

26th CEO Survey: Azerbaijan Report

Winning today's race while running tomorrow's

May 2023



pwc

26th CEO Survey: Azerbaijan Report focuses on a critical question facing leaders today: how to balance reinventing the business to succeed in a changing world with the need to manage short-term pressures and challenges. The findings reflect the growing tensions between transforming the business to adapt to longer-term threats and trends while also navigating increasingly challenging immediate issues like high inflation, macroeconomic volatility and geopolitical uncertainty.

Most of the CEOs surveyed 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 53% believe will see declining growth during the year ahead. We've organised this year's survey summary into several tough questions—which naturally fall into three groups—about what it takes to operate in our dual-imperative world.



The race for the future

The first three questions reflect the race that CEOs must run to stay ahead of longer-term threats to their companies, to society and to the planet itself.

1. What's the half-life of your business?
2. When will your company's climate clock run out?
3. Should you bring your key business risks forward?



Today's tensions

The next two questions speak to day-to-day tensions that leaders are facing as macroeconomic conditions deteriorate, uncertainty rises, and inflation hits levels not seen in decades.

4. How much is your mood today affecting your view of tomorrow?
5. How do your resilience and your workforce strategies fit together?



A balanced agenda

The final three questions epitomise the balancing act that CEOs must perform to deliver on their dual imperative.

6. How much time and money are you investing in the future?
7. How central are you to your company's reinvention?
8. What kind of ecosystem are you building?



PwC Azerbaijan's 6th Annual CEO Survey included responses from 104 Azerbaijani CEOs across all industries and sectors, and the findings show they, too, are grappling with the same issues.

So what does this mean for Azerbaijani CEOs as they prepare for an uncertain economic environment in 2023? Explore below to find out.

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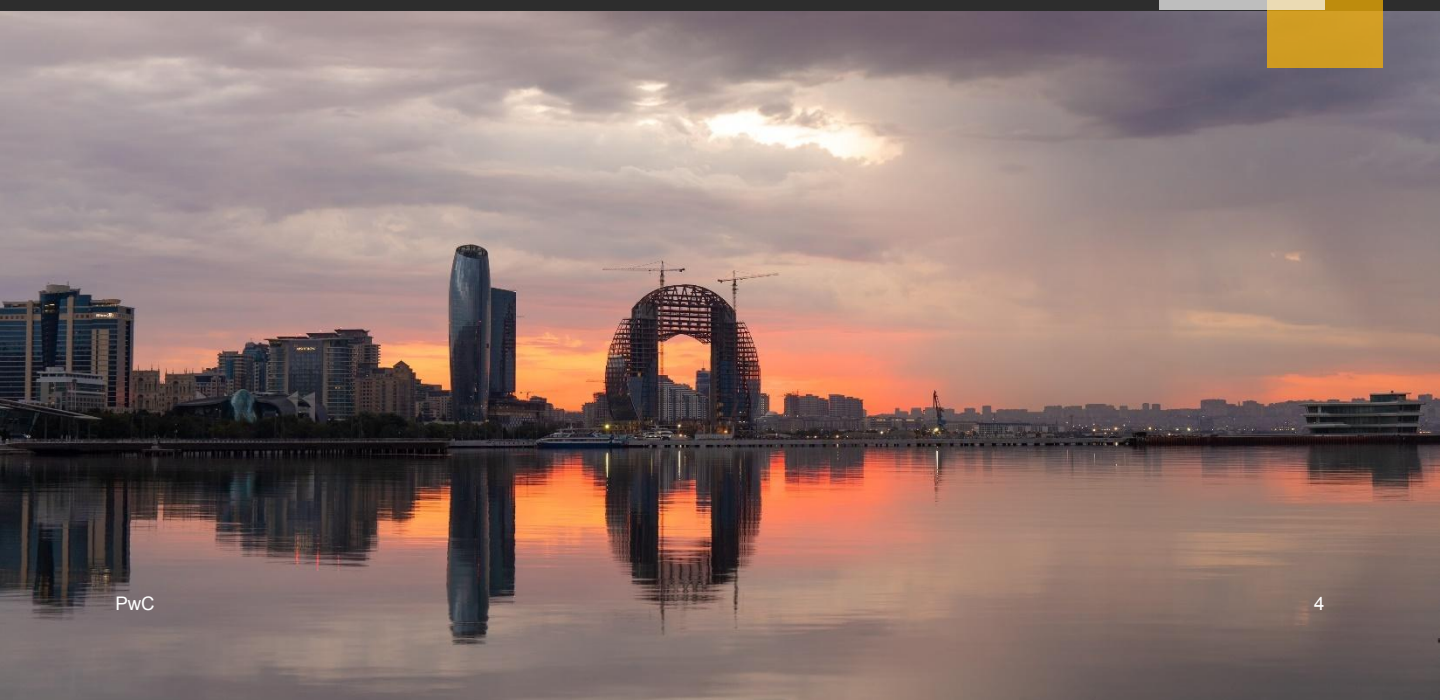
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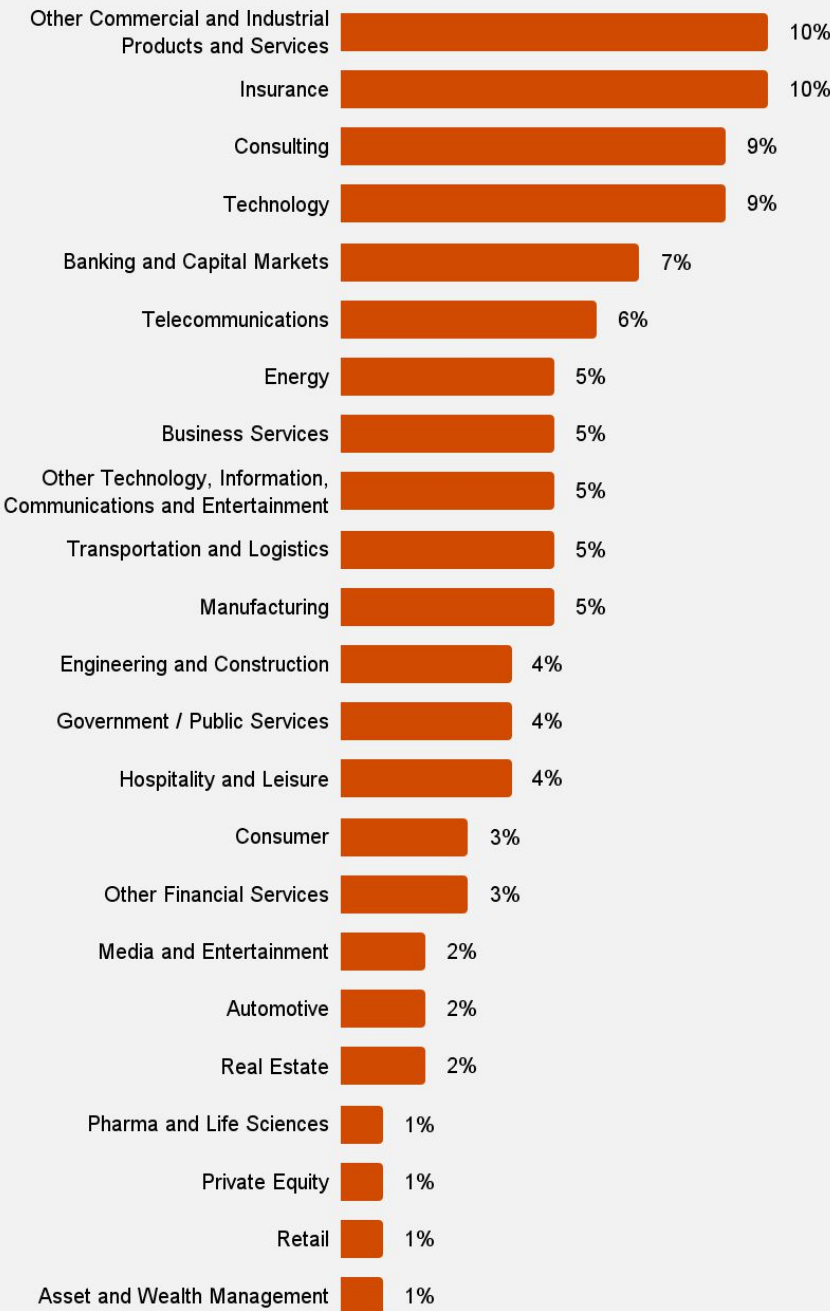


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Azerbaijani CEOs are outliers... they are far more confident about the improvement of economic growth in their country than their global and regional peers in theirs



Who participated?



