A photograph of a white commercial airplane in flight, viewed from behind and slightly below. The aircraft has two engines mounted on the wings. It is flying over a large body of turquoise-colored water. The sky above the water is clear and blue.

PwC Azerbaijan's 3rd Annual CEO Survey

**Navigating the Challenges
and Unlocking the Opportunities**

Contents

Concerns & Challenges

Exchange rate volatility still keeps its place as a main threat

Growth

Certainty strengthen outlook



Upskilling

To upskill or not to upskill is no longer the question

A few words on the PwC Azerbaijan's CEO Survey

The PwC Azerbaijan's 3rd Annual CEO Survey was completed for yet another year with the participation of 80 CEOs over. The interviews were conducted mostly online, followed by face-to-face meetings. The entire process is carried out in full confidentiality. Conducted in January 2020 this survey explores the views of CEOs on the economic growth, concerns & challenges, upskilling and other issues affecting their strategic thinking. It also contains extensive references to the ways in which companies address opportunities, challenges and threats, comparing the views of CEOs from different geographical areas.

This is a landmark year for our survey, which was first conducted in 2015, as it attempts a brief overview of the past, while also looking forward, to the future. We have found that CEO responses over the past years reveal a strong correlation between chief executives' expectations for their own organizations' revenue growth and actual economic growth. In short, CEOs' confidence is a strong indicator for the direction of the global economy.





Key findings



Three key themes emerged

Growth

No matter where CEOs look or from where they are looking, the path forward is fraught with certainty. And certainty boosts on growth. In the past five years, the percentage of Azerbaijani CEOs who believe global GDP growth will increase has raised twofold (from 23% to 52.5%). Almost in every two companies, CEOs report increased optimism. And in the majority of companies, they show significantly boosted confidence in their own organisation's revenue growth prospects. CEOs are more sanguine about the prospects for the coming three years and their confidence levels are still at a high not seen since 2015. Exchange rate volatility remains the top threat, but concern is also rising over geopolitical uncertainty, in particular, as well as tax uncertainty and uncertain economic growth. The unknowns on all of these fronts to some extent cloud CEOs' outlook on the road ahead.

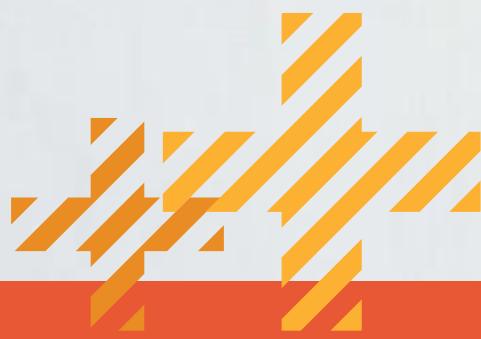


Concerns & challenges

In today's complex world, opportunities come hand-in-hand with challenges. Despite confidence in their ability to grow their businesses, Azerbaijani CEOs are well aware of the variety of challenges—internal and external—that can derail their growth plans.

The local senior decision-makers are quite realistic this year about the challenges facing them, and this may incent them and their organisations to act. At the same time every leader affected by the challenges facing them this year is aware that, no individual organization, whether in the public or private sector, can tackle them alone.

CEOs understand that they need to look ahead and build a business that's ready for the more complex local and regional marketplace of the future. To equip themselves for this challenge, CEOs have to focus on their core capabilities. Companies can address these challenges through a greater focus on data and technology to gain better insight into business processes and to measure a broader range of variables.



Upskilling

There are correlations among upskilling progress, economic optimism and revenue confidence. Furthermore, CEOs who have embraced the potential of upskilling are realizing the rewards, such as a stronger corporate culture, greater innovation and higher workforce productivity.

Those furthest along in the upskilling journey cite employee retention as the primary challenge, whereas those just beginning the process find motivation and lack of resources to be the biggest obstacles. One reality is clear: increases in automation, changes in demographics and new regulations will make it much harder for organizations to attract and retain the skilled talent they need to keep pace with the speed of technological change. They will have to grow their own future workforce.



Growth

Certainty strengthen outlook

Azerbaijani CEOs express optimism regarding the global economic outlook not seen since 2015.

What a difference five years can make. In 2015, PwC Azerbaijan's CEO Survey revealed a record level of pessimism in comparison with 2020 regarding worldwide economic growth. This year, as CEOs look ahead to 2020, we see a high level of optimism, with 52.5% projecting an increase in the rate of global economic growth, increased sharply from 45% in 2017. Since 2015, when we began asking our CEOs about the prospects for growth in the coming year, the share of CEOs projecting an increase has never reached, much more than 45%.

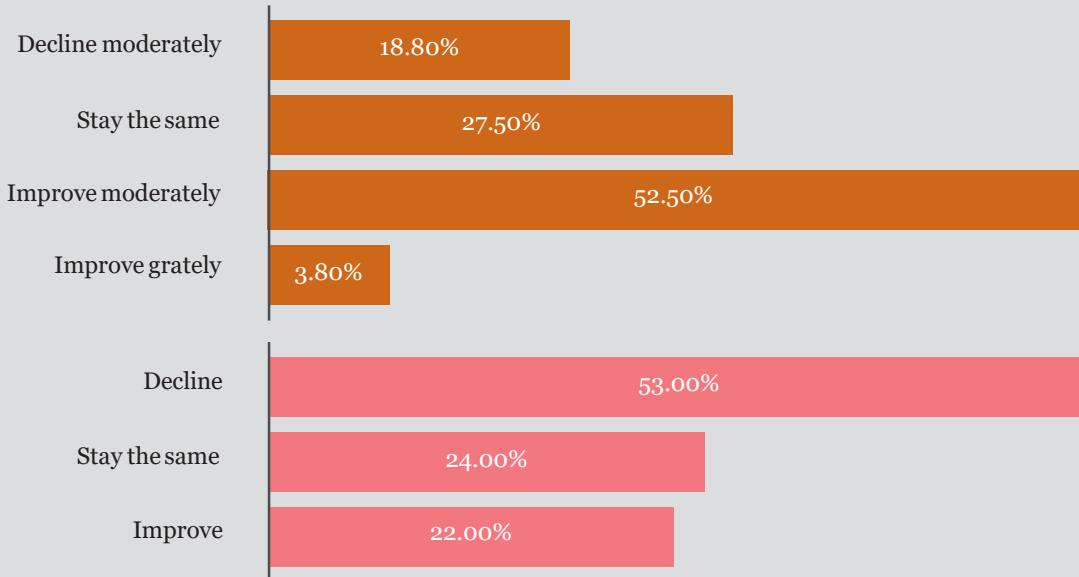
If we compare confidence level of Azerbaijani CEOs with CEE region from 2018, we will see that confidence of local CEOs is more close to the regional rather than to global results.

