

*Reimagine
the possible*

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A Message from the Country Managing Partner, Movlan Pashayev

CEO Survey Azerbaijan

Key findings from this year's survey



CEOs who believe that the global economy will improve increased from 23% in 2015 to **45%** in 2017

66% of local CEOs are confident about their short-term business results



Key business threats



Availability of key skills

83%

Lack of trust in business

83%

Shift in consumer spending and behaviours

75%

Top economic threats



Exchange rate volatility



Increasing tax burden



Uncertain economic growth





Global vs. Organisational Growth: Carpe diem

Despite highly publicised handwringing over geopolitical uncertainty, corporate misbehaviour, and the job-killing potential of artificial intelligence, PwC's CEO Survey reveals surprising faith and optimism among chief executives in the economic and business environment worldwide, at least over the next 12 months in Azerbaijan and all over the world.

Global vs. Organisational Growth

This year saw the highest-ever jump to the highest-ever level of CEO optimism regarding global growth prospects over the next 12 months (see Exhibit 1). The percentage of CEOs predicting improving growth dynamics for the upcoming year doubled in Azerbaijan and at a global scale.

Overall increase of optimism in Azerbaijan in recent years can be interpreted with the relative stability of the currency after the devaluations in 2015 and the course of work on the diversification of the economy.

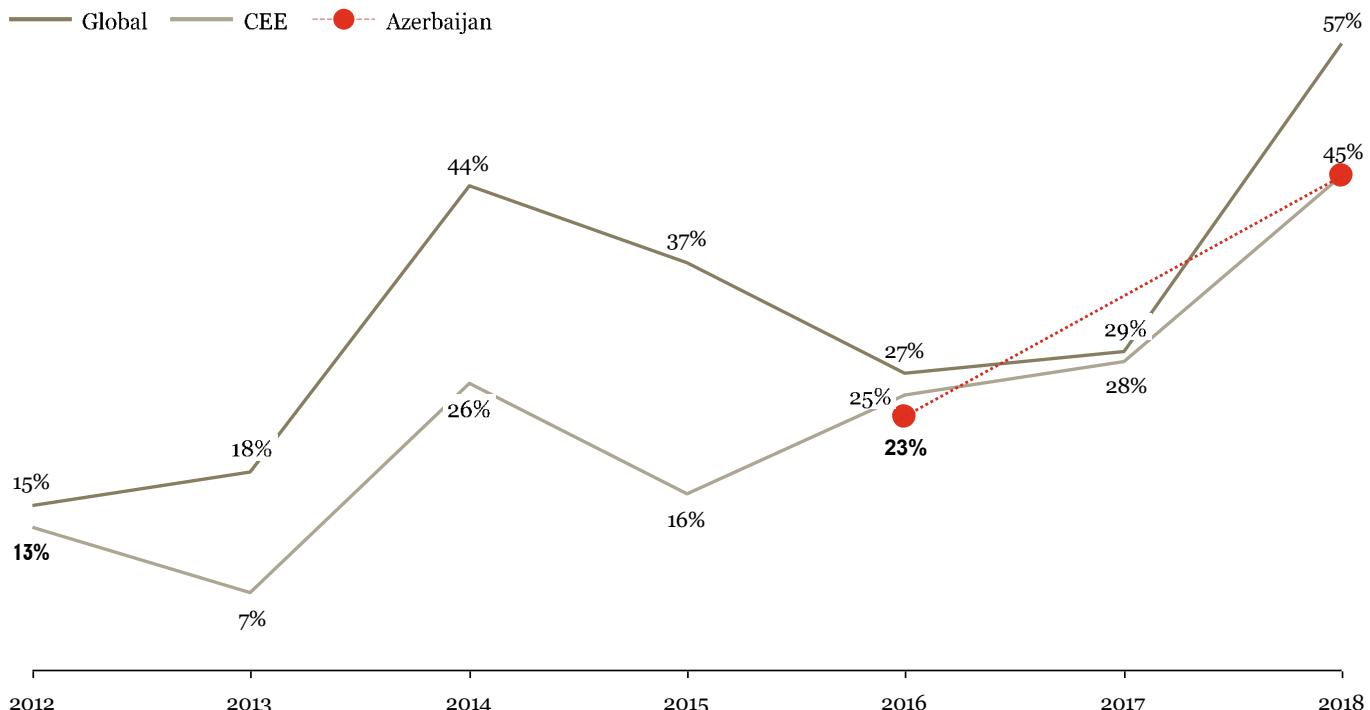
The recent crisis had a positive effect on Azerbaijan, as it triggered state enterprises and private sector to reconsider their strategies, business and operating models. In fact, the percentage of local CEOs who believe that the global economy will improve increased from 23% in 2015 to 45% in 2017. While the majority of global CEOs (57%) believe that the world economy will improve, the majority of local CEOs (53%) project that it will stay the same.

Exhibit 1

A significant proportion of CEOs believe global economic growth will improve over the next 12 months

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

 Chart shows percentage of respondents answering 'will improve'



2017 almost certainly turned out to be the best year the global economy has seen since 2010



The local economy is showing positive impulses as it is recovering after severe devaluation of national currency and depressed oil prices. As a result, this year the percentage of CEOs (28%) who are very confident about their short-term business results is higher than it was in 2015 (12%). The same optimism remains when it comes to a larger time horizon of 3 years; 38% of surveyed CEOs are very confident about their organizations' revenue growth prospects (see Exhibit 2).

This rising tide is not just a local macroeconomic phenomenon; it is balanced across the world. Most of the world's major economies are experiencing positive growth in contrast to the situation just a few years ago. This positive trend finds its reflection in global CEOs' expectations regarding their organizations' growth, particularly 42% of them are very confident about their revenue growth prospects.

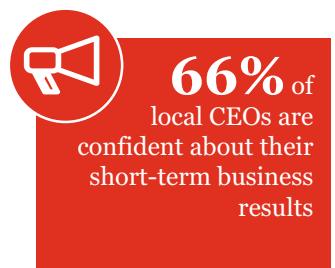
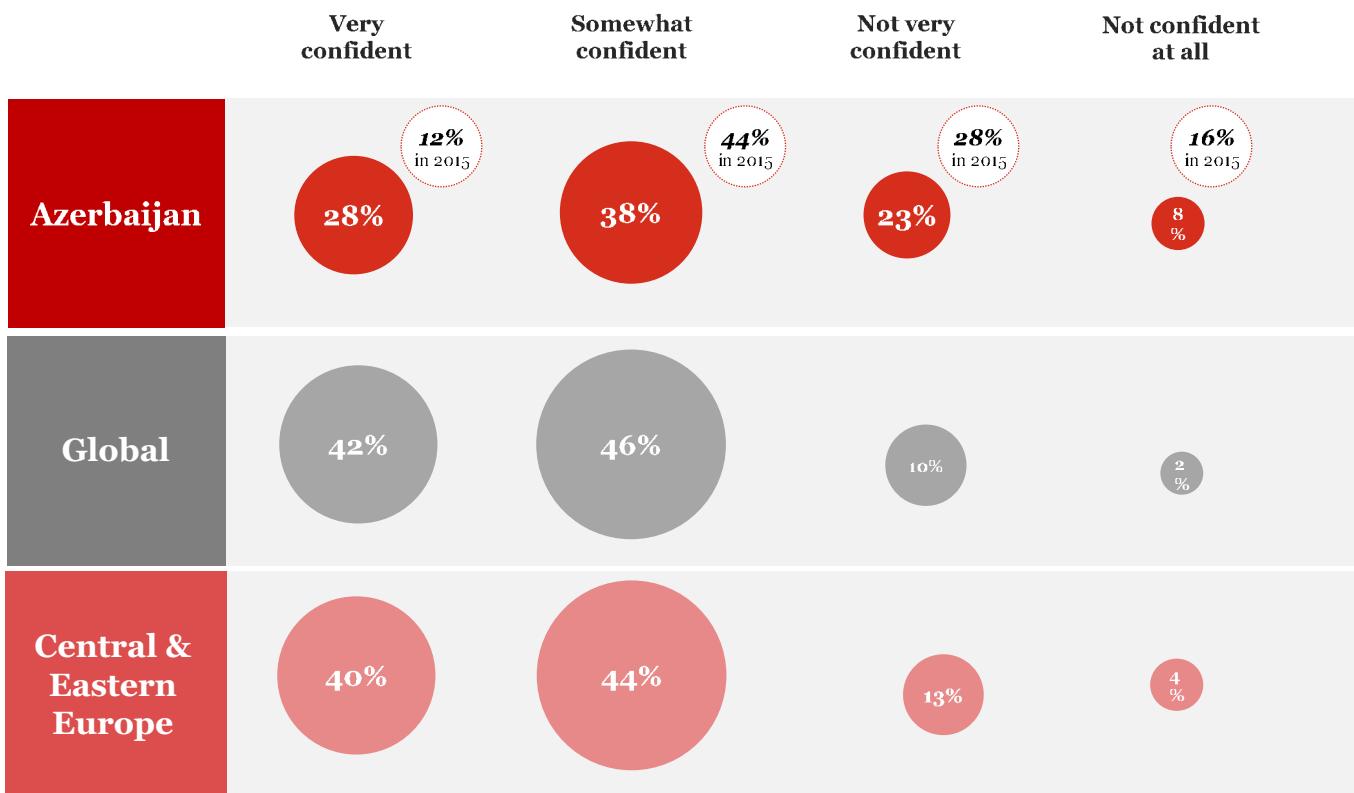


