The Africa business agenda

Changing gear

May 2017

6th edition

African CEOs and PwC leaders share their views on the realities and rewards of doing business on the continent.

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Contents

About this publication

The Africa business agenda draws on the survey results of PwC's 20th Annual Global CEO Survey of 1 379 CEOs worldwide. The use of a common set of survey questions allows us to benchmark the views of the 80 African CEOs we surveyed against global averages.

Searching for growth amid uncertainty

Africa's business agenda

Hein Boegman
Territory Senior Partner for PwC's East, West and South Market regions in Africa

Getting the balance right between realism and optimism, as well as opportunity and risk, continues to dominate the minds of CEOs as they search for growth in Africa's fast-changing markets.

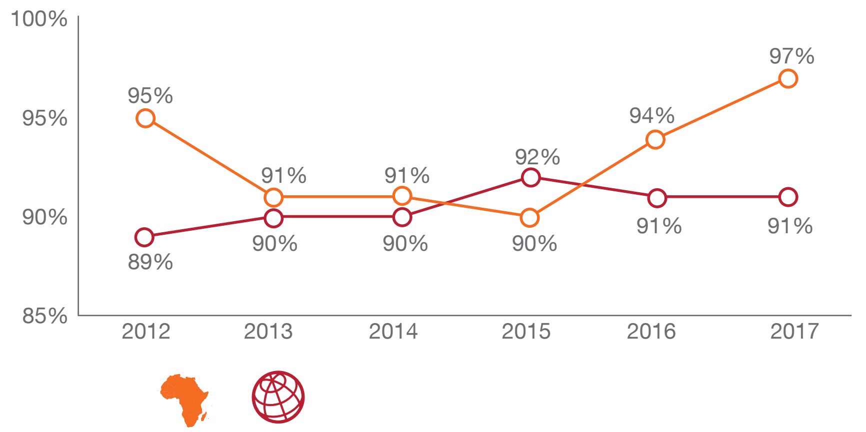
In the past year we have seen global megatrends such as demographic change, urbanisation, shifts in global economic power and technological innovation continue to affect business dynamics. While their impact is, in many cases more nuanced, successful organisations are also showing greater adaptability and resilience.

Finding growth

Despite the fact that only 30% of CEOs in Africa (Global: 29%) believe the global economy will improve in the next year, no less than 97% (Global: 91%) are confident about their own companies' growth prospects in the medium term. Among African CEOs, this is the highest level since our survey started in 2012.

Fig. 1

Q *How confident are you about your company's prospects for revenue growth over the next three years? (Summary: Somewhat/Very confident)*



Why such positivity? Perhaps CEOs have learned to look for the upside and seize on the opportunities uncertainty brings. Facing a climate of muted growth at best, CEOs recognise that while they focus on organic growth and cost reductions, they also need to prioritise investment in new strategic alliances and joint ventures to expand their markets and grow their customer bases.

Expanding markets

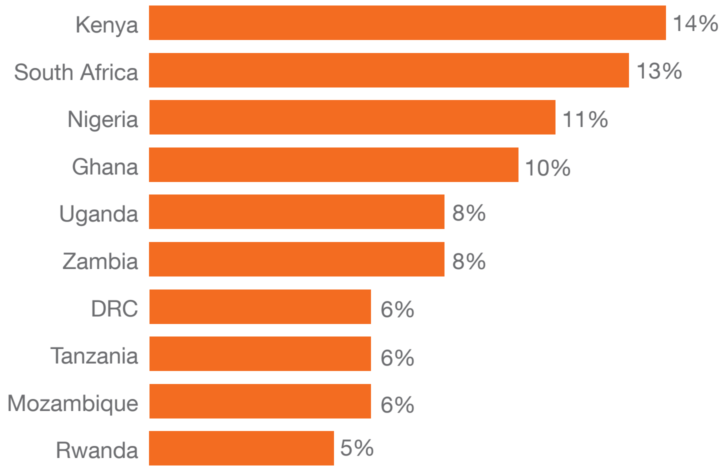
A decade ago, Africa was 'the next big thing', leading many companies to throw caution to the wind in their haste to establish a foothold on the continent. Many African businesses also set out to expand their operations across the continent. While some succeeded and others came to grief, all learned that despite the vast opportunities, doing business in Africa can be risky, complicated and difficult.

African CEOs are still looking beyond their home markets for growth.

In this context, it is reassuring that African CEOs are still looking beyond their home markets for growth, with countries in all regions of the continent featuring among the most important to their companies' growth prospects in this year's survey.

Fig. 2 CEOs looking to other African countries for growth

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? (Summary: Top three countries)*



People

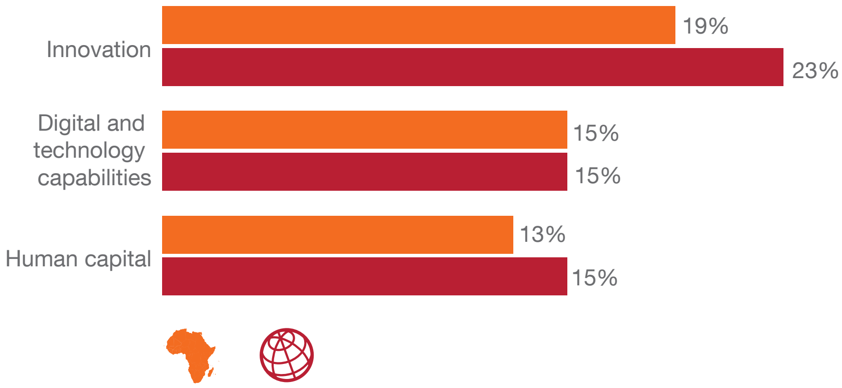
While organic growth and cost reduction are important, CEOs recognise that they cannot achieve these and other goals without investment in innovation, technology and people.

Concern that technology will cause job losses.

Many CEOs say they are turning to new technologies and digitisation to drive costs down. Given such developments, many are concerned that technology will cause long-term job losses.

Fig. 3 Focusing on innovation

Q *Given the business environment you're in, which one of the following do you most want to strengthen in order to capitalise on new opportunities?*



But businesses still need people. In Africa, 23% of CEOs plan to cut their companies' headcount over the next 12 months, but only a third of them say it is primarily because of technology. At the same time, 51% plan to hire more employees.

Threats

Despite their high levels of optimism, African CEOs are particularly concerned about a number of factors undermining their growth prospects. While uncertain economic growth and exchange rate volatility top their worry lists, social instability, unemployment and geopolitical concerns are also causing unease.

The current environment is hard to read.

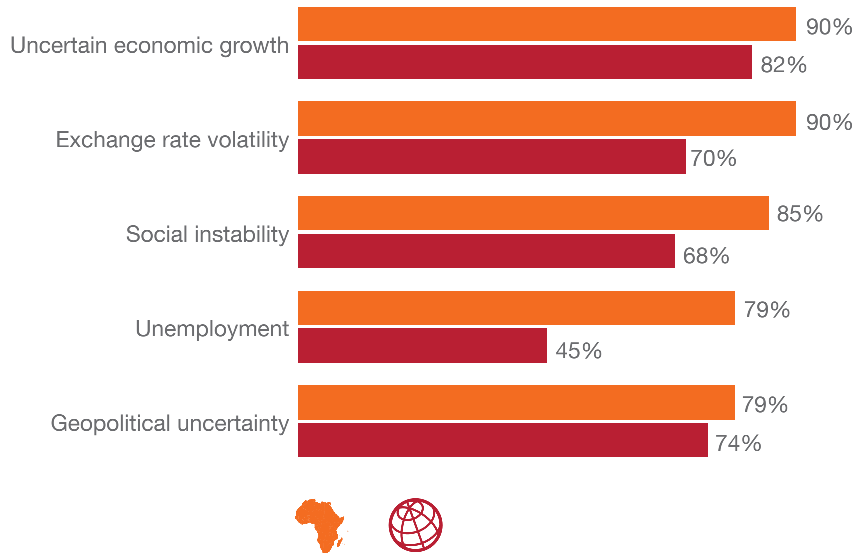
Given the major changes we are currently seeing in the world following, for example, Donald Trump's win in the US election and the UK's vote to leave the EU, both of which have global ramifications, a key feature of the current environment is just how hard it is to read.

A single event can trigger a need for wholesale strategic changes. A case in point is the recent political and policy uncertainty in South Africa, which culminated in the sacking of the finance minister at the end of March 2017. This was soon followed by a downgrade in the country's sovereign debt rating to junk status. Ratings agencies Standard & Poor's and Fitch subsequently also downgraded a number of leading South African banks citing the deterioration in sovereign creditworthiness as an increased risk to the banking sector.