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. (as of January 2020)

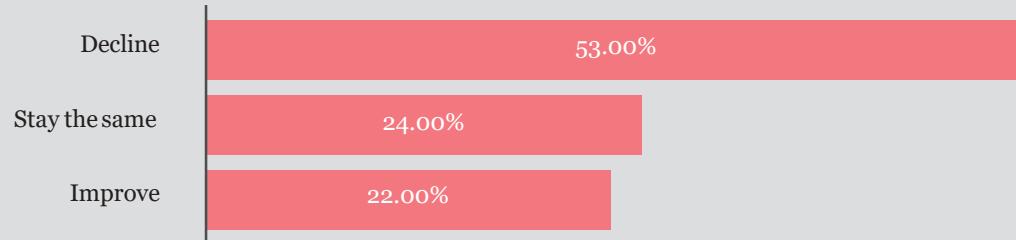
The proportion of local CEOs who believe that global economic growth will decline in 2020 dropped by a record share, from 42% to 18.8%. This year only 27.50% of the local CEOs project that global economic growth will stay the same when in 2017 53% of local CEOs thought so. When it comes to the global results of this question, 22% of global CEOs believe that global economic growth will increase, while 24% of CEOs think it will stay the same and more than half of CEOs (53%) consider it will decline.

Exhibit 1

2020 Azerbaijan



2020 Global



Question 1:

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

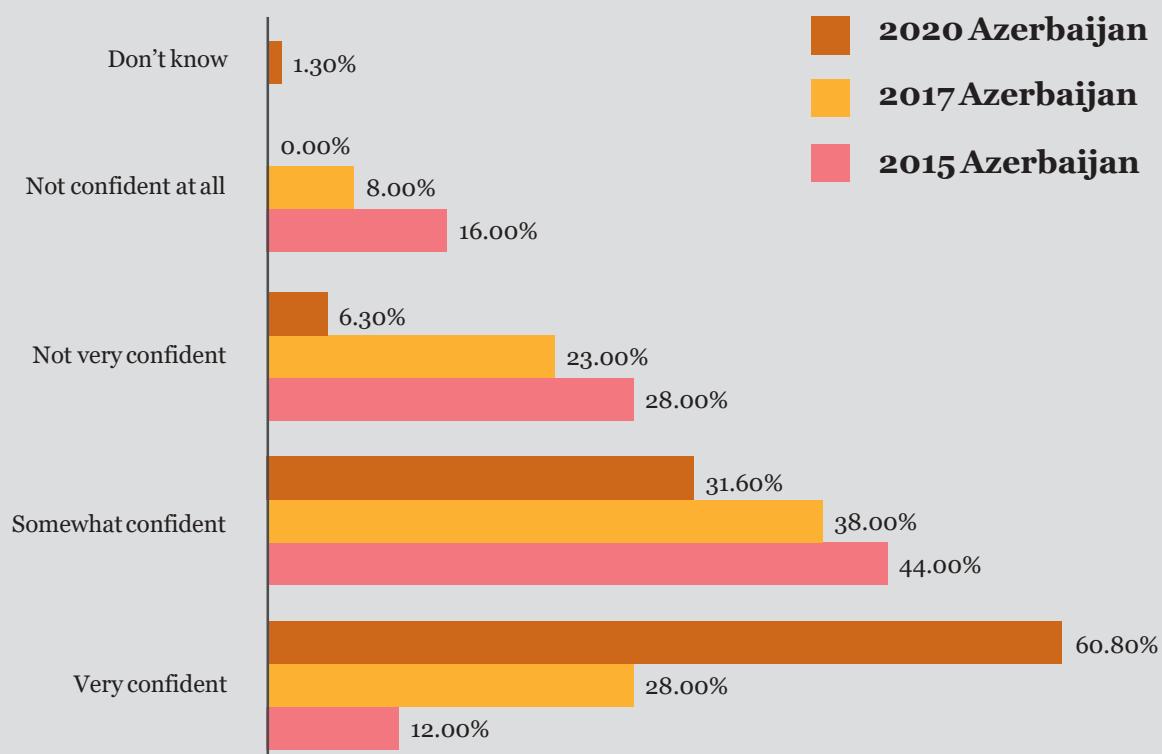
Local CEOs confidence about their business results doubled compared to previous years.



Exhibit 2

Question 2:

How confident are you about your organisation's prospects for revenue growth throughout 1-3 years?



Optimism over faster global growth is also reflected in local CEO views on their own businesses progress. Exhibit 2 shows Azerbaijani CEOs' confidence in their own organization's revenue growth prospects against their optimism regarding global economic growth. Not surprisingly, the share of local CEOs claiming to be 'very confident' about revenue growth throughout 1-3 years is increased. In fact, CEOs' confidence in their own organization's revenue growth has risen to levels not seen since 2015, just because the economy was beginning to recover from the global financial crisis. The figures demonstrate that the opinion of CEOs in Azerbaijan has changed completely just in two years. In comparison with 2015, local CEOs' confidence almost doubled from 28% to 60.8% in 2020. Significant changes are also seen in pessimism level of CEOs on their organization prospects. As a result, the percentage of the CEOs, who are «not very confident» decreased from 28% in 2015 to 6.3% in 2020.

When it comes to the Global CEO Survey 2020, the confidence level was at 27% and 34% for short and long terms respectively, being the lowest points in confidence since the global recovery from the financial crisis in 2009.



38.8%
of local CEOs
think they are
ahead of their
competitors in
terms of financial
performance.

