Results of the 1st CEO Survey in Kazakhstan
During the past two decades, we have witnessed considerable change in the Eurasia region. Kazakhstan has emerged as an independent state, fuelled by fast economic growth increasingly integrated with the global economy. Consequently, Kazakh business and CEOs have become important players that cannot be disregarded.

The unprecedented levels of economic volatility and disruption experienced globally were inevitably also felt by the business community in Kazakhstan. Navigating through this environment is never easy and requires companies to develop resilience; ability to manage short term impact of shocks with capacity to adapt to constantly changing market dynamics in the long run.

For the first time this year, we undertook a survey of CEOs in Kazakhstan in a similar way to the PwC Annual Global CEO Survey, now in its 16th year.

Our survey aims to understand the perspectives of CEOs operating in Kazakhstan with regard to such important issues as prospects of growth of Kazakhstani business, changes in approach to management in the current climate and challenges that can threaten business growth in the future. Additionally, within this survey, we also attempt to establish the differences between opinions of Kazakhstani CEOs from those of their colleagues in Russia, Western Europe, USA and China and in which issues, their opinions are similar, or differ.

The survey results confirm that similar to international experience, the last five years have been a turbulent period for business locally. The Kazakhstani business community is naturally worn out by the crisis however, despite the fact that the underlying problems facing the global economy remain unresolved, in their opinion, the worst period is over. Furthermore, the majority of respondents are confident that the world economic trend will be positive although with some continued turbulence in certain markets.

As evidence of positive expectations, the business community continued investing throughout last year against the background of highly unpredictable environment. Among the business risks and economic threats, the Kazakhstani CEOs are most concerned about bribery, corruption and excessive regulation. An equally important issue, in their opinion, is the shortage of skilled personnel in the market.

In the light of this uncertain and uneasy period, the companies developed enhanced ability to adapt to changes and destructive events. Driving management professionalism proved helpful to establish better internal controls and achieve improvements in business processes.

Post 2008 crisis, despite slow down in the pace of growth, Kazakhstan proved its resilience and continue to offer important market opportunities for future growth for existing players as well as new market entrants.

My sincere thanks go to all of the CEO’s who participated and shared their thinking with us. We greatly appreciate them for their willingness to free up their valuable time to help make this survey as comprehensive as possible. You can read their detailed comments throughout this report.

Alper Akdeniz
Managing Partner,
PwC Eurasia
Potential growth opportunities for the global and Kazakhstan economy

We cannot underestimate such a factor as the state of the global economy. Therefore we asked Kazakhstani CEOs how they see the development of the global economy and to what extent they are confident in revenue growth in the next year and in the next three years. The responses we received were then compared with the global survey results.

Half of the Kazakhstani top managers interviewed (53%) said that global economic conditions will not change in the next 12 months. This is largely consistent with the global CEOs’ responses: 52% of the CEOs of major multinationals also expressed confidence that the global economy will not change significantly.

33% of the surveyed Kazakhstani CEOs believe that the rates of growth of the global economy will increase. The number of pessimistic respondents in Kazakhstan amounts to 10%.

Meanwhile Russian CEOs believe that the global economic growth will slow down in the next year; while 31% of global CEOs share similar views. Some respondents expect further growth in emerging markets and revitalised growth rates in Europe and the US.

Do you think that in the next 12 months the condition of the global economy will improve, remain the same or worsen?

- Will improve: 33%
- Will remain the same: 53%
- Will deteriorate: 3%
- I don’t know: 10%

Source: 1st Annual Kazakhstan CEO Survey
“At the beginning of the year, there were a number of grounds for optimism. The fear of a “rough landing” of the Chinese economy did not prove true, and this year there is a chance for growth in Europe. The notorious “fiscal cliff” in the US is delayed as yet. Yes, tightening of the tax policy can lead to a recession in this country. But, first of all, it seems the problem of the state debt will be resolved without increasing the tax burden and, second, in the situation of the budget deficit in 1993 the increase in income tax in the US did not negatively impact the economy. Even in the worst case scenario of resolving this problem the decrease in the GDP of the US would not exceed 1%. For Kazakhstan, as an exporter of primary goods, it is important since from the beginning of 1990s the percentage of variance of the GDP of the US is equivalent to approximately 10% fluctuation in the oil price. But such a decrease would not be dramatic for us – in January the oil price was over $110. And in general for the global oil market in terms of prices the past month was the best for seven years. Thus, the year 2013 can be crucial, and the growth of the “troubled” economies can turn out to be not so fragile after all.”

“In my opinion, the condition of the global economy in 2013 will remain the same or deteriorate a little. Despite cataclysms, wars, financial and economic crises in various parts of the world, I am positive that in the next three years the global economy will begin to revitalize globally and I associate this, first of all, with a steady increase in the global population and the consumption theory well grounded in the consciousness of people. It is the consumption theory that will be the driver of the growth of production in the entire world. Another question is how each inhabitant of the planet will feel the improvement of the global economy. Unfortunately, concentration and consolidation of capital will continue, the rich will become richer and they will reduce in number, and the poor will grow in number (both in absolute and relative terms in both categories), and the middle class will be gradually destroyed. That is, although the global economy will begin to improve, it does not mean that the majority of people will feel it.”