Key themes for Azerbaijan in 2023

Staying confident

69% of CEOs in Azerbaijan remain upbeat about the country's growth prospects for 2023. 53% of Azerbaijani business leaders foresee a decline in global economic growth over the next 12 months, compared to 73% of global CEOs.



Acting on climate

Only 23% of Azerbaijani CEOs started to innovate new, climate-friendly products and processes, and 15% implemented initiatives to protect their company's physical assets and workforce from the physical impacts of climate risk.



Preparing strategies to respond to threats

Similar to global peers, inflation and geopolitical conflict are the top risks Azerbaijani CEOs will focus on in the next 12 months. The third threat that the country's business leaders are concerned about is health-related risks.

Over half of the Azerbaijani CEOs have already diversified products and services—and a further 79% say they are considering doing so in the next 12 months. Azerbaijani CEOs don't plan to slow their investments and delay deals.



Need to transform business to remain viable

Urgent need for transformation: 48% of CEOs in Azerbaijan think their companies won't be economically viable a decade from now if they continue as is.



Turbo-charging digital

Last year's survey already highlighted the importance of technology to Azerbaijani CEOs with more than half planning significant investments in digital transformation. This year's findings take it up a notch, with 26% of Azerbaijani CEOs expecting to invest in automation processes and systems in 2023.



Challenges in people's experience and culture

- 75% believe current employee behaviours are usually aligned with company values and direction.
- About a quarter of CEOs do often encourage debate or dissent, as well as they do tolerate small-scale failures.
- 72% of Azerbaijani business leaders very rarely make independent strategic decisions for their function or division.



The next steps

CEOs need to prepare for both anticipated and unanticipated disruptions and security risks to keep their businesses viable and growing. The pressing need is to:

- Plan scenarios for a wider range of disruptions, invest in and develop more agile supply chain strategies powered by data and technology to enable real-time responses to crises before they occur
- Customise to create a network of supply chains that is specifically tailored to customer needs and ensure connected dashboards of data, key business metrics and events personalised to decision-makers across the supply chain
- Build rapid-response tech-savvy teams to handle crises and ensure they are supported
- Simplify the complex cybersecurity ecosystem and prioritise investments in the right areas
- Develop a dedicated leadership group that understands the significance of cybersecurity and treats it as a priority

We suggest five actions for Azerbaijani CEOs to manage these complexities and successfully drive transformative leadership:

- Gather a diverse range of insights to help leaders understand the current forces shaping the business environment and make more informed decisions
- Mobilise and empower executive leadership to take action and make decisions that support the business's long-term strategic goals and resilience
- Use a disciplined approach focused on capabilities to balance profitability, transformation and growth
- Adapt leadership approach to address the concerns and aspirations of employees
- Embrace a collaborative mindset and seek out alliances to achieve sustained outcomes

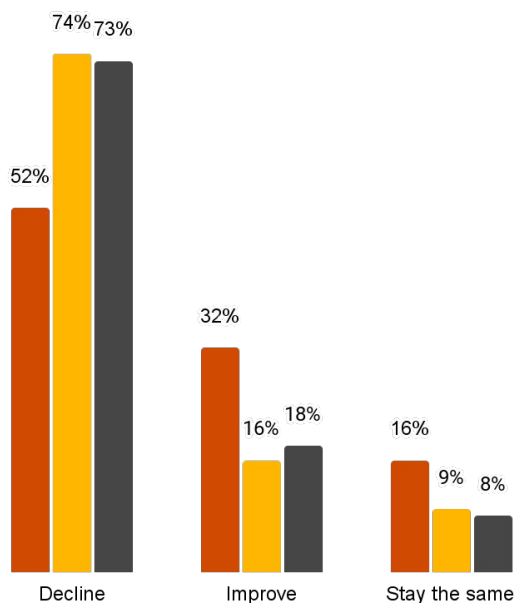


1 What's the half-life of your business?

2022 was a year of shocks, both economic and geopolitical, that dramatically changed the mood for CEOs globally and in Azerbaijan alike. While Russia- Ukraine war sparked turbulence in commodity markets, and the global economy was struck by the biggest surge in inflation in decades. Not surprisingly, over 50% of Azerbaijani CEOs project that global economic growth will decline over the next 12 months, in line with 74% of global CEOs. The expectations marked a significant change compared to the last time Azerbaijan took part in the survey (2021), when 79% of respondents expected an improvement in global growth. That optimism—reflecting a hope that economic conditions would continue improving as momentum around vaccine development and rollout in Azerbaijan and the rest of the world picked up pace—was dashed in 2022 by shocks such as Europe's largest land war since World War II, knock-on effects like surging energy and commodity prices, and accelerating general wage and price inflation.

Azerbaijani CEO's pessimism about global economic growth is high

Question: How do you believe economic growth (i.e. gross domestic product) will change, if at all, over the next 12 months in the global economy?

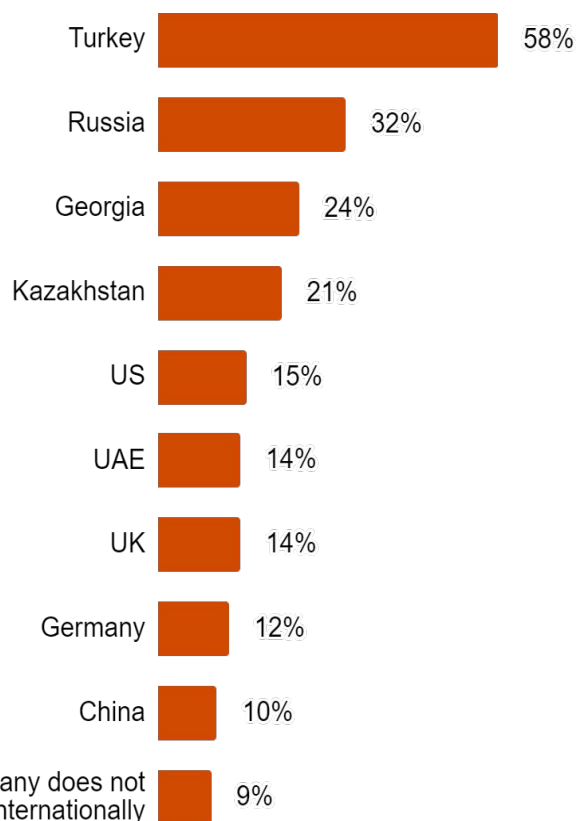


When it comes to seeking expansion opportunities abroad, not surprisingly Azerbaijani business leaders are looking closer to home than before. The shock of the pandemic and the ongoing geopolitical turmoil mean companies around the world are seeking ways to nearshore their business relationships, shortening and strengthening supply chains, and companies in our country are no different. For several years, Turkey (58%) remains the leading country that is important for income growth for Azerbaijani CEOs. Despite the war that sparked turbulence in commodity markets and created challenges for the global economy, CEOs keep seeing growth potential in Russia (32%), although there is a slight decline in the level of focus. Unlike the previous year, Georgia (24%) completes the top three by replacing the US, which was moved lower in the list.