Exhibit 2

CEOs are more confident in their own growth prospects in 2018

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



When asked what will drive that growth, the majority of CEOs in Azerbaijan and globally point to organic growth (58% and 79% respectively), followed by cost reduction (45% and 62% respectively) and new strategic alliance or joint venture (35% and 49% respectively). While new M&A as a growth driver is the fourth popular answer for CEOs globally (at 42%), this activity is still among the least popular answers for local CEOs (5% in 2017, 9% in 2015).

Only 8% of surveyed CEOs in Azerbaijan indicated that their organization targeted a larger organization for acquisition and 10% noted that their organizations were a target for acquisition in 2017-2018. The absence of proper understanding of M&A process, distrust from local businesses to external investors, unwillingness to sell shares of companies at lower prices and absence of proper due diligence process are among the reasons causing lack of trust to M&A among potential stakeholders.

Nevertheless, local CEOs are positive about outsourcing (28%) and collaboration with entrepreneurs or start-ups (28%). This is in line with the sentiment of their global peers (21% and 33% respectively).

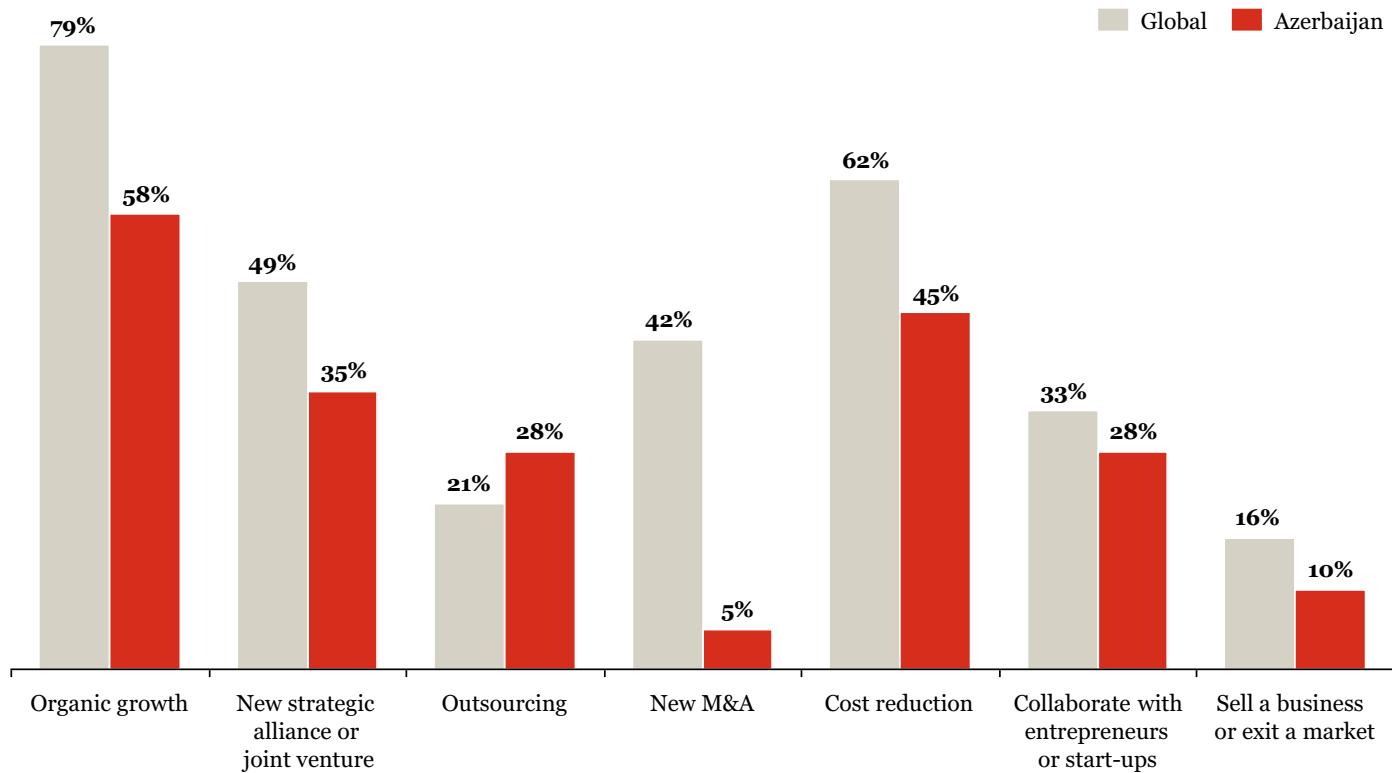


Only **8%** of surveyed CEOs in Azerbaijan indicated that their organization targeted a larger organization for acquisition and **10%** noted that their organizations were a target for acquisition in 2017-2018.

