

# CEOs' curbed confidence spells caution

Albania CEO Survey as part of the 22<sup>nd</sup> Annual Global CEO Survey.

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## Foreword

As part of the 22<sup>nd</sup> Annual Global CEO Survey, PwC Albania organised for the second consecutive year the CEO Survey with the participation of the local and international business leaders whose companies operate in Albania.

A special thank you goes to all respondents that this year were double the number as compared to last year and have contributed by sharing their thoughts, experience and concerns. We really value your opinion and input to this exciting survey.

There are a number of topics that came up during meetings and discussions we had with these business leaders while conducting the survey:

- ✓ Despite the decreasing global trends, Albanian business leaders appear to be more optimistic about both the short term and long-term prospects, where the most optimistic are the CEOs from the financial service sector.
- ✓ For 2019, following the same trend as their global peers, Albanian CEOs appear to be more focused on the internal opportunities as key growth drivers, focusing on operational efficiencies, organic growth and launch of new products and services.
- ✓ In a highly competitive market, data monetization exploitation can be described as the fuel driving businesses towards success.
- ✓ CEOs of the Albanian companies tend to be very much focused in their human resources where shortage of skills and need for continuous training and qualification is a permanent threat along with process automation.
- ✓ As cyber-attacks have continuously become more frequent, Albanian companies (92% of the respondents) are orienting their efforts and technological developments towards prevention measures.



**Loreta Peci**

**Country Managing Partner,  
PwC Albania & Kosovo**

All such issues cannot be analysed or solved isolated from each other, promoting in this way even more the need for an inclusive and collaborative approach within the company and the market itself.

Therefore, I invite you to read this report and make best use of it as a source of inspiration when putting into life your strategies, vision and objectives of your business.

# Reality check

## Chapter 1



**55%** *of the Albanian CEOs believe that global economic growth will improve in the next 12 months*

**91%** *of them are confident in their company's revenue prospects for the next 3 years*

## Reality check

When it comes to the global economy, statistical analysis show that CEOs tend to know a lot about the future, as their response figures correlate strongly with the global GDP growth over the next year. This year's global survey had a record jump in pessimism, with nearly **30%** of CEOs projecting a decline in global GDP growth. (see Figure 1)

Although compared to last year Albanian business leaders indicated a slight fall of **1%**, in overall, they are significantly better positioned than their global and regional counterparts and show strong signs of optimism.

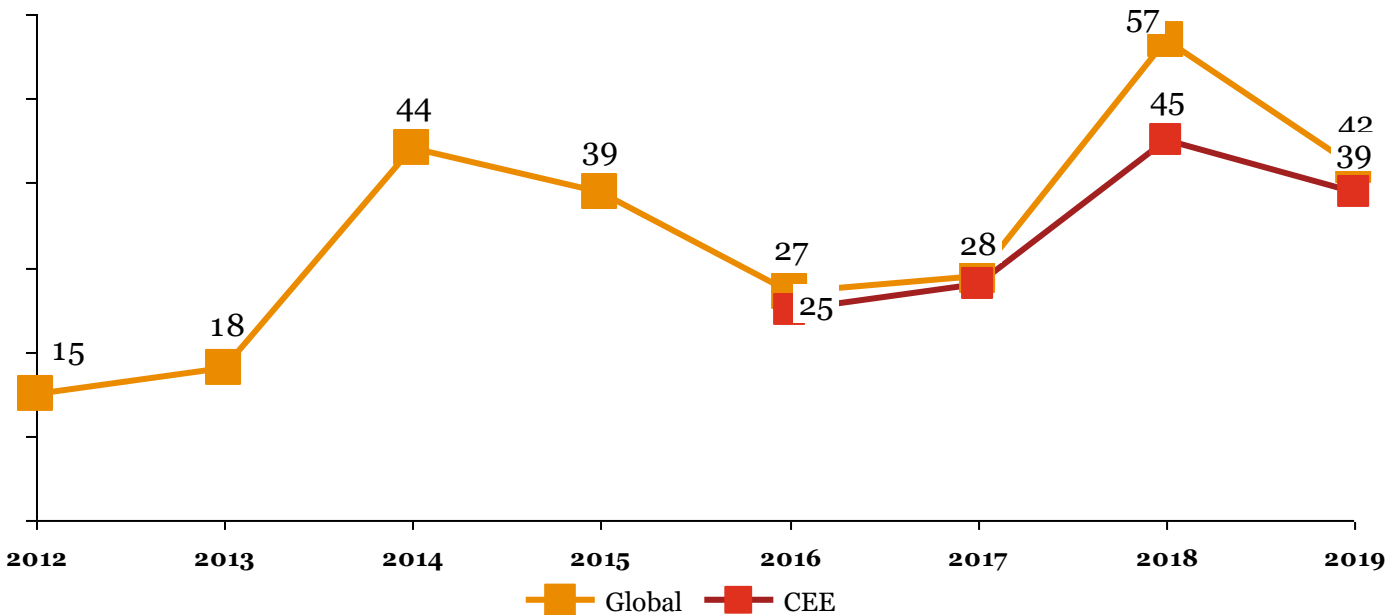
As many as **46%** of the Albanian business leaders believe that the global economy will moderately improve, with **9%** quoting the option "Improve Greatly".

Furthermore, among the industries clusters, executives in the Financial Services show bigger signs of optimism for the short term future, compared to the other industries' which took part in the survey, with 70% indicating improvement prospects.

**Figure 1:**

**Globally, CEOs report a record fall in optimism of 15% for the economy growth in 2019, while in Albania the sentiment is stable.**

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



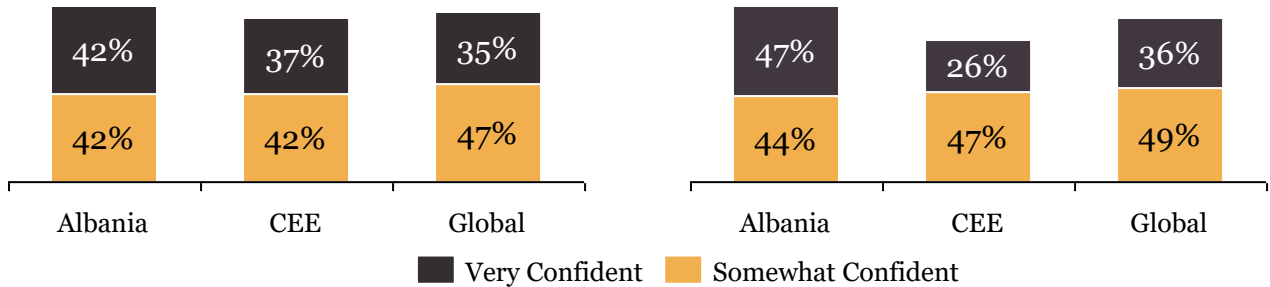
“For the resources of Nature and men’s devices are just as fertile and productive as they were. The rate of our progress towards solving the material problems of life is not less rapid. We are as capable as before of affording for every one a high standard of life—high, I mean, compared with, say, twenty years ago—and will soon learn to afford a standard higher still. We were not previously deceived. But today we have involved ourselves in a colossal muddle, having blundered in the control of a delicate machine, the working of which we do not understand. The result is that our possibilities of wealth may run to waste for a time—perhaps for a long time.

—John Maynard Keynes, “The Great Slump of 1930”



**Figure 2: Albanian business leaders appear to be more optimistic about both the short term and long term prospects.**

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



The history of the world economy has showed several times that confidence is one of the most important factors that drives growth. Economics classics have dedicated a considerable amount of time to studying the relationship between confidence forecasts and actual investments following up. Statistics analysis of PwC's CEO Survey series data, indicate a relatively strong correlation between the CEO's answers and Global GDP Growth, which reaches to nearly **0.97**<sup>1</sup>. This statistical conclusion, therefore, strongly emphasizes the importance and the nearly vital attention that should be put to the CEO's voice. The early literature on business cycles (e.g. Beveridge (1909)<sup>2</sup>, Pigou (1927)<sup>3</sup>, and Clark (1934)<sup>4</sup>) emphasizes news shocks as potentially important drivers of business cycles<sup>5</sup>.

This year's global survey showed a record jump in pessimism regarding global economic growth, which furthermore was reflected in the CEOs views on their companies revenue prospects. Globally and regionally, last year, the CEOs showed to be as "Very Confident" about short term prospects, in the extent of **42%** and **40%** respectively, while their Albanian counterparts' reached **53%**. The wide spread pattern of pessimism was not reflected in Albania this year, where **42%** of the CEOs indicated that they were "Very Confident" for the short term growth, while 47% of them had stronger expectations for the next three years.

Nonetheless, the slight fall of optimism in Albania is confirmed also by other local sources; recently the Bank of Albania's periodic businesses confidence survey report indicated sings of pessimism among entrepreneurs for the fourth quarter in row.

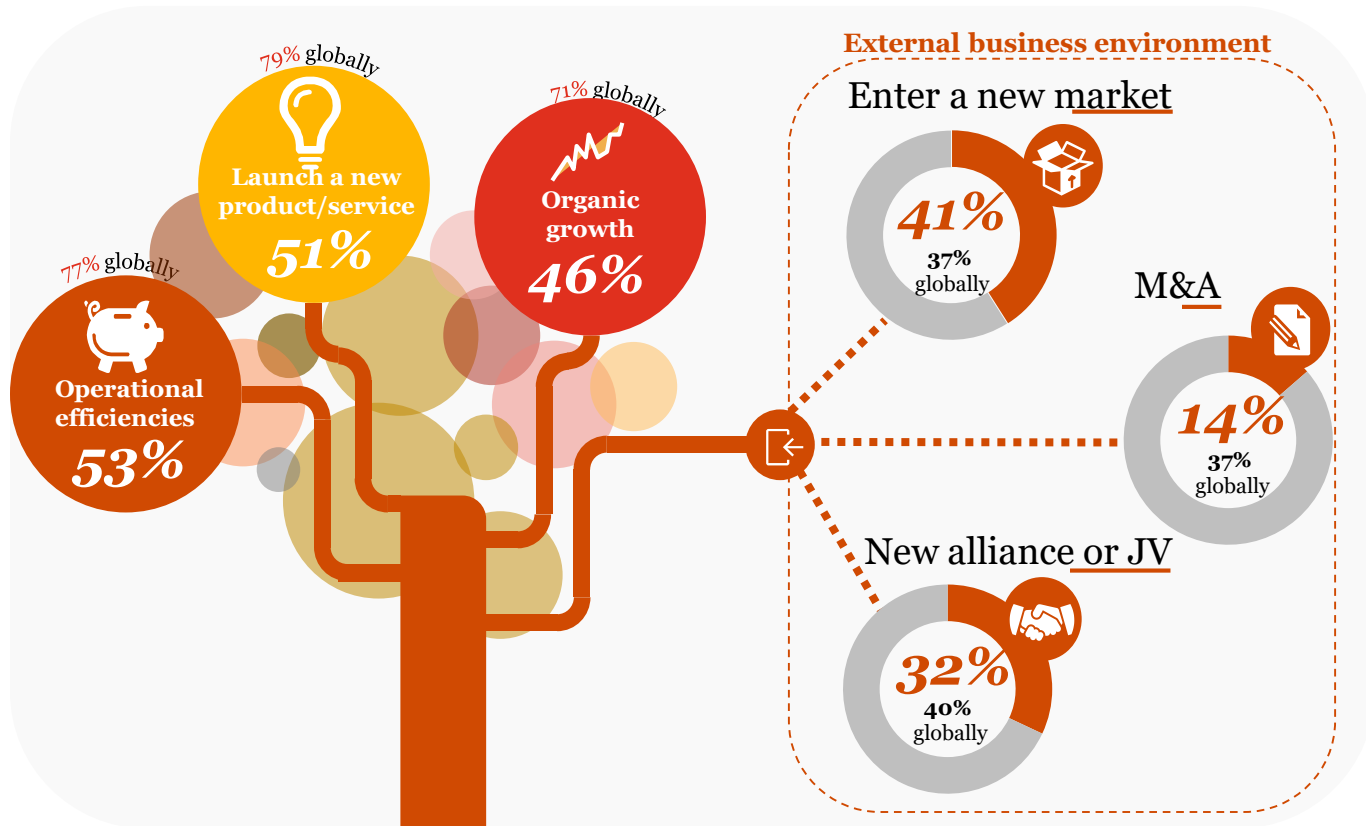
Among the industry clusters, the Financial Sector appears as the most optimist, where nearly 50% of the CEOs indicated that were "Very Confident" about their company's revenue growth in 2019. Such a fact can be attributed to the easing policy and other supportive programs in motion by the central bank<sup>7</sup>.