In the face of such unpredictability, we remain confident that the outlook for business in Africa remains positive. But to succeed, businesses need to adapt swiftly to change. It is in this context that we have titled this year's edition of the publication 'Changing gear'. I hope that you will find it useful and informative.

Fig. 4 Uncertain economic growth and exchange rate volatility are top concerns

Q *How concerned are you about the following economic, policy, social, environmental and business threats to your organisation's growth prospects? (Summary: Somewhat/Extremely concerned)*



Finding growth despite challenges and risks

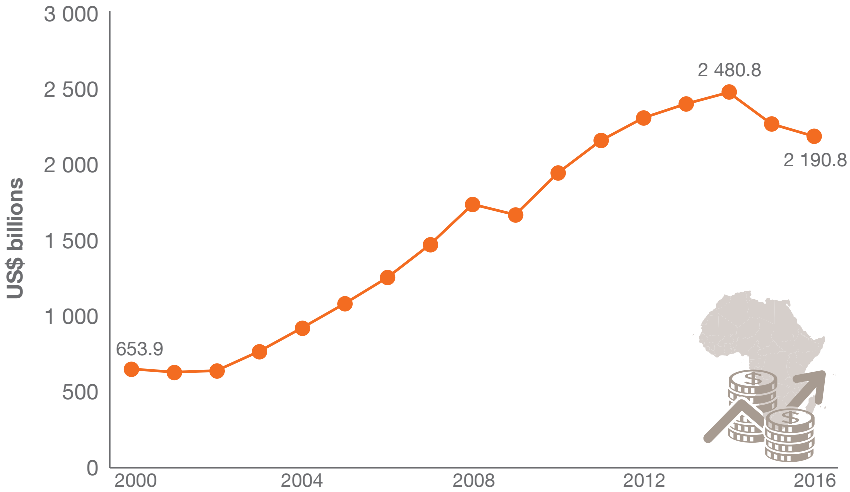
Dion Shango
Regional Senior Partner for PwC in Southern Africa

As business leaders and governments from Africa gather to meet for the 27th Africa World Economic Forum, it is notable that there remains great potential to unlock more growth on the continent despite the many challenges.

Africa has experienced more than a decade of exponential growth. The economy has tripled in size since 2000. However, in the past year we have seen a change in the outlook for some countries as external developments impact many of the drivers of Africa's growth.

Africa has great potential despite the challenges.

Fig. 5 Africa's economy has more than tripled in size since 2000 (Nominal GDP)



Source: IMF, http://www.imf.org/external/datamapper/NGDPD@WEO/AFQ?year=2016

Let us consider the 'Africa Rising' narrative. In the late 1990s Africa experienced substantial growth and an improvement in socio-economic and political circumstances. Millions have since benefited as significant progress has been made regarding quality of life, health, welfare and education on the continent.

In addition, sophisticated IT technologies and communications have enabled populations to become empowered and increasingly engaged. There have been increased efforts and initiatives by governments across Africa to improve their macro-economic policies. In the process, democracy has spread and we are seeing the emancipation of women in a number of states.

Natural resources, in particular oil, have for decades been the main source of economic growth in Africa.

Agriculture in Africa is also changing, with African governments increasing their investments in the sector. Other sectors, such as construction, financial services and retail, have grown robustly.

According to World Bank estimates, Africa currently represents 15% of the world's population and 3% of the world's GDP. By 2035, Africa's labour force is expected to be larger than that of China.

By 2035, Africa's labour force is expected to be larger than that of China.

Numerous multinational companies with a well-established presence in Africa remain positive about the growth potential of the continent. These companies are focusing on growing their investments, creating and fostering new jobs, achieving long-term sustainable growth across the continent.

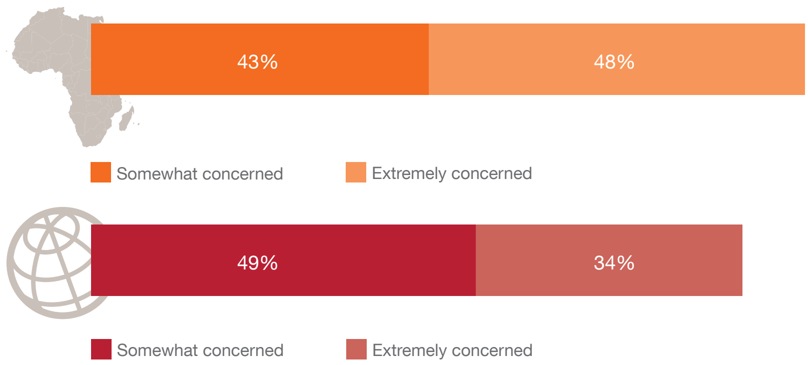
However, Africa's fortunes are very much tied to those of the global economy. Some African economies, in particular those that have ties with the UK, Europe and China, have been impacted by recent events. Growth in the sub-Saharan Africa region is estimated to have slowed to 1.5% in 2016, the weakest pace in over two decades, according to World Bank data.[1]

Africa's economic fortunes remain tied to those of the global economy.

This is mainly due to falling commodity prices, China's slowdown and rebalancing, a decline in capital flows from emerging and developed economies, and volatile currencies. Nearly half of African CEOs (48%) in our survey are 'extremely concerned' about uncertain economic growth, compared to 34% of CEOs globally.

Fig. 6 Uncertain economic growth is a major concern

Q *How concerned are you about uncertain economic growth?*



The returns for doing business may be high, but so are the risks. Africa's CEOs are working in difficult times—finding the right talent for their business, dealing with hurdles that come with working with governments, and managing expansion plans across the continent.

Doing business on the continent remains a challenge as infrastructure in many regions lags well behind that of the rest of the world. Currently, there are a number of bottlenecks in ports, roads and rail blocking intra-African trade, as well as power supply constraints.

The power sector remains one of the greatest infrastructure challenges.

The power sector remains one of sub-Saharan Africa's greatest infrastructure challenges, with limited electricity access and frequent power outages across the region. The water sector is also plagued by under-investment in infrastructure.

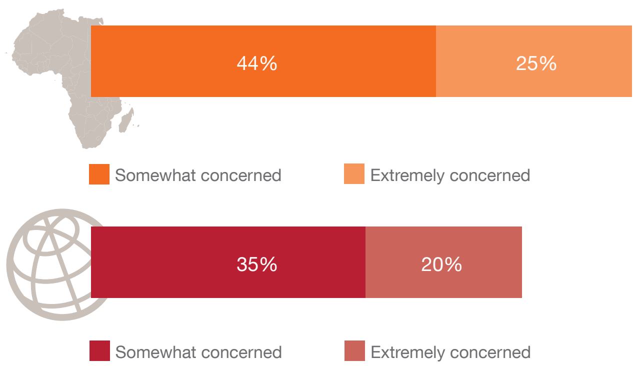
[1] http://www.worldbank.org/en/region/afr/brief/global-economic-prospects-sub-saharan-africa

These issues have a profound effect on potential investment in Africa. According to the World Bank, about $93 billion is required annually to be able to fund Africa's infrastructure for the next 10 years.

More than two-thirds of African CEOs (69%) are concerned about inadequate basic infrastructure (Global: 55%) and a stronger focus on expanding power supply is required to solve one of the biggest challenges in the business environment.

Fig. 7 Infrastructure remains a key challenge

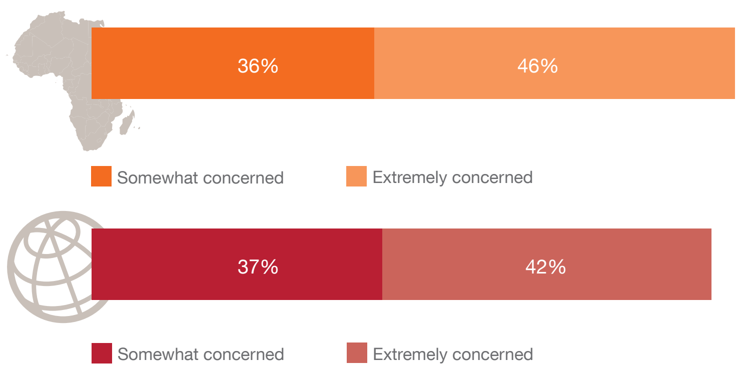
Q 5a_6 *How concerned are you about inadequate basic infrastructure?*



Although business confidence is improving, it's the CEOs' answers to questions about their concerns that disclose where action is required, more particularly from governments. Over-regulation features again on the list of concerns this year, with a quarter of African CEOs saying they are extremely concerned.