“In my opinion, in 2013 the global economy will continue to deteriorate. It is evident from the behaviour of the collapse of the global banking system. According to analysts, only in 2012, 46 banks went bankrupt (since 2007 in total about 450 banks declared bankruptcy). In addition, we all see the impact of the crisis on the countries of the European Union and the US, which also face hard times. Therefore, in the next 12 months many countries will go into recession. In terms of the 3-year period, I hope that by the end of 2015 or 2016 the global crisis will subside and we will see prospects of improvement of the situation in general globally. But nobody is sure. In addition, there are currency problems. In particular, China is now buying oil from Iran and Russia for Yuan, bypassing the dollar. How will this affect the current situation in the global economy? I guess one can speak about this in the context of a 3-year period.”
Yerlan Ospanov  
General Director, Group of Companies “Verny”

“If we talk about the economy in general, it is largely dependent on the main players in the world – the economies of the US, China, recession in Great Britain and crises in a number of European countries, especially in Spain and Italy. I hope next year the period of recovery and stability in Europe will begin. There is still great demand for the oil industry, but there are no alternative sources of energy as yet. Special attention is paid to water resources and even nuclear industry, but we do not see a substantial shift in development of innovations and technologies. I am more positive with regard to the Far East and Arab countries. OPEC managed to stabilize the oil price, and now it is quite viable. I hope in the next three years the European countries will manage to return to a positive growth of GDP and leave behind their financial difficulties.”

Arman Kagarov  
Partner RTS Group of Companies

“One should be awaiting the crisis cautiously. I guess in the next three years in the global market one should expect the strengthening of the America’s influence, in the post-Soviet countries, which are part of the global map, there are centripetal tendencies, for example forming a common economic area or another form with a central basis in Russia. As for Europe, I do not foresee substantial changes in the next three years.”

Guram Andronikashvili  
CEO of “ForteBank”

“According to the analytics of various financial institutions, available to me, I guess the global economy in 2013 will grow at the rate of 2.6-2.8%. However, this growth will turn out to be unbalanced. For example, in America and Europe it can be only 1%, whereas in the emerging markets it will be much higher. Thus, the growth is expected and it will be seen in Asia, in the emerging markets, but the developed economies will be stagnant.”

Yerlan Ospanov  
General Director, Group of Companies “Verny”

“It is currently difficult to predict anything. But, judging by the performance of the companies in our portfolio and budgets for the current year, we expect stable growth in a short-term perspective. Our expectations are confirmed by still more optimistic forecasts of the analysts for this year. Emerging markets will continue to be a zone of active growth supported by expected growth of the American market. As for Europe, the slowdown associated with the crisis will be significant in the short-term perspective. But the crisis will be most probably beneficial for Europe. China should be noted particularly, it is a separate country with its own laws. We see signs of the increase in the growth of internal consumption, which in turn mitigates the growth at the expense of external factors. The slowdown of the growth of consumption of Chinese goods in Europe is compensated by the internal growth of demand.”
of CEOs of the leading companies of the world are confident that the situation in the global economy will not change drastically.

of interviewed Kazakhstani CEOs believe that the growth of the global economy will increase in the next year.

of interviewed Russian CEOs believe that the growth of the global economy will decrease in the next year.

CEOs are confident about the growth of revenues in 2013

Kazakhstani CEOs are positive not only about prospects of the growth of the global economy but also about the growth of revenues of their companies. It concerns both the next year and the 3-year period.

How confident are you about the growth of revenues of your company during the next 12 months?

Based on the results of the survey the share of “fully confident” in the growth of business in the next three years is 60%. 40% of the interviewed are partly confident about the growth.

73% were “fully confident” Kazakhstani CEOs about the growth of business in the next 12 months.
Question: How confident are you about the growth of revenues of your company during the next 12 months and 3 years?

<table>
<thead>
<tr>
<th>Country</th>
<th>12 months</th>
<th>3 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kazakhstan</td>
<td>60%</td>
<td>73%</td>
</tr>
<tr>
<td>Russia</td>
<td>39%</td>
<td>66%</td>
</tr>
</tbody>
</table>

Source: 1st Annual Kazakhstan CEO Survey
Source: 16th Annual Global CEO Survey

Nurlan Smagulov
President of “Astana Group”

“We are absolutely confident, and it’s not optimism born of ignorance. In 2012, the group’s revenues grew by 57% compared to the previous year, for 2013 the company is planning 35% growth, at that the group’s income would amount to $900 mln. From 2007 to 2010 we received a sort of business lessons in harsh conditions of the crisis. During these years, we obtained a formula of stable business for ourselves. For instance, in Astana Motors it is called “one – one”. That is, if we do not sell a single car in 2013, the company will still be profitable through after-sales service. We did not have such a formula prior to the crisis. We are self-confident; otherwise we would not have invested hundreds of millions of dollars into development of our business units.”