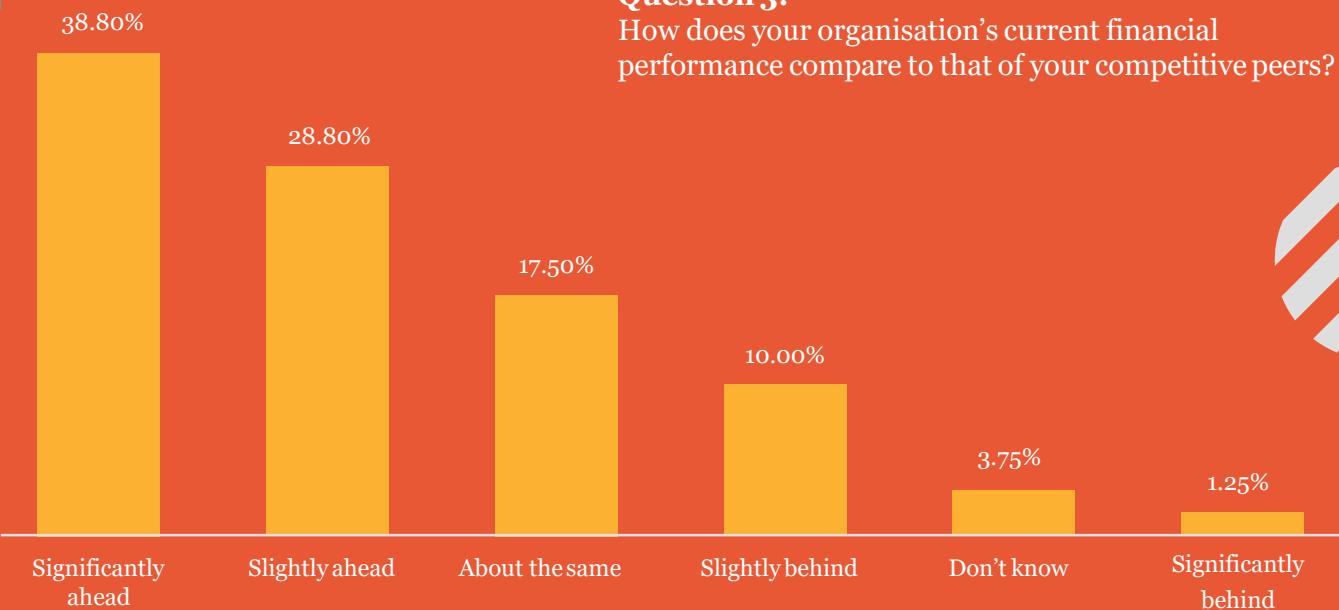


For the two year time frame, survey found that a higher proportion of executives in Azerbaijan are very confident towards revenue growth prospects, compared to the global executives.

For the first time this year we decided to explore CEOs attitude toward their performance against that of their industry peers in Azerbaijan. Results showed that local CEOs confidence remains unchanged. 38.8% of local CEOs are confident that they are significantly ahead of their competitors in terms of financial performance, followed by 28.8% who consider their company's performance slightly ahead of their industry peers.

Only 17.5 % of the local CEOs assume that their current financial performance is about the same with their competitive peers while 10% is slightly behind.

Exhibit 3





Operational efficiency is the main focus for revenue growth among local executives.

Finally, the inside-out approach to growth is confirmed in local CEO's responses to this question: «Which of the following activities, if any, are you planning in the next 12 months in order to drive revenue growth» CEOs overwhelmingly respond with internally focused initiatives: «operational efficiencies» (82.5%) and «organic growth» (62.5%).

The launch of new products and services is the third activity that they are planning over the next 12 months, aiming at corporate growth and profitability.

Survey results founded that entering new market still does not appear to be a priority for executives in Azerbaijan. And new M&A as a growth driver remains to be the least popular answer (7.5%) from last two years, when it was 5% in 2017 and 6% in 2015.

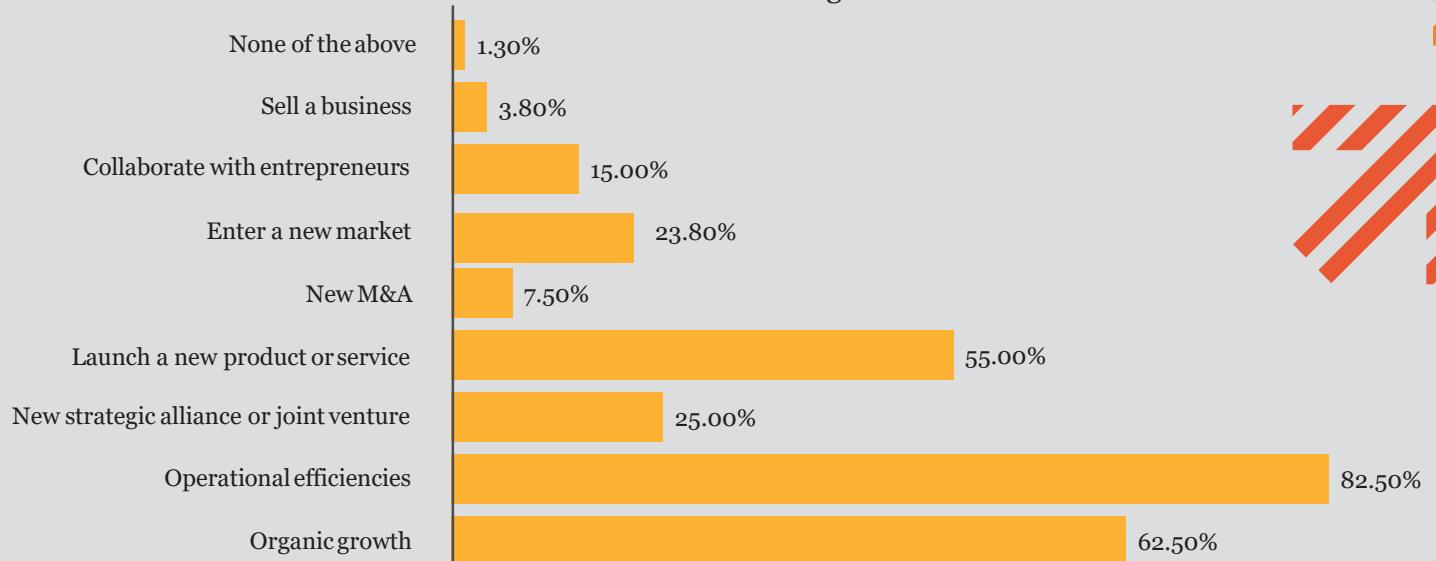
This nuanced picture suggests that for many of local CEOs, the drive for efficiency is as much about getting in shape to seize future opportunities as surviving current difficult market conditions. Sustainability is the focus not rash cost cutting.