Fig. 8 Over-regulation worries persist

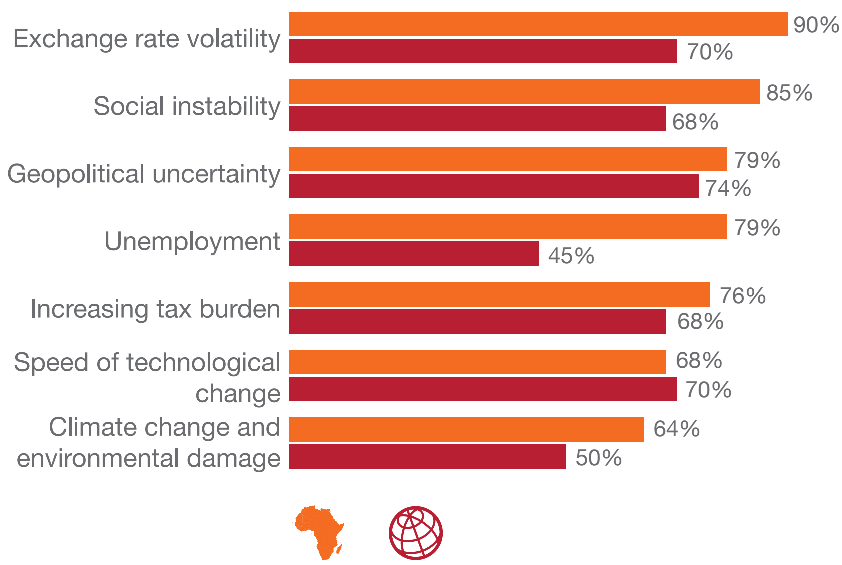
Q *How concerned are you about over-regulation?*



Other clouds on the business horizon include exchange rate volatility, geopolitical uncertainty, the impact of climate change and environmental damage, and the speed of technological change. For most of these factors, the level of concern among African CEOs is higher than the global average.

Fig. 9 Macro issues dominate CEOs' concerns

Q *How concerned are you about these issues? (Summary: Agree/Agree strongly)*



CEOs also believe social instability resulting from inequality, an increasing tax burden, a lack of economic diversity with an overdependence on natural resources, and corruption remain problems in many countries.

Technological advances have intensified skills shortages.

In spite of ambitious hiring plans, organisations are struggling more than ever to find the right people with the right skills to realise their growth objectives. The digital age has transformed the skills shortage from a nagging worry into something more challenging.

Our survey findings indicate that 43% of African CEOs are 'extremely concerned' about levels of unemployment on the continent, compared to 15% of CEOs globally.

To solve the talent conundrum, CEOs are looking for a wider mix of skills than in the past and are searching for talent in different geographies, industries and demographic segments.

Despite the numerous challenges facing the continent, growth has continued. With fiscal and socio-economic reforms to reduce inequality and poverty on the agenda in a number of economies, the outlook is good in many countries.

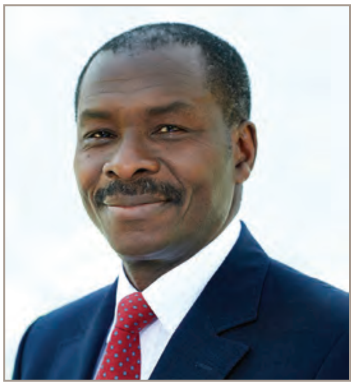
Governments need to reduce the burden on businesses operating in Africa.

Many governments and businesses are exploring new ways in which to collaborate more meaningfully and effectively. The challenge for many governments is to reduce the burden on businesses operating in Africa, which will require smarter approaches to macro-economic policies and regulation, as well as a willingness to pursue tax reform.

Africa needs to capitalise on all opportunities.

As nations around the globe try to make sense of the increased levels of risk and uncertainty that have gripped the world, Africa needs to continue rising by capitalising on all the opportunities that lie ahead.

Megatrends impacting development in Africa



Edouard Messou
Regional Senior Partner for PwC in sub-Saharan Francophone Africa

With average GDP growth in sub-Saharan Africa more than halving from 3.4% in 2015 to just 1.5% in 2016, the region has witnessed its biggest economic slowdown since the 1990s.[1]

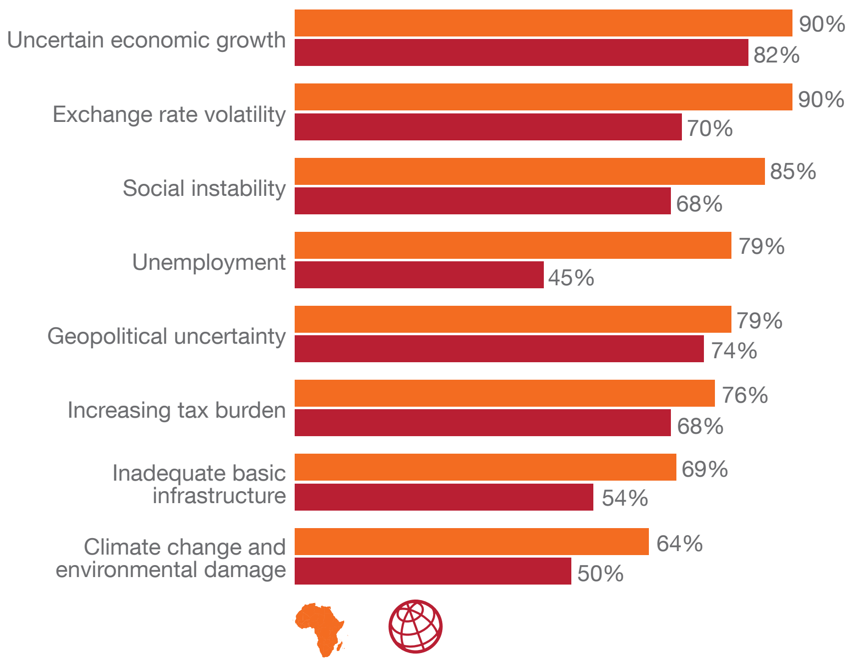
Experiencing a perfect storm of difficulties, such as a decrease in commodity revenues, tighter financing conditions, growing poverty, pandemics, extreme weather events and insecurity, Africa remains a giant with feet of clay.

Sub-Saharan Africa has witnessed its biggest economic slowdown since the 1990s.

As underlined by the findings of our latest CEO Survey, African business leaders have much reason to be concerned about their organisations' growth prospects and those of the continental economy.

Fig. 10 CEOs concerned about threats to growth

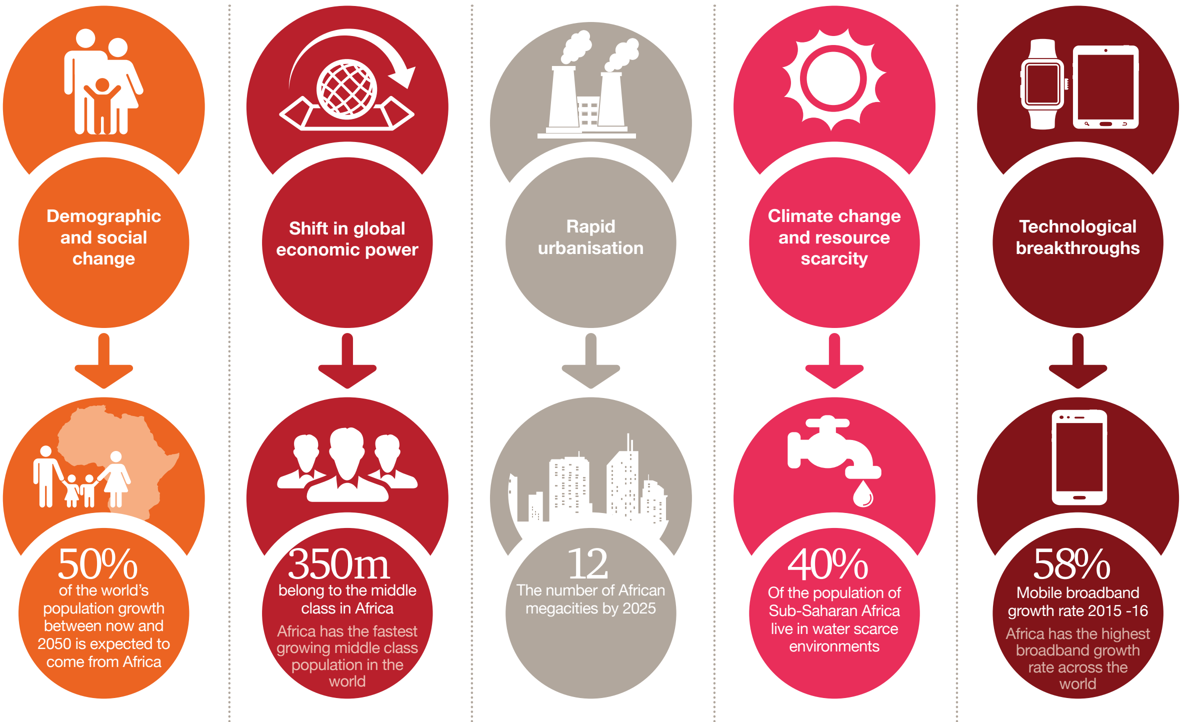
Q *How concerned are you about these threats? (Summary: Extremely concerned/Somewhat concerned)*



Despite the slowdown, Africa is also experiencing a number of economic advances that presents the continent as a 'land of promises'. Indeed, there are several significant trends that could offer new opportunities and benefits for the population, firms and governments.