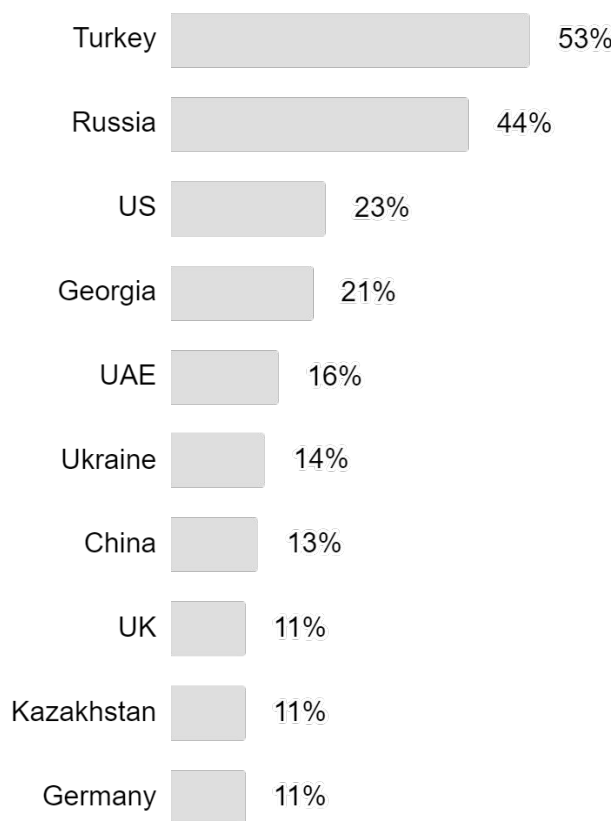
Turkey remains the top spot for foreign investment while Georgia moves into the top 3

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

2023 Azerbaijan



2022 Azerbaijan



2 When will your company's climate clock run out?

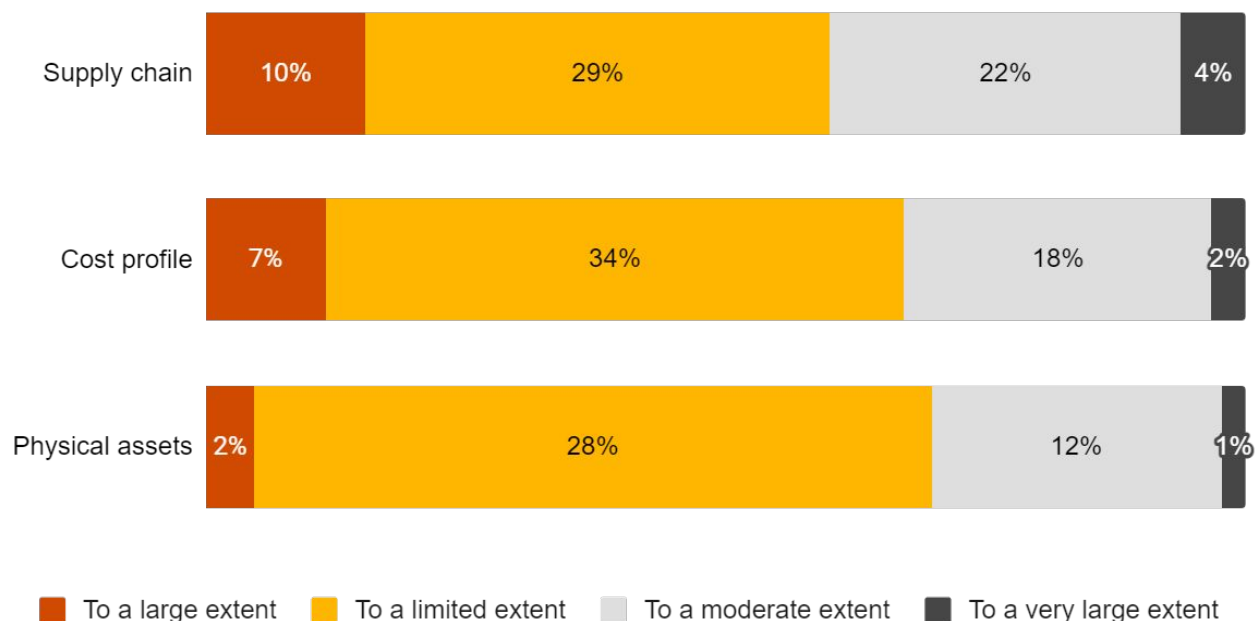


This year's survey highlights a notable change in mindset with respect to climate change and the impact that it could bring to businesses. CEOs' race against time is especially urgent regarding climate change both in our country and globally. It has far-reaching impacts on businesses, affecting everything from supply chains to the physical infrastructure of companies.

Over the next 12 months, Azerbaijani CEOs see climate risk moderately impacting their supply chain (22%) and cost profiles (18%). Fewer are worried about climate-related damage to their physical assets (12%). A rise in sea levels, changes in rain patterns and temperatures, and the possibility of natural disasters can negatively impact Azerbaijan's major urban centres and industrial resources located along the coast. Companies must be proactive in responding to the changing preferences of consumers and investors to succeed in a rapidly changing world.

Over the next 12 months, CEOs see climate risk impacting their cost profiles and supply chains 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?



3 Should you bring your key business risks forward?

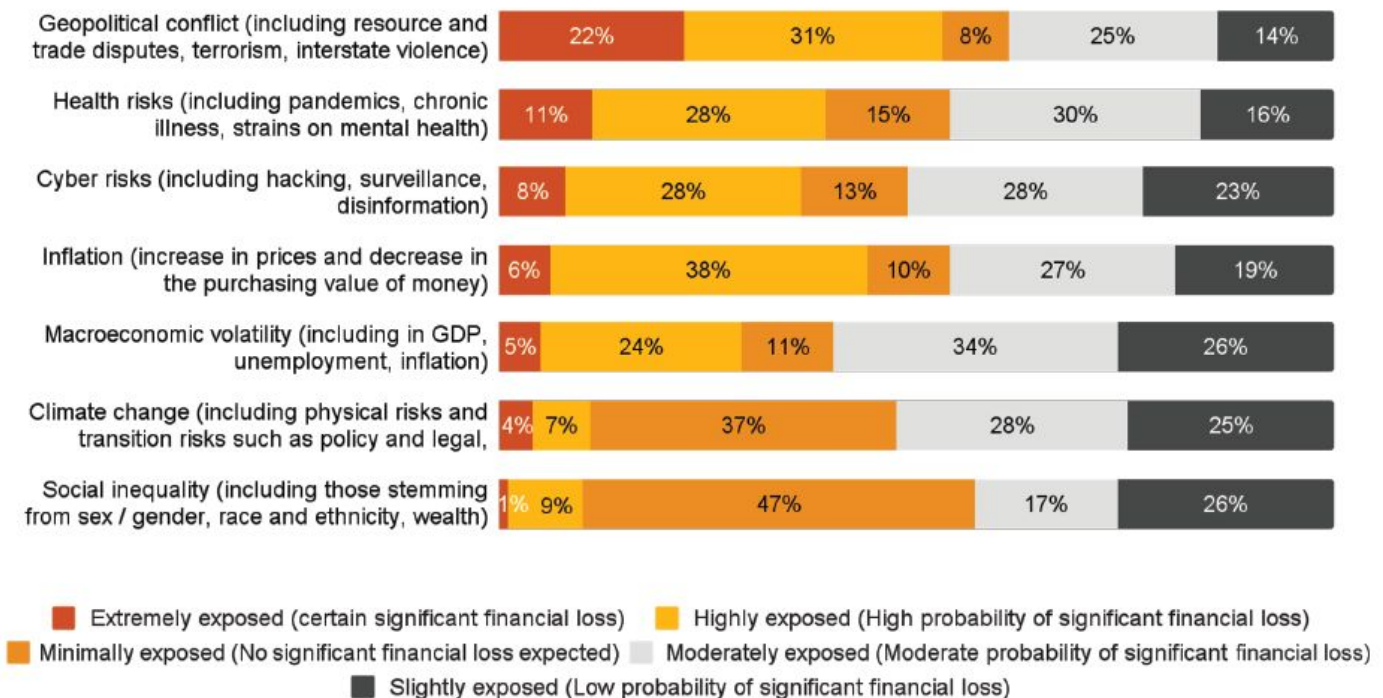
Our latest findings show that the three big challenges are their companies' exposure to inflation, geopolitical conflict and health risks. In this regard, they share the same preoccupations as their global counterparts.

Inflation becomes the top threat for the Azerbaijani CEOs during the next five years, which is exactly the opposite of their responses to the impact of climate change and social inequality. Chief executives say they are minimally exposed to climate change (37%) and social inequality (47%) threats in the near term.

Cyber risks, as well as health risks, have a high impact on companies for 28% of Azerbaijani CEOs each, but that is much less than the share of Azerbaijani business leaders who mentioned it a year ago—36% and 62%, respectively. Cyber risk hasn't gone away, of course, but the broader, troubled context has eclipsed it. Effective management of cyber risk is essential for the long-term success and sustainability of any business in today's digital landscape.