Interestingly, for the second year in row, CEOs in the rest of CEE feel more unsecured about their companies growth in the long term compared to the short term. This pattern, notably, characterizes the region and can be attributed to the various political and geopolitical challenges on sight, among which the EU's future uncertainty and the Brexit still unsolved issue.



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

Figure 3:



Regardless of whether the changes in expectations about future economic conditions are caused by swings in beliefs or fundamentals, there is a broad theoretical consensus that they do affect current business activity. This is because consumers react to the changes in their permanent income by smoothing consumption inter-temporally in line with the permanent income hypothesis (Friedman, 1957; Hall, 1978)<sup>8</sup>. In such conditions, CEOs plans and strategies about growth in the upcoming 12 months are of big interest in order to have a clearer view of what the near future reserves.

In the same context, CEOs appear to be more focused on the internal opportunities for growth as key drivers, following the same trend as their global peers. **53%** rank operational efficiencies as a major opportunity for growth, while **51%** see product portfolio diversification as a promising competitive advantage.

The latter, was also voted as the number one activity by the global CEOs, who interestingly, this year appear less attracted to growing opportunities outside their business environment. This fact, can furthermore be explained by the risk these activities are performed in times of economic uncertainty (in 2017 **42%** relied on “M&A” transactions, and **49%** on “Entering a new strategic alliance or JV”).

Locally, the Albanian business leaders continue to see M&A transactions as a less preferred opportunity with **14%** only being eager to acquire new businesses; although a small rise is evident in this section - last year only **9%** relied on M&A – in relative terms with the region, Albanian businesses continue to be the least interested. Such a fact is a characteristic for the small and/or under developed capital markets.

In terms of industry clusters, the Financial Sector, which recently was involved in a relatively broad range of M&A transactions, appears more oriented towards “Operational efficiencies” and “Organic growth”, with **67%** and **58%** of CEOs respectively considering them as growth drivers for the upcoming year. Furthermore, as the total credit in the economy has entered a falling trajectory with businesses being less interested in financial products for a number of factors, **42%** of the CEOs on this sector will rely on “Launching a new product or service” in order to fuel their businesses’ growth.

The Commercial and Industrial Products and Services industry, which represents the majority in this year’s survey, will rely on further “Operational efficiencies” with **60%** of the executives quoting this opportunity. This fact can be explained by the high competitive market structure of this industry – holding the biggest share in the Albanian economy – which leads to a relatively small number of competitive advantages available. In such situations, economic theories widely confirm the superiority of cost reduction and other operational efficiency activities to gain market share.

As technology is always on ride towards unbounded development, the TICE (Technology, Information, Communications and Entertainment) industry executives in Albania seem eager to leverage these opportunities in building a sustainable growth in 2019 for their organizations. Despite the numbers of risks this activity involves, the TICE CEOs appear oriented towards launching a new product or service, with **67%** quoting it as the most promising future competitive advantage.

Overall, the Albanian CEOs among all the industry clusters show signs of conservative approach towards the risks associated with the different growth opportunities available.

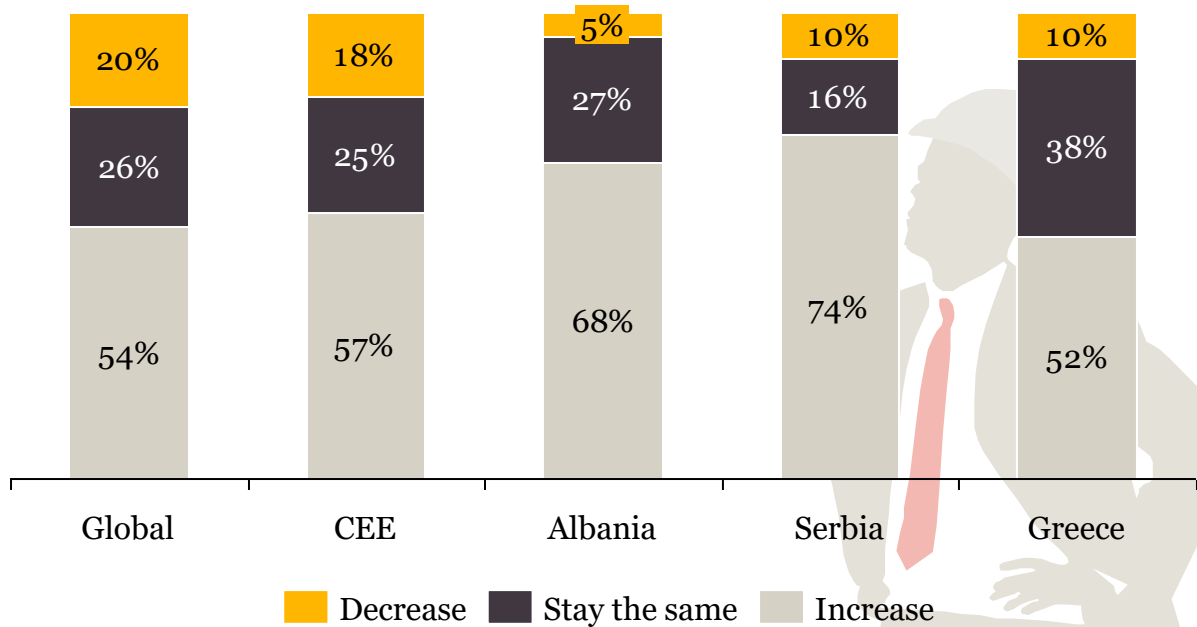




## Reality Check

**Figure 4:** CEOs appear eager to grow their headcount figures; nonetheless, the shortage of skills unfolds a major concern.

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



A critical management exercise, headcount planning is a systematic process designed to ensure an organization has the right number of people with the right skills in the right roles, so the organization can execute its business strategy. In times of technological expansion like those when AI is at the core of all business discussions, the CEOs opinion on the headcount becomes particularly important.

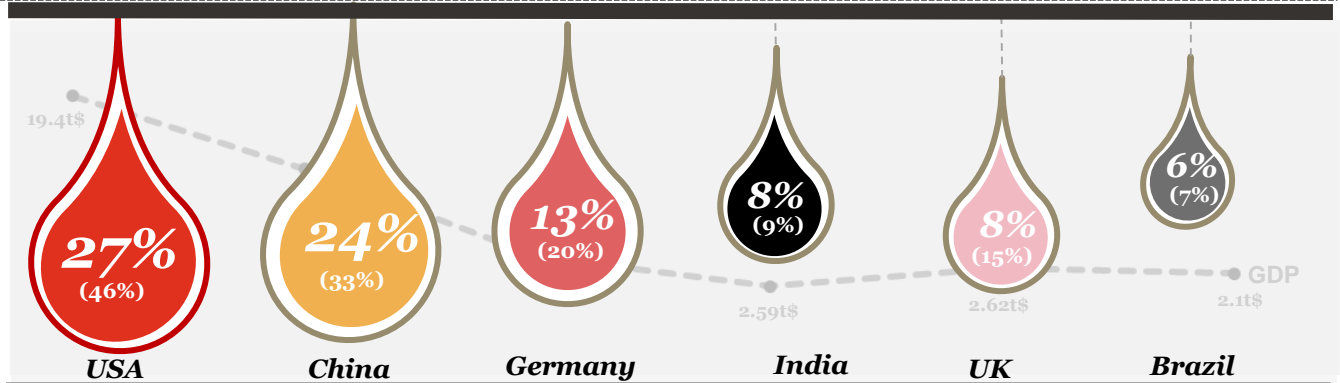
Despite their slight fall on optimism, CEOs in Albania expect their organizations to continue to grow in terms of headcount during the next 12 months (Figure 4). **68%** of the executives are optimistic about their labor force numbers, which compared to **50%** of the last year can be considered a relatively big jump. Furthermore, the trend appears also on those who quoted “Decrease”, which fell by **4%** from 9% that was last year.

Albeit globally CEOs have a diametrically different opinion about economic growth compared to last year's, they are of the exact same judgement in increasing the headcount on the upcoming months; **54%** of the executives quoted ‘Increase’, with a small rise from 18% to **20%** on those who chose “Decrease”.

In overall, considering the comparative data from the relevant territories, Albanian executives have moderate to strong expectations about their companies headcounts in the upcoming year.

**Figure 5:** Globally USA, China and Germany are once again the top 3 countries selected by the largest number of CEOs globally, with Brazil gaining a place among the top's.

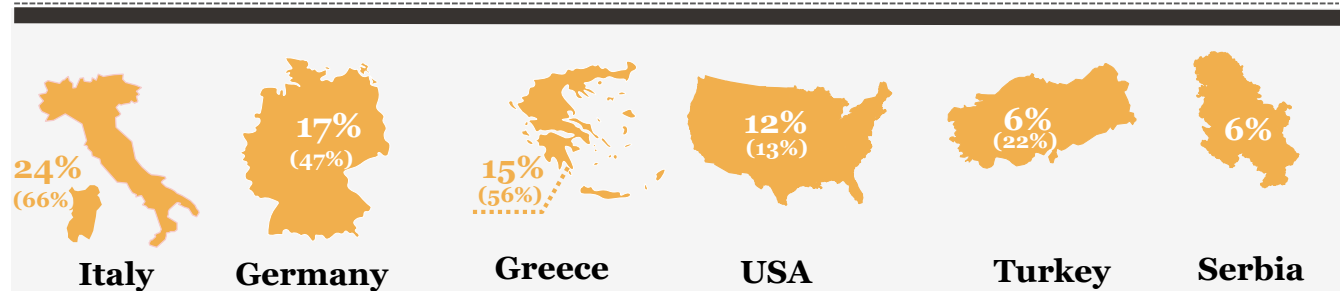
Q: Which three countries, excluding the country in which you are based, do you consider most important for your organisation's overall growth prospects over the next 12 months?