[1] IMF. www.imf.org/external/datamapper/NGDP_RPCH@WEO/OEMDC/ADVEC/WEOWORLD/SS

Megatrends offering new opportunities in Africa



Source: PwC Megatrend analysis

Demographic and social change

Africa is experiencing rapid demographic growth and will represent 50% of the world's population growth from now until 2050, with the potential to become the leading worldwide labour provider and consumption market.

The young working population will attract a large amount of manufacturers and service providers as Asia, Europe and North America contend with aging populations.

In order to respond to the demand, African governments will have to strengthen educational policies. Africa will be obliged to go from a largely unskilled labour force to a skilled workforce in order to develop its full potential.

Agriculture will be key to supporting Africa's growing population.

Agriculture will be one of the keys to success in terms of supporting Africa's growing population. Due to the collapse in commodity prices, African governments cannot rely on imports anymore and will have to reinforce food security and agricultural development policies in order to satisfy the needs of their growing populations.

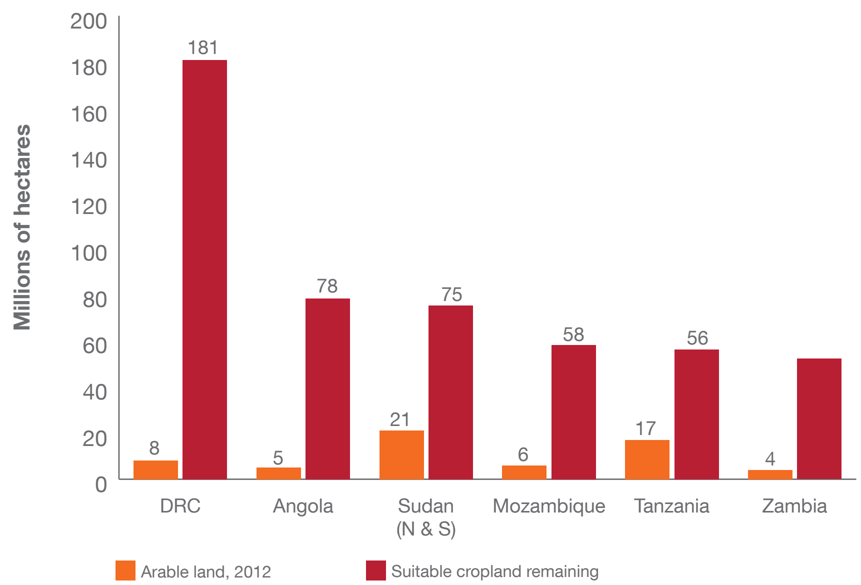
According to an FAO study, *The Resource Outlook to 2050*, the use of arable land will increase in Africa, especially in sub-Saharan countries, where it is expected to increase from 133 million hectares in 1961/3 to 300 million hectares by 2050.[2]

The World Bank explains that this potential increase is due to the fact that a lot of arable land isn't exploited by agriculture, especially in tropical climate regions.

But the under-utilisation of arable land is only part of the equation—there is also a lot of suitable cropland that is yet to be exploited (in some countries, exceeding 50 million hectares).

[2] FAO. *The Resource Outlook to 2050*. 2009. http://www.fao.org/3/a-ak971e.pdf

Fig. 11 Land balance: Selected sub-Saharan countries



Source: FAO. The Resource Outlook to 2050. 2009

Emerging middle class

The African Development Bank (AfDB) suggests economic growth in Africa is tightly linked to an emerging young and technologically savvy middle class. As highlighted in our megatrends analysis, 350 million Africans belong to the fastest-growing middle class in the world.

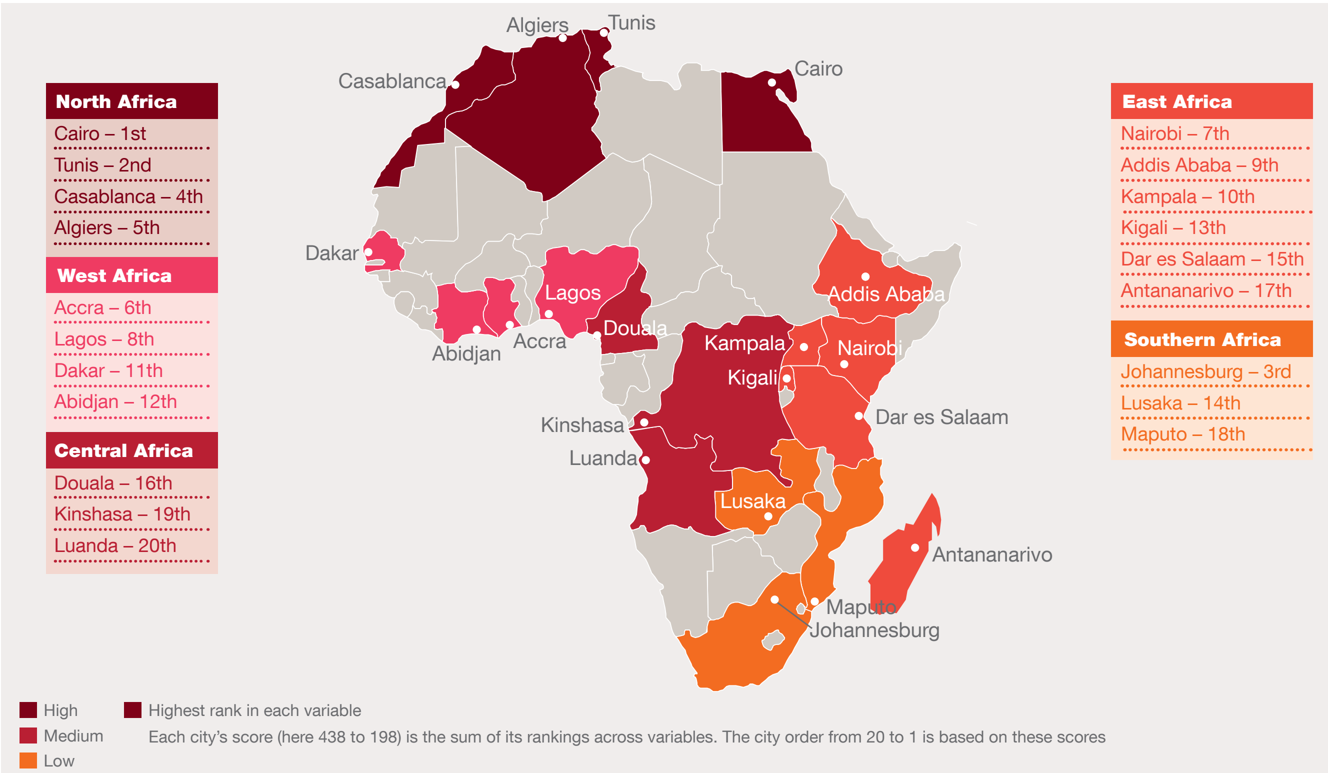
Due to assumptions of continuous growth, the emergence of this new middle class brings exciting new business opportunities for international and local companies, but also represents a challenge for policymakers and businesses, particularly since middle-class growth and rapid urbanisation are closely bound together.

Rapid urbanisation

Due to rapid urbanisation, there will be 12 megacities (over 10m people) in Africa by 2025. In order to respond to investors' needs and strategies, PwC set out to identify cities that offer the best opportunities to firms looking for current and future business. The findings of this research are summarised in PwC's I*nto Africa: The continent's Cities of Opportunity* report released in 2015.[3]

Our approach is based upon four criteria: infrastructure, human capital, economics and demographics (including society).