Dmitry Zhukov
General Director of “Prosto Credit” LLP

“If we talk about Prosto Credit LLP and Prosto Credit MCO, whose portfolio totals $80 mln., then no growth of revenues is expected, since our portfolio is reducing, but if we speak in relative terms, then it can be called a growth. The thing is our actual repayments are bigger than we expect. It seems the human well-being is not falling in general. If we speak about “Eurasian bank” company and the projects conducted outside of the bank, but related to financing business, then we are very confident of the growth.”

Yerlan Ospanov
General Director, Group of Companies “Verny”

“We are planning growth in the next three years. Our revenues have two factors of growth. The first one is related to the general trend of the macroeconomic growth, the second directly with management of companies in the portfolio aimed at creation of added value. First of all, we are selective in terms of sectors and invest into the sectors where we see prospects of double-digit growth on investments. Second, prior to investing, we ask ourselves a question if our management team is able to create added value and make our target for investment a leader of the market.”
CEOs’ confidence in the growth of revenues varies by country

While comparing the results of the Kazakhstani survey with the global survey it is evident that CEOs’ confidence in revenue growth in the short-term perspective significantly varies by country.

Question: How confident are you of revenue growth in the next 12 months?

<table>
<thead>
<tr>
<th>Country</th>
<th>Confidence Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>30%</td>
</tr>
<tr>
<td>Western Europe</td>
<td>22%</td>
</tr>
<tr>
<td>China</td>
<td>42%</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>73%</td>
</tr>
<tr>
<td>Russia</td>
<td>66%</td>
</tr>
<tr>
<td>Globally</td>
<td>36%</td>
</tr>
</tbody>
</table>

Source: 1st Annual Kazakhstan CEO Survey
Source: 16th annual global CEO survey

It is notable that according to the survey results CEOs of the US and Western European companies are confident to a greater extent in the growth of financial performance of their companies in the long-term perspective: 47% of US respondents and Western European respondents said that they were fully confident of revenue growth in the next three years. Optimistic expectations with regard to revenue growth in the next 12 months were demonstrated only by 30 and 22% of respondents, respectively.

The CEOs of the second largest economy of the world – China – demonstrate more confidence, regardless of the duration of the projected period: 42% of CEOs of Chinese companies were fully confident of revenue growth in the next 12 months; 52% were fully confident in revenue growth in the next three years.

Vladislav Li
Chairman of the Board of the “Bank CenterCredit”

“In 2013, we are expecting business growth and believe that the assets of our bank shall increase more than 10%. That is, with the 6.5% growth of economy, the banking system will grow 9-10%, and we do not want to lag behind the growth of the sector in general. In the next three years, Kazakhstan will not have that explosive a growth that we saw before 2007. The country went into the phase of post-transitory development. What is the problem of today? The problem is that we as a country, that had cheap workforce, lose this advantage: as a result salaries become high while the level of technological development of the country remains quite low. Thus, today we cannot compete with advanced countries of the West in terms of labour productivity. Therefore, the growth rates will not be high. We are partly confident in revenue growth of the company in the next three years.”
Corporate opportunities and risks

In Kazakhstan

67% of CEOs believe that Eurozone is unlikely to collapse.

47% of Kazakhstani CEOs do not believe in a recession in the US.

The principal activities of Kazakhstani companies, whose CEOs were surveyed, are carried out in the Central Asia. The majority of respondents from Kazakhstan believe that in the next year the principal activities of their companies will be associated with Russia (57%), China (33%) and the region in which these companies operate (30% of respondents).

In the opinion of the majority of analysts, the future of the global economy depends on how the problems in the Eurozone and the US are resolved and if the threat of a “rough landing” for the economy of China is realized. We asked Kazakhstani CEOs how probable, in their opinion, where each of these scenarios.

Some Russian CEOs believe that the economies of emerging markets will continue to grow in the next year. 43% of Kazakhstani CEO respondents entertain a possibility of the decrease in the growth rate of China’s economy, below 7.5%. Kazakhstani CEOs assume such a scenario of development of the global economy in the next year rather than the scenarios related to the breakdown of the Eurozone or recession in the US.

If the rate of the growth of China’s GDP decreases below 7.5%, it would have an adverse impact on 53% of respondents and most probably would not affect the business of the companies in which 43% of respondents work, despite the fact that the most important market (besides the Central Asia) for a third of respondents is China. For European CEOs the main market, after the domestic market, is Germany.

The threats to the growth of the global economy result directly in a number of economic risks and risks for business, such as instability in equity markets and instability of exchange rates, strengthening of state regulation, growth of corruption, shortage of skilled personnel and other risks that can affect business development.
Kairat Mazhibayev
Chairman of the Board of Directors,
“Resmi” Group of Companies

“What happens to China, European Union, Russia and the US is very important for us. In the EU, we focus on Germany. Everything that has to happen in the EU with other countries will happen sooner or later. The question is which country in the EU will amortize problems or will be a kind of a safety cushion and to what extent it wants or is able to adjust the general situation in the EU.”

