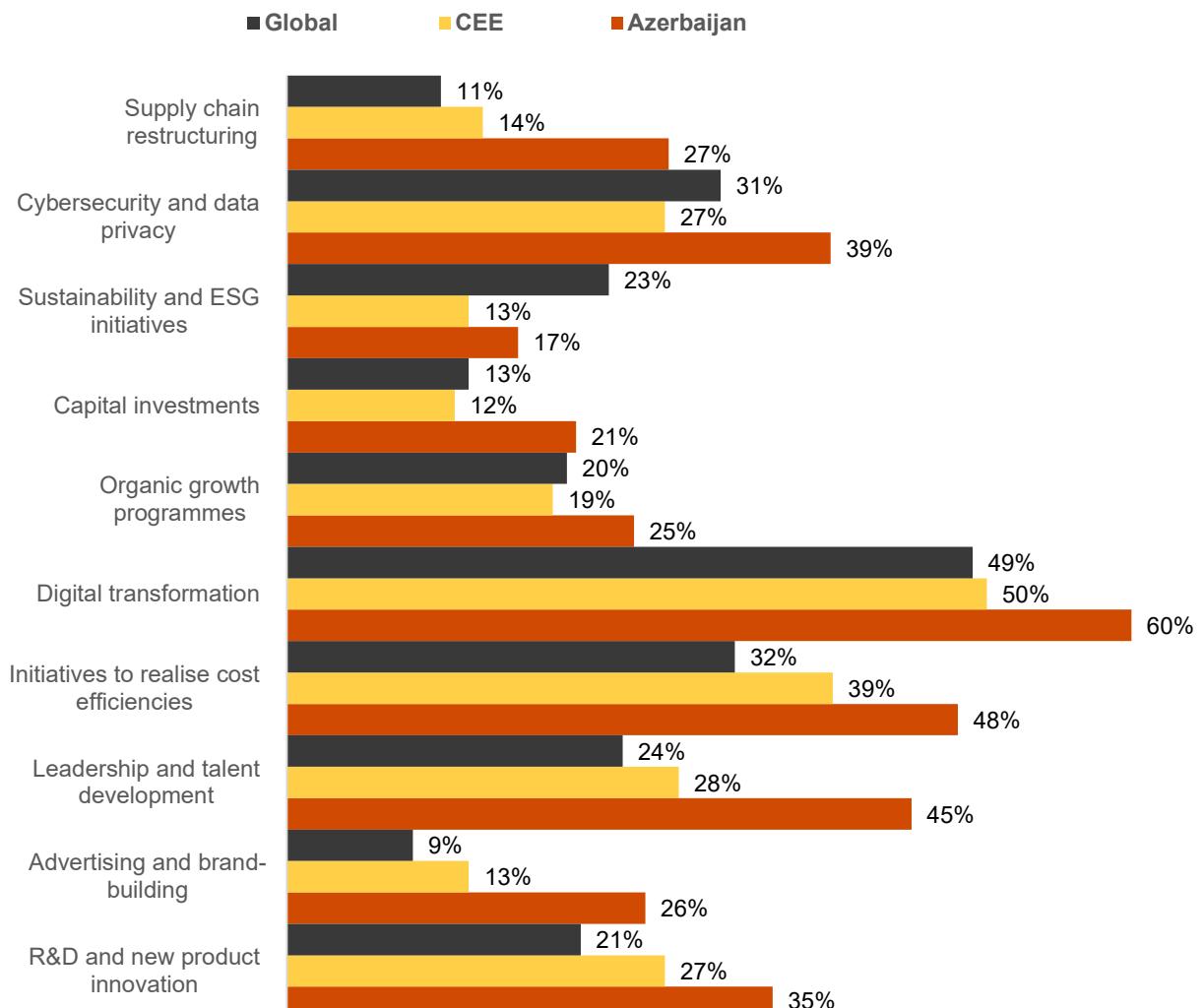
**At the global pandemic's one-year mark, CEOs believe we are turning a corner—both in the world's economic trajectory and in their own possibilities for reinventing the future. Seizing that potential will require building the trust and delivering the sustained outcomes that a weary world is yearning for.**

Exhibit 20

## CEOs in Azerbaijan are even more likely to increase digital transformation investments

### Question

How do you plan to change your long-term investments in the following areas over the next three years, as a result of the COVID-19 crisis (showing only 'increase significantly' responses) ?



“

Today PASHA Holding's purpose is to achieve high standards in corporate governance, hire/retain and develop the best talents locally and regionally for them to grow and lead sustainably profitable businesses and thus contribute to economic development of the countries of operation resulting in well-being of societies in a whole and us, our families and employees in particular.

**Jalal Gasimov**  
CEO of PASHA Holding



# Survey methodology

We surveyed 120 CEOs in Azerbaijan in January and February of 2021. Ninety-five percent of the interviews were conducted online and 5% face-to-face. All quantitative interviews were conducted on a confidential basis.

Among the 120 Azerbaijani CEOs whose responses were used for the report:

- 53% of their organisations had revenues of less than US\$100 million.
- 80% of their organisations were privately owned.
- 72% of their organisations had less than 500 employees.

several disruptive geopolitical events, we moved the fieldwork in an effort to create a dataset that would be meaningful and enduring.

- Not all percentages in charts add up to 100%, as a result of rounding percentages and the decision in certain cases to exclude the display of 'neither/nor,' 'other,' 'none of the above' and 'don't know' responses.
- Percentage differences cited in this report are calculated using full percentage values, not the rounded values that are displayed in the exhibits.

We also conducted in-depth interviews with CEOs from Azerbaijan and some of these interviews are quoted in this report.



## Notes:

- Conducting fieldwork in January and February of 2021 represents a shift from our historical approach. Typically, PwC surveys chief executives for its Annual CEO Survey between September and November, and then releases its report in January of the following year. Given global complexities in the fall of 2020, including pandemic surges, late-stage vaccine trials and

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