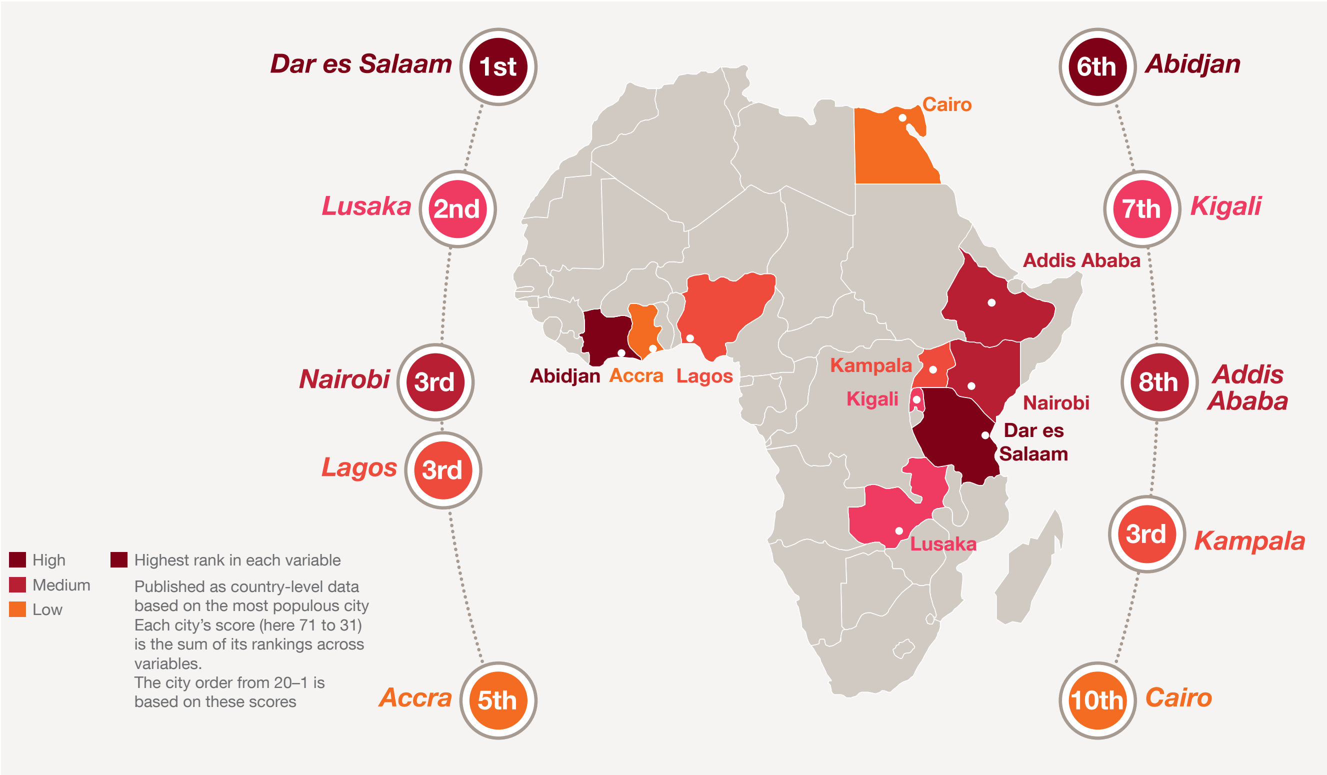
Overall city ranking



Source: PwC. Into Africa: The continent's Cities of Opportunity. 2015.

3 PwC. *Into Africa: The continent's Cities of Opportunity*. 2015.
www.pwc.com/gx/en/issues/high-growth-markets/africa/publications/into-africa.html

Cities of Opportunity ranking



Source: PwC. Into Africa: The continent's Cities of Opportunity. 2015.

Based on these criteria, four of the five top cities are in North Africa. This can be explained in part by infrastructure maturity and an established regulatory framework that favours stable economic and cultural environments.

Africa will have 12 megacities by 2025.

In the 'Cities of Opportunity' ranking, PwC focused its analysis on GDP, attractiveness to foreign investors, population growth and the growth of the middle class. Most of the cities in this ranking could reach the top of the overall ranking by making organisational changes that focus on education, employment, infrastructure development and technological connectivity.

Climate change

With rapid urbanisation, energy, food and water supplies will soon become central concerns—and those will be exacerbated by climate change.

According to the United Nations Economic Commission for Africa, a climate increase of more than 2°C could mean a loss of 4.7% of GNP due to a decrease in agricultural productivity. A temperature rise of 2.5°C to 5°C would have even worse effects, such as famine for 128 million people and a high risk of flooding for another 108 million.

Rapid urbanisation will make energy, food and water supplies greater concerns.

African Union member states have agreed on a common climate change policy, but this scenario is appearing more and more complex as some industrialised countries, notably the US since the election of Donald Trump, are refusing to honour the 2015 Paris Agreement.

Technology

Supported by the world's highest mobile broadband growth rate, technological breakthroughs in Africa could be a potential answer to some of the concerns raised by the demographic boom, the middle-class' needs, rapid urbanisation and even the impact of climate change.

The digital disruption the continent is experiencing stands to strengthen healthcare, promote education and create jobs that would be a potential answer to the challenges of growing populations. These themes are explored further in *Disrupting Africa: Riding the wave of the digital revolution.*[4]

Technological innovation could facilitate successful urbanisation.

This African technological leap could drive efficiency in public services, facilitating the organisation and execution of infrastructure projects that grow in parallel with the continent's rapid urbanisation.

Conclusion

Some megatrends (demographic explosion, growth of the middle class, rapid urbanisation and the technological revolution) are favourable to development. But in order to grow and expand its potential, Africa will need to face the political and economic repercussions of climatic change, not to mention safety and political instability in some areas.

The sustainable development of the continent will remain a long-term project as, for the most part, governments still need to implement the policies needed to spearhead economic diversification, investment in reliable infrastructure and accelerated intra-African trade.

4 PwC. *Disrupting Africa: Riding the wave of the digital revolution*. 2017. www.pwc.com/gx/en/issues/high-growth-markets/africa/publications/disrupting-africa--riding-the-wave-of-the-digital-revolution.html

Meeting the challenge of growing business

Anne Eriksson
Regional Senior Partner for PwC in East Africa

PwC's 20th Annual Global CEO Survey shows that CEOs in Africa primarily plan to grow their companies organically, reduce costs and develop new strategic alliances or joint ventures to achieve corporate growth or profitability. CEOs are executing these strategies based on the realities in the markets where their companies operate.

In general, we have witnessed a considerable improvement in the openness of our politics across Africa. More governments now act in ways that demonstrate a citizen-centric focus. The same could be said of the private sector with its know-your-customer orientation.

Successful growth strategies are based on the realities of the market.

We have made progress across the continent to distribute wealth and opportunity more equitably. There are still some sad cases where greed prevails, but those countries or businesses do not inspire confidence among investors. And so they are not growing or prospering nearly as well as those that are working towards more openness and inclusivity.

Regulatory change influences cost-cutting and growth strategies

Openness inspires organic growth, but growth without restraint is a recipe for failure. For businesses and governments alike, efficiency and cost-consciousness help to ensure sustainability for years and generations to come.

Efficiency and cost-consciousness help ensure sustainability.

Regulatory policy can also restrain growth and, in some cases, necessitate aggressive cost reduction by the businesses affected. The recent interest rate cap in Kenya, for instance, has forced banks to revisit their cost base almost overnight. In response, many of them are developing shared services centres outside the region or downsizing their employee numbers. In this case, regulation is driving unintended cost-reduction strategies. Those cost reductions may have been overdue, but they were not critical until regulatory change made them so.

Regulatory changes can prompt positive strategic developments in business.

Regulatory change in Kenya has helped the country's financial services sector to pay more attention to its customers, however. Sector players increasingly want a more holistic view of their customers to determine what additional value they can derive from these relationships. This holistic view is developed by mining customer data for insights to sell new products and services and provide better customer service—all factors that contribute to a more competitive value proposition in the marketplace.

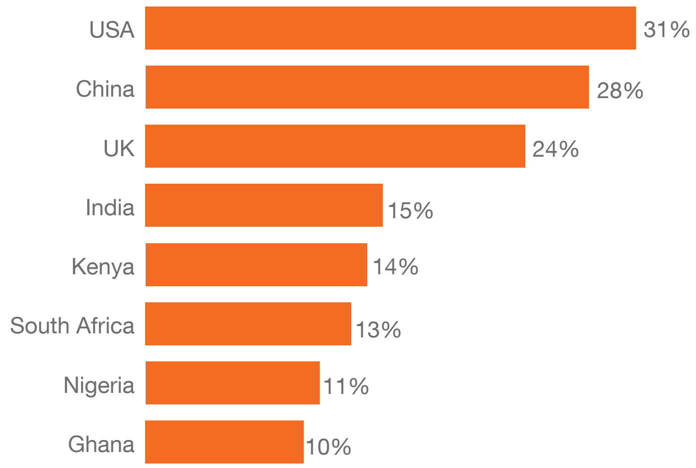
Employment and spending power facilitate growth

Africa's informal employment sector is growing organically and rapidly in response to population and demographic pressure. Young people are becoming very enterprising in response to relatively weak formal–sector employment growth; only a few of them will get formal sector jobs and so many more are creating technology, trading and pursuing other entrepreneurial ventures.