Inflation and geopolitical conflict are the top concerns in the next 1–5 years

Question: How exposed do you believe your company will be to the following key threats in the next 1–5 years?

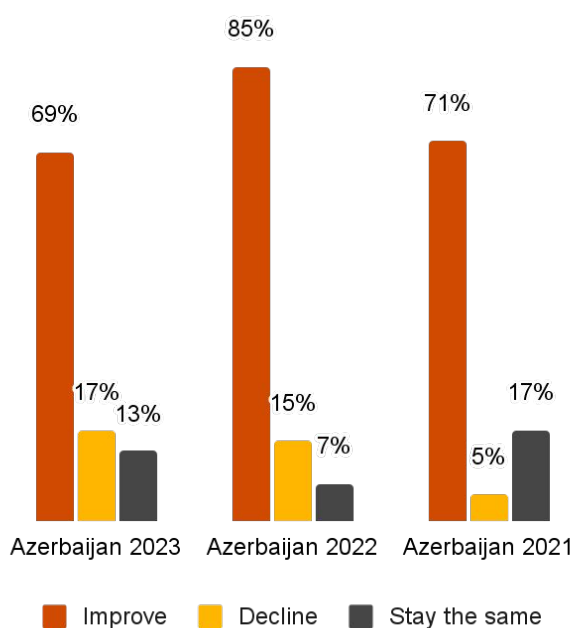


4 How much is your mood today affecting your view of tomorrow?

It is important to contrast this pessimism about global growth with continuing confidence—albeit tempered—about growth prospects in Azerbaijan. CEOs are not as sure about continued economic growth in Azerbaijan as they were a year ago, when 85% told us they expected an improvement over the following 12 months. Nonetheless, a majority— 69%—remain upbeat about Azerbaijan's growth prospects for 2023. To that extent, Azerbaijan is an outlier since neither CEE nor Global CEOs have the same optimistic perspective. In CEE, for example, only 24% of CEOs expect improvement in their country/territory in 2023, while globally—just 29% do.

Azerbaijani CEOs are far more confident about economic growth in their own country than their global and regional peers are about theirs

Question: How do you believe economic growth (i.e., gross domestic product) will change, if at all, over the next 12 months in your country?

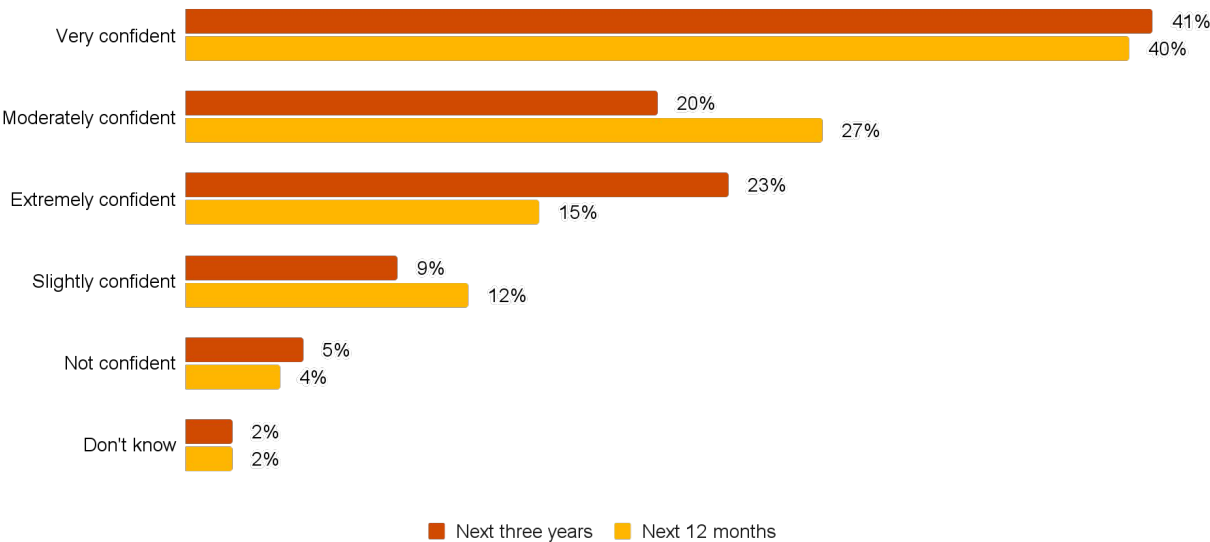


Despite their gloom about macro conditions, CEOs in Azerbaijan are quite confident when it comes to things they can directly control: they are as optimistic as the global average on their own company's revenue growth prospects over the next 12 months, with 40% saying they're "very confident" versus 42% globally. Their optimism is almost the same when looking at a three-year horizon—41%. As for CEE, 50% of business leaders say they're confident in their company's growth in the next three years (globally: 53%). Last year's optimism, driven by the waning of the global pandemic, was dashed in 2022 by shocks such as geopolitical conflict, surging energy and commodity prices, and accelerating general wage and price inflation. While CEOs are already grappling with most of the issues that have occurred, we hope to help them zero in on their biggest possibilities and vulnerabilities through this report.

Compared to last year, Azerbaijani CEOs' confidence in their company's growth prospects didn't decline dramatically

Question: How confident are you about your company's prospects for revenue growth over the next 12 months/next three years?

2023 Azerbaijan



2022 Azerbaijan



5 How do your resilience and your workforce strategies fit together?

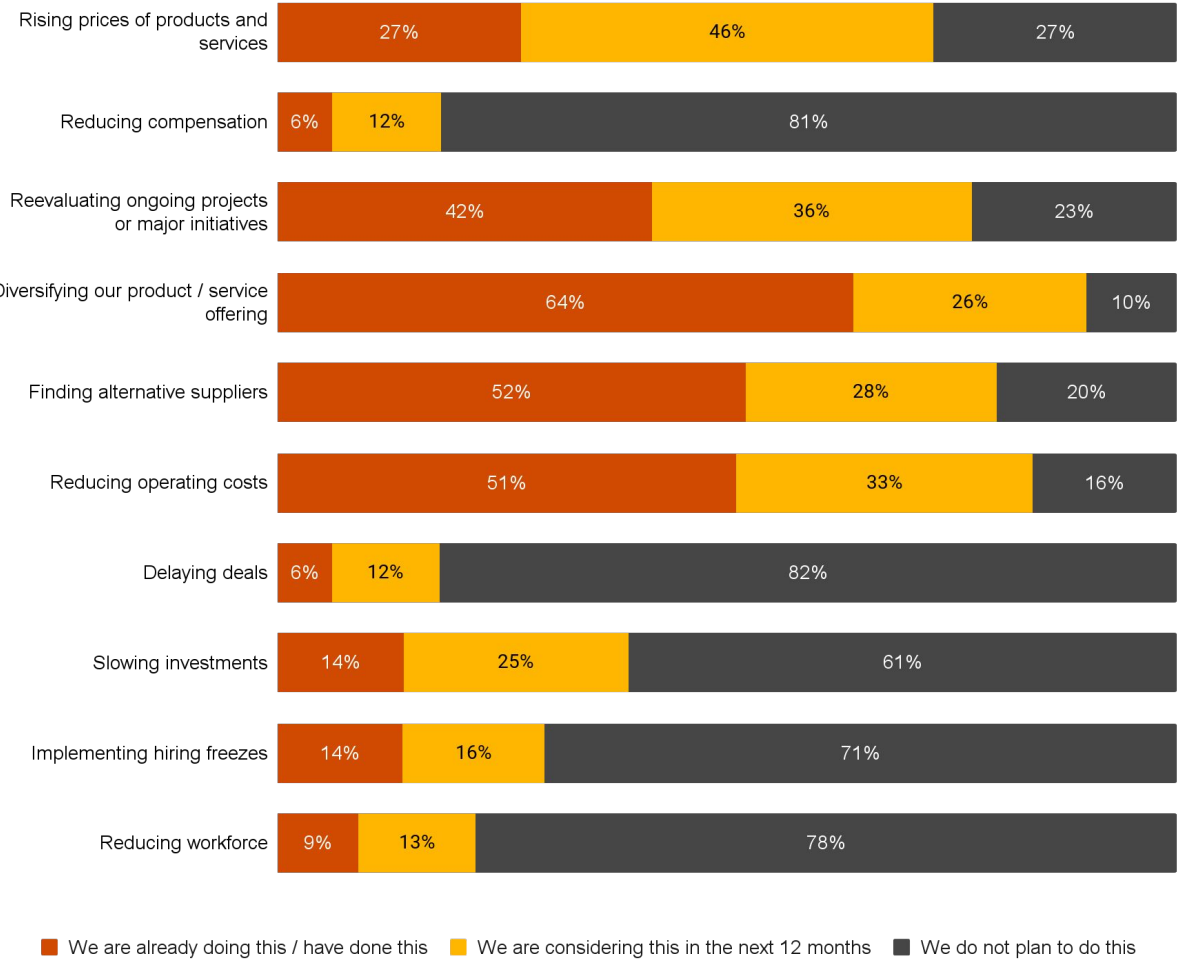
The survey makes it clear that measures to meet the challenges of the future are being taken or planned. In response to near-term economic challenges, more than half of Azerbaijani CEOs say they are taking action to diversify products. Interestingly, 51% of business leaders say they have already begun reducing operating costs, and 52% say they are finding alternative suppliers. Also, 42% are reevaluating ongoing projects and major initiatives. Both in Azerbaijan and CEE, the shock of the Great Resignation and the ongoing need to attract and retain talent are shaping the response to macroeconomic challenges. Among Azerbaijani CEOs, 14% have slowed investments, 14% are implementing hiring freezes, 9% are reducing the size of their workforce, and 6% are reducing compensation.