Pavel Matso
Chairman of the Board of
“Home Credit Bank” JSC

“In the Home Credit group there are companies operating in various countries, but interrelation between them is very insignificant. As a retail bank, we focus on the population of Kazakhstan. We have no revenues from other sources. Despite the fact that we also obtain funding in Europe, we would like to earn money here. Speaking about which country can affect the economy of Kazakhstan and as a consequence our bank, it is Russia. It is related to the fact that the Russian Federation is the biggest member of our group, with which we closely cooperate and from which we receive resources. The second market in the order of importance is the Czech Republic.”
Kazakhstani CEOs believe that the shortage of skilled personnel, bribery and corruption and excessive regulation are the main threats to business.

Moreover, we tried to find out what CEOs consider economic, political and other threats to the growth of their companies, what impact these threats have on business and to what extent they are able to adapt to current changes.
<table>
<thead>
<tr>
<th>Risks by decreasing rate</th>
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<tbody>
<tr>
<td><strong>Globally (excluding Kazakhstan)</strong></td>
</tr>
<tr>
<td>Economic slowdown / instability</td>
</tr>
<tr>
<td>Government measures and response to budget deficit</td>
</tr>
<tr>
<td>Instability in capital markets</td>
</tr>
<tr>
<td>Volatility in foreign exchange rates</td>
</tr>
<tr>
<td>Excessive regulation</td>
</tr>
<tr>
<td>Higher tax burden</td>
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<tr>
<td>Lack of qualified personnel</td>
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<tr>
<td>Changes in customer expenses and behavior</td>
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<tr>
<td>Expenses for energy resources</td>
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<tr>
<td>Protectionism</td>
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</tbody>
</table>

**Source:** 1st Annual Kazakhstan CEO Survey
**Source:** 16th Annual Global CEO Survey

In the opinion of Kazakhstani CEOs, among business risks and economic threats, which they are most concerned about, are bribery and corruption (67%), excessive regulation (53%). One third of respondents are concerned about the shortage of skilled personnel (33%).

European and US CEOs are concerned about how the government will react to the budget deficit and the size of the state debt. This issue concerns 93% of US respondents and 77% European ones. The concern of the US respondents is especially understandable, taking into account issues around the so-called fiscal cliff and heated debates in Congress.

In Russia, 59% of respondents are concerned about fiscal problems, assuming that the state debt in Russia is smaller than in the majority of European countries – it amounts to 11% of the GDP. For comparison: a similar index in Great Britain amounts to 91%, in Germany – 99%, in Greece – 192% (source: www.usdebtclock.org/world-debt-clock.html). In the interview, CEOs of Russian companies often noted the imperfection of the laws as one of the threats to business. To a lesser extent, Kazakhstani CEOs are concerned about the appearance of new players in the market (23%), breach of the supply chain (23%) and speed of technology replacement (20%).

Kazakhstani CEOs are not concerned much about force majeure, such as natural calamities, social unrest, or epidemics. For example, 67% of respondents believe that social unrest is unlikely in the country where their companies operate. Meanwhile, 93% of respondents believe that, if it does occur, it will have an adverse effect on their business.
Companies’ ability to adapt to high-level threats

In particular, Asaliya engaged in production of flour, grain and flakes from grain varieties and cereals, according to its CEO and founder Dulat Shayakhmetov, was able to adapt to destructive changes due to management system preserved from 1996 and intellectual property. In 2005, Shayakhmetov went to the national research centre “Kurchatov Institute” (previously – I.V. Kurchatov Atomic Power Institute) where a device was developed especially for their company, which operates on the level of alfa- and beta-amylase, improving baking properties of the flour. Dulat Shayakhmetov emphasized, “As a result of treatment of grain by our device we can take the grain for milling with falling-number of 50-60 seconds. In fact, it is the wheat fed to cattle. Thanks to the device we managed to outlive the crisis.”

Management of Aitas Group associates the excellent ability of its company to adapt to changes with the internal process of decentralization, which allows the business to grow in parallel to constantly and quickly changing environment.

As for the banking structure, there is strict supervision on all the levels, therefore the banks have to react very quickly to any changes. Sergey Gusarov, Chairman of the Board of Bank VTB (Kazakhstan) JSC, emphasized, “The supervisory body checks the presence of stress tests in the bank, makes changes in the legislation, which toughens the reporting of the banks, toughens requirements for certain norms, since the banking system of the Republic of Kazakhstan prepares for transition to Basel-3, etc. At present, the results of the complex audit by the National Bank shows that Bank VTB (Kazakhstan) is quickly adapting to changes and meets all the deadlines.”