Borderless commerce is more prevalent in Africa than elsewhere and this fluid mentality extends to the rest of the planet. It is not unusual to meet people who are travelling to China to buy goods that they will then sell back home. They can access information quite easily about where in the world to go for the best prices.

Fig. 12 Borderless commerce is flourishing among African businesses

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?*



Across all sectors, the pace of innovation in Africa is driving greater collaboration and convergence. Businesses in different sectors are collaborating through alliances and joint ventures to realise mutual growth.

The pace of innovation in Africa is driving greater collaboration and convergence.

We see banks collaborating with telecommunications companies, and telecommunications companies providing mobile banking services and becoming retailers.

Some retailers are reaching out to global players for expertise. The scale of their African markets and their rapid growth now requires global capacity, experience and financing. Strategic alliances, joint ventures and other partnerships demonstrate the value of growth and the investment opportunities on the continent.

Growth also inspires dynamic marketing strategies in Africa. For fast-moving consumer goods companies, their main preoccupation is how to remain top of mind among consumers. There are many demands on disposable incomes for which companies of all kinds compete.

Innovation influences consumer choices and increases opportunities for business growth.

Innovation is influencing consumer choices, such as when companies offer smaller package sizes and single-use servings as affordable, entry-level customer experiences. It is also good business, since smaller servings tend to have higher profit margins.

African middle-class incomes face pressure from all sides: the marketing of luxury products like tobacco, gambling and airtime competes with the necessity of basic essentials like education, healthcare, food and housing.

Businesses offering products and services to middle-class consumers succeed by attracting small chunks of income among a high volume of customers. This is a risky strategy but the returns are higher.

The underlying reality is that infrastructure can impede or facilitate this strategy. Where infrastructure is adequate, businesses can sell goods and services to a high volume of consumers cost–effectively. Where it is not, the cost of doing business is higher.

Peering around the corner in Africa

In Africa, many things are not straightforward. Something as simple as moving goods from Nairobi to Kampala requires strategies to ensure efficiency and profitability. Legislation and regulation are not always very clear.

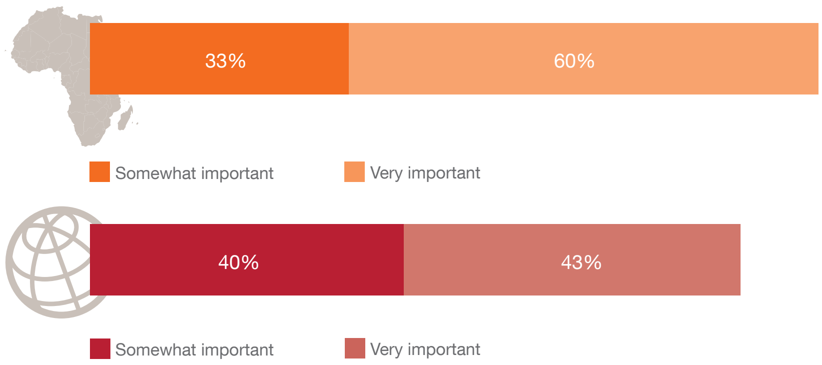
CEOs must apply their management capacity to navigating various obstacles. They need to draw upon the experience of professional services firms even more than in developed markets, where they could interpret the rules and laws for themselves.

No global company can afford to ignore Africa.

There are surprises on the road to growth and sometimes these surprises are very expensive. All of this uncertainty contributes to the risk premium attached to doing business in Africa. But for all of these challenges, the opportunities and rewards generally outweigh the risks—which is why no global company can afford to ignore Africa.

Fig. 13 Risk management remains a priority

Q *How important is risk management to your organisation?*



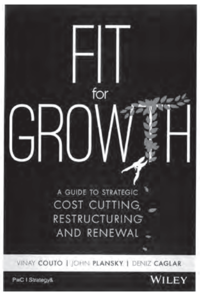
Many global companies and organisations have committed to building capacity and improving transparency and regulatory frameworks through deliberate engagement with government. Where there has been progress, economies have benefitted and the result is more inward investment, innovation and organic growth.

Successful organisations strive to stay fit

Desmond McNamara
Partner, Strategy&

Jorge Camarate
Partner, Strategy&

Strategy& is PwC's global strategy consulting group.



This article has been adapted from a new Strategy& publication, ***Fit for Growth: A Guide to Strategic Cost Cutting, Restructuring, and Renewal***

To find out more, visit www.strategyand.pwc.com/fitforgrowth

Worldwide, companies in developed and emerging markets are facing significant challenges. Many companies are battling to jump-start flattening revenues and deliver higher returns to investors. In order to do so they need to focus on managing costs as rigorously as they concentrate on growing revenues.

Often there is a common and potentially dangerous flaw in how many executives think about their company's costs: Many spend their resources on the wrong things or cut the wrong things for the wrong reasons.

Many companies are battling to jump-start flattening revenues.

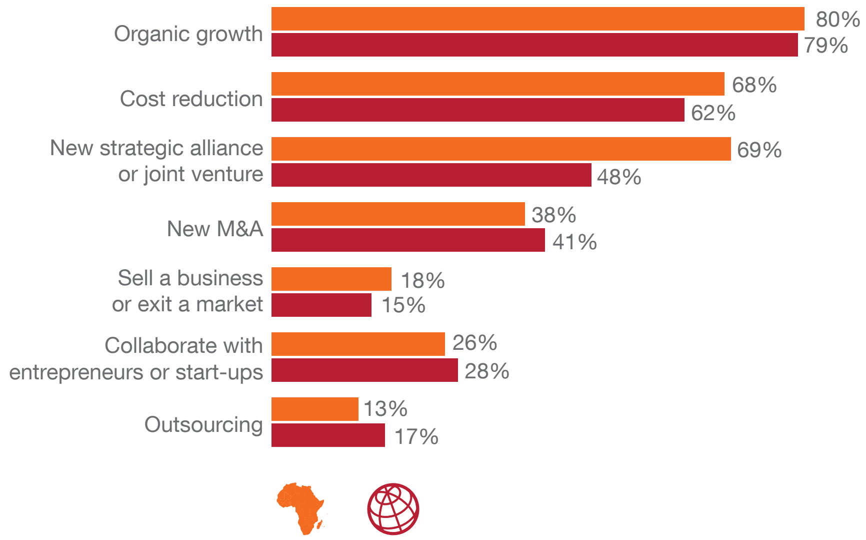
Recent Strategy& research found CEOs globally believe their companies are not ready to deal with instability. A vast majority of CEOs globally (83%) say their strategy is not well understood across the entire organisation, and 81% say the way in which management allocates its resources is not driven by strategic objectives.[1]

In PwC's *20th Annual Global CEO Survey*, 68% of African CEOs (Global: 62%) are looking to reduce costs and overheads over the next 12 months. Companies in Africa are also looking to multiple fronts for growth opportunities. Partnerships, mergers and acquisitions and alliances feature in their plans and a significant percentage of CEOs (Africa: 69; Global: 48) plan to enter into new strategic alliances over the next 12 months.

[1] Strategy&. Fit for Growth Index profiler. www.strategyand.pwc.com/fitforgrowth/ffg-index-profiler

Fig. 14 How CEOs plan to drive growth and profitability

Q *Which of the following activities are you planning in the coming 12 months in order to drive growth or profitability?*



In this highly challenging environment, only the fittest will survive. In order to do so they need to focus on managing costs as rigorously as they concentrate on growing revenues. By managing costs strategically they can cut costs and grow stronger at the same time.

Organisations need to focus on managing costs as much as on growing revenues.

In our experience, companies become fit for growth by doing three things consistently and continuously:

- They focus on a few differentiating capabilities;
- They align their cost structure to these capabilities; and
- They organise for growth.

To focus on a few differentiating capabilities a company needs a clear identity, based on the things it can do better than any other organisation. These differentiating capabilities—the three-to-six combinations of processes, tools, knowledge, skills and organisation—that enable a company to outperform—are at the heart of this approach.

Companies need a clear identity based on what they can do better than anyone else.