Exhibit 3

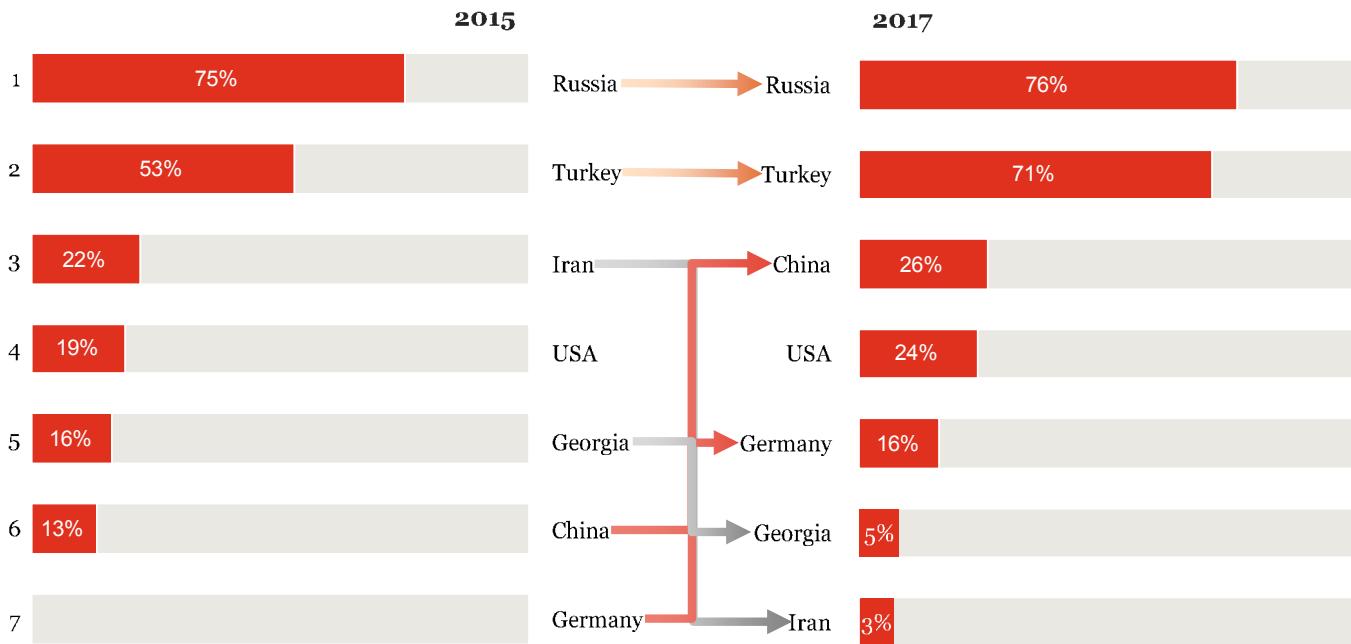
CEOs are planning to drive the profitability mainly through the organic growth

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



Russia and Turkey remain the top attractive markets for local CEOs, while China moves into top 3

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



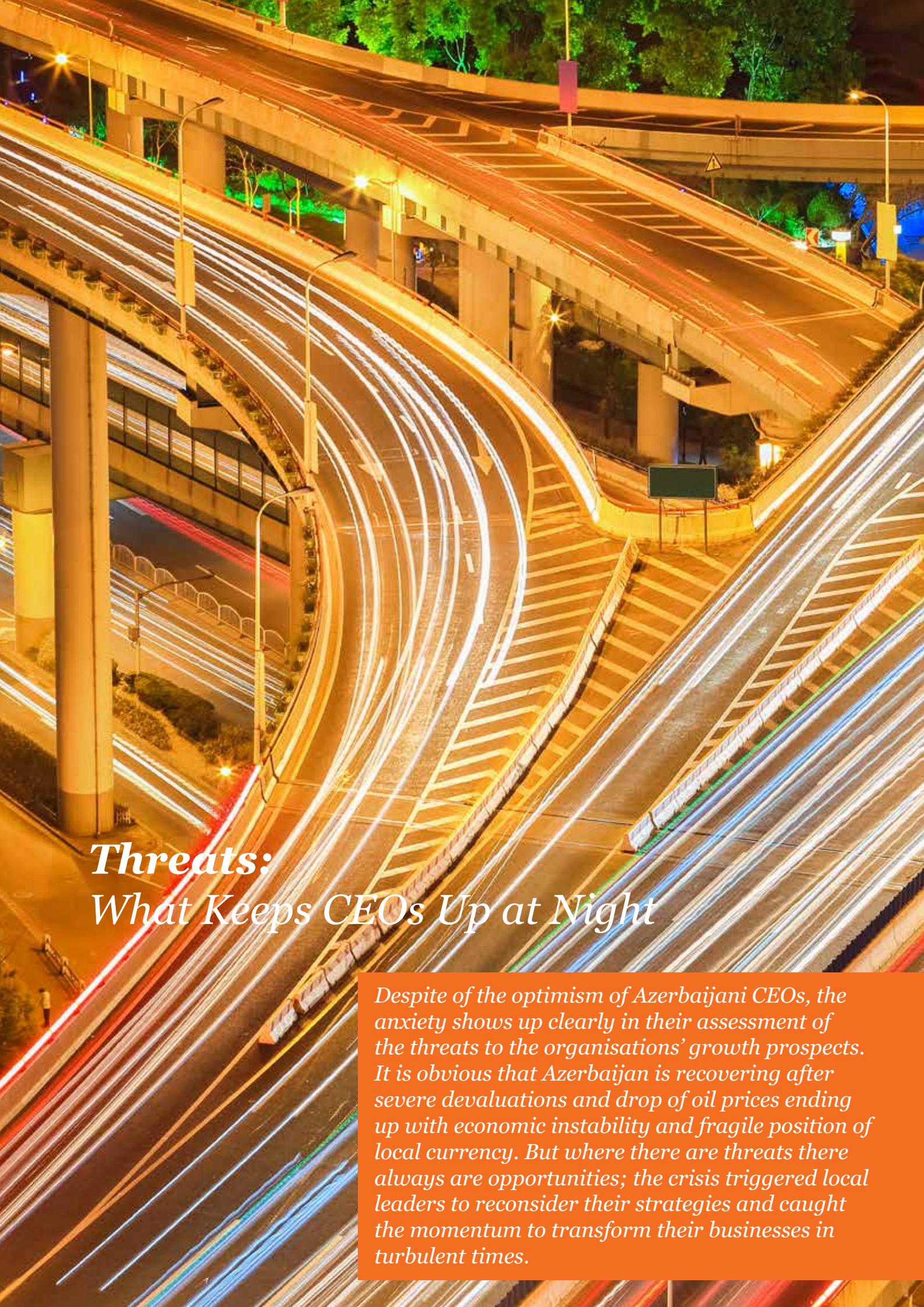
By looking through the perspective of the geographic markets, Russia again tops the chart - 76% (75% in 2015) of local CEOs consider it one of the three most important countries for growth, followed by Turkey with 71% (53% in 2015).



Russia still tops the chart with **76%**, followed by Turkey established on its position with **71%**. Iran however, gave up its position to China.

China strengthens its hold on the third place, with one in four CEOs considering it an important growth market. USA remains at its previous place with 24% of votes (19% in 2015). Furthermore, Germany bumps Georgia as the fifth most attractive market in 2017. Interestingly, this year Iran lost dramatically the interest of local CEOs as the market for growth (decrease from 22% in 2015 to 3% in 2017).

Comparatively, the US (46%) tops the chart globally, closely followed by China (33%). Germany closes the top 3 with 20% of votes. Interestingly, the global CEOs ranked these countries in the same order last year.



Threats: *What Keeps CEOs Up at Night*

Despite of the optimism of Azerbaijani CEOs, the anxiety shows up clearly in their assessment of the threats to the organisations' growth prospects. It is obvious that Azerbaijan is recovering after severe devaluations and drop of oil prices ending up with economic instability and fragile position of local currency. But where there are threats there always are opportunities; the crisis triggered local leaders to reconsider their strategies and caught the momentum to transform their businesses in turbulent times.

Threats

What keeps CEOs up at night

The anxiety shows up clearly in CEOs' assessment of the threats to their organisation's growth prospects. 88% of Azerbaijani CEOs are still concerned about exchange rate volatility due to instability of local currency followed by devaluations.

We are not surprised that this year, 'increasing tax burden' soared to second place (80%) in Azerbaijan. A possible reason for such a jump may be the amendments to the Tax Code of Azerbaijan, entered into force in 2017. The government's response to this concern can be improvement of the Tax Code and creation of more favorable climate for local and foreign businesses.

The geopolitical uncertainty is still in the list of top concerns not only globally, but in Azerbaijan, both in 2015 (78%) and in 2017 (68%). Global CEOs are anxious about this threat as well.

Uncertain economic growth which is one of the top concerns of global and Azerbaijani CEOs, at the national level can be stabilized with the economic reforms and the implementation of Strategic Roadmap of Azerbaijan.

In comparison with their global peers, local CEOs are not particularly agitated about climate change and environmental damage, populism, changing workforce demographics and future of the Eurozone.