CEOs in Azerbaijan are actively preparing for a more dynamic period ahead, marked by transformation, to strengthen their longer-term resilience.

In the face of the economic downturn, Azerbaijani CEOs are diversifying products, reducing operating costs and finding alternative suppliers

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?



Your next move



Further investment is critical, but don't lose sight of cost control as the global economic context gets harsher.



Attracting and retaining talent that needs to remain a key focus for the years ahead. Is your company culture attracting the right people?



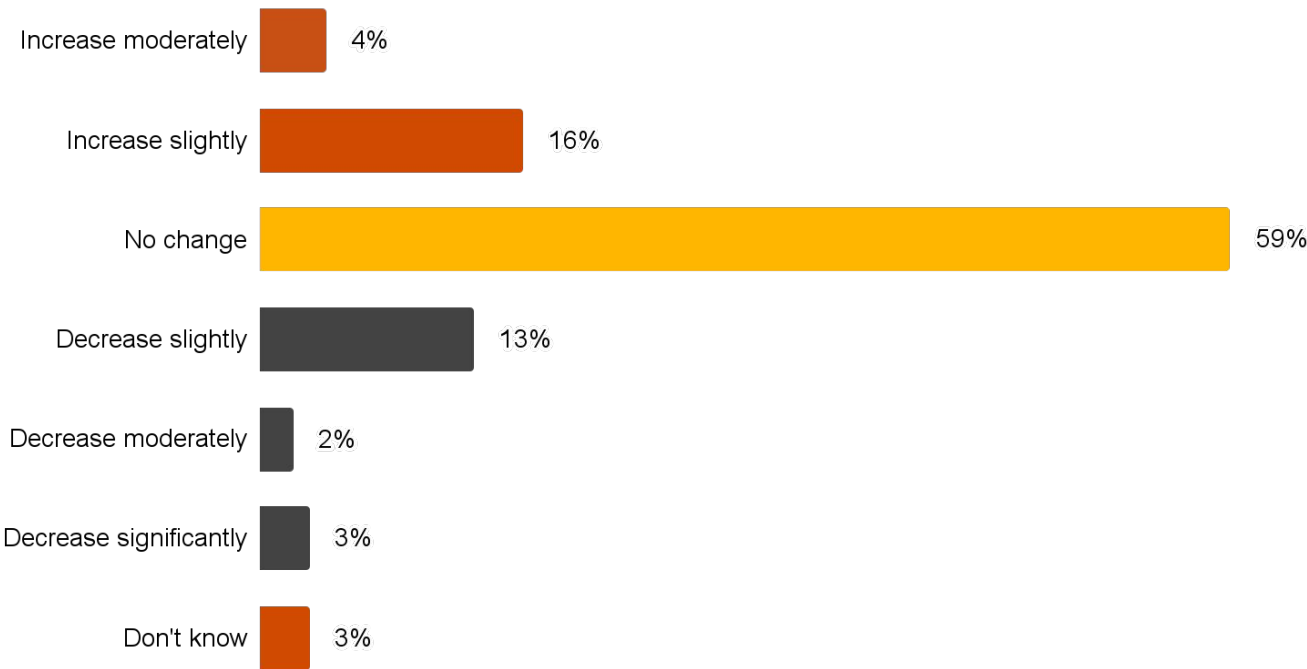
Focusing on the resilience of procurement capabilities because supply-chain disruptions are here to stay.

Among Azerbaijani CEOs, 59% believe that employee resignation/retirement rates in their companies will not change in the next 12 months, 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, the share of survey respondents who believe that those elevated churn rates will continue is close to the rate of CEOs predicting they will fall.

Your next move: retain top talent. If, as many CEOs anticipate, the war for talent remains fierce, even amid deteriorating economic conditions, keeping workers happy and engaged will be a mission-critical priority. [Separate PwC research](#) suggests that leaders do have levers to pull when it comes to employee retention: flexibility, fair pay, fulfilling work and the opportunity to be one's authentic best self at work are critical determinants of employee decisions about whether to stay or go. Creating conditions for progress against forces like these can help Azerbaijani CEOs influence future churn rates. It's not easy, of course: 'We all have significantly more to do to work in different ways to align with the expectations of millennials and generation Z,' Wendy Clark, CEO of global marketing and advertising network Dentsu International, told Strategy+business in a recent interview. 'The "great resignation" is a reappraisal of leadership. It is a great reckoning on how we're leading our companies and whether we've really thought about the lived experience of working at our companies.'

CEOs expect current employee attrition rates to continue largely unchanged

Question: How do you believe employee resignation/retirement rates in your company will change in the next 12 months?



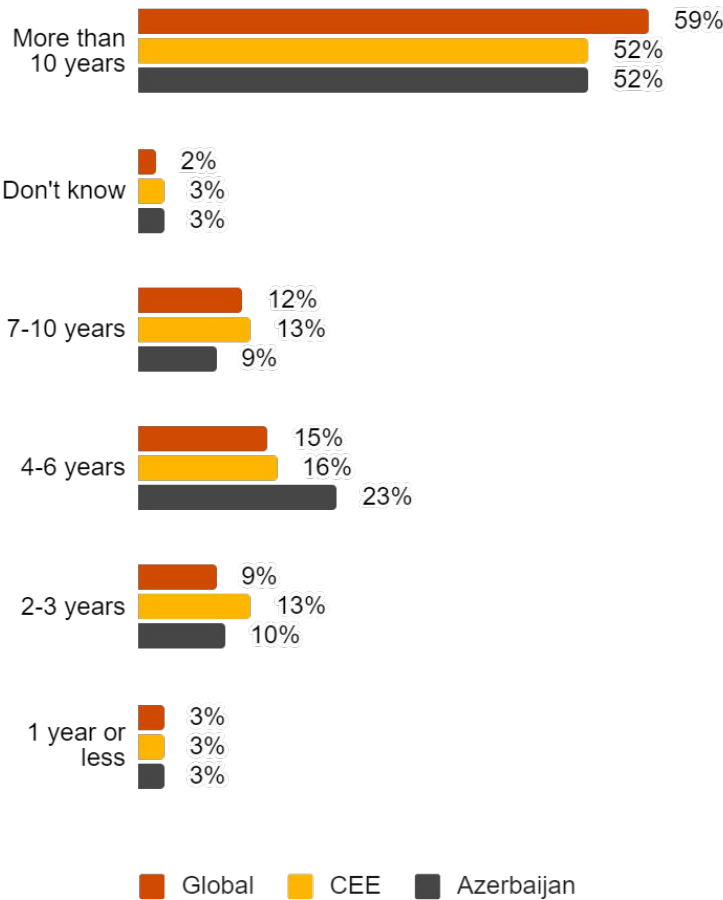
Chief executives recognise the great potential for their company ahead. More than half of Azerbaijani CEOs (52%) think their companies will be economically viable a decade from now if they continue on their current path (CEE: 52%, globally: 59%), while a significant number (48%) of business leaders in Azerbaijan doubt their viability.