Meanwhile, Resmi Group of Companies set up sufficient provisions for adapting to changes and destructive events. According to Kairat Mazhibayev, Chairman of the Board of Directors of Resmi Group of Companies, first, it is ensured by constant work on the balance. That is, the company is able to seriously increase or restructure its assets due to a good structure of liabilities. Kairat Mazhibayev said, “We are not striving to grow faster than all the rest. We are more concerned about the quality of the growth. Therefore the company managed to adapt to the recession in the economy and the crisis in the equity markets. We preserved the growth rates in the entire group. However, there were difficulties with problem banks. Second, in terms of marketing technologies: we managed not only to change them in the entire portfolio but also introduce strategies related to development of new products and communications. They turned out to be successful with a good short- and long-term effect. And, third, in organizational terms we reorganize quite easily and quickly, meanwhile making complex decisions even amid the lack of information.”

For Asaliya, a device was developed that improved baking properties of the flour allowing the company to live through the crisis.
Prosto Credit has a high level of adaptivity. As an example, Dmitry Zhukov, General Director of Prosto Credit LLP cited the fact when the company managed to survive devaluation – credit recovery dropped sharply, however the company managed to overcome devaluation due to hedging even when the hedge rates were exorbitant. According to Dmitry Zhukov the company did not waive this policy sustaining commitment to the main business course – client financing not being involved into currency speculations. The company also passed smoothly through changes in legislation – it became possible to set up micro credit organisation (MCO). “Within two months after the decision had been made we analyzed measures required for transit to MCO status not suspending operations, created a parallel system and moved into MCO. It was the same situation with the merger when the bank acquired Prosto Credit. To unite these two systems it required one and a half or two years apart from the culture and personnel. In our case it took us nine months, during this time we created a new information system for the bank and company. Maximum suspension time of credit granting during the transit period was only six hours” – General Director of Prosto Credit LLP noted.

Yeldar Abdrazakov, Chairman of the Board of Directors of Centras Securities JSC notes that during the last 12 months they improved their adaptability to changes and destructive events and try to ensure autonomy of their subdivisions at the middle management level. To that effect, the middle management competence, internal communications and corporate culture are improved, new system decisions are implemented.

Companies of Verny Group are also in the process of continual improvement and strive for improvement in their adaptability to changes. According to Yerlan Ospanov, General Director, this is one of the key qualities of the companies, one of the key requirements to management. First, competence is improved; second, adaptability to changing conditions is improved also. This is one of the factors to survive.

“We were preparing one company for sale but realized that market conditions are not good for sale. And we elaborated Plan B for a long term” – Yerlan Ospanov cited.

Adaptability of RTS – group of companies, which activity includes outdoor advertising, retail, production, maintenance and technical service was always high. It is obvious at micro and macro levels. “For example, if we have supply disruption from our French partner we use local food opportunities, we just arrive at a temporary solution – this is micro level, Arman Kagarov, Partner of RTS Group of Companies tells.

Macro level - For example, we used bus stops with kiosks but sooner or later they must be replaced, therefore we have adjusted the strategy, attracted strategic investors into advertising (bus stops without kiosks) and trading networks.

In one or another case it is a negative change for business, which gives a rise to new opportunities for development.”

Speaking about the engineering industry, at the end of 2000 Azia Avto plant had a hard but very useful anti-recessionary experience.

“In 2007–2009 the size of Kazakhstani new cars market declined three times. The plant as other market players was almost in anabiosis. However in a rather short-term period we managed to allocate scarce production volumes in such a way to avoid the personnel redundancy and focus on costs optimization, increase in productivity and expansion of model line, Yerzhan Mandiyev, President of Azia Avto tells. – This work continues now: over the last two years we have released more than 20 new models. Azia Avto team has 750 specialists and value-added labour productivity was over US Dollars 152 thousand per one employee. Moreover at 2012-year end Azia Avto was the largest Kazakhstani enterprise in engineering industry: amount of products released by our plant made Tenge 50 billion.” – Yerzhan Mandiyev concluded.

we were preparing one company for sale but realized that market conditions are not good for sale and we elaborated plan for the long term
Approaches to managing an organization

As part of our survey, we asked Kazakhstani CEOs about how they develop their strategies and at what level key decisions are made, as well as who participates in decision-making, how risks are managed, and how they build relationships with partners.

Please describe your management strategy

- **30%**
  - We primarily allocate risk management resources to our ability to recover from the consequences should a risk event occur

- **70%**
  - We primarily allocate risk management resources to predicting high-impact risk events

- **23%**
  - All staff are encouraged to get involved in strategic decision-making

- **77%**
  - Strategic decision making is done at senior executive and board level

- **13%**
  - Accountability for risk management is decentralised

- **80%**
  - Accountability for risk management is centralised

Source: 1st Annual Kazakhstan CEO Survey
Source: 16th Annual Global CEO Survey

In terms of company management, the number of respondents from Kazakhstan who mentioned centralised control over risk management was higher than in other countries (80%). Only 13% of respondents said that such control in their company is decentralised. In China, 35% of CEOs said that their control over risk management is centralised.

23% of Kazakhstani CEO interviewed noted that they encourage a large number of strategic initiatives to implement successfully the best of them. However, only every fifth CEO says that all the employees (not only management team) participate in the decision making process.