As globalism further extends its impact in peoples' and organizations' day to day actions, determining those who mostly promote and put in motion this engine is of a particular importance. Globally speaking, protectionism forces seem to have acquired ground as all the Top 6 territories have lost their significance in a relatively major portion. Another interesting fact about the figures is that as the CEOs ranks are almost all in pair with the countries' GDP force, this doesn't apply to UK, which is undergoing a politically unstable transition towards Brexit (Figure 5). The latter, confirms the CEOs deep concern about the above mentioned issue.

**Figure 6:** Italy continues to be the most important foreign market for the Albanian business leaders, with Germany surpassing Greece in the second position.

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?



Locally, the same trend seems present in Albania where CEOs choices have lost their weight compared to last year's. Interestingly, some shifts appear in the ranks, as Germany surpassed Greece, a traditionally trade partner, in the second position with **17%** of the quotes (Figure 6). Furthermore, this year's marks the debut of Serbia, which received **6%** of CEOs quotes as the most important territory. Austria, another important country in last year's survey, received only **3%** of the quotes. The only territory without a significant loss in this situation is USA which fell by only 1% from last year, to **12%**. Furthermore, about **17%** of the CEOs quoted "Other" as their choice, which can be explained due to Kosovo not listing in the questionnaire. What can be generalized about the Albanian executive's answers, is the major importance they give to regional partners in the Balkans and in EU, which make up 5 of the 6 top choices. This fact is also confirmed by the official government data (INSTAT) which indicate EU countries as the biggest trade partner, holding 66.3% of the whole trade volume.

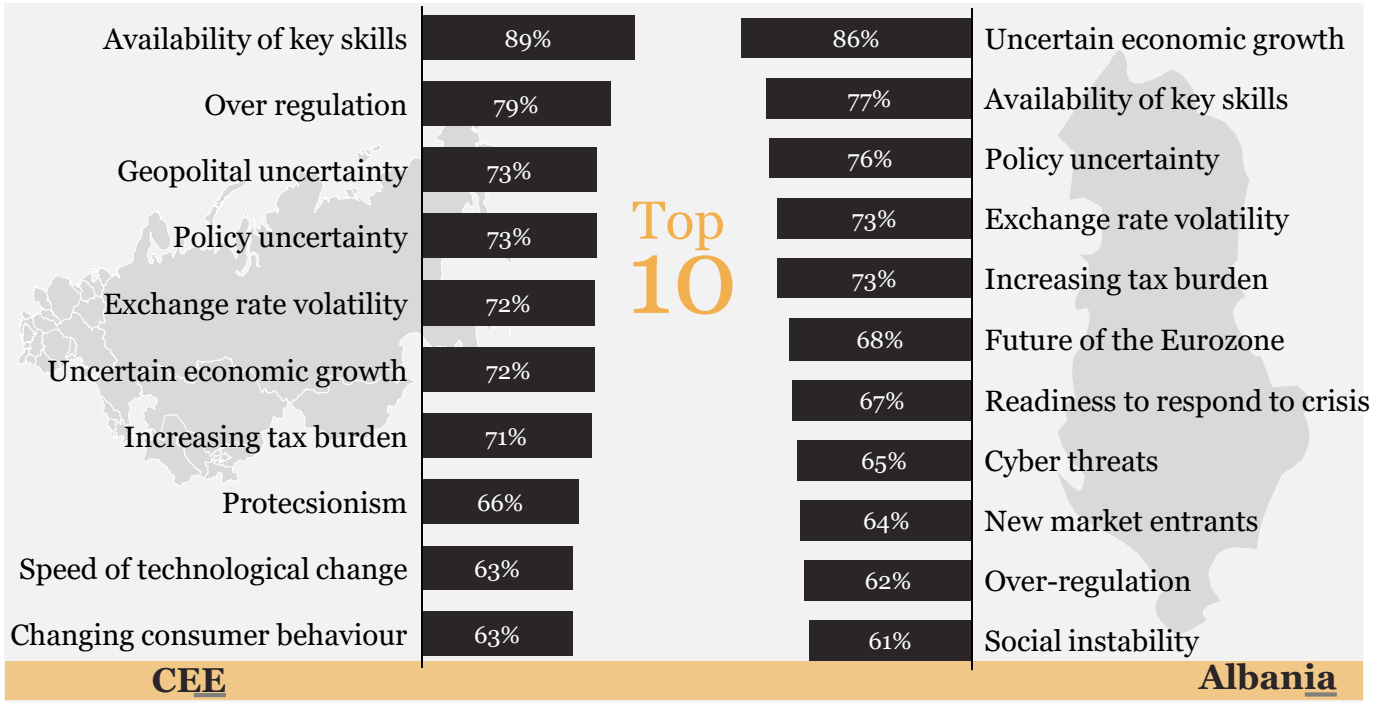




## Threats that keep CEOs awake at night

**Figure 7:** CEOs operating in CEE rank the availability of key skills as the highest concern indicating a serious void in the region's labor market; their Albanian peers quoted the uncertain economic growth as the biggest threat.

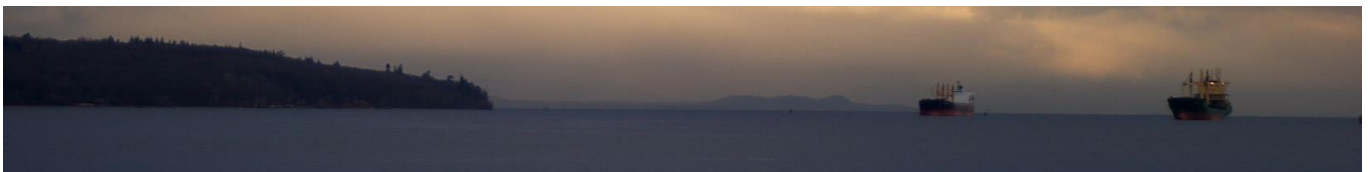
Q: How concerned are you with the following potential economic, policy, social, environmental and business threats to your organisation's growth prospects?\*



While global and regional CEOs tendency of pessimism may be considered the most concerning finding in this year's survey, determining the fundamentals which lead to this situation can tell us a lot about the long term perspective.

Regionally, business leaders seem to be far more concerned with the macroeconomic risks existing in their businesses environment. **79%** of the CEOs operating in the CEE have quoted Over Regulation as their major concern for the upcoming year, with Geopolitical Uncertainty and Policy Uncertainty being at the second position with **73%** (Figure 7). Such results spell caution in what they express, as neither of the three is directly linked to economic variables; their message is clear about the business climate the region has produced so far.

Coming fourth, non surprisingly for a region in which several currencies are used as a medium of trade, is the Exchange rate volatility for **72%** of the CEOs. Uncertain economic growth, also has been quoted by **72%** of the CEOs.



## Is the unavailability of key skills a fundamental issue?

Locally, the Albanian business leaders seem to be more concerned about the uncertain economic growth for the upcoming year, as **86%** of the CEOs quoted this statement. Compared to last year, in which CEOs were most concerned about Increasing tax burden (85%), the results, therefore confirm the signs of pessimism that prevail in our analysis. In terms of industry clusters, the CEOs operating in the Commercial and Industrial Products and Services industry appear as the most concerned with nearly **92%** quoting it.

**77%** of the Albanian CEOs quoted the availability of key skills as a big concern, with **79%** quoting it last year. Although a small fall appears in the figures, business leaders have rated it as the second biggest concern for the upcoming year. In terms of industries, the Financial Sector appears to be the most concerned with **92%** of the CEOs quoting this issue.

Similarly to their regional peers, the Albanian executives have ranked Policy uncertainty as their third major concern with **76%** of quotes. The most concerned appear to be the CEOs operating in the TICE industry, **87%** of who quoted this issue.

2018 had a falling trend for the common European currency against the Albanian Lek, hitting a record low rate. Although helpful for some sectors of the economy and for the country's public debt denominated in euro, the fall of the exchange rate hit the exports making them less profitable in general. This fact is reflected on the CEOs voice, as **73%** of them quoted its volatility as a major concern. In terms of industries, the most concerned appear to be the TICE and CIPS with **73%** and **72%** respectively.

**73%** of the CEOs have also quoted Increasing tax burden as their biggest concern. Interestingly, business leaders appear less concerned compared to last year with a fall of 15%. In terms of industries, the TICE is the most concerned with 93.3% of the CEOs.

With the labour market becoming more and more competitive, following the unbounded development of technology and the broad automatization processes affecting all types of jobs, the availability of key skills is continually expressed as a major issue, especially in Albania. But as much as a modern world invention it may seem, the unavailability of key skills can be encountered several times in the history of the world economy. After the late 1930's, as the American economy was trying to get out of the Great Depression, one of the major problems was the high unemployment rate. As some of the economists of that period put it, the major cause was specifically "the peculiarly unadaptable and untrained workforce, that cannot respond to the opportunities which industry may offer" (Ewan Clague, 1935)<sup>9</sup>. But how did the USA of the 30's break through this problem?

Analysis show that quickly after some years, as Europe entered the WWII, unemployment started to fall rapidly and economy to steady recover. As Paul Krugman (2008 Nobel prize laureate in Economics) puts it, the main cause of the high rates of unemployment weren't at all structural, meaning they weren't connected to the availability of skilled workforce, but to the overall aggregate demand in economy<sup>10</sup>. When that surge in demand finally came, thanks to the military buildup that preceded America's entry into WWII, and to the government increased spending in manufacturing, all those millions of unemployed workers proved perfectly capable of resuming a productive role. Furthermore, economics theories indicate that if many workers have the wrong skills, or are in the wrong place, the market itself would witness rising wages.

Can this pattern be relevant to Albania's situation? Does CEOs concern of the availability of key skills have solid foundations, or is the economy itself suffering from the lack of demand?