Meanwhile, executives globally are under pressure from regulatory risk and unpredictable antiturst review as established market environments are being challenged by technological disruption.

Exhibit 4

Question 4:

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





Local CEOs prefer to invest in technology, media and Telecommunications.

The technology, media, and telecommunications sector has enjoyed unprecedented growth over the past decade. This is due the fact that Technology evolves, and the media and telecommunications industries are inevitably the first to offer it to the public, pushing both the commercial sector and the public at large forward in the process.

And when we asked local CEOs on the subject of different industries prioritized in the short run it was not surprise for us that CEOs choosed TMT (Communications, Entertainment & Media, Technology, Other Technology, Information, Communications and Entertainment).

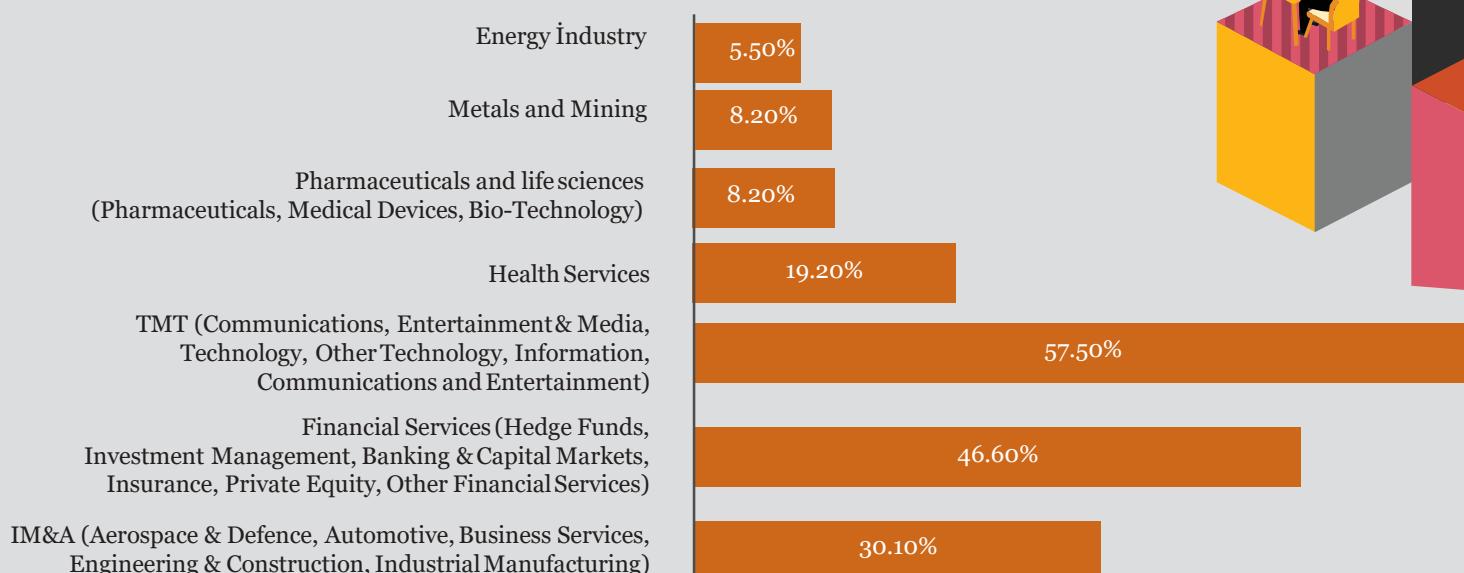
Whilst, the Financial Services (Hedge Funds, Investment Management, Banking & Capital Markets, Insurance, Private Equity, Other Financial Services) and IM&A (Aerospace & Defence, Automotive, Business Services, Engineering & Construction, Industrial Manufacturing) industries followed as the second and third preferences respectively. Almost one out of five local executives prefer to invest in Health services. It seems that this industry starting to gain momentum among local executives.

From the answers, it is clear that local CEOs understand the importance of investing in fast-growing industries to drive financial growth.

Exhibit 5

Question 5:

Which of the following opportunities in the industry will you be prioritising/investing in over the next 12 months?





76.3% of CEOs in Azerbaijan believe that clear vision of how they create value for their customers enables their strategic goals.

There is no doubt that every company has its own strong points that enable strategic goals and companies rely on them. For the first time this year, we looked at the key strengths that empower local CEOs strategic goals.

As it turned out, more than half of CEOs in Azerbaijan focus on clear vision of how they create value for their customers while 40% consider that set of differentiating capabilities put them apart from their competitors.

Nearly 36 % of local respondents believe allocating resources strategically are number one factor that enables their strategic goal and 31.3% believe that maintaining their ability to attract, retain and develop talent factors to achieve strategic goal.

Only 28.7% of CEOs from Azerbaijan consider that bringing something unique to their customers is their key driver to achieve strategic goal.

It is obvious from the answers that local CEOs are not keen to pursue new opportunities that emerge in the market since this statement is less popular among local CEOs.

Exhibit 6



Question 6:

Which of the following statements do you believe most strongly enables your strategic goals?





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

Investment in new markets and countries has always presented opportunities for corporate growth. How CEOs view the world and how they choose the countries where to operate is linked to a number of factors.

It is worth noting that this year, CEOs see a noticeable decline in the percentages of all the countries where they see growth prospects. This combined with local CEOs intention to gain a foothold in the domestic market.

Five countries, namely Russia, Turkey, USA, China and Germany, are the most favorable destinations for local CEOs in terms of their organization's overall growth prospects. Among them, the two neighbor countries of Azerbaijan, Russia and Turkey are more preferred countries with 40.5% and 39.2% respectively. Other three countries are USA, China and Germany, which are the major drivers of global economy.