Ardak Nurazhanov
General Director of "Caspian Offshore Construction" LLP

“The current development strategy focused on new markets and new clients together with progressive growth of the fleet and maintenance of its diversification require decentralisation of the management processes and creation of a team with strong managers which may efficiently assume new functions and responsibilities. Availability of systems allows formalizing processes but control over these systems will be subject to people.”
In the meantime, we tried to find out to which extent company strategy will change in the next 12 months. As a result, less than half of the Kazakhstani CEOs interviewed (43%) plan to change their management structure in the coming year. The majority of CEOs would like to change their corporate strategies addressing customer base expansion, client retention, and client loyalty improvement: 83% of Kazakhstani respondents and 80% of Russian respondents stated this. European and American CEOs have also this issue on their agenda: over 80% of the respondents intend to focus their attention on changes in this area as well.

**CEOs expecting some or significant changes in one of the following areas over the next 12 months**

- **Client base expansion**
  - Kazakhstan: 83%
  - Globally (excluding Kazakhstan): 62%
  - China: 55%
  - Western Europe: 47%
  - USA: 71%
  - Russia: 77%
  - 74%
  - 66%
  - 47%
  - 87%

- **Investments in capital assets**
  - Kazakhstan: 77%
  - Globally (excluding Kazakhstan): 74%
  - China: 66%
  - Western Europe: 61%
  - USA: 74%
  - Russia: 71%

- **Investments in technology**
  - Kazakhstan: 77%
  - Globally (excluding Kazakhstan): 64%
  - China: 67%
  - Western Europe: 67%
  - USA: 46%
  - Russia: 73%

- **Risk management**
  - Kazakhstan: 66%
  - Globally (excluding Kazakhstan): 82%
  - China: 67%
  - Western Europe: 82%
  - USA: 82%
  - Russia: 84%

**Source:** 1st Annual Kazakhstan CEO Survey

**Source:** 16th Annual Global CEO Survey

- **57%** of Kazakhstani CEOs plan to keep their management strategy unchanged in the coming year.

- **43%** of Kazakhstani CEOs intend to change their management strategy in full (3%) or in part (40%) in the coming year.

- **83%** of CEOs plan to change their client base, client retention and loyalty strategies.
As part of our survey, we found that CEOs plan to change their strategies regarding investments in capital assets (77%), investing in technology (77%) and risk management.

77% of Kazakhstani respondents entered a new strategic alliance or joint venture in 2012, 67% plan to establish a new joint venture or enter a strategic alliance in 2013.

Which, if any, of the following restructuring activities have you initiated in the past 12 months?

- Ended/end an existing strategic alliance or joint venture
- Entered/enter into a new strategic alliance or joint venture
- Implemented/Implement a cost-reduction initiative
- Insourced/insource a previously outsourced business process or function
- Outsourced/outsource a business process or function
- Divested/divest majority interest in a business or exited/exit a significant market
- Completed/complete a transnational merger or acquisition
- Completed/complete a cross-border merger or acquisition in the domestic market
- Refuse answering

Which, if any, of the following restructuring activities have you initiated in the next 12 months?

- Ended/end an existing strategic alliance or joint venture
- Entered/enter into a new strategic alliance or joint venture
- Implemented/Implement a cost-reduction initiative
- Insourced/insource a previously outsourced business process or function
- Outsourced/outsource a business process or function
- Divested/divest majority interest in a business or exited/exit a significant market
- Completed/complete a transnational merger or acquisition
- Completed/complete a cross-border merger or acquisition in the domestic market
- Refuse answering

Source: 1st Annual Kazakhstan CEO Survey

Taisiya Kogutyuk
CEO of Kazakhstan Kagazy JSC

“During the last three years our company was in the process of restructuring our financial liabilities, in particular, we were restructuring our bonds and loans. We succeeded in the process thanks to our ability of being flexible and adaptable to difficult events enabling us to survive and retain our people and clients. The restructuring process is a very good example of how the company walked a tightrope in severe conditions, and retained its business in terms of the client base and people working for us.”
**Talent Challenge**

In terms of Headcount growth the situation remains positive even if somehow the CEOs are more cautious now than 1 year ago. In this overall positive economic environment, CEOs are aware that leadership development is a priority, and support different actions to answer to this need. Nevertheless the effectiveness of these initiatives, in CEO’s view, is questionable. Also, a war for talent and retention of key roles is currently an issue, with organizations now thinking of reviewing their compensation approaches to align top executive performance with wider stakeholders needs.

Companies operating in Kazakhstan should not miss the existing opportunity of leveraging on a positive business environment through effective human resources related initiatives. The main issue on the HR field in Kazakhstan doesn’t seem to be the availability of principles and methodologies for people effectiveness development, but especially a problem of implementation.

Established habits and the coexistence of different generations, each one with its own (different) needs and aspirations, may represent a threat for effective leadership development initiatives. If we consider especially middle management population (the one with possibly less direct contacts with the CEO), there is a need for moving fast from good principles to good practices.