 Azerbaijani CEOs are heavily concerned about the increasing tax burden

Exhibit 5

CEOs are still concerned about the exchange rate volatility

Q How concerned are you about the following economic, policy, social and environmental threats to your organisation's growth prospects?



Chart shows percentage of respondents answering 'extremely concerned' or 'somewhat concerned'.

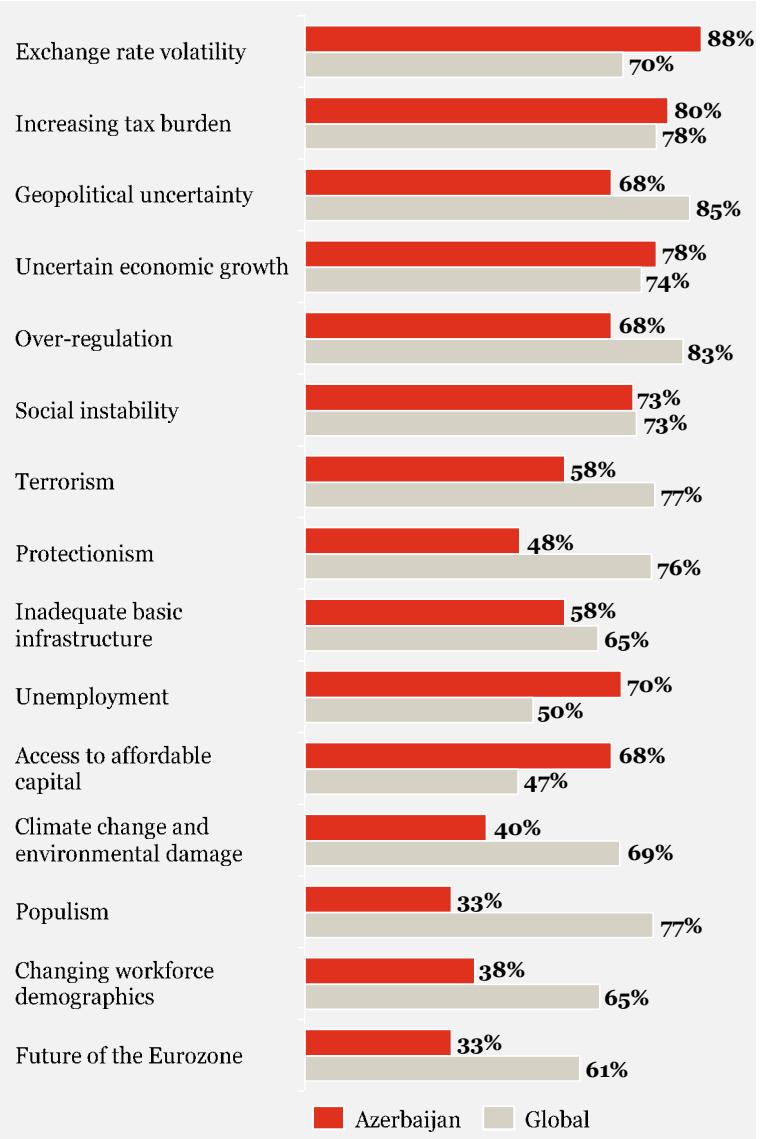
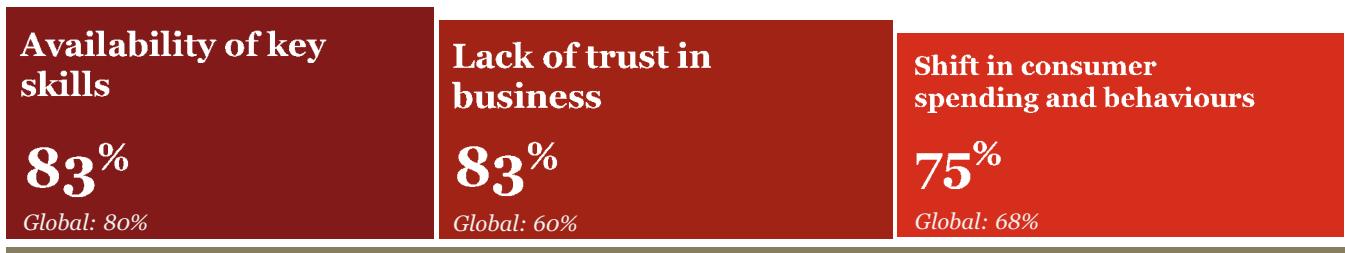


Exhibit 6

Lack of trust in business emerges as top business threat

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



Concerns of Azerbaijani CEOs on business level have suffered a certain change, witnessing an increase of the 'lack of trust in business' (which was on 6th place with 56% and climbed to 2nd place with 83%) sliding the 'Shift in consumers spending and behaviors' to the 3rd position. Nevertheless, availability of key skills remains the primary business threat for local and global CEOs (see Exhibit 6). Chief executives from Central & Eastern Europe share this concern (51%) as well.

Regional overlaps are interesting, but so are the differences in terms of top threats. 'Cyber threats' is No. 1 concern in North America, for example, but ranks only 11th in CEE (10th in Azerbaijan). Similarly, 'availability of key skills' is the top threat in CEE (including Azerbaijan) and Asia- Pasific, but is not even among the top five in any other region.



Availability of key skills, shift in consumer spending and behaviours appear in Azerbaijani and global leaders' radars .



Local vs. Global Prosperity: Navigating a Fractured World

CEOs continue to recognise the promise of globalisation and feel that this promise has been realised to a large extent in selected areas. However, globalisation – which we define as the process by which the world is becoming increasingly integrated – has not been very effective in a broad sense.