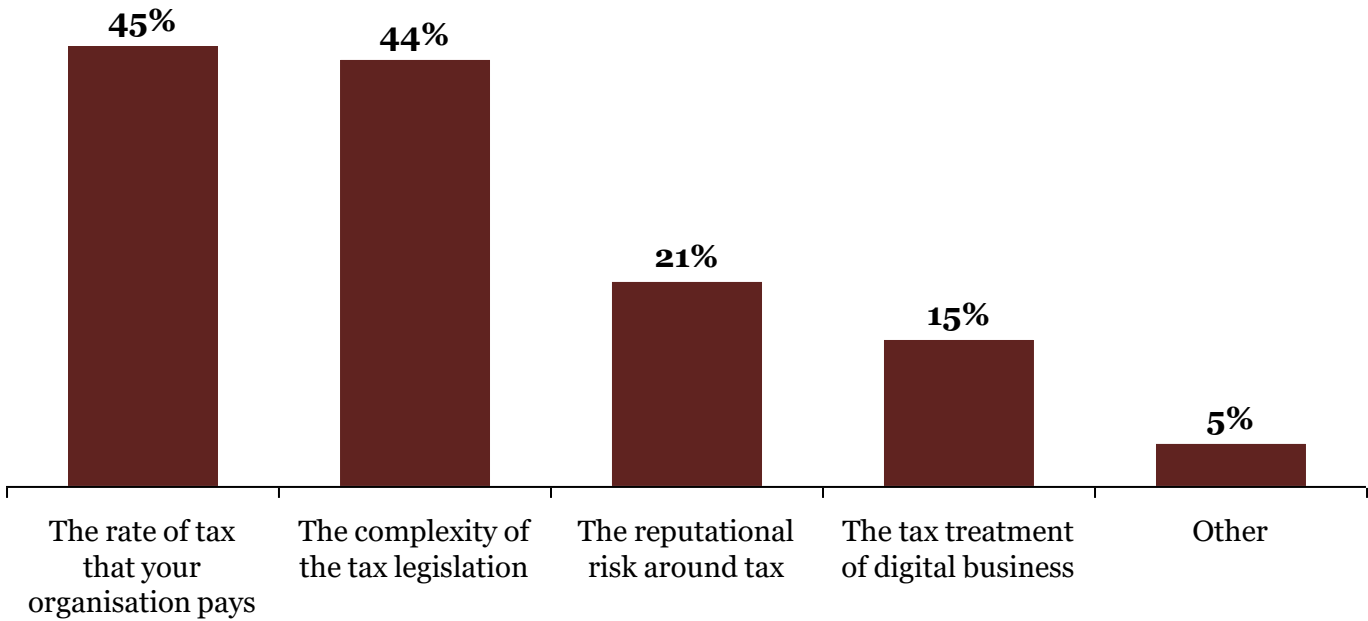




## Reality Check

**Figure 8:** According to CEOs, the complexity of tax legislation combined with frequent changes continue to be major concerns for their businesses' functioning.

Q: What specifically about 'increasing tax burden' are you concerned about?



Taxes are seen as a major incentive both for the inflowing of Foreign Direct Investments and for the supporting of the local businesses, particularly in the circumstances of a non consolidated growing economy. On the other hand, they act as the most important income in the public finance's balance sheet. Whilst governments apply taxes, they try to find the balance between the former and the latter, by drawing a policy which represents the long term goals of the economy itself.

When asked about this policy, the Albanian CEOs expressed their views related to the most concerning issues in their point of view. Specifically, **45%** of the CEOs quoted the rate of the tax which is applied to their organization (Figure 8).

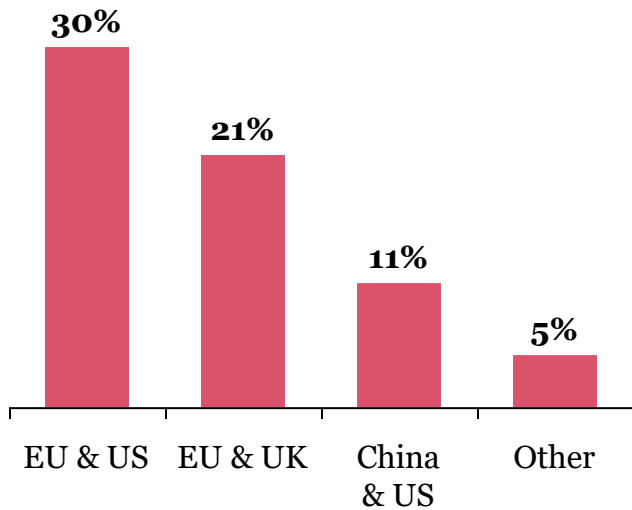
In terms of industries, the most concerned is TICE, where **67%** of the executives quoted this option as their major concern. The second biggest concern is the complexity of the legislation, quoted by **44%** of the CEOs. This fact can be attributed to the frequent changes in the fiscal policy in Albania.



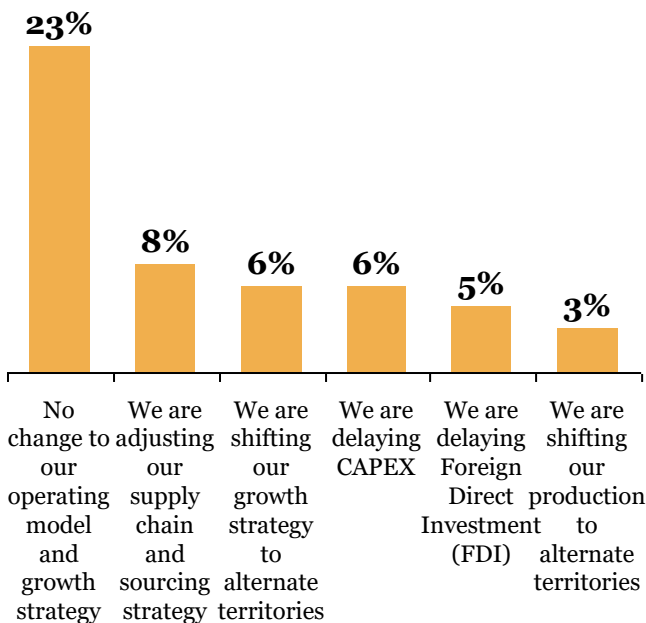
## Reality Check

**Figure 9: Trade conflicts have risen to unprecedented levels on the past year, leaving CEOs with major concerns for their organizations' perspective. The Albanian CEOs quoted the conflict between EU and US as their most serious threat.**

Q: What specific 'trade conflicts' are you concerned about?



Q: How are trade conflicts affecting your operating model and growth strategy?



Protectionism is said to be the most dangerous enemy of the free trade economy. As the political tensions arise due to unsolved issues, governments have oriented their economy towards the inner markets, which was also confirmed by the low quotations of the Top 6 territories. What's so concerning about trade conflicts is their unanalyzable nature, mainly due to the lack of historical examples in order to draw an extrapolation. As the interaction between Chinese and U.S. economy is the most important variable for global growth and financial markets in the next year, almost 86% of the global CEOs have quoted that conflict as the most concerning among the others.

In the middle of such a situation, the Albanian CEOs can not differentiate themselves from the consequences. The most quoted trade conflict appears to be the one between EU and USA with **30%** of CEOs (Figure 9). Such a conclusion seems coherent, as the above mentioned territories are considered as the biggest trade partners by the executives. Another conflict concerning CEOs is the one happening in the heart of the financial Europe; the still not agreed deal between UK and EU brings a lot of uncertainties about the consequences that it may bring in the short to medium range. The latter was quoted by **21%** from the CEOs.

On the other hand, being focused on the regional market turns out to be a somewhat positive factor for the Albanian companies, as it helps them to be protected from the winds of geopolitical conflicts affecting international trade.

In such circumstances, CEOs do not plan big interventions in their plans for growing in the upcoming periods. Specifically, **23%** of the CEOs will rely on their current strategy of operations, while only **8%** will try to adjust the supply chain and sourcing strategy (Figure 10). More interested on the former appears to be the TICE industry, 40% of which has confidence in its model. With least significance, CEOs have quoted the other options by 6% to shift the strategy to alternate territories, and to delay the CAPEX respectively.

## Reality Check

**Figure 11: CEOs expressed their view on the impact of skills availability in their organization, ranking the inability to pursue a market opportunity at the top.**

*Q: What impact is 'availability of key skills' having on your organization's growth prospects?*



As the availability of key skills was a major concern for CEOs, with 77% quoting it as a big threat, getting to know the impact that it may have on their businesses is of particularly interest.

**29%** of the CEOs explained that this issue makes them unable in pursuing a market opportunity (Figure 11). At this point, the most problematic industry seems to be CIPS, where 31% of the CEOs quoted the issue in question. Furthermore, 24% of the CEOs expressed their concern that the gap of key skills harms their innovative processes. Speaking in industries, CEOs operating in TICE seem more concerned, as more than 34% quoted this problematic.

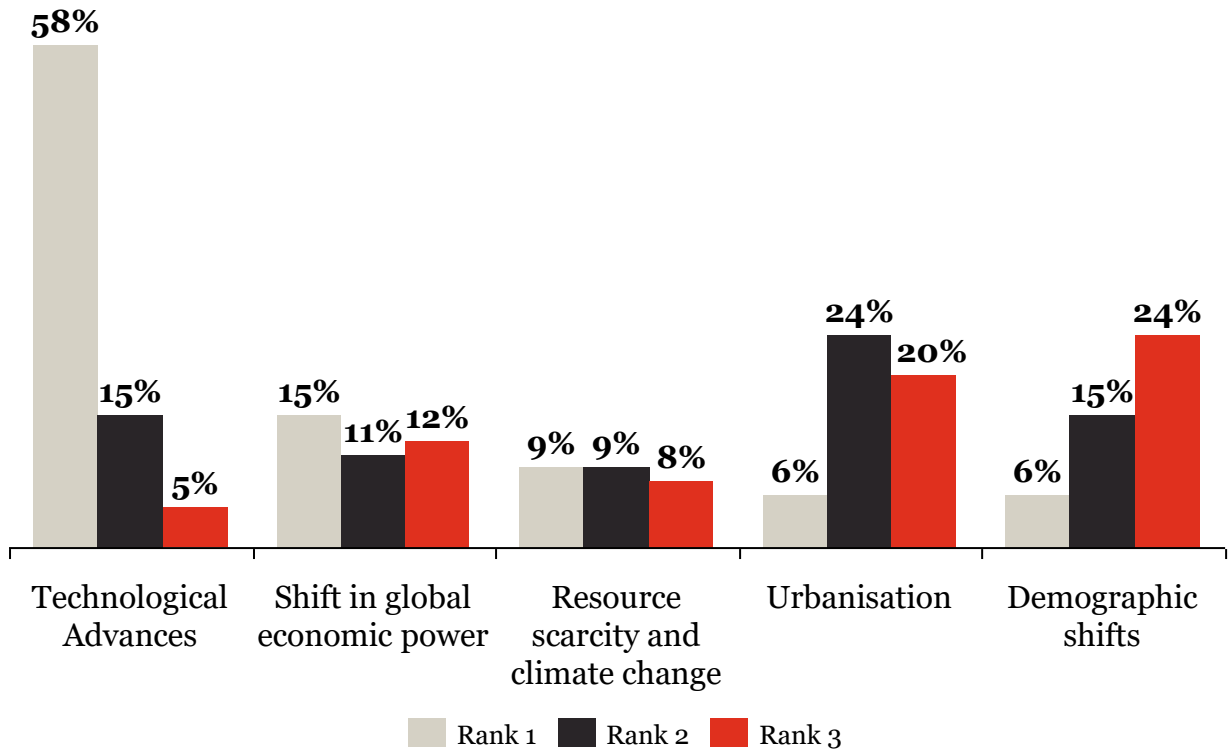
Looking at the big picture, the top 2 impacts quoted by CEOs are the most harmful in macroeconomic terms, as they are directly related to the competitiveness of the economy, and to its further growing processes.