This year, many CEE and global CEOs have become increasingly concerned about the financial viability of their companies in the long term, given the rapidly changing business landscape and the various economic, political and social factors that can affect a company's success.

Business leaders in Azerbaijan are conscious that the threats they face are existential—and they're taking action accordingly. They often have a strong understanding of their industry and market trends, as well as a clear vision for the future of their company. Azerbaijani CEOs understand the importance of investing in technology, innovation and sustainability to stay ahead of the curve and remain competitive.

52% of Azerbaijani CEOs believe their companies will be financially viable a decade from now

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

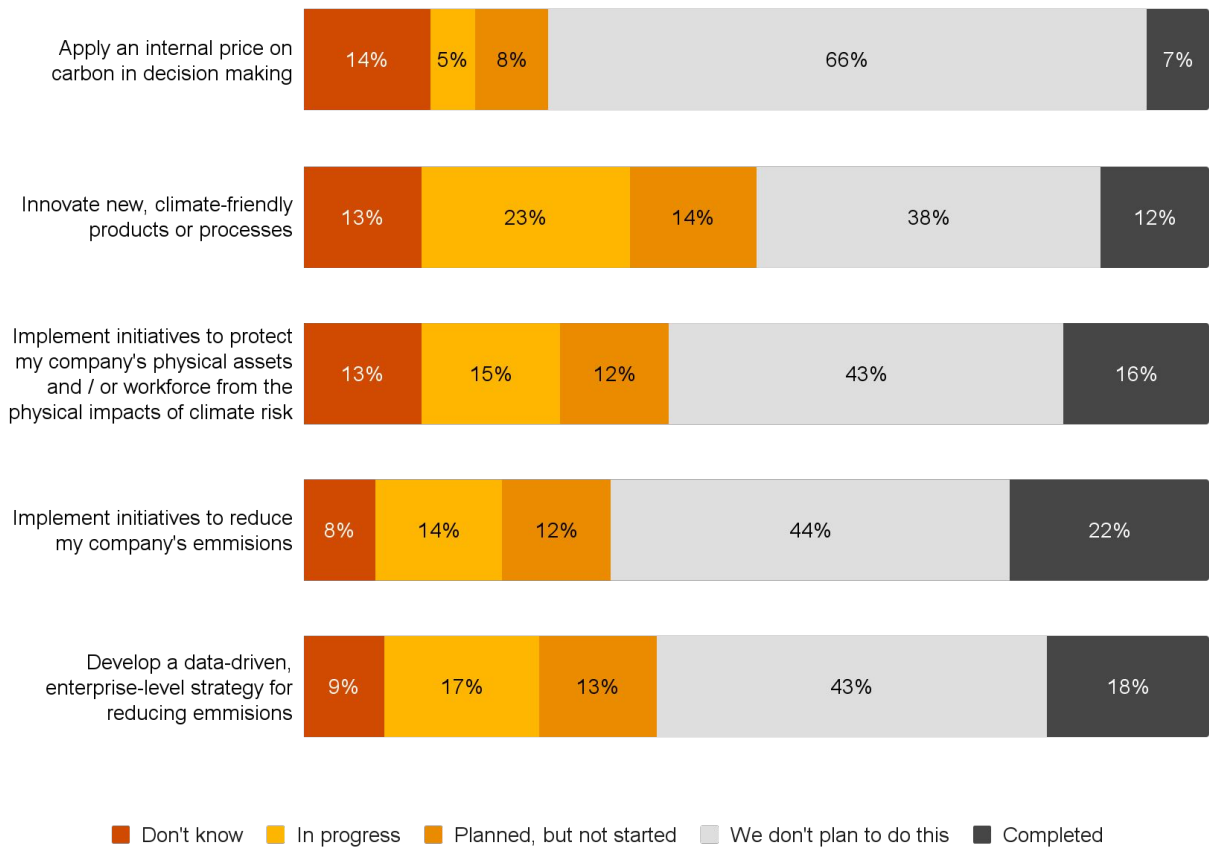


The main theme that emerges from this year's CEO survey is a new mindset among Azerbaijani business leaders regarding climate change. Moving at the right pace and with the right priorities to mitigate climate risks, generate opportunities and decarbonise is an enormous strategic challenge. In our 2022 survey, there were signs that CEOs were seriously thinking about climate change as an issue with substantial operational implications. Overall, just 13% back then featured greenhouse gas emissions targets in their long-term corporate plans, and almost 60% had not made any net-zero or carbon-neutral commitments. The picture looks quite different this year, at a time when the government in Azerbaijan have committed to meeting net-zero targets by 2030. Many companies from different industries in Azerbaijan started actively working towards aiming to become net zero.

This year's survey demonstrates that the story has moved on—from talk and reflection to action. The number of Azerbaijani CEOs who have either taken steps to mitigate climate risk or are in the process of doing so is higher than last year.

Azerbaijani CEOs are mostly implementing initiatives to innovate new, climate-friendly products

Question: Below is a list of actions companies may undertake to prepare for the risk of climate change. Which statement best characterises your company's level of progress on these actions?



CEOs recognise the potential for long-term megatrends such as climate change, technology disruption, demographic shifts, a fracturing world and social instability to reshape the business environment dramatically.

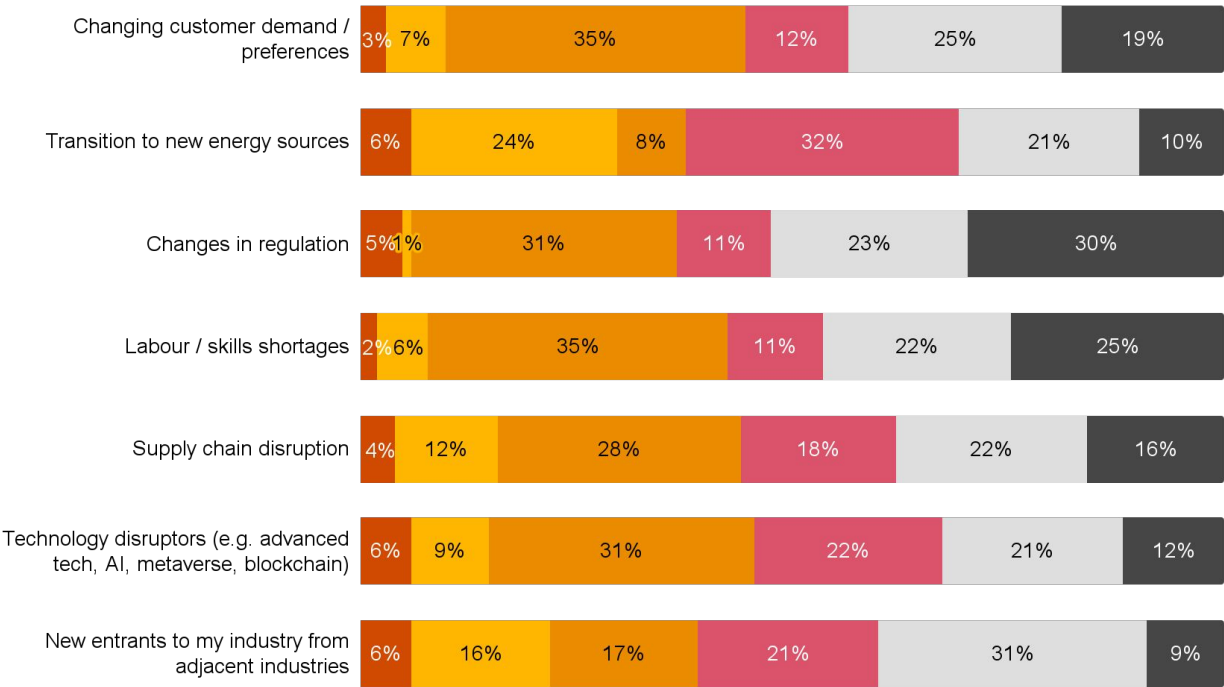
Around 61% of Azerbaijani CEOs (CEE: 48%, global: 53%) believe that changes in regulation will impact profitability in their respective industries over the next ten years to a large and very large extent, 60% are concerned about labour/skills shortages (64% in CEE, 52% globally). The next long-term challenge to profitability for business leaders in Azerbaijan is changing customer demand (54%)—CEE and global results are 52% and 56%, respectively.