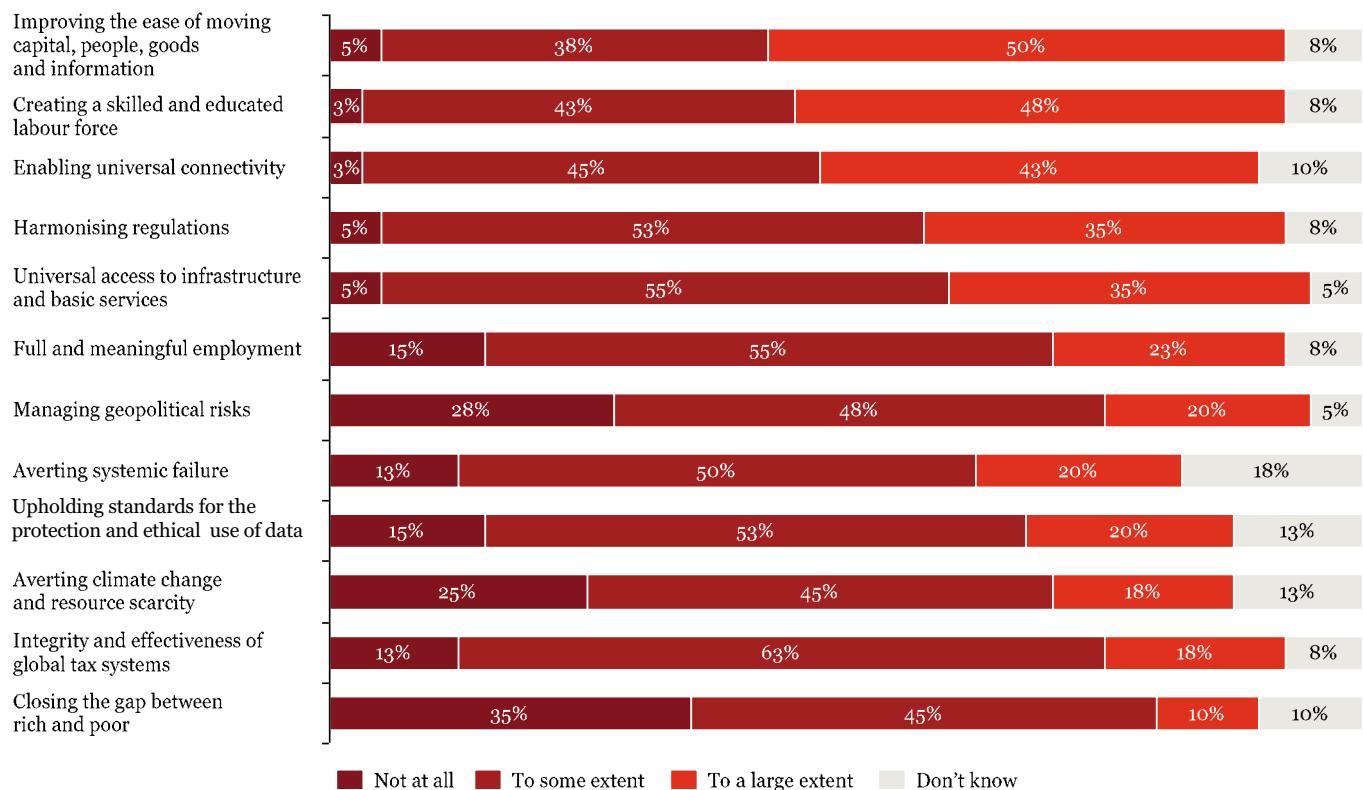
← **13-14**
15-16 →

Global vs. Local Prosperity

Exhibit 7

Azerbaijani CEOs have mixed views on the benefits of globalisation

Q To what extent has globalisation helped with the following?



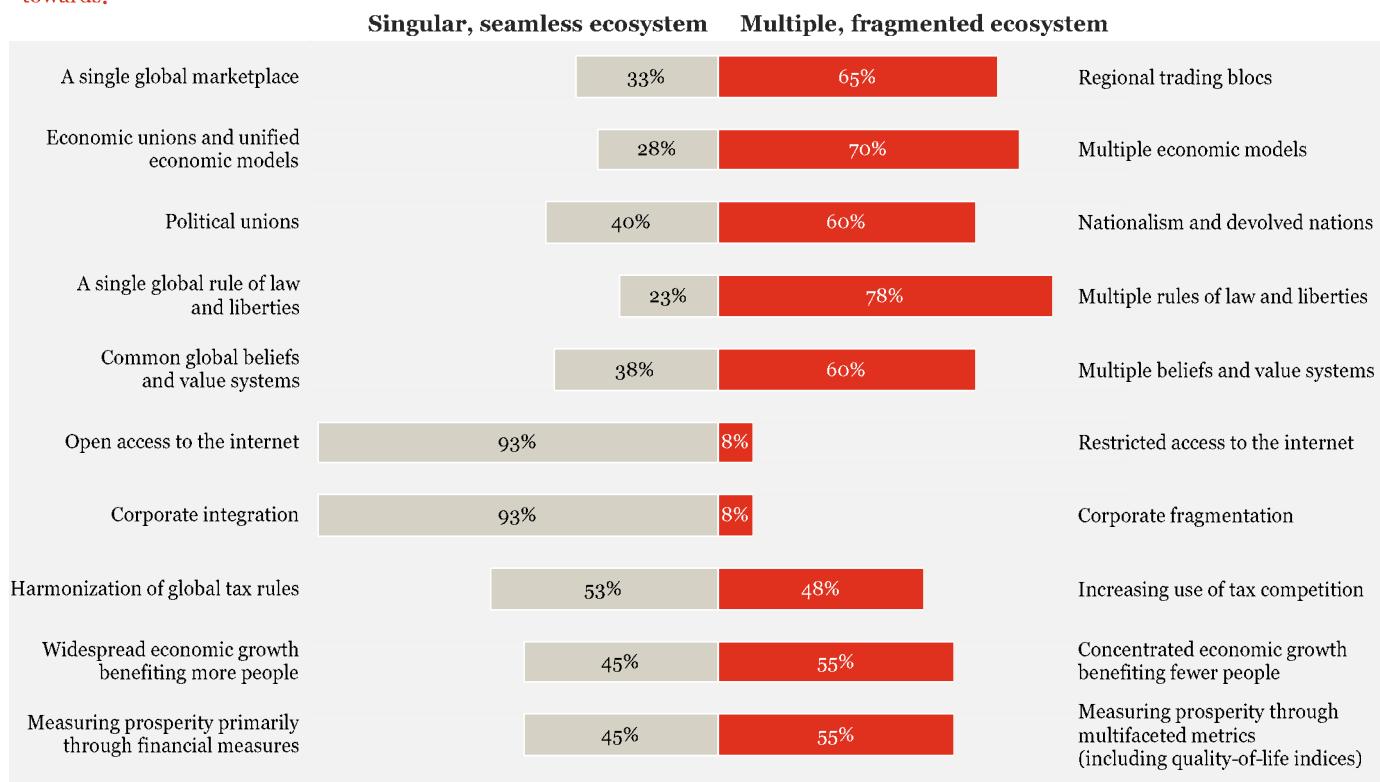
CEOs continue to recognise the promise of globalisation and feel that this promise has been realised to a large extent in select areas such as ‘enabling universal connectivity’ and ‘easing the movement of capital, people, goods, and information’. However, globalisation – which we define as the process by which the world is becoming increasingly integrated – has not been as effective in other respects.

When asked if globalisation has helped to ‘close the gap between the rich and the poor’, nearly 35 of local CEOs (40% globally) responded ‘not at all’. And 25% (30% globally) gave the same bleak assessment of globalisation’s impact on ‘averting climate change and resource scarcity’. One in eight local CEOs say that globalization has not helped to improve the ‘integrity and effectiveness of global tax systems’ at all.

Exhibit 8

We live in an increasingly fractured world

Q Considering the following opposing political, economic and trade trends, please select the one you believe the world is moving more towards.



Echoing the theme of the World Economic Forum this year, PwC's 21st CEO Survey speaks to how companies are navigating an increasingly fractured world. We asked CEOs to consider a number of opposing political, economic, and trade trends and pick a side in terms of which way the world was moving (see Exhibit 8). The results are revealing. The world is edging away from its full-on embrace of a singular and seamless global marketplace, at least in the physical, geopolitical world. Cyberspace and corporate integration are the two spheres in which the world is still moving towards an overarching global model.

Most CEOs in Azerbaijan and around the globe see the world moving towards multiple belief systems and rules of law, regional trading blocs, increased tax competition, rising nationalism and diverse economic models.

Comparison of local leaders' results for 2015-2017 years shows an increasing confidence of company leaders' views on world moving towards regional trading blocks (44% in 2015, 65% in 2017), and the predominance of the multiple economic models tendency (44% in 2015, 70% in 2017).

Survey results provide that CEOs recognize the significance of building trust with its workforce.