In Kazakhstan, 30% of the respondents do not plan to change the staff number in their companies. It is interesting to note that at the same time Russian companies intend to increase their staff numbers by more than 8% in 2012 and 2013. This was the answer of every fifth Russian respondent, which is more than in Europe, the US or China.

“In our companies all internal programmes are aimed at increase in the average work period of our employees. The point is that we had our own developmental disease. Particularly, until the company grew up to 500 people, HR issues were a continuous struggle for us. Having achieved this value, we started to rotate our resources. We eliminate the disease of a small company if we have irreplaceable people.”
The Kazakhstani CEOs named infrastructure development (87%), training of the skilled personnel (67%) and financial sector stability (63%) as among today’s priorities for the government.

Which three areas must be the government priorities today?

- Improving the country’s infrastructure: 87%
- Creating and fostering a skilled workforce: 67%
- Ensuring financial sector stability: 63%
- Reducing poverty and inequality: 47%
- Maintaining the health of the workforce: 10%
- Addressing the risks of climate change and protecting biodiversity: 10%
- Securing natural resources that are critical to business: 10%

Source: 1st Annual Kazakhstan CEO Survey
Speaking about the government role in the country, where you operate, do you agree or disagree with the following:

- The government is taking adequate steps to improve the country’s infrastructure (e.g. electricity, water supply, transport, broadband). 
- The government has maintained a level playing field despite having stakes in private enterprises.
- Government supports the level playing field despite its interest in private companies.
- The government is driving convergence of global tax and regulatory frameworks.
- The government helps companies secure access to natural resources (e.g. raw materials, water, energy).
- The government has been effective in helping create a skilled workforce.
- Government reduced tax burden on enterprises.
- The government has been effective at ensuring financial sector stability and access to affordable capital.

47% CEOs agree that the government takes adequate measures to improve the national infrastructure (for example, power and water supply, transport, broadband network) and more than one third of the Kazakhstani CEOs (33%) believe that, to date, infrastructure improvement issues have not been dealt with effectively. 53% respondents believe that the government’s support for private sector initiatives is insufficient. According to Kazakhstani CEOs, the least effective government policy regards training of skilled personnel; this has been stated by 77% of CEOs. Every fifth respondent intends to increase investment in efforts aimed at meeting this goal.

In Kazakhstan

53% of CEOs share the view that government makes efforts to bring in line the tax and legal environment with the common international standards.

In Russia

41% of CEOs share the view that the government ensures financial sector stability.
Seeking new opportunities in existing markets

Name one of the listed opportunities that are key for your business development in the next 12 months?

- New M&A / joint ventures / strategic alliances: 7% (Kazakhstan) vs. 24% (Russia)
- New operation(s) in foreign markets: 3% (Kazakhstan) vs. 2% (Russia)
- Organic growth in existing foreign market: 7% (Kazakhstan) vs. 10% (Russia)
- Organic growth in existing domestic market: 60% (Kazakhstan) vs. 51% (Russia)
- New product or service development: 20% (Kazakhstan)

Source: 1st Annual Kazakhstan CEO Survey

The majority of Kazakhstani CEOs view organic growth in existing markets as the key opportunity for their company’s business development in 2013: 60% of respondents answered this way. For another quarter of the respondents, the main opportunity is represented by creating new products and services.

One out of ten respondents in Russia believes that the key potential for their business development lies in organic growth in existing foreign markets. Thus, Russian CEOs rely on foreign markets more than their Chinese colleagues, and overall.

Kazakhstani entrepreneurs do not consider earlier popular M&A (mergers and acquisitions) deals as the new opportunities for development in existing markets. Only 7% of respondents believe this to be prospective lines of development.
60% of Kazakhstani CEOs view organic growth as the key opportunity for their company’s business development in existing markets.

Yerlan Ospanov
General Director, Group of Companies “Verny”

“I believe that new mergers and strategic alliances are important for us. It is a new experience. Why form an alliance? First, to get a new experience and competence in one or another business, resulting in synergy. Second, is the shortage of highly skilled personnel. It is a real challenge met by almost all Kazakhstani companies. Third, is improved operational efficiency. I think it is a key goal for many companies.”

What are your key investment priorities for the next 12 months?

Source: 1st Annual Kazakhstan CEO Survey

Apart from identifying key opportunities for business development we tried to understand what are the priorities in the investment area for Kazakhstani companies in the current year. We compared obtained results with those in the global survey.
Three priority investment areas over the next 12 months

Kazakhstan
43% Improved operational efficiency
40% Production capacities
40% Improved level of service

Russia
63% Improved operational efficiency
44% Production capacities
41% Client base expansion

China
55% R&D and innovation
45% Client base expansion
37% Improved operational efficiency

USA
63% Client base expansion
44% Improved operational efficiency
40% M&A/JV/ alliances

Western Europe
53% Client base expansion
48% Improved operational efficiency
40% Improved level of service

Globally
51% Client base expansion
49% Improved operational efficiency
38% Improved level of service

Selection: Kazakhstan (30), Russia (41), USA (167), Western Europe (312), China (100), Globally exclusive of Kazakhstan (1330).