Among Azerbaijani CEOs, 31% indicated that the potential for new entrants from related industries has a moderate impact on their businesses. As for a switch to new energy sources, 32% of business leaders in Azerbaijan consider its impact to be limited. We're living through extraordinary times, and Azerbaijani leaders recognise this. While none of these forces is new, their scope, impact and interdependence are growing, with varied implications across industries and geographies.

About 26% of Azerbaijani CEOs stated that their company's profitability is the same compared to their closest competitors while 24% of them think that it is much better.

Azerbaijani CEOs cited that changes in regulation, labour/skills shortages and changing customer preferences are forces most likely to impact their industry's profitability in the long term

Question: To what extent do you believe the following will impact (i.e., either increase or decrease) profitability in your industry over the next ten years?



Don't know Not at all To a large extent To a limited extent To a moderate extent To a very large extent

6 How much time and money are you investing in the future?

It became clear from the responses that technology- and reinvention-oriented investments are a top priority for many CEOs. Around 79% of Azerbaijani respondents are investing in automating processes, 71% in upskilling their workforce in priority areas, and 31% in adjusting the company's supply chain such as including nearshoring and onshoring operations over the next 12 months.

Asked to what extent the different investment areas are needed to preserve their current business and to reinvent for the future, both global and Azerbaijani CEOs flag investments in deploying advanced technologies as a priority for reinventing the business for the future.

While upskilling, automating processes, and adjusting the company's supply chain are the three top areas where companies are investing, exploring the metaverse and deploying technology are the two most minor priorities for reinventing the business for the future.

Constantly evolving technologies make upskilling a challenge in today's world. A range of jobs in the social work sphere is also growing in demand because of certain trends that may influence the future composition of labour markets. CEOs are therefore striving to perform a balancing act to preserve the current business while reinventing the business for the future.

The majority of investments are geared towards automating processes, upskilling the company's workforce in priority areas and deploying technology

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



7 What kind of ecosystem are you building?

To understand 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.

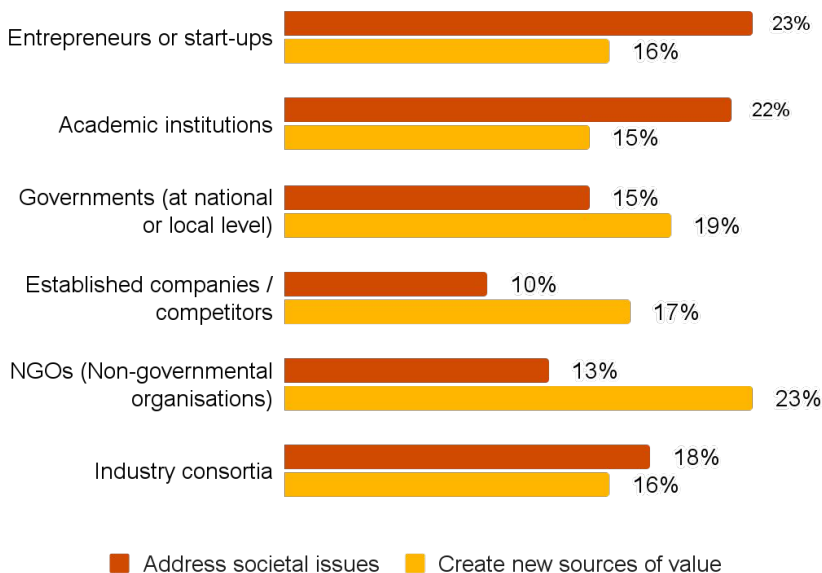
The survey indicates that 17% of Azerbaijani businesses are more likely to collaborate with established companies to create new sources of value, while only 18% work with industry consortia to address societal issues.

Azerbaijani companies collaborate more to create business value rather than address societal issues

Question: To what extent is your company collaborating with the following groups to address societal issues (e.g., climate change; socioeconomic inequality; diversity, equity and inclusion)?

Question: To what extent is your company collaborating with the following groups to create new sources of value (e.g., innovate new products/in new markets)?

(Showing only 'to a large extent' responses)



8 How central are you to your company's reinvention?

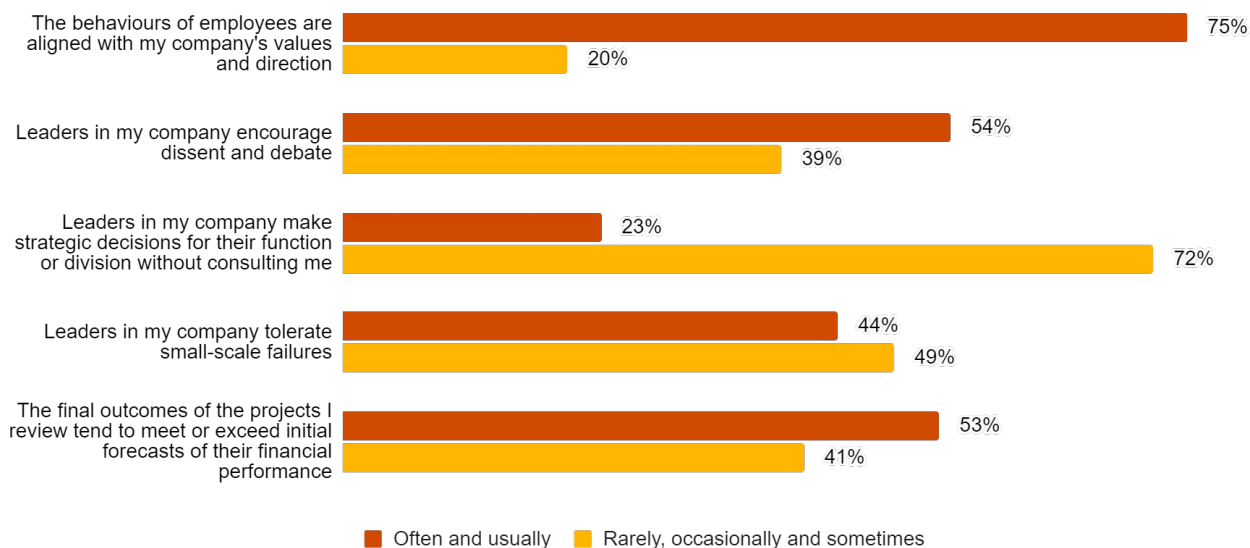
To reinvent their business while navigating near-term operating challenges, CEOs need the help of their people—C-suite leaders, middle managers and frontline employees alike. Engaged, empowered organisations move faster, innovate more readily and collaborate more effectively to get things done. For Azerbaijani CEOs hoping to enjoy such benefits, this year's survey suggests some warning signs and areas of opportunity.

Like their global peers (85%), three-quarters (75%) of surveyed CEOs in Azerbaijan think their employees' behaviours are usually aligned with corporate values and directions. This suggests their employees feel connected from the purpose of their work. Thirty-nine per cent of Azerbaijani CEOs said that leaders in their organisation don't often encourage debate and dissent. Forty-nine per cent said their leaders don't often tolerate small-scale failures. And 72% said their leaders don't often make independent strategic decisions for their function or division. Numbers like these suggest that in many organisations, 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 Azerbaijani 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.

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

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



To balance the present and future, Azerbaijani CEOs need to start with their own calendars and allocate time for both immediate and long-term tasks, decide on priorities and delegate responsibilities effectively. We asked them how they split their time between a range of priorities, from driving current operating performance to engaging with employees and customers. Driving current operating performance consumed the second biggest share of their time (17%). If they could redesign their schedules, 25% told us they would spend more time engaging with customers (global: 19%). Also, the same percentage of Azerbaijani CEOs (25%) would allocate their time to engaging with investors, government officials and other external leaders (global: 13%).