However, we have seen that many companies have not achieved this focus. In these companies, too many initiatives tend to clog people's calendars. Managers go to multiple meetings on unrelated topics every day. The best talent is tasked with many high-priority programmes, with the result that they burn out in the workplace. These distractions, and many others, drain an organisation's financial resources.

If a company's cost structure is not aligned to its strategy, its leaders tend to base their spending on initiatives that do not have a clear link with growth or profitability. This is usually to the company's detriment.

Companies that are not fit for growth have too much of their cost base (80-90%) allocated to non-differentiating capabilities (either lights-on or table-stake capabilities).

By having a sharper focus on a few differentiating capabilities, fit-for-growth companies tend to devote 20-30% of their costs to activities that make them stand out in the market while also reducing their overall cost base by up to 30%.

Business leaders cannot afford to let their organisations get or stay out of shape.

If a company is not organised for growth, inefficiencies arise and decision–making becomes uncertain. For instance, it can take weeks or even months to get a contract approved and in the interim the competition wins the business.

Further, decisions made weeks ago have still not been executed, or even worse, come back for reconsideration.

In the current economic climate, business leaders cannot afford to let their organisations get or stay out of shape. They need to focus on what they do best and align their cost structures. Being fit for growth is about enabling growth, not just cutting costs.

To guide their fit-for-growth mission, companies need to follow the 10 principles of being fit for growth.

10 principles of being fit for growth

1. ***The CEO must make a direct pitch:*** *The CEO must commit publicly to shareholders and other stakeholders to demonstrate how highly he/she values the change programme.*

2. ***Get top managers on board:*** *For any change programme to work, senior executives must buy into it.*

3. ***Grant amnesty for the past:*** *Change means looking ahead to the future, not back.*

4. ***Look for easy victories:*** *To make progress without significantly affecting people's budgets, companies should consider slashing easy-to-cut expenses or negotiate better deals with service suppliers.*

5. ***Cut executive perks.***

6. ***Dig deep:*** *True transformation requires a thorough assessment of the business, and its customers and place in the market.*

7. ***Invest:*** *In addition to cutting expenses, an organisation should look to an investment-driven vision for growth.*

8. ***Establish a parallel organisation:*** *Large organisations must continue to run their businesses as they implement sweeping changes.*

9. ***Communicate:*** *Management need to communicate the need for change to employees as well as external stakeholders.*

10. ***Don't relax after reaching a goal:*** *After a company has implemented a programme of change, it will require discipline and focus to keep the restructuring from backsliding.*

Companies that manage their cost structure in this way will be able to make the right choices in the long term. Effectively, they will be able to close the gap between strategy and execution. The rewards will be immense.

CEO insight

Guy Hayward
Chief Executive Officer of Massmart Holdings

Massmart Holdings Limited is a South African retail company that owns brands such as Game, Makro, Builders Warehouse and Jumbo. Massmart is the second-largest distributor of consumer goods in Africa; the largest retailer of general merchandise, liquor, and home improvement equipment; and wholesaler of basic foods. As of January 2017, Massmart operated 412 stores in South Africa and 12 other sub-Saharan countries.

? *Where does Massmart find itself on the African continent today?*

We have high market shares in some of our major product categories in South Africa. This is one of the main reasons we focused on growing into sub-Saharan Africa (SSA) from the late 1990s. Today, that region's sales are almost R8bn, representing 10% of our sales.

Our South African home market remains challenging. Retail is growing cautiously, watching costs and digitising where it can.

On the other hand, in the broader African market retail is growing aggressively, but sensibly. We back ourselves with great retail brands, a good operating model and relevant African local knowledge.

? *The past two years on the African continent have been tough economically. What have you had to do differently as a business to survive and achieve positive results?*

When I took over as CEO in 2013, I was sceptical of the seemingly 'irrational exuberance' for unchecked Africa expansion and so commissioned a third-party study on what SSA was going to look like in the next decade.

The study's conclusions were interesting and reassuring. To capture 90% of the growth of modern potential retail in the next 10 years, a business only had to be in 15 SSA countries. Also, the participation of modern retail is expected to slightly more than double from 8% to 17% in 10 years.

Unsurprisingly, the key hubs were Southern Africa, East Africa and West Africa. Informed by this, we maintained our measured new store roll-out into 13 countries in SSA.

90% of retail growth potential in the next 10 years is in 15 SSA countries.

When the changed global economic climate (US$ strength and lower commodity prices) adversely affected most African countries three years ago, we were not unduly exposed because we had not taken on more risk than we should have. We didn't have to change our course of direction.

Getting goods into some markets, and paying ourselves for those goods, did become more difficult, but most operational challenges were manageable.

It was a timely reminder that Africa's economic cycles have extreme dips but also extreme peaks, and that you can swing from one to the other in a short space of time. We stuck to our business model, remained locally relevant and gave our customers what they want, while not over-exposing ourselves to any one particular African country.

We also try to anticipate the challenges as best we can on the continent by connecting with the local community, whether this is the political, regulatory or business community.

Are there any markets outside South Africa that you consider to be important from a retailer and wholesaler perspective?

At this stage Zambia, Ghana and Nigeria are considered the top three for us, followed by Kenya and Mozambique.

What threats to growth is your business concerned about?

Looking beyond the weaker currencies and lower commodity prices—there is also the longer-term concern of an inadequate manufacturing base and illiquid currencies. There is probably more 'gentle nationalism' than there was five years ago, but as long as our business remains locally relevant with local management we'll be okay.

We would like to see neighbouring African countries consider setting up trading blocs or customs unions. The combined potential of these blocs will likely attract investment by suppliers and manufacturers.

African governments could do more to make business more welcome.

I also think African governments could do more to make business more welcome and make the environment easier to do business in—for example, having an efficient port entry process or making customs duties less opaque and more reasonable.

This, of course, is not a one-way trade and so business would need to act for the long term, with good stewardship and responsibility.

What technological opportunities do you see to strengthen your business in the long term?

Digital is pervasively affecting customers' shopping behaviour. It is also going to influence how we operate and manage our business.

Today, we probably have more business data that we can expect to usefully analyse and use. But with greater digital capability we can meaningfully analyse the data to develop insights about our business, our customers and our products.

The products that we sell are evolving technologically and digitally. For example, five years ago we had big market shares in handheld GPS products, but now this capability is readily available on a smartphone. So our merchandise strategy has to evolve with technology.

How has online selling brought about changes in business and influenced consumer behaviour?

As a bricks-and-mortar retail business, we are embracing what we call the omnichannel. We want to give our customers a great and convenient experience to help them choose and buy the products they want. Retail businesses should have a wonderful online search capability with good product features and benefits, and be robust in terms of stock accuracy and delivery logistics.

At the same time, online does have limits. Customers are unlikely to buy everything online without first seeing the product and so it is not surprising to see that Amazon is now building bricks-and-mortar stores.

Having regard to technologies that are evolving, where do you see retail in the future?

Retail has evolved continually and will keep doing so. The retail landscape will become increasingly digital and omnichannel. By and large, customers will still want to touch and feel and look at whatever they want to buy. I don't see this basic human need disappearing any time soon.

Bricks-and-mortar stores remain relevant.

The products that we stock in our stores will naturally evolve too. Some products will move aggressively online and others won't. How we talk to our customers and how we retain them will also be digitally enabled. But bricks-and-mortar stores will definitely still be around and highly relevant.

Making the most of globalisation

Rebalancing economies amid slowing global trade

Uyi Akpata
Regional Senior Partner for PwC in West Africa

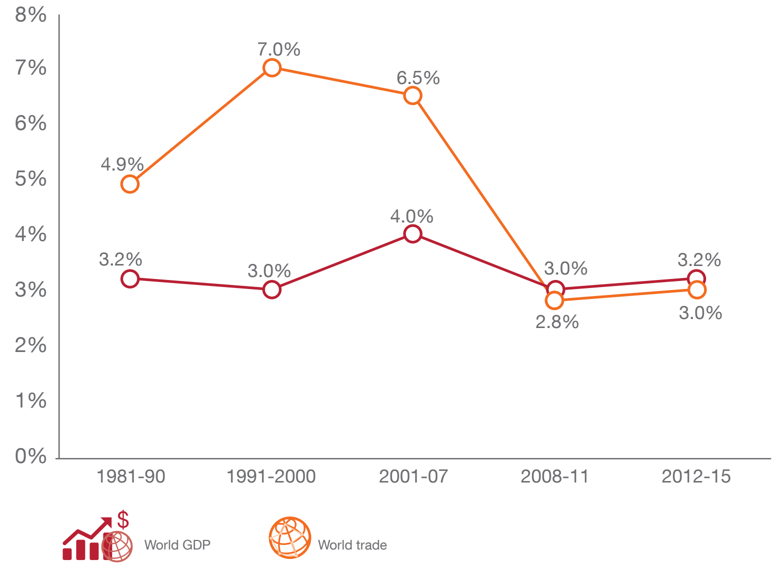
Globalisation has brought many gains over the last 20 years. People, goods and services, capital and information all flow more easily and quickly across the world. But the gains have not been enjoyed equally, and global trade is slowing.