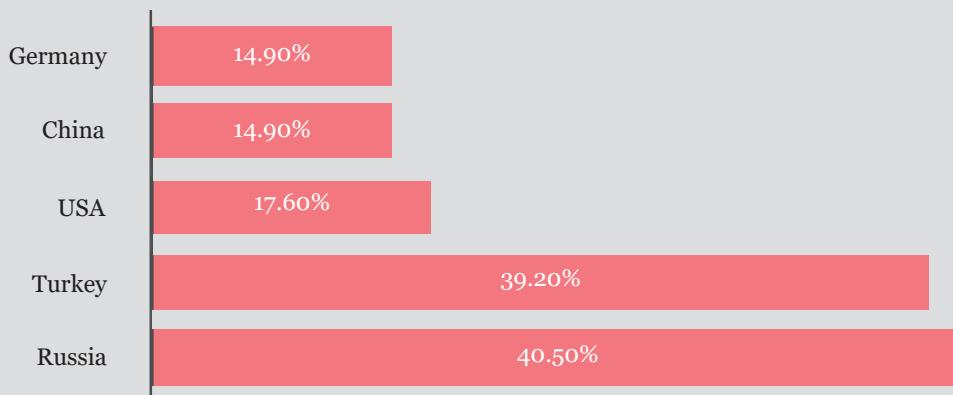
The main change is seen in the third place. Unlike previous years, local CEOs regarded USA as their third most important growth market, while in 2015 this place belonged to Iran, and in 2017 to China.

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.

Exhibit 7

Question 7:

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



Concerns & Challenges

Exchange rate volatility still keeps its place as a main threat





Exchange rate volatility still is the top threat in Azerbaijan.



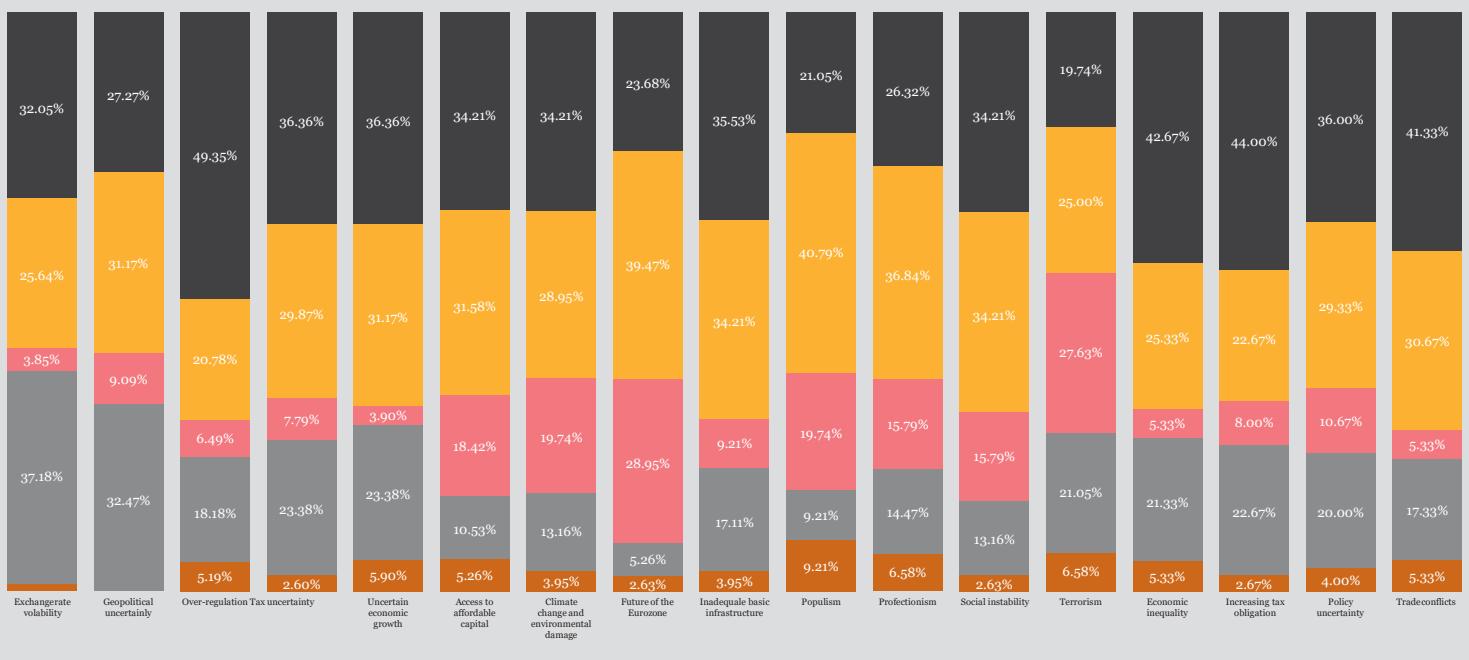
While each local CEO cites a different number one threat, there is a broad consistency among the answers in what keeps CEOs up at night around the country. Exchange rate volatility is the top threat featuring in the top concerns for local CEOs while on global level this threat ranked 13th place.

Almost three years passed from the last devaluation in 2017, the economy and financial markets recovered and exchange rate of the AZN in terms of USD stabilized. However, exchange rate volatility, which ranked the most dangerous threat by local CEOs in 2015, is still the top priority threat for them.

Exhibit 8

Question 8:

Please find below a list of potential economic, policy, social and environmental threats to your organisation's growth prospects. How concerned are you, if at all, about each of these?



Another top of mind concerns among Azerbaijani CEOs is geopolitical uncertainty with 32.47%, followed by tax uncertainty and uncertain economic growth with 23.38%.

Tax uncertainty as one of the main threats might be caused by changes in the tax administration, constant changes in the tax legislation, relaunching of tax audits and implementation of new administrative practice (new tax treatment) during the tax audits.