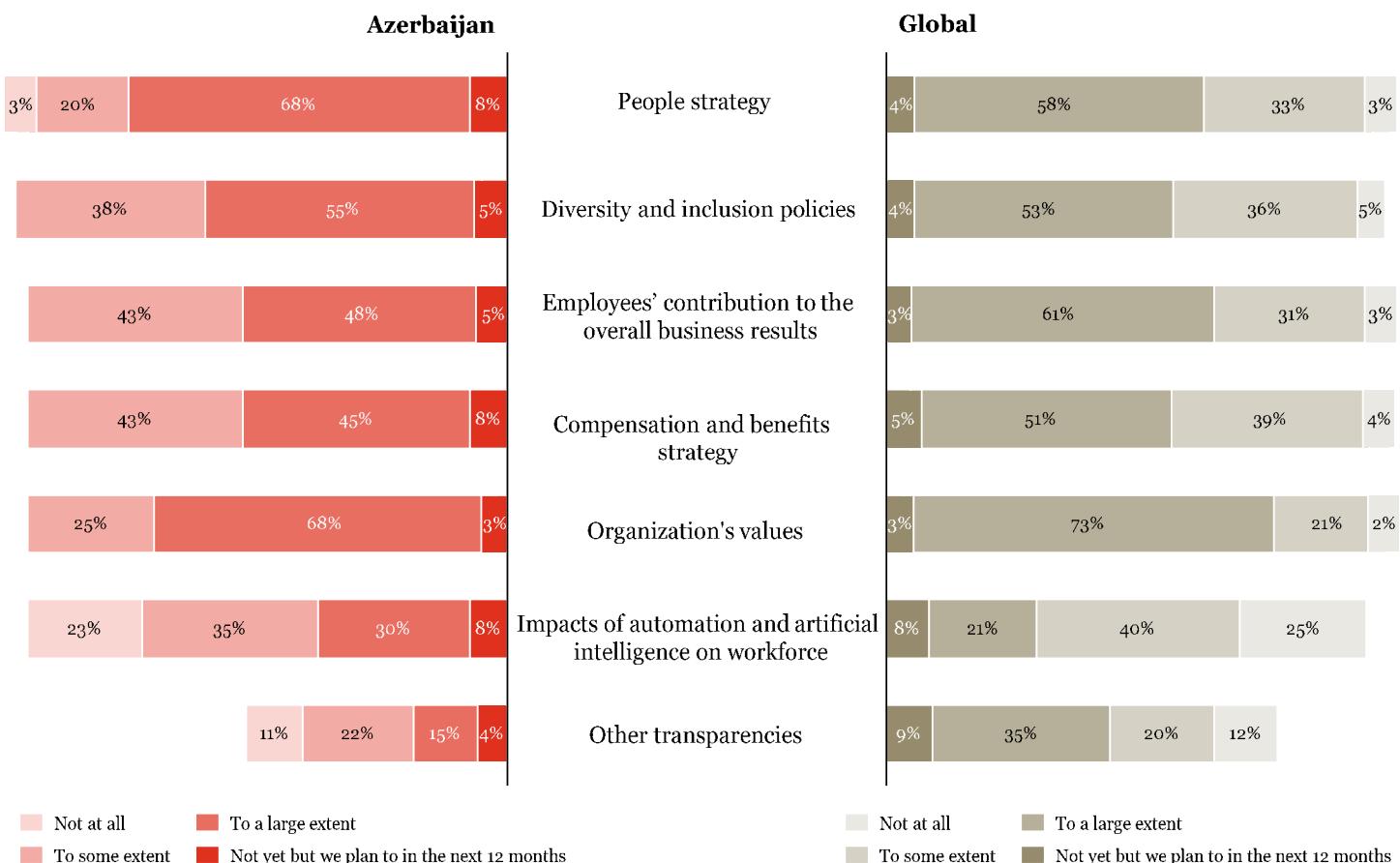
Local CEOs as well as their global peers are creating transparency in their organizations primarily through establishing organization's values (68% and 73% respectively), people strategy (68% and 58% respectively) and diversity and inclusion strategies (55% and 53% respectively).

Interestingly, while global peers mainly build trust by creating transparency in organization's value (73%), only 25% of local CEOs implement this activity to a large extent. Another interesting fact is that one in four CEOs globally and locally create the transparency by means of automation and artificial intelligence, and the mere 8% of CEOs plan to take this initiative in the next 12 months.

Exhibit 9

CEOs build trust through compensation and benefits strategy and employees' contribution to the business

Q To what extent is your organization building trust with its workforce by creating transparency in the following?



Despite of global digitalization, which Azerbaijan is part of, organizations pay a lot of attention to building trust with their workforce. It's because solid strategies, processes and technology alone do not deliver results. It's the people who must accept, drive and sustain change to bring lasting benefits to an organisation.



Local CEOs as well as their global peers are creating transparency in their organizations primarily through establishing organization's values, people and diversity and inclusion strategies.

In the era of digitalization of business and services, 73% of local CEOs acknowledge the need of tasks and jobs automation to deliver the corporate purpose in the most advantageous manner. The same proportion of CEOs believe that the soft skills as a focus area of capabilities development to be straighten as a part of people strategy, withal on a global scale 91% of CEOs share this outlook. Though in most of decisions Azerbaijani CEOs are keeping pace with their global peers (see Exhibit 10), rethinking human resources function is not in priority, as it is for global market players (60% Global, 33% Azerbaijan).

Even though strengthening of soft skills, along with digital skills tops the agenda of local heads of companies, still there is a long way to go in implementing of newly adopted applications and systems, such as virtual reality (VR) and augmented reality (AR).

Technology's potential significantly expanded during the last years. There is a clear risk that it may displace more and more of human workforce and contribute further to social isolation and the disruption of communities. However, emerging technologies can also help meet human needs in new and profound ways and will create new industries and unforeseen types of new jobs. The variety of new technological advancements can help the companies not only to automate the processes but also to manage employees properly and develop talents. According to the World Economic Forum report on Digital Transformation Initiative, the developing sophistication of platforms, tools, enhanced mobility, connectivity mixed with faster data processing and analyses boost agility, real-time decision making, execution.

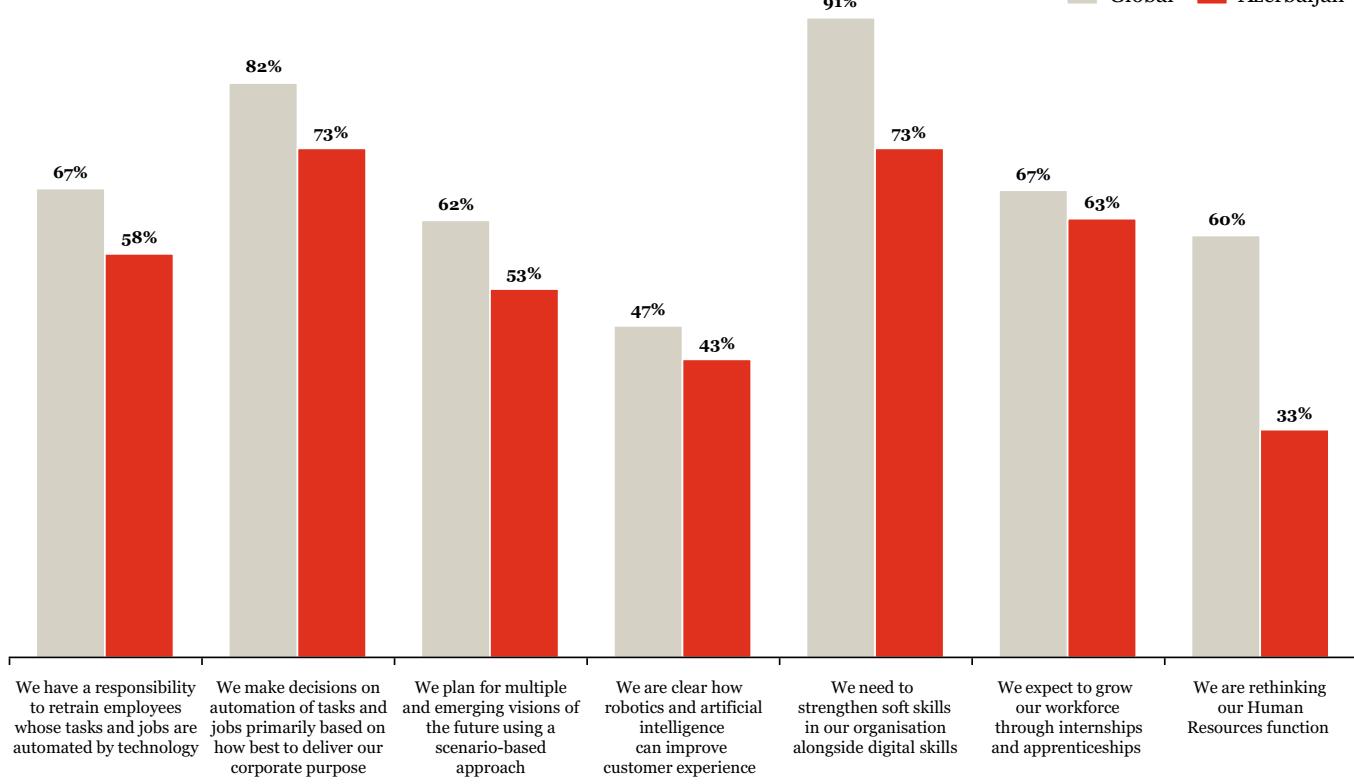
Exhibit 10

CEOs recognize the importance of strengthening soft skills and automation processes

Q Thinking about your people strategy for the digital age, how strongly do you agree or disagree that ...