## Reality Check

**Figure 12: Technological advances have received the absolute majority of quotes by the CEOs as the top global trend.**

*Q: Looking backwards to the PAST five years, please rank the top three global trends from the following list, which you believe have transformed your business the most.*



In a globalized world economy, the rate of interaction between countries and regions becomes continuously more solid. In this situation, global trends set off more effective on their way to rapidly change our way of doing business.

As the world finds itself in the brink of the AI revolution, **58%** of the CEOs have ranked Technological advances as the top global trend, positioning it far ahead of the other alternatives (Figure 12).

The shift in global economic power is also considered as a major trend affecting businesses with **15%** of CEOs quoting it. Being geographically among the two greatest economic and political divisions of the world, makes Albania easily impacted by such developments.

*The view that we should not worry about any of these things, and follow technology to wherever it will go is insane. In the standard economic canon, the proposition that you can increase productivity and harm labor is bunkum.*



**-Daron Acemoglu**



# Looking inside out for growth

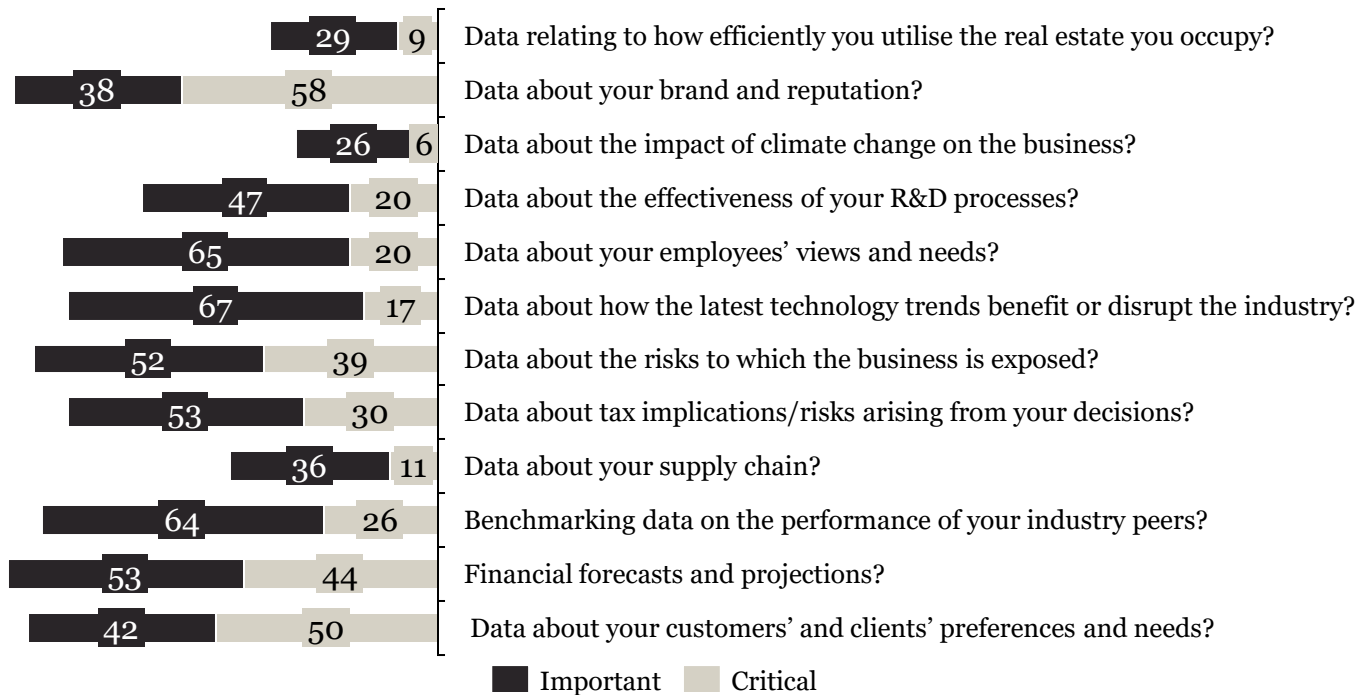
## Chapter 2



## Looking inside out for growth

**Figure 13: Data about the brand and reputation is listed by the CEOs as the most critical, with financial projections receiving the majority of “Critical” and “Important”.**

*Q: Thinking about the data that you personally use to make decisions about the long-term success and durability of your business, how important is.*



Note: Other alternatives not presented in the graph are “Don't Know”, “Not very important”, and “Not important at all”.

As this year's survey showed signs of optimism among the Albanian CEOs confidence on their companies' revenue prospect, getting to know their decision taking process is of a particular importance.

**97%** of the CEOs have quoted financial forecasts and projections as either an important or critical input for their decision making (Figure 13). This implies that CEOs continue to consider the finance unit function inside their businesses as a strategically important part.

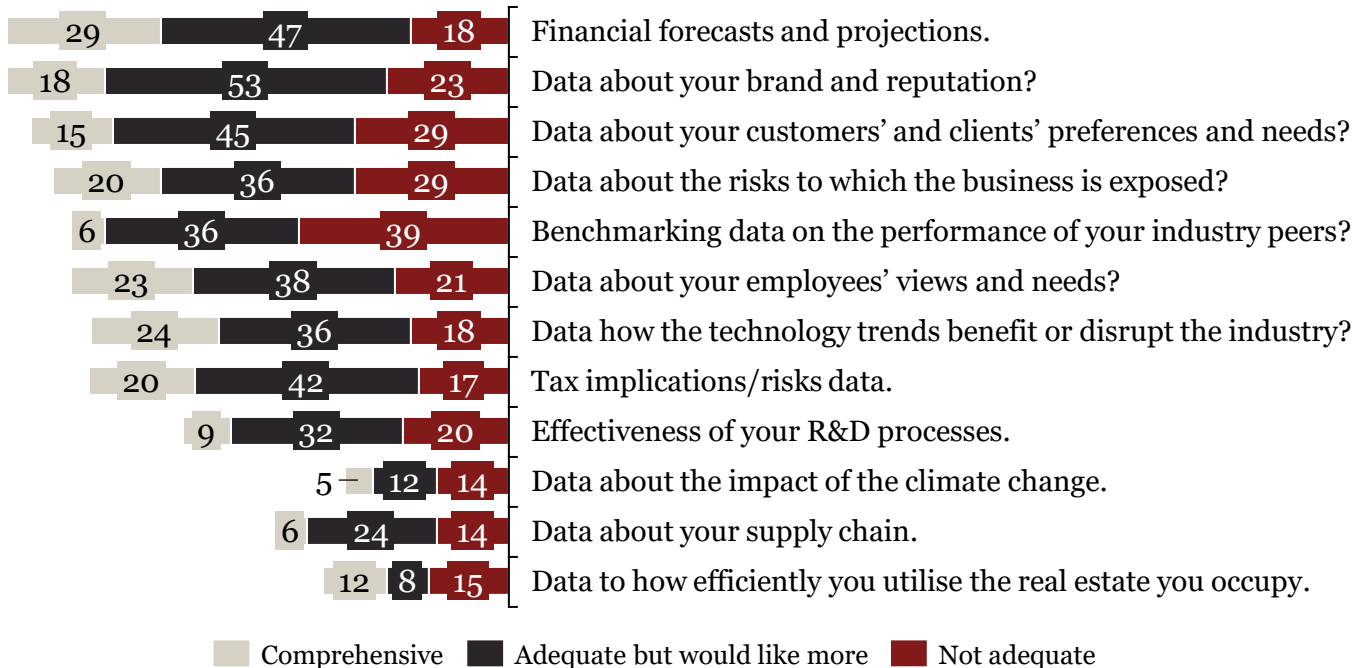
**95%** of the CEOs indicate that data about their brand and reputation is one of the most important or critical information they rely on as input to make successful decisions, while 92% have quoted the data about clients' preferences and needs, and 91% the risks their business is exposed to. All of the three indications are strongly related to the external environment of the business, which, as it appears, has a growing significance for the business leaders.

Interestingly, **89%** of the CEOs quoted Benchmarking data on the performance of the industry peers, therefore breaking down a widely held prejudice about the reliability of the companies' performance public information in Albania.

## Looking inside out for growth

**Figure 14: Non of the available options received a majority of “Comprehensive” quotes from the business leaders.**

*How adequate is the data that you receive?*



The adequacy of the available data is an important factor in helping markets and the economy grow. Countries with low developed capital markets, usually tend to suffer the inadequacy of such information.

As it is evident from the graph, almost none of the question fields has received a majority of “Comprehensive” answer. **76%** of the CEOs indicated that the data they receive about their brand and reputation is not comprehensive (Figure 14). That is, the Albanian businesses seem to encounter difficulties in their marketing unit operations.

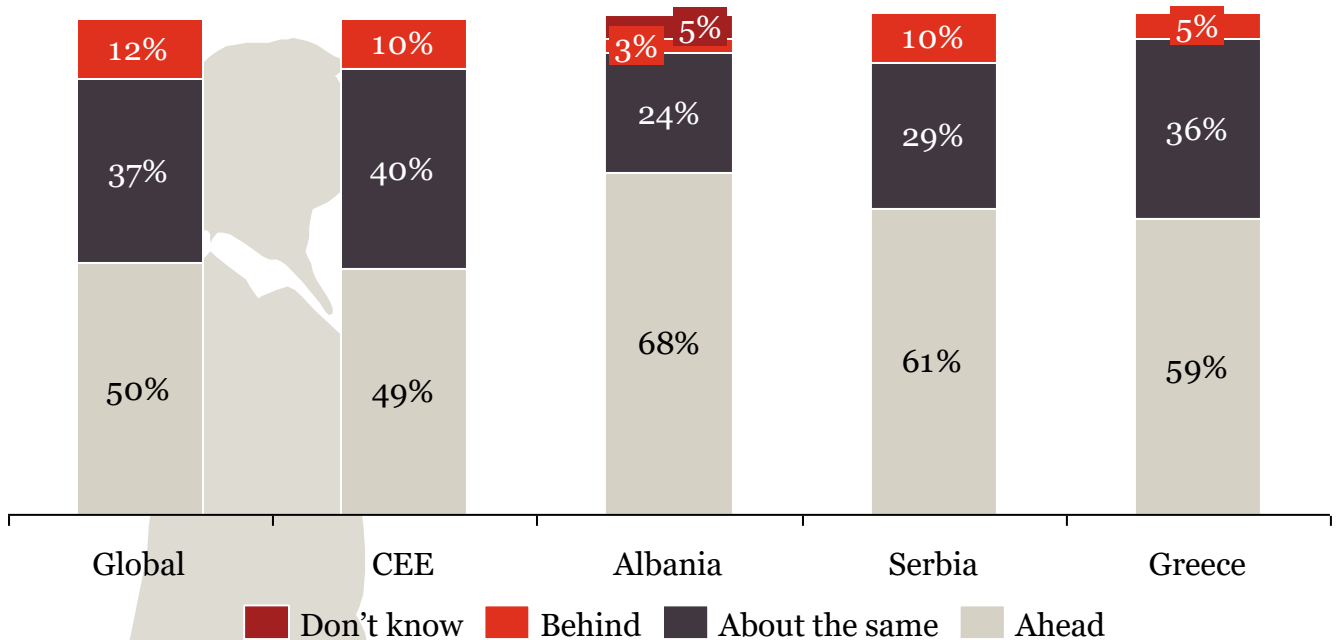
59% of the CEOs have quoted tax implications/risks data as not comprehensive, pointing out a major concern for the entire business climate in our country. Interestingly, 59% have pointed out that the data about their employees' views and needs is not comprehensive; such a fact, indicates that CEOs experience big data inadequacy issues even inside their internal business environment.