Source: 1st Annual Kazakhstan CEO Survey
Source: 16th Annual Global CEO Survey

As compared to last year, the number of Kazakhstani CEOs who would like to make changes in the area of R&D and innovation was 20%. Our survey shows that the number of Russian CEOs looking to develop R&D and innovation in the coming year is smaller (54%) than in most regions surveyed, including developing markets such as Africa, the Middle East, and other Eastern European countries.

Kazakhstani and Russian CEOs believe that improved operational efficiency will be the main area for investment over the next 12 months. 43% of respondents in Kazakhstan shared this opinion and 63% of respondents in Russia.

Russian CEOs also plan to invest in attracting new clients: 40% of respondents shared this opinion. It is interesting to note that 40% of Kazakhstani CEOs plan to invest in boosting production capacity, which is three times greater than in the US, Western Europe and China. Chinese CEOs named R&D and innovation as the priority investment area. In Europe and the US, the three priority areas also included improved level of services (European CEOs – 40%), joint ventures and M&A deals (US CEOs – 40%).

CEOs believe that the following will be the main area for investment over the next 12 months:

Kazakhstan and Russia – improved operational efficiency
China – R&D and innovation
Europe and USA – improved level of service; joint ventures and M&A deals
“In the general structure of company’s current investment, first, about 70% are reinvestment in current projects mainly related to the client and consumer relationship development. Second, we expand our investment portfolio to start investments (and also continue our investments in future) in new sectors related to the consumer and client work. Third, we would like to make partial divestment (recover investment) as we see good opportunities to fix investment revenues.” - Kairat Mazhibayev, Chairman of the Board of Directors, Resmi Group

“First, this will be investment into new financial products for Prosto Credit LLP or Prosto Credit MCO or a new company will be set up for this purpose.

Second, improved level of service: we are more involved in work with our debt collection agencies and direct contact with major clients to prevent fraud schemes on the part of debt collection agencies.” - Dmitry Zhukov, General Director, Prosto Credit LLP

“It is important to know what we understand as investment because we have financial investment and investment into human capital. This year, and the future company’s investment priority will be in human capital development. This investment, in my opinion, is more important than investment intended for production capacity growth, upgrade and technical re-equipment Another priority is start-up of four projects to improve resource efficiency of the enterprise, this year alone it is planned to spend about Tenge 700 million.

I suppose these are two main priorities in this year.” - Serik Tolukpayev, Chairman of the Board of Directors, Aitas Group

“Personnel, innovations, improved operational efficiency. We have already formed the client base, however we continue to expand the base as BCC (Bank CenterCredit) is a full-service bank, which provides services not only to corporate clients, small and medium businesses but the general public as well. From a risk and return point of view we prefer to select the optimal behaviour model in these segments, therefore the entire client base is attractive to us.” - Vladislav Li, Chairman of BCC's Board
Conclusion

In summary, according to half of Kazakhstani CEOs there will be no changes in the global economy within the next 12 months, which virtually corresponds to the global survey data. Moreover, Kazakhstani CEOs are optimistic about their companies’ revenue growth in the next 12 months and three year perspective, which inspires optimism but doesn’t correlate with their foreign colleagues’ opinion, in particular US and Western Europe.

We also observe that Kazakhstani CEOs have a single opinion in their assessment of major threats on growth of Kazakhstani businesses and the impact of these threats. Despite estimated revenue growth, Kazakhstani CEOs are willing to sustain their previous focus on optimization of the production costs (with not only retaining increased numbers of employees) as well as risk reasons for forecast and prevention. As for company’s management strategy, in the whole CEOs do not see the need to make a change in strategy in the near future, however they are willing to invest in improved operational efficiency, development of client relationship and new products as measures to be taken to meet the current challenges.

Speaking about the role of the government our CEOs note that it may really help business if the Kazakhstani government makes infrastructure development, surmounting of the skilled personnel shortage, financial sector stability and innovations support as its priorities.

In conclusion we would like to thank all CEOs involved in the survey and believe that the survey results proved to be useful and of interest. The survey was made in Kazakhstan for the first time and based on responses obtained from our work; we believe that the survey will be carried out annually.

In our research we also tried to identify the best CEO in Kazakhstan in 2012, who has the most respect from respondents with regards company management style, achieved successes and personal qualities. The research results showed that there is no obvious leader on the market, and respondents generally nominated CEOs from the business areas where they are presented.
Working group:


Design: Nikita Krasnoyarov

Almaty
34 Al-Farabi Ave.
Building A, 4th Floor
Almaty, 050059, Kazakhstan
Tel.: +7 (727) 330 3200
Fax: +7 (727) 244 6868

Astana
6 Sary-Arka Street
Business Centre Arman, 16th floor
Astana, 010000 Kazakhstan
Tel.: +7 (7172) 55-07-07
Fax: +7 (7172) 55-07-08