Chart shows percentage of respondents answering 'agree' and 'strongly agree'

Global Azerbaijan



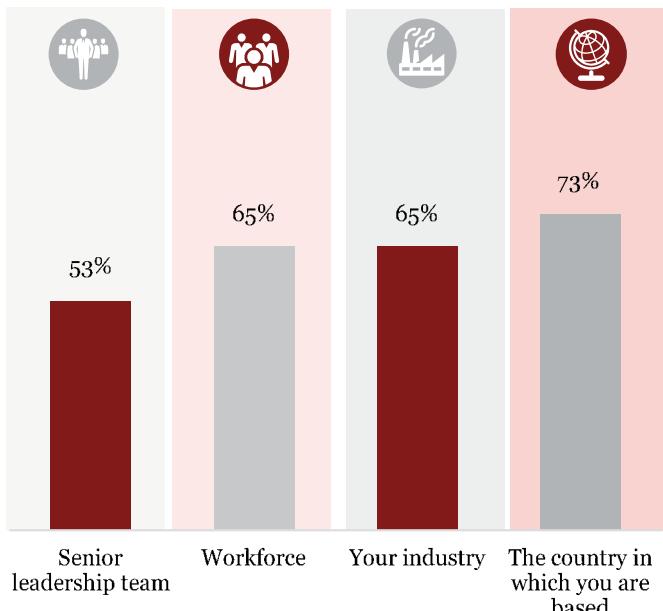
33% of surveyed leaders in Azerbaijan have already started rethinking their Human Resources function.

Exhibit 11

Nearly half of CEOs expect to increase headcount over the next 12 months

Q Thinking specifically about how concerned are you about the availability of digital skills amongst the following

i Chart shows percentage of respondents answering 'somewhat concerned' and 'very concerned'



The survey reports the positive trend about digital environment in local organizations. Azerbaijani CEOs are concerned about the availability of the digital skills primarily on the country level (73%), rather than on the senior leadership level within organizations (53%).

World Economic Forum report on Digital Transformation Initiative states that the technology and innovation often fail not only due to nonsufficient level of technology, but primarily due to a lack of cultural change in organizations. 33% of local CEOs have already started rethinking the HR function.

Considering the growing importance of digital skills in the workspace, the cultivation of an progressive talent pool became a priority area.

- Customizing the software and IT services you use
- Managing your own public-facing social media accounts
- Using your organization's customer relationship management (CRM) system
- Curating your digital media consumption
- Interacting regularly with artificial intelligence powered tools
- Using an augmented reality (AR) or virtual reality (VR) headset
- Programming in computer code
- Trading cryptocurrencies
- None of the above

In the fast-moving world of digital, it is challenging to find functional experts, talent or tools in-house. Therefore, organizations that have a plan for the digital maturity in their strategies prefer to focus on the development of existing capabilities. The thoughts of over the half of CEOs both in Azerbaijan and globally coincide regarding the customization of software and IT services that is executed to develop existing digital skills.

In addition, based on the results of the survey, the majority of CEOs acknowledge that local organizations also tend to implement more popular digital fields such as management of public-facing media accounts (45%) and usage of customer relationship management (CRM) systems (35%). Programming in computer code and regular interaction with artificial intelligence powered tool are deemed to be less popular within local enterprises due to their specific nature (10% and 8% respectively).

However, trading cryptocurrencies (5%) and AR or VR headset (3%) indicated as the least executed methods according to the local outlook. The global indicators for these fields are also considered as less utilized activities to develop digital talent (7% and 16% respectively).

Exhibit 12

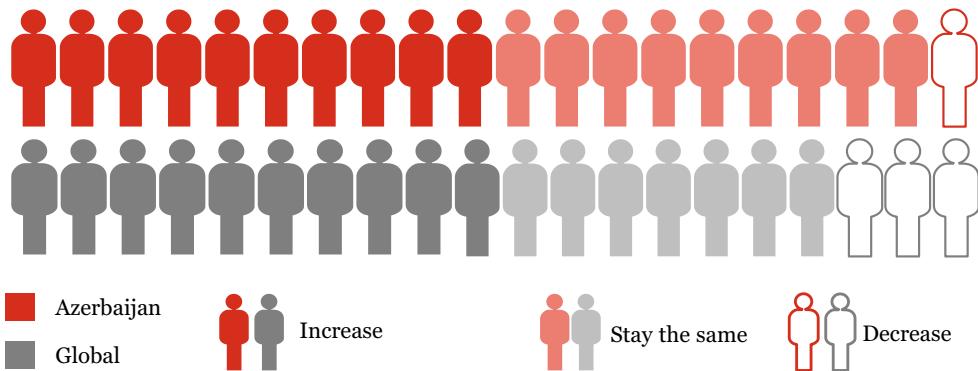
Q Beyond engaging with functional experts, are you doing any of the following activities to develop your personal digital skills?



Exhibit 13

Nearly half of CEOs expect to increase headcount over the next 12 months

Q Do you expect headcount at your organization to increase, decrease or stay the same over the next 12 months?



Only 3%
of local CEOs are
planning to decrease
the headcount this
year. The figure for this
initiative stood at 50%
in 2015

When it comes to change in headcounts over the next 12 months, approximately half of CEOs prefer to invest in human capital and expect an increase in headcount both in Azerbaijan and globally.

Unlike one fifth of global CEOs who consider a significant decrease in headcounts, in Azerbaijan only 3% of CEOs think about staff reduction.

We're not surprised that while approximately half of CEOs have cut the costs by staff reduction due to decline in economical growth in the country and globally in 2015, this year only 3% and 18% of CEOs expect to decrease number of staff in Azerbaijan and global respectively.

Interesting enough, research results show that all local CEOs who are planning to decrease the number of headcount motivate this decision as the result of automation and other technologies squeezing out human force. Comparatively, 52% of global peers (18% planning to decrease the headcount) agree partially on this point.



*A Message from the Country
Managing Partner, Movlan Pashayev:
Optimism is back*



When we were conducting the 2016 Survey two years ago, the mood and outlook of both the global and local CEOs were rather grim. It is very encouraging to notice that within the short period of 2 years, Azerbaijan has been able to overcome many challenges it has faced in the economy and the geopolitical games.

The level of CEOs optimism, both globally and locally, is the highest since 2010, almost double since the previous survey. The CEOs see growth prospects short and mid-term for their businesses while the economic and commodity prices are stabilizing, with many countries embracing the institutional reforms and diversification. The recent crisis brought disruption and it turned out to be the primary catalyst of a change, making a positive effect on both the private and public sector enterprises, forcing them to reconsider their strategies and business models.

It is important to make this positive trend long-term and sustainable supported by the execution of the comprehensive reform agenda and eliminate vulnerability to commodity price shocks.

Looking to the future, the Azerbaijani CEOs are still concerned with the threats such as exchange rate volatility and increasing tax burden. These risks can be addressed by more predictability and regular communication with the business community and the society at large.