## Looking inside out for growth

**Figure 16: CEOs appear confident about their organizations' abilities in monetizing data and analytics, when put in comparison with the market.**

Q: How would you assess your organisation's ability to make decisions based on data and analytics compared to competitors in your industry?



Best practices have showed that a company's success in overcoming the competitors and, furthermore, growing in size, is determined by the abilities to *gather the right data, effectively process and analyze data, and draw conclusions upon that data*. This approach can be an essential and determinant competitive advantage, especially in highly developed markets where gaps are seldom encountered.

When asked specifically about their ability to make decisions based on data and analysis, the Albanian CEOs seem to be very confident about their organizations relative to the industry. **68%** of the executives expressed that their company is ahead of the industry, while **24%** quoted about the same (Figure 16). Such confidence reveals a discrepancy, as CEOs indicated low levels of adequacy for the data about their competitors.

Seeing the big picture, the Albanian CEOs seem to be the most confident about their companies' abilities when compared to the regional and global counterparts, although 8% of them indicated that their organizations are behind the industry.

Only **49%** of the CEE executives have such confidence in their organization, while globally it reaches to nearly **50%**. From the Albania's neighbor countries, Serbia and Greece seem to follow the same trend with **61%** and **59%** of CEOs respectively quoting that their organizations are ahead of the industry.

## Looking inside out for growth

**Figure 17:** As cyber attacks have continuously become more frequent, companies are orienting their efforts towards prevention measures.

*Q: To what extent do you agree or disagree with the statements below about your organization.*



One of the most major drawbacks of the unbounded development in technology is, without any doubt, the security and privacy risks associated with it. On the same thought appear to be Albanian CEO, as 92% of them quoted that their organization tries to keep such issues in control.

77% quoted that their organization is adapting the way it monetizes data to better address data privacy and ethics, while 71% quoted that their organization is cyber resilient, can withstand attacks, and recover quickly. Such a high level of confidence indicates that Albanian businesses have invested in their IT security infrastructure and are able to effectively operate.

56% of the CEOs indicated that their organization may be affected by geopolitical cyber activity; a threat becoming more and more concerning lately as the geopolitical and trade conflicts arise.







# Mind the information and skills gaps

## Chapter 3



## Mind the information and skills gaps

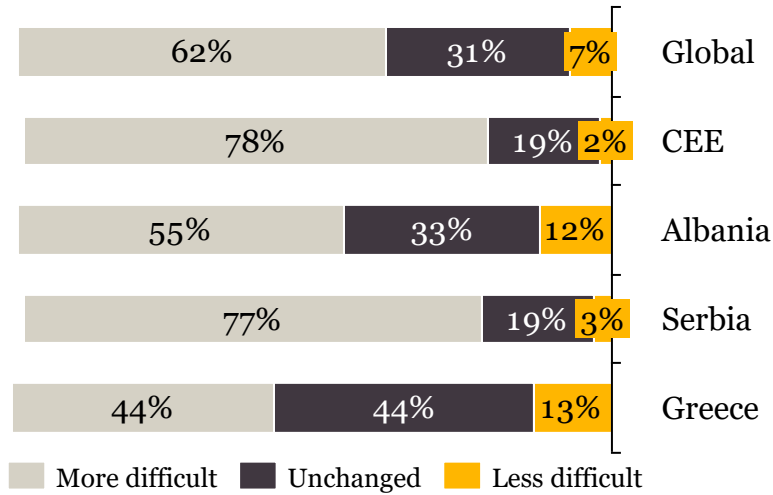
**Figure 18:** Shortage of Skills seems to be the main barrier in increasing the headcount, with the majority of CEOs indicating more difficulties.

*Q: In general, has it become more difficult or less difficult to hire workers in your industry, or is it unchanged?*

Compared to their global and regional peers, the Albanian CEOs view on what the labor market has to offer seems to be more moderate.

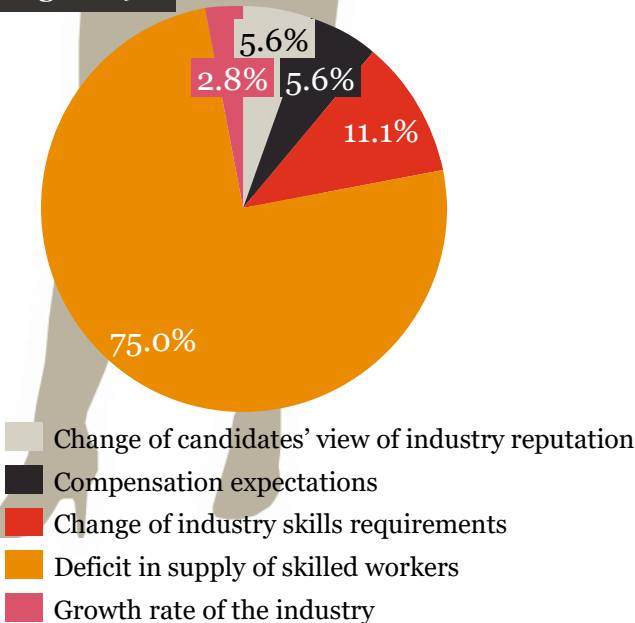
**55%** of the Albanian executives indicated that it has become More difficult for their organizations to hire workers, while globally and regionally **62%** and **78%** respectively shared this view (Figure 18).

The country experiencing less difficulties appears to be Greece, where only **44%** of the CEOs indicated to have more difficulties in hiring workers.



*Q: Which of the following is the primary reason it has become more difficult to hire workers?*

**Figure 19:**



We asked the CEOs on their view about the main causes for the difficulties they face on hiring workers and interesting results have come up.

**75%** of the CEOs believe that the main cause is related to the lack in supply of skilled workers (Figure 19). That is, the labor market, according to the CEOs, does not possess the required professional and/or intellectual capacities to perform well on their industries.

**11%** of the CEOs have quoted the Change of industry skills requirements. As we have pointed out throughout this survey's report, the speed of the technological change and the globalization processes have changed the business environment into a dynamic place, where demands are always on the rise.



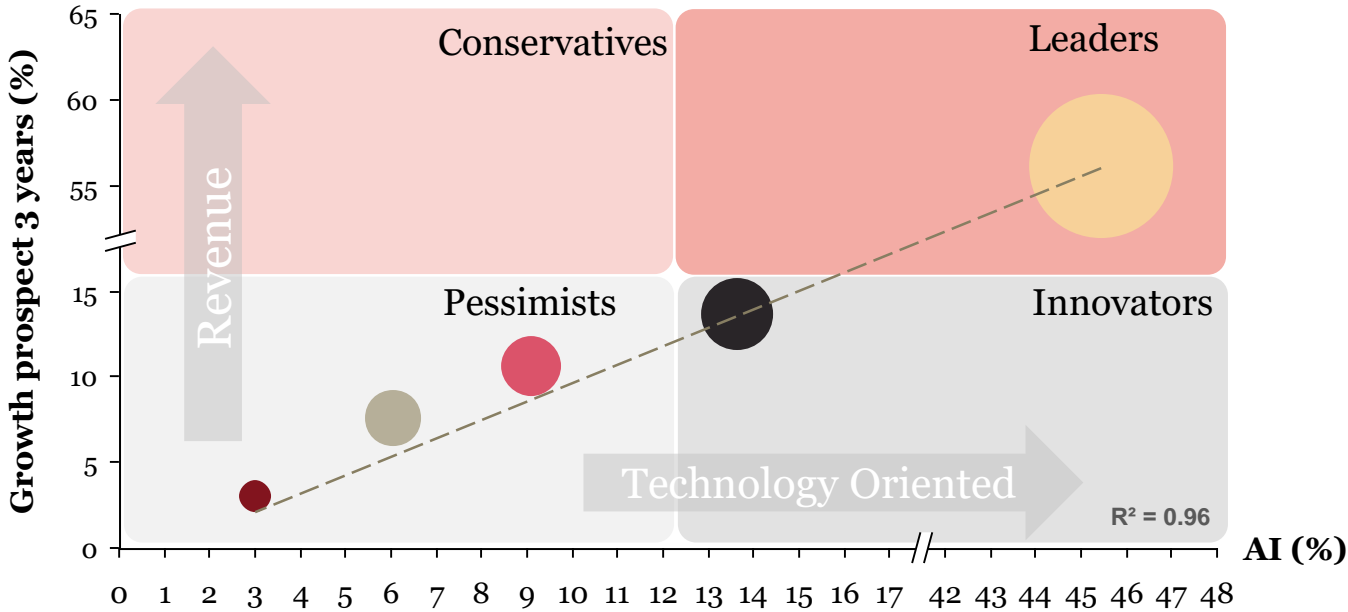
## Mind the information and skills gaps

**Q1:** Which of these is the most important to close a potential skills gap in your organization?

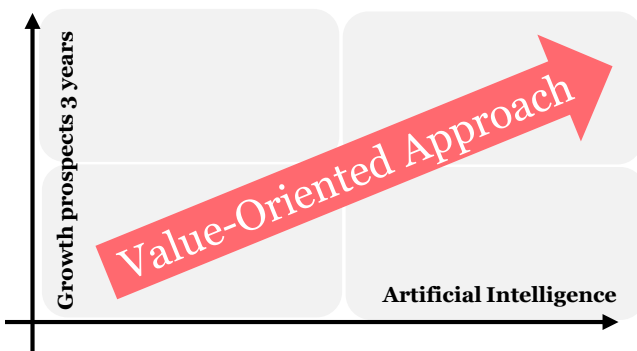
**Q2:** To what extent do you agree or disagree that Artificial Intelligence (AI) will significantly change the way you do business in the next 5 years?

**Q3:** How confident are you about your organization's prospects for revenue growth over the next 12 months and next 3 years?

**Figure 20:**



**Figure 21:**



Significant retraining/upskills	<b>62%</b>
Establishing a strong pipeline direct from education	<b>15%</b>
Hiring from outside the industry	<b>11%</b>
Hiring from competitors	<b>9%</b>
Changing composition of workforce	<b>3%</b>

### Brief Methodology

In order to have a clearer view of our CEOs' feedback, and the data collected throughout the survey process, we have conducted a "3D deep analysis", combining the elements and the questions most interesting in terms of the indications that they provide.