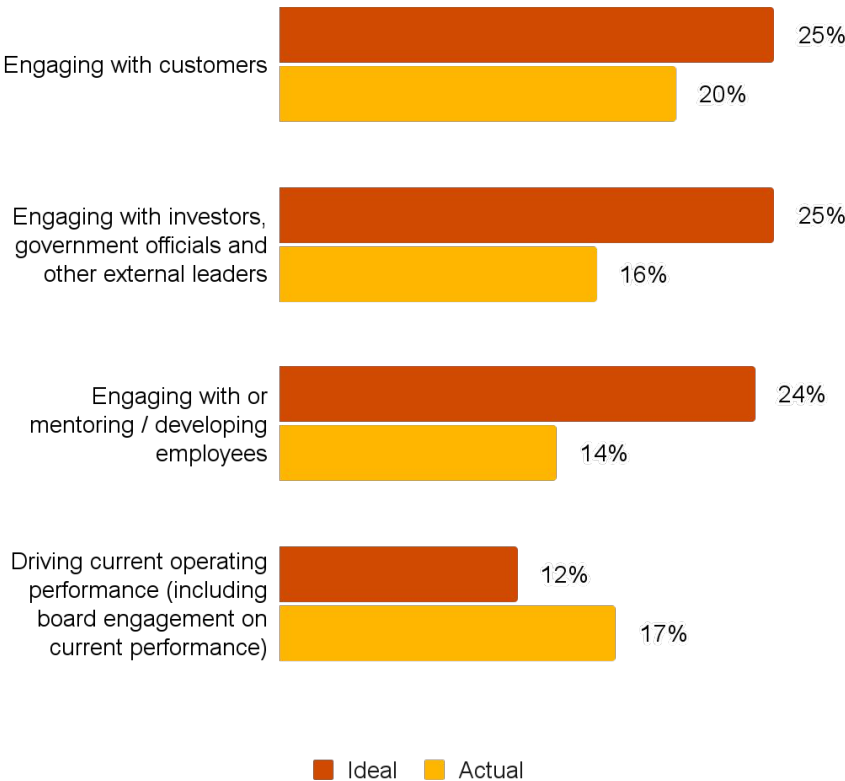
The results indicate how the challenges of today’s business environment demand that Azerbaijani CEOs keep their hands firmly on the wheel, giving them less time for less immediate considerations. This highlights how business transformation is important not only for companies to survive after the next ten years but also for reimagining the role of the CEO: creating organisations whose top leaders are freed up from day-to-day challenges.

Ideally, Azerbaijani CEOs want to spend more time evolving their business and its strategy

Question: During your work time, on average, what percentage of time do you spend on each of the following?

Question: Knowing what you know now, if you could start over with a blank calendar, how would you allocate your time as CEO?

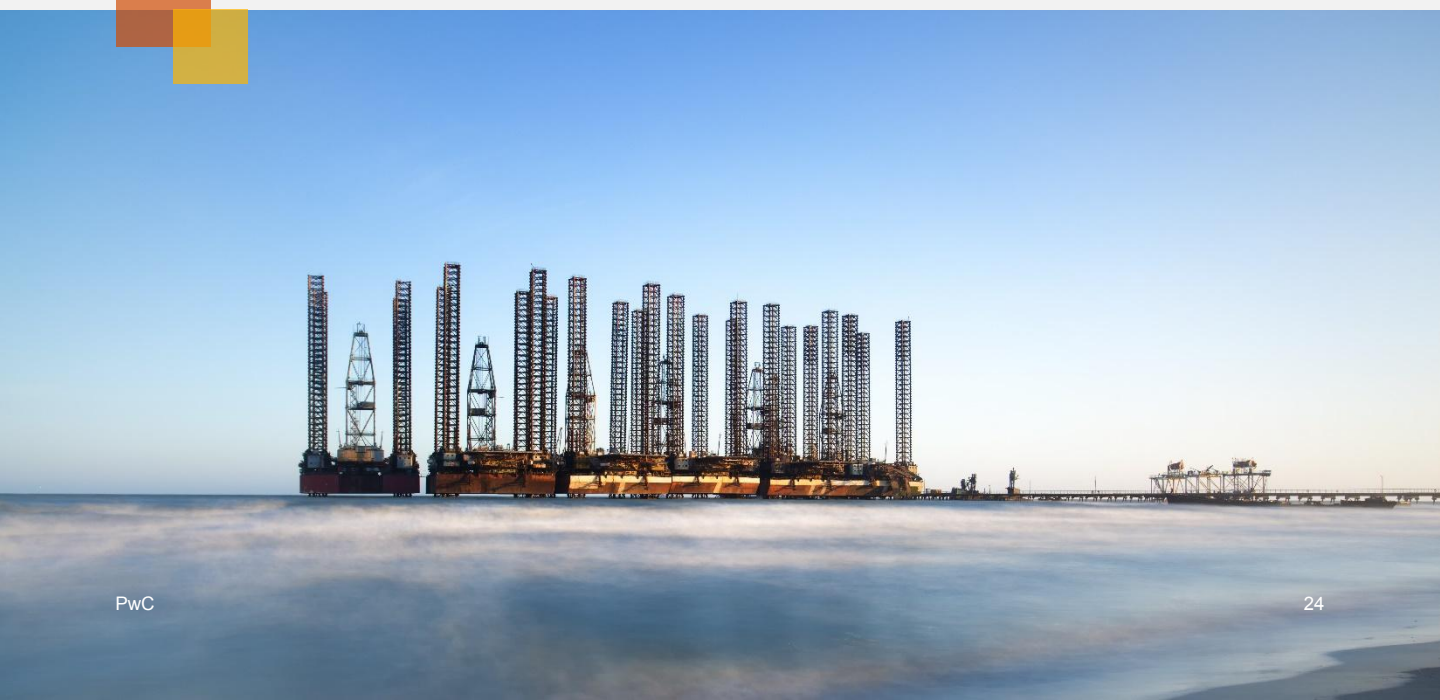
(Showing only ‘50%–75%’ responses)



Azerbaijani CEOs and the energy transition



For a country as invested in fossil fuel as Azerbaijan, only one in ten CEOs cited the transition to new energy sources as likely to have a significant impact on their industry over the next decade. This may reflect a quiet confidence that oil and gas will remain key components of any energy transition - and that Azerbaijan can build on its expertise in hydrocarbons and its low-cost renewables to remain one of the key energy hubs for the world.



Methodology

PwC Azerbaijan surveyed 104 CEOs, which included 25% of in-person discussions with CEOs from a diverse range of industries and of different age and gender, with a variable business focus and background. All quantitative interviews were conducted on a confidential basis.

Of the 104 CEOs who participated in the Azerbaijan edition, 10% represent commercial and industrial products and services, 10% insurance, 9% consulting and technology, 7% banking and capital markets, 6% telecommunications as well as 5% energy.

Our annual PwC survey of CEOs around the world is a snapshot in time that can give important indications about what to expect in the coming year. The view from Azerbaijan is far more confident than the global average, suggesting that businesses in the region expect to avoid the sharp slowdown many other regions are anticipating.

We see the longer-term outlook as the more important finding: regional business leaders are single-minded in their focus on transforming their businesses to ensure their resilience in the face of global economic and geopolitical volatility and concerns around longer-term viability. A key pillar of this strategy centres around technology; investing in technology to bring new efficiencies to their businesses and open new opportunities—with a new-found sustainability mindset. Regional leaders are more mindful of the importance of strengthening supply chains and improving their cost efficiency to ensure fit for future resilience.

In an otherwise difficult time for the world economy, Azerbaijani CEOs are showing confidence for 2023, giving us a tangible glimpse into how they will navigate the complexities of the months and years ahead and how this will shape the economies in which they operate.



About the survey

PwC Azerbaijan's CEO Survey is part of PwC's Annual Global CEO Survey—a flagship edition reflecting the insights of thousands of chief executives worldwide. The key findings of the survey have been traditionally introduced at the World Economic Forum, in Davos for the past 26 years. 4,410 CEOs from 64 countries and territories were polled in the PwC's 26th Annual Global CEO Survey 2023.

PwC Azerbaijan's 6th Annual Global CEO Survey addresses the insights of 104 CEOs from more than 20 industries and offers an outlook on how today's executives in Azerbaijan are meeting the most pressing challenges; from navigating through global economic recovery to preparing for a net-zero society.



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