In the era of competition for financial and human capital, we see the opportunities for Azerbaijan with the megatrends, such as innovation and digitalization, which can make significant contributions to GDP.

Successful companies have learned that disruptions the country has faced is more than a catalyst of unrelenting change. These are CEOs that have embraced transformation as a way of life and are using technologies to accelerate growth.

I would like to thank the company leaders from the diverse range of industries who have sat down with us and contributed to this survey. Their deep insight shaped a comprehensive and accurate report comparable with our global data and regional peers.



A handwritten signature in blue ink, appearing to read "B. Pashayev".

Movlan Pashayev
Country Managing Partner
PwC Azerbaijan

Methodology



PwC Azerbaijan conducted 40 interviews with the CEOs of significant entities in both private and public sectors. Global results incorporate more than 1,300 interviews with CEOs in 85 countries including Azerbaijan. Our sample is weighted by national GDP to ensure that CEOs' views are fairly represented across all major countries.

The interviews were also spread across a range of industries. All quantitative interviews were conducted on a confidential basis.

Exhibit 14

Q The employee headcount results of surveyed companies



- Less than 500
- Between 500 and 999
- Between 1,000 and 5,000
- More than 5,000
- Don't know

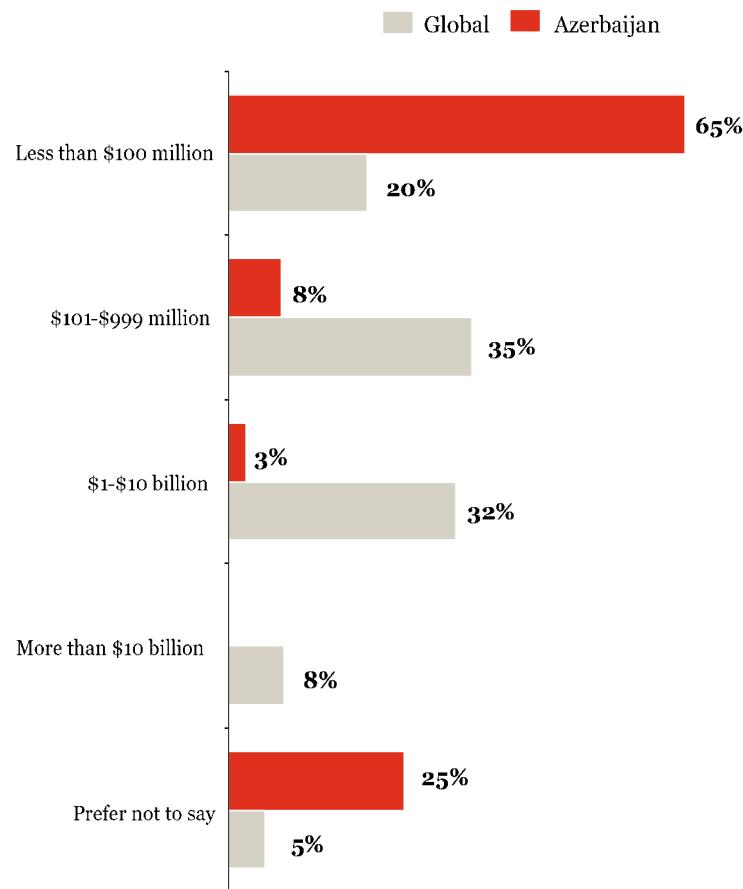
The majority of Azerbaijani CEOs (56%) are in 35-45 age range.

78% of the surveyed have been holding the CEO position for 1-5 years, while 23% - for more than 5 years.

20% of surveyed companies are publicly listed.

Exhibit 15

Q The revenue results of surveyed companies



Notes

Not all figures add up to 100%, as a result of rounding percentages and exclusion of 'neither/nor' and 'don't know' responses.

The base for figures is 40 for Azerbaijan and 1293 for Global (all respondents) unless otherwise stated.

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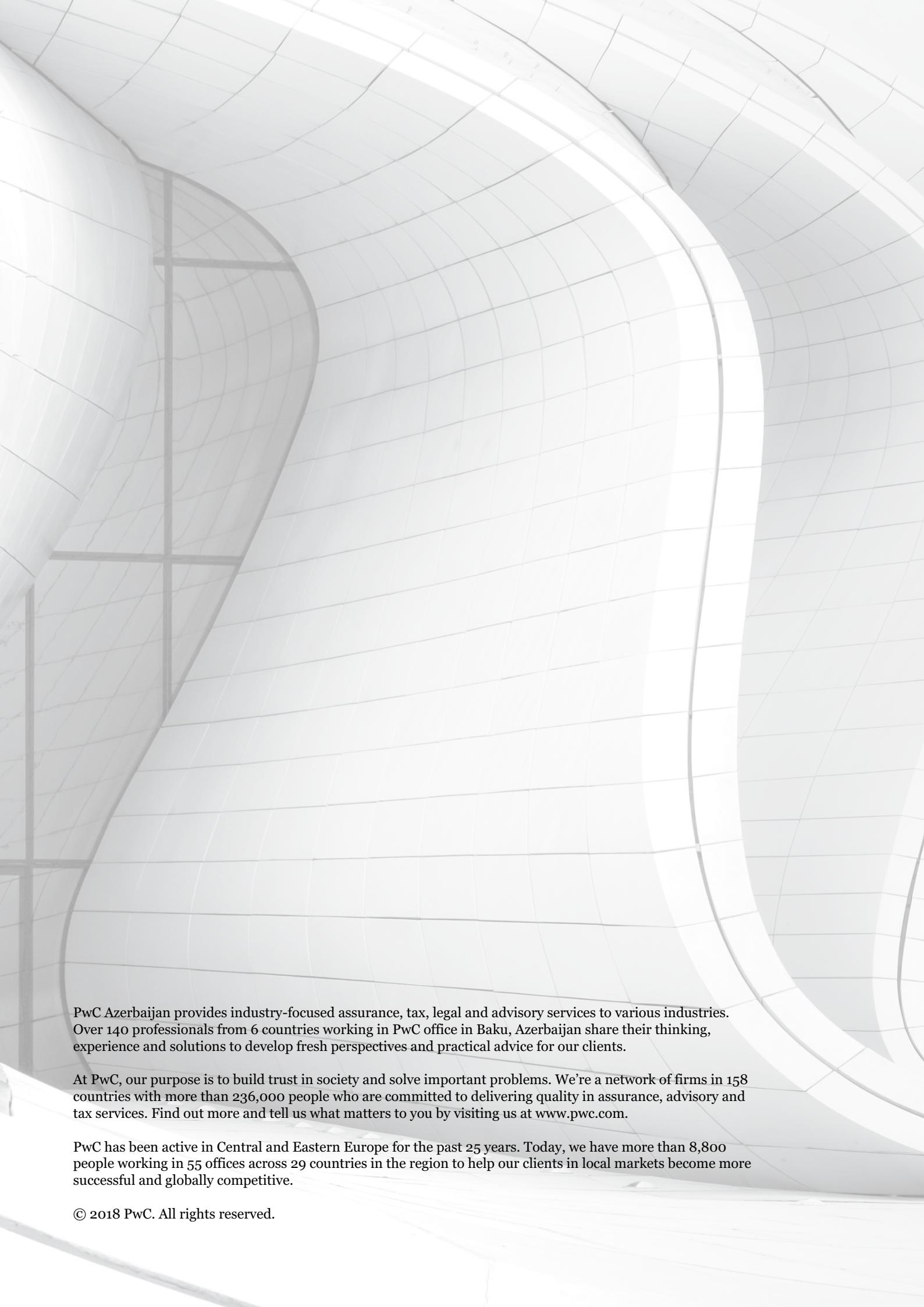
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