Specifically, the chart on Figure 6 shows horizontally in percentage of CEOs that agree on AI changing their businesses in the next 5 years, and vertically the CEOs who are confident about their companies growth prospect. Presented in bubbles are different options available to closing a potential skills gap, with each bubble's diameter representing the share of the CEOs who have quoted that option (Figure 20).

This shows that the spread of the bubbles in the graph is determined by the number of CEO who agree on **both** selected options for closing the skills gap:

- on the X Axis, by the number of CEOs who agree on AI long term effects;
- on the Y Axis, by the number of CEOs who are confident about their companies' growth prospects.

Such a combination emphasizes the keywords of this year's survey, by drawing a connection and, furthermore, a synergy between *confidence in growth, people, and technology*.

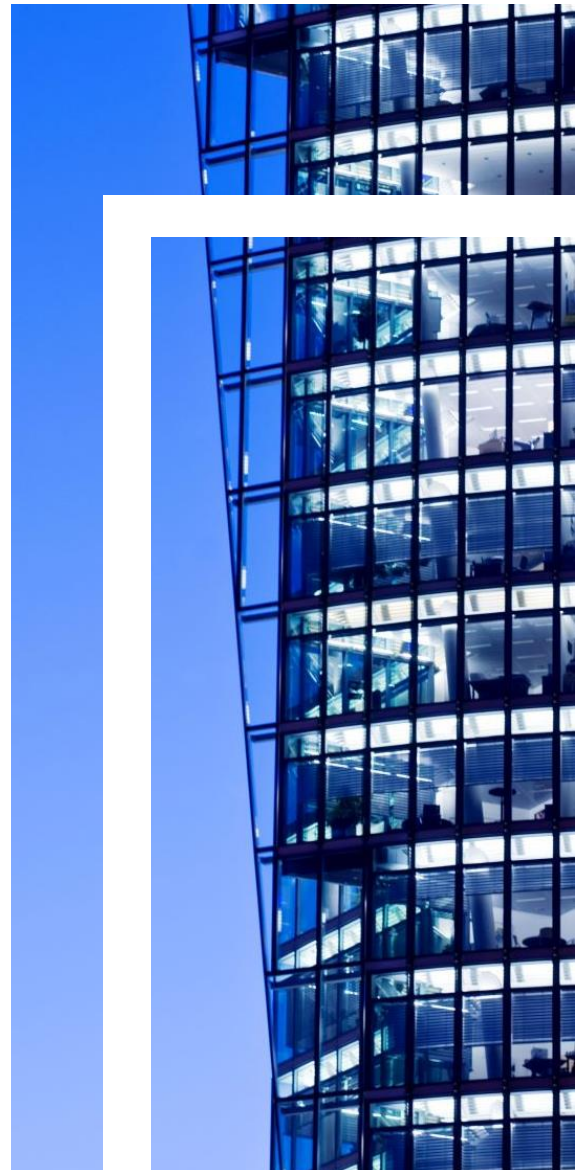
In addition, the graph was divided into 4 quadrants in the form of a Cartesian coordinating system, with each quadrant being subject to both quantitative and qualitative analysis in determining the system's origin coordinate. The quadrants are named by the characteristics that resulted in the analysis of the bubble groups, and that best represent the involved ones, while the diagonal of the system is expressed as "Value Approach Orientation" as it best combines the two axes overlap (Figure 21).

## ■ Results

As it is evident from the Figure 20, the regressive analysis shows a clear trend resulting from the variables, with an R squared of 0.96. On the far right corner, in the first quadrant, we see the biggest bubble, indicating that **62%** of the CEOs have quoted Significant retraining/upskilling as their choice for closing skills gap in their organizations. Furthermore, **45%** of the CEOs agree both with the latter and with "AI will change the way you do business" – the biggest overlap of the two variables resulting from the study, which points out that a transition towards the AI era must be backed with highly qualified human resources. Additionally, **56%** of the CEOs believe both in their companies' growth prospects and in closing the skills gap by retraining, which points out another characteristic: *the high cost of investing in employees*. According to the results, this activity can be afforded only by those who believe in the growth of their company's revenue. For all the above mentioned characteristics, this quadrant was named "Leaders" as it best describes the elements needed for such a category.

On the fourth quadrant, we see an interesting group, including **15%** of the CEOs who quoted "Establishing a direct pipeline from education". In terms of industries, the TICE sees itself more present in this category with 20% of the CEOs, and as we will see later, not for randomly causes.

Graphically, differently from the others, the bubble's center is in the regression line – which almost equally weights for the two variables – expressing therefore a more technology oriented mentality, although not being more confident in revenue growth: a characteristic for the TICE industry.





**14%** of the business leaders agree with both AI changing their way of doing business and “Establishing a direct pipeline from education”, and almost the same share of CEOs are in pair vertically. That is, according to the results, this group best expresses the Innovator’s characteristics by being open to transformations in their way of doing business, combined with the importance they give to the fresh wind and ideas coming directly from the education

Interestingly, in the third quadrant, we see three groups, respectively: Hiring from outside the industry with **11%** of the CEOs; Hiring from the competitors with **9%**; and Changing composition of the workforce between permanent and contingent with **3%**. What appears interestingly in all of the three groups, is that ***the low confidence they have in their companies’ growth prospects, is reflected in the relationship they shape with their employees***, meaning that the solutions CEOs quote to close the skills gap in their organizations don’t involve investments in the professional and/or intellectual capacities of the human resources, but on the contrary they direct their efforts toward less costly alternatives by leveraging the external environment resources. Furthermore, all of the three groups, as it is graphically evident, are more distanced from the Value-Approach flow of the regression line; that is, they do not share a equally disbursed orientation between growing in revenue terms, and investing in their technologies. Considering all the characteristics revealed by the combination of all these three factors, the groups were put under the label “*Pessimists*” as they best represent the elements that it carries.

Finally, to draw a parallel, our variables can be expressed as the three main factors of production, specifically *labor, technology, and capital*, the interaction and synergy of which, helps us fulfill the main goal of our CEO Survey: *conveying the most accurate view over our economy, by the eyes of those who best represent it, and whose actions determine the streams steering it either towards success or failure, **the Business Leaders.***





A semi-transparent grey rectangular box containing the text "AI: Optimizing the foundations of a new era." in a white, sans-serif font. The background of the entire page is a blurred image of server racks with glowing blue and green lights, suggesting a data center or digital infrastructure.

AI: Optimizing the foundations of a new era.

A dark grey rectangular box containing the text "Chapter 4" in a white, sans-serif font.

Chapter 4

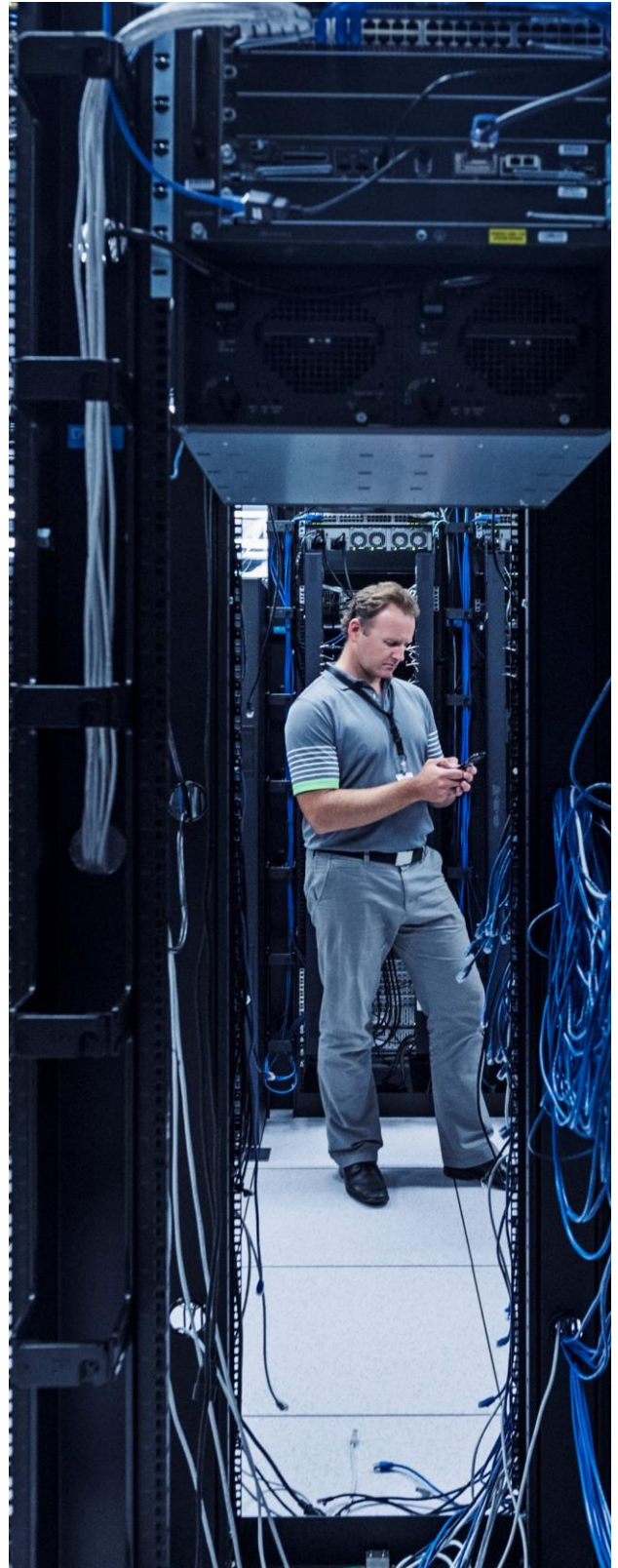
## The vital reasons to shape our AI understanding.

With the beginning of 2019, we are towards the end of the current economic structure and about to enter a new one. What makes so important studying this new “economic structure” is the consequences that it brings to all the economics models used so far, making them non relevant for the new reality. That is, the academic world should be oriented towards the analysis of the deficiencies that our models of operations will occur in the upcoming years.

Firstly, to draw a better representation of the new economic structure, it is important to identify what's so new about the whole AI implementation in our economic system. In the center of every economics model, be that used by the central banks or the management of corporations, are the utilization and the productivity indicators. Such indicators when implemented in the broadly used consolidated models (e.g. the Philips Curves used by central banks) are able to prognosis important forecasts, upon which the management drives the decision making processes. What AI does introduce in our environment so far, is exactly a pivotal shift in our current existing relationships, by creating brand new efficiency improvements and productivity gains that far exceed the explainable levels of our models.

Such occurrences, in the optic of an business organization, affect directly some of its core activities such as headcount planning, assets management, financial forecasts, processes streamlining, and moreover. Furthermore, seeing the big picture the macroeconomic effects are even more present. As it was mentioned above, one of the most used models of the central banks is the Philips Curve, by means of which the banks justify their policies and their operations in the open markets. Data analysis indicate that as the world was entering the Internet revolution, several adjustments were needed in the mentioned model, in order for it to be relevant to the new reality.

Overall, as the CEOs all around the world draw their future AI implementation plans, a vital part associated within it must be the recalibration of the existing models and relationships, upon which their operations have relied so far.