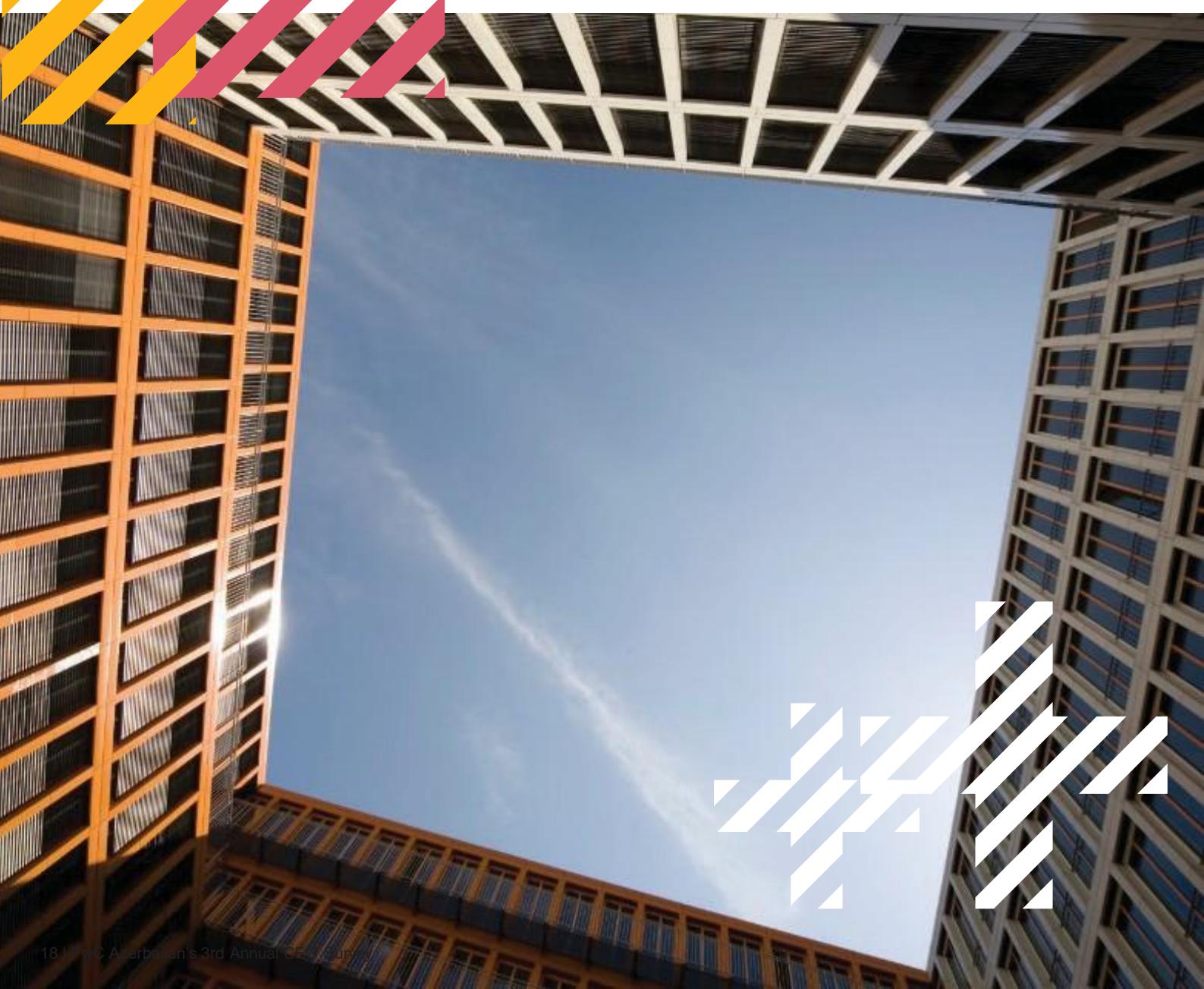
Geopolitical uncertainty, which was in the 3rd place in 2015 and 2018 respectively, this year shifted to 2nd place.

The Survey shows that, in comparison with their global peers, local CEOs are not particularly agitated about climate change, access to the affordable capital, populism and and future of Eurozone.

But on a global level 24% of local CEOs extremely concerned about climate change and environmental damage which means that organizations worldwide are starting to recognize its risks and even its potential opportunities.

Unlike their global peers, CEOs in Azerbaijan are more mindful of what is going on in their immediate purview as they await greater clarity on government actions and market conditions.

What is perhaps most noteworthy about this question is that over- regulation, the perennial top threat since PwC began asking this question in 2008, maintenance first place globally.



Upskilling

To upskill or not
to upskill is
no longer the
question



31.17% of local CEOs stated that they made significant progress in building employee engagement through open communication on skills of the future.



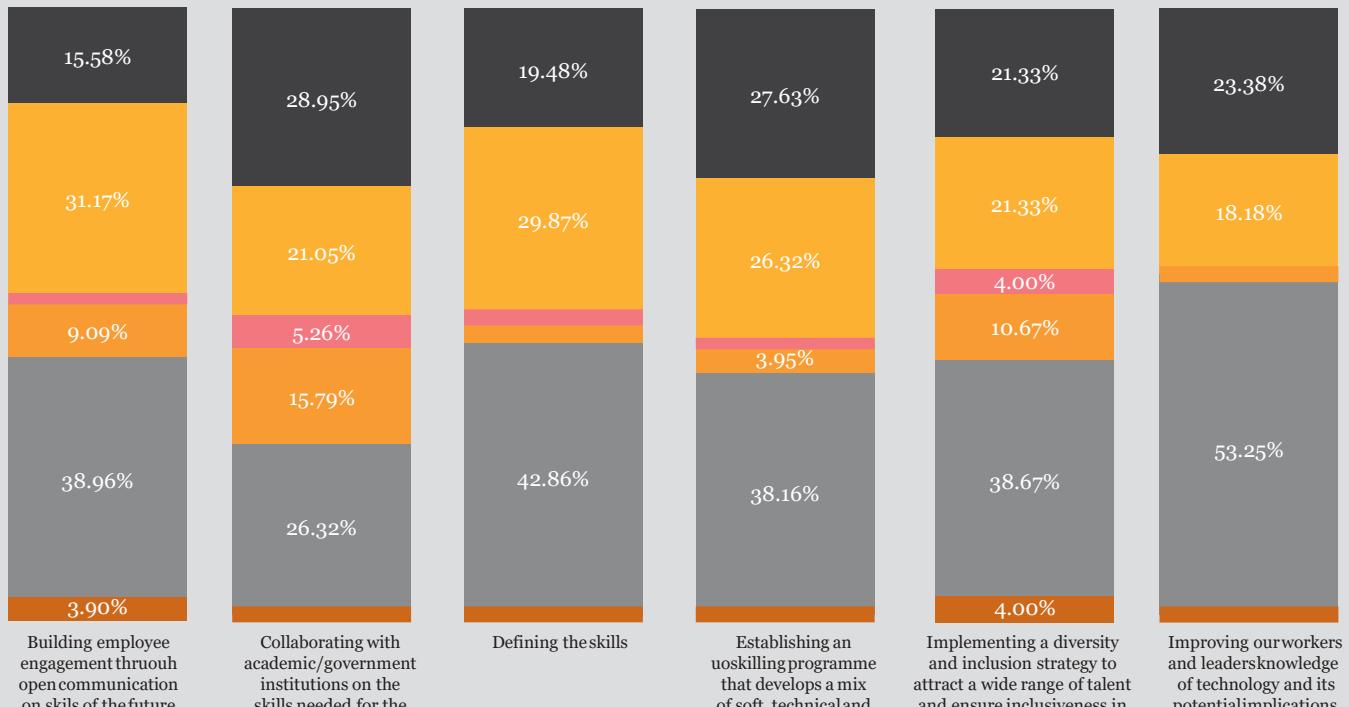
Of course, ‘upskilling’ can mean different things in different territories or industries. For the purposes of this survey, upskilling was defined as follows: “An organization’s clear intent to develop its employees’ capabilities and employability, and to advance and progress their technical, soft and digital skills.”