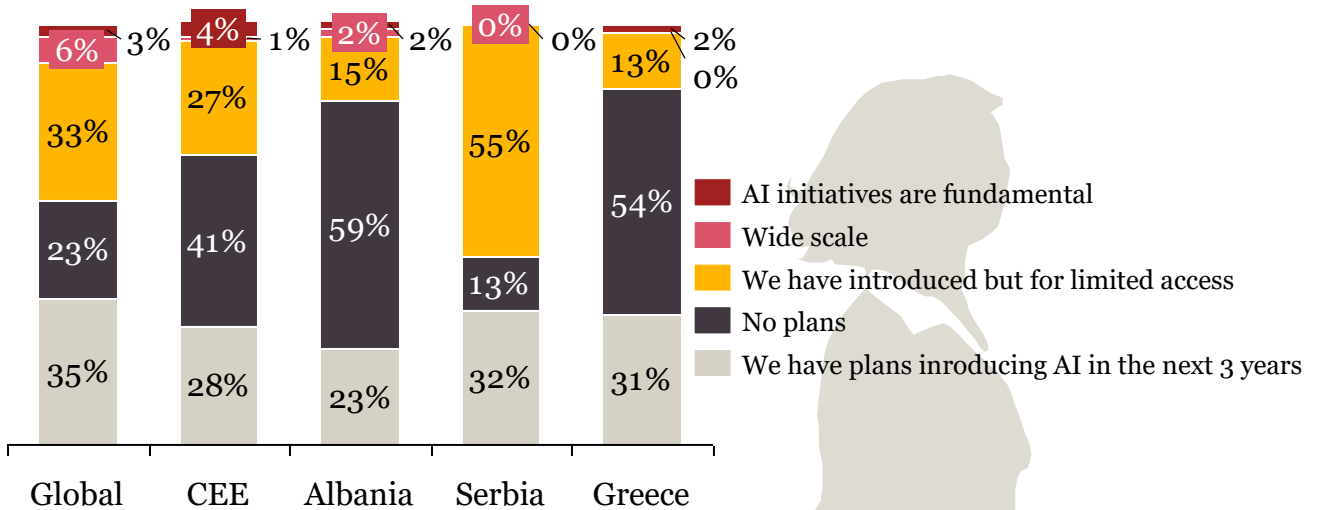




## AI: Optimizing the foundations of a new era.

**Figure 23:** AI is still in its entry stages in Albania, reflecting an overall conservative approach.

Q: Please select the statement that best applies to your organization.



With the AI transition being behind the door, ready to start what is believed as the most determinant revolution in the history of the technology, we have asked our CEOs about their perspective on embracing such development.

As it is evident from the chart in Figure 7, Albanian CEOs appear to be the most conservatives on introducing this technology in their businesses. More than **59%** of the executives indicated that they don't have a plan in the next 3 years (Figure 23). In terms of industries, CIPS appears the least interested, with 67% of the CEOs operating in this sector who express no plans.

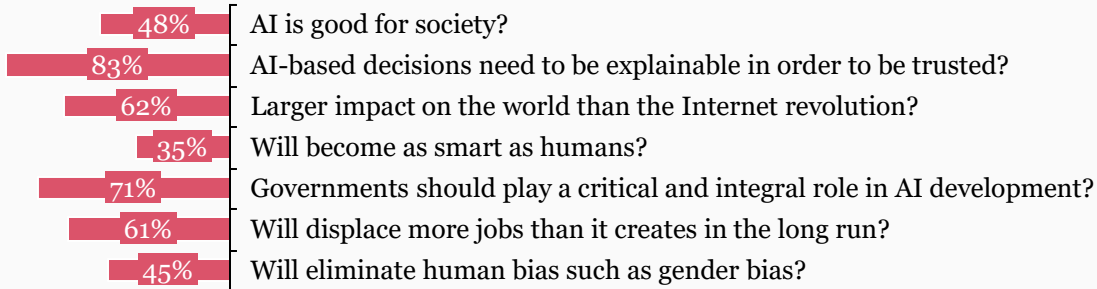
**23%** of the executives have indicated that they do have plans for introducing AI in their organizations for the next 3 years; as expected, TICE executives find themselves more active with 33% confirming their future plans. Furthermore, **15%** of the CEOs indicated that they actually have introduced AI, although for limited access. TICE CEOs are once again more active than their colleagues, with 20%.

Looking at the big picture, Serbia appears to be the most AI friendly territory, with nearly **55%** of the CEOs indicating that they have already introduced this technology, and **32%** more being open to such development in the near future. Greece, on the other hand, holds the same trend as Albania, with CEOs being more conservative; **54%** have quoted that they do not have plans for the next 3 years.

Globally, the situation appears more balanced: **23%** of the CEOs have indicated no plans, with **33%** and **35%** quoting respectively that they have implemented limited access and that will introduce AI in the next 3 years.

## AI: Optimizing the foundations of a new era.

Q: How strongly do you agree or disagree with the following statements about artificial intelligence (AI)?

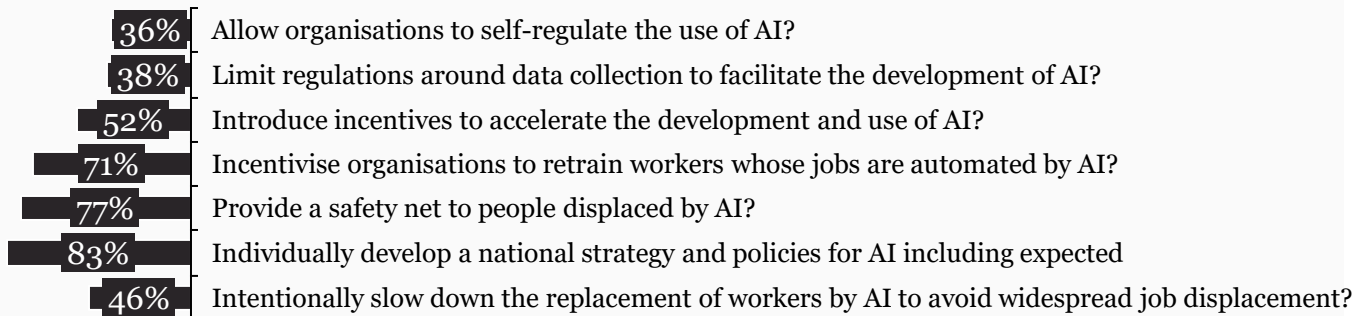


As every development is associated with both positive and negative consequences – in the optics of the purpose that it was first implemented for – determining and studying those consequences has fundamental importance in order to be able to minimize the undesired ones.

When asking the CEOs for such consequences, **83%** have quoted that AI-based decisions need prior explanation, in order to be trusted. This implies that AI still appears suspicious in CEOs' point of view. Interestingly, **71%** of business leaders strongly emphasize the role and the involvement of the government in the AI transition phase, while 62% indicate that its size far exceeds that of the Internet revolution.

Another critical issue, the shrinking of the available jobs, is quoted by **61%** of the CEOs, who expressed the view that AI will displace more jobs than it creates in the long run.

Q: How strongly do you agree or disagree with the following statements about government involvement with Artificial Intelligence (AI)?



The involvement of governments in the functioning of the market – be that for economic or social purposes – is always a strong discussion point. As every regulation directly affects the businesses' operations, we have asked the CEOs on their thoughts about this matter.

Interestingly, **83%** expressed their agreement for a deep involvement of the government, by building a national strategy for AI and its expected impact on communities. **77%** put their emphasize on the social consequences of AI, demanding that the government provides a safety net to the people displaced by AI; furthermore, **71%** believe that government should directly incentivize organizations to retrain workers whose jobs are automated by AI.

Overall, the Albanian CEOs strongly identify the government as a key actor in supporting a successful transition to the AI era.



# Participants Snapshot

## Chapter 5



## Participants snapshot



66 Albanian business leaders completed the CEO Survey.



26% of the respondents are female.



26% of the respondents are between 35-39 years of age.



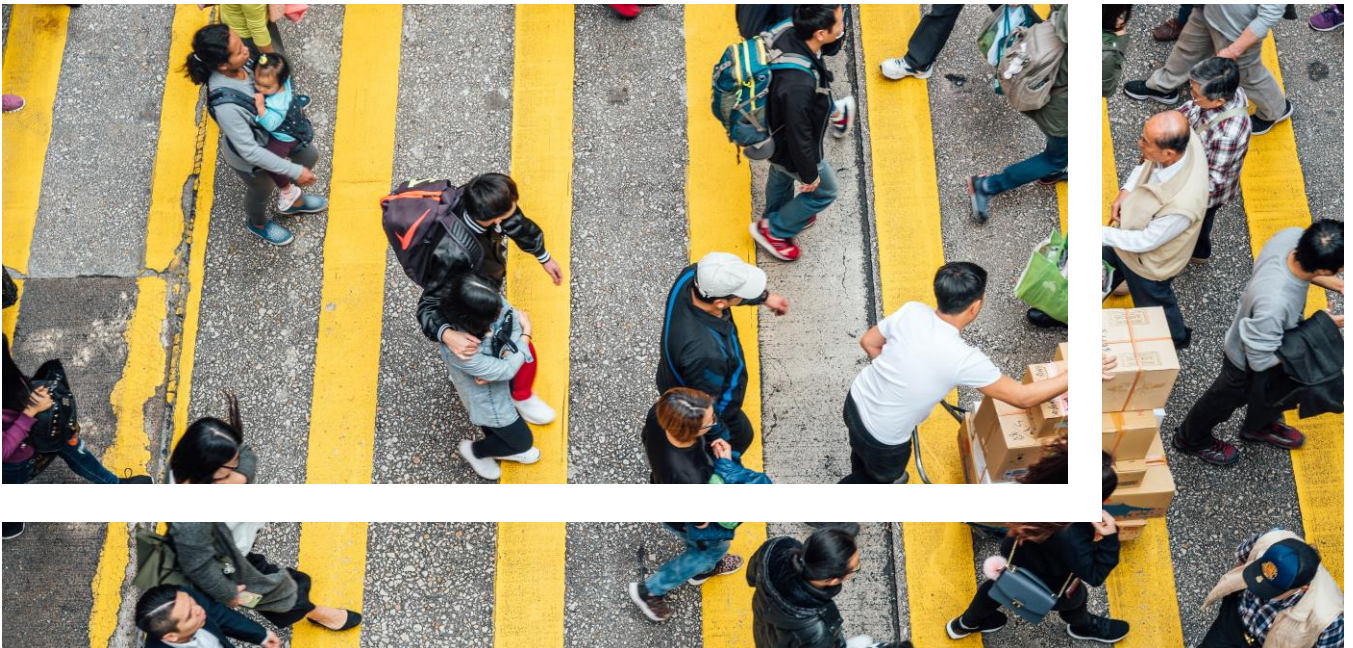
88% of the CEOs operate in privately owned companies.



35% of the companies have a local (Albanian) capital structure.



82% of the CEOs operate in companies with less than 500 employees.



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