In Azerbaijan, upskilling has become a critical priority due to the rapid digitalization of business systems and consumer markets; local CEOs see upskilling as a means to improve their employees’ knowledge of technology and its potential implications. They stand to benefit from a virtuous circle where a more tech-enabled workforce means more cost-efficient business processes and improved customer insights through analytics, this in turn leads to a better culture and employee experience, and therefore better long-term growth prospects.

Exhibit 9

Question 9:

How much progress has your organization made in the following areas related to upskilling?



● Don't know ● Moderate progress ● No progress ● Not considering ● Significant progress Start to make progress

And the purpose of this question was to understand the success of Azerbaijani CEOs in the area of upskilling direction and as it turned out that the majority of local CEOs (31.17%) made significant progress in building employee engagement through open communication while 29.87% of local respondents consider that they made significant progress in defining the skills needed to drive their future growth.

The Fourth Industrial Revolution has ushered in new business models and new ways of working that require critical new technical, digital and soft skills. Those skills are in very short supply. Indeed, the availability of key skills has been a top ‘extreme concern’ among local CEOs for the last five years impeding innovation and prompting higher people costs. Businesses in Azerbaijan cannot hire their way over this skills gap at a price they can pay, so the imperative is clear. Employers and employees must join hands and invest in upskilling or risk irrelevance.

Taking into account that Azerbaijani CEOs understand correlation between progress in upskilling and knowledge of technology, we are not surprised that one out of every five local CEOs reported that they made significant progress in establishing an upskilling program which develops a mix of soft, technical and digital skills. That is how Azerbaijani leaders can benefit from the power of technology to reimagine the way they plot strategy. They can use AI to consider a wide range of scenarios, test and scale options, and feed the knowledge gained back into the system.

In the era of digitalization of business and services, CEOs in Azerbaijan acknowledge the need of tasks and jobs automation to deliver the corporate purpose in the most advantageous manner. From the answers, it is clear that there is enough proportion (53.25%) of local CEOs who already made moderate progress in improving their workers’ and leaders’ knowledge of technology and its potential implications. Only 21.33% of CEOs say that they are implementing a diversity and inclusion strategy to attract a wide range of talent and ensure inclusiveness in how they work.

According to the responses of Azerbaijani CEOs, the least progress was made in collaborating with academic/government institutions on the skills needed for the future. The same picture is observed in global survey.

On a local level one thing is obvious- Digital transformation is a combination of technology infrastructure, data and skill, and in order to realise the full benefits of digitisation, companies in Azerbaijan must invest substantially in upskilling their people. Bringing in staff from other countries will not fill Azerbaijan’s considerable digital skills gap, because of a global shortage of qualified people.





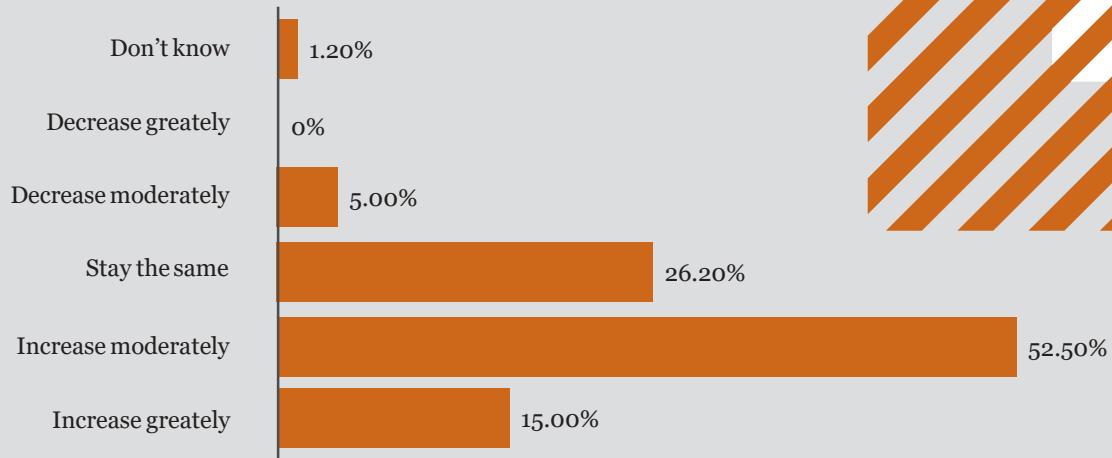
Decreasing headcount does not appear in the agenda of CEOs.

Overall, our CEOs are responding to two main sets of challenges. Firstly, they need to create new business models that integrate digital channels into their existing physical outlets. Secondly, they need to become more agile and drive efficiencies across their organizations to succeed in the new reality environment of single-digit economic growth, making them better placed to compete at home and abroad. In this regard, today Azerbaijani CEOs increasingly recognize that to be fit for the future, they must maximize the potential of their existing staff and that is why the focus on the human workforce is still the priority for them.

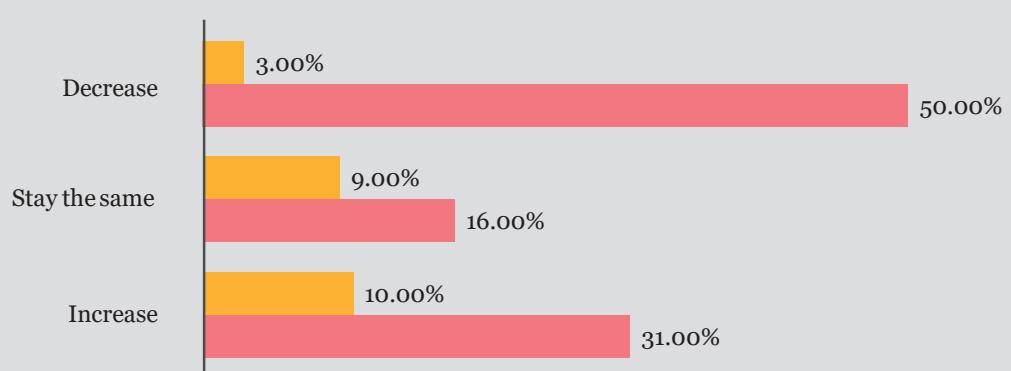
The above-mentioned is confirmed in the answers of local executives. More than half of the respondents expect that the number of their headcount will increase in 2020. And in 2017 approximately half of CEOs preferred to invest in human capital and expected an increase in headcount while in 2015 only 31% of CEOs thought about rising headcount. Yet this year only 26.2% of local CEOs assume their headcount will stay the same while 5% of the CEOs intend to decrease their employees. Unlike this year in 2015 one of every two CEOs planned to decrease headcount of their organizations. What is remarkable, last time (2017) when global CEOs we asked about their plans regarding their employees, only 19% global CEOs planned to increase while 46% to decrease their headcount.

Exhibit 10

Question 10:
Do you expect headcount at your organisation to increase, decrease, or stay the same over the next 12 months?



2020 Azerbaijan
2017 Azerbaijan
2015 Azerbaijan



Survey methodology

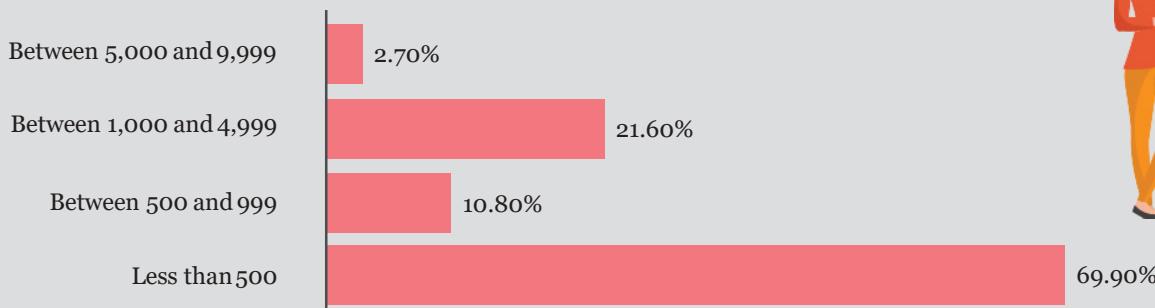
PwC Azerbaijan conducted 80 interviews with the CEOs of significant entities in both private and public sectors. Our sample is weighted by national GDP to ensure that CEOs' views are fairly represented across all major countries.

The survey was conducted before COVID-19 outbreak, and we realise that CEOs' insights on some issues may have changed just in a couple of months. At the same time, CEO's preserve their position on fundamental issues impacting business, such as economic growth, geopolitical uncertainty and upskilling. The interviews were also spread across a range of industries. All quantitative interviews were conducted on a confidential basis.

Exhibit 11

Question 11:

The employee headcount results of surveyed companies



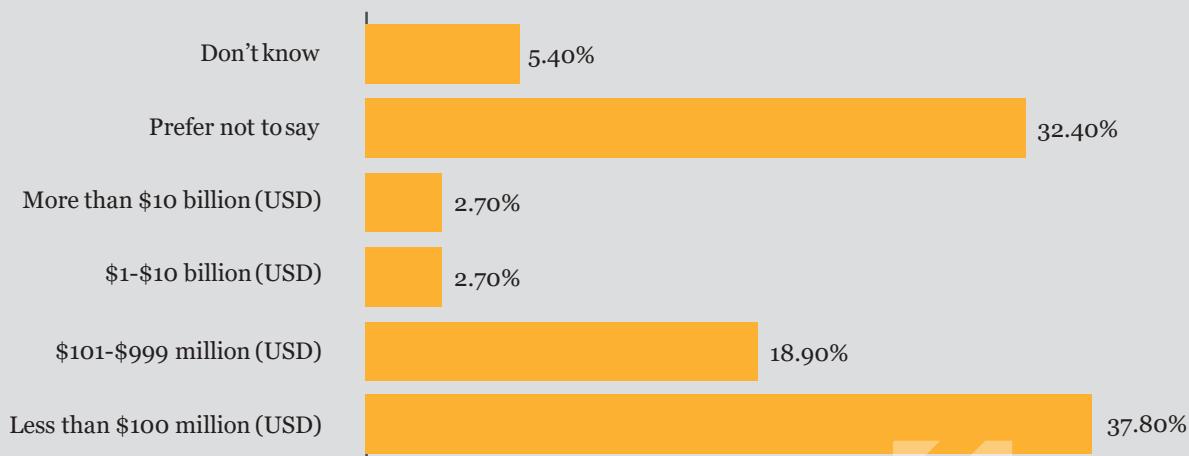
- **43.20%** of the surveyed have been holding the CEO position for 1-3 years, while 21.60% - for more than 3-5 years.
- **72.20%** of surveyed companies are publicly listed.
- **54.10%** of surveyed companies are operating for 11-25 years.



Exhibit 12

Question 12:

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 Azerbaijan figures is 80 unless otherwise stated.

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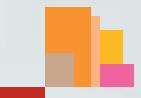
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