Rethinking globalisation

Between 1980 and 2007, global trade grew much faster than global GDP. But since the financial crisis, trade growth has been marginally lower than GDP growth.

Fig. 15 World GDP growth vs growth in international trade

Percentage per annum increase in volume of world GDP and goods and services trade



Source: IMF World Economic Outlook, October 2016

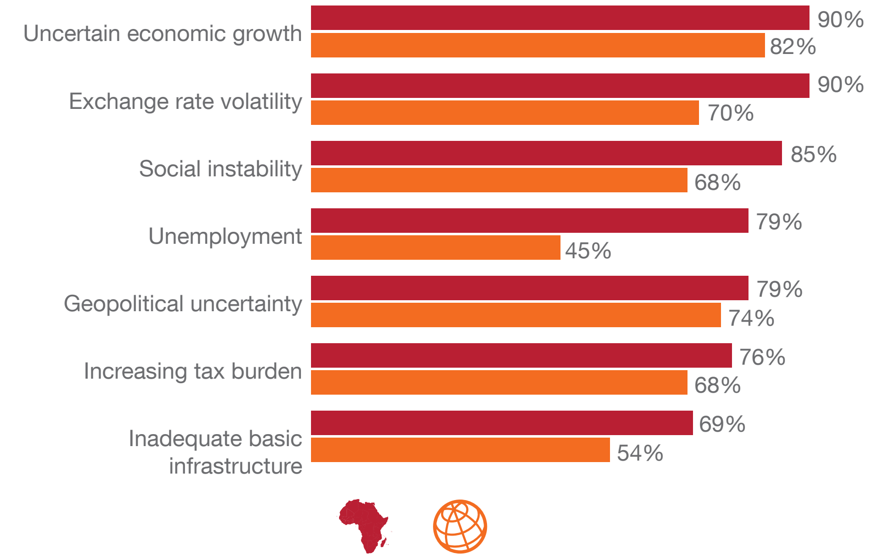
In essence, globalisation is no longer driving growth to the degree it once did. The reasons for this range from the shift in economic power, which has made international cooperation more intricate, to the economic slowdown and drop in commodity demand, and the regulatory measures introduced in the wake of the global financial crises, which have impacted cross-border capital flows.

Globalisation is no longer driving growth to the degree it once did.

With 56% of African CEOs (Global: 53%) believing that global economic growth will remain static over the next 12 months, and uncertain economic growth, social instability and unemployment being among their top concerns, it is clear that both governments and businesses face some tough decisions.

Fig. 16 Business and government face vast challenges

Q How concerned are you about these factors? (Summary: Extremely concerned / Somewhat concerned)



Purposeful growth

Many CEOs we spoke to think it's vital to address social challenges by focusing on purposeful growth. The question is how. The political, economic, regulatory and social systems within which companies operate are creaking and many people see them as part of the problem.

We asked CEOs to tell us how they believe the corporate community can help to spread the benefits of globalisation more widely. The majority say the best way is to collaborate, particularly with government, but some add that governments don't listen very well.

Collaboration between government and business is critical to diversifying economies.

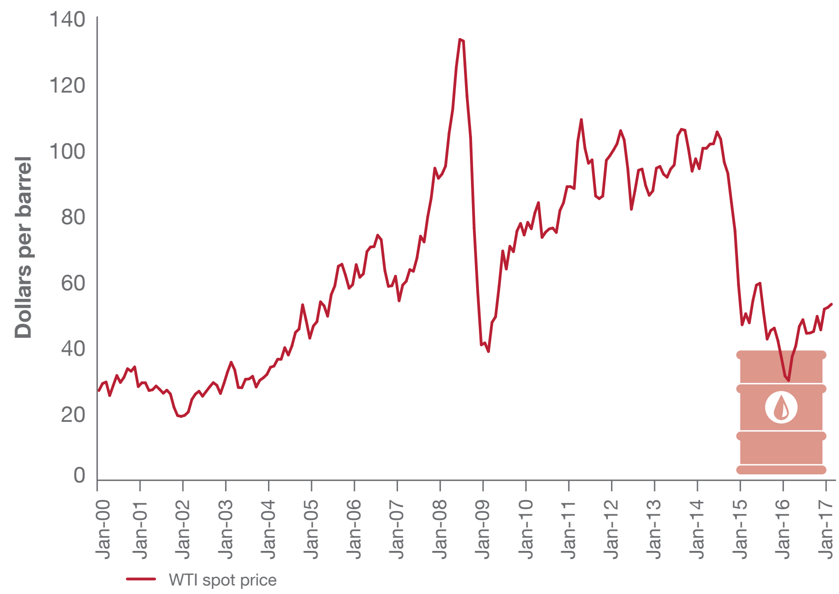
Given the slowdown in global trade, African countries need to focus on diversifying their local economies and positioning themselves to be less dependent on commodities, while increasing the ease of trading across borders on the continent. Collaboration between government and business is critical to achieving this.

Diversifying local economies: Nigeria as a case study

Nigeria is in a period of considerable political, social and economic uncertainty. The global slowdown has been compounded by a growing switch away from oil towards other fuels, resulting in low demand.

The oil price fell sharply from mid-2014 to early 2016. Despite some recovery during the course of 2016, the IMF is projecting commodity prices to remain well below their 2010-14 highs for at least the next five years. This has had considerable impact on the growth of many emerging market commodity exporters.

Fig. 17 Crude oil prices (January 2000-March 2017)



Source: US Energy Information Administration

This scenario highlights the importance of diversifying a country's economy. A lack of diversification makes it hard to develop flexible economies that can adjust to changing consumer demands and preferences, as well as more structural shifts such as a move towards renewable energy sources.

Technological progress and continued automation is also increasing the need to create more dynamic economies to ensure there are productive employment opportunities.

Nigeria presents an interesting case study of how African countries and CEOs should respond to the slowdown in global trade. In 2016, the economy officially slid into recession for the first time in recent years as key sectors contracted sharply.

Foreign-exchange shortages and high inflation have hampered the growth of the manufacturing and services sectors. Overall uncertainty in the forex allocation has reduced foreign direct investment and foreign portfolio flows.

Nigeria ranks 169th out of 190 countries in the World Bank's 2017 *Ease of Doing Business Index*.[1] This, coupled with the challenge of corruption, which undermines the prospect of broad-based growth and development, and unclear and inconsistent government regulations and policies, makes a big case for a different kind of thinking and represents a potential tipping point for positive change.

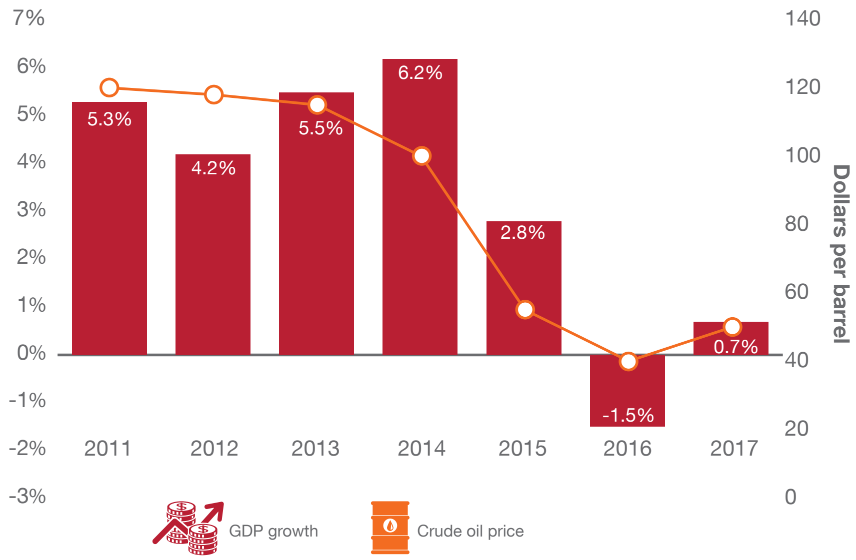
Economic diversification requires deliberate efforts to improve value-adding activity in the non-oil economy.

Developing a broad-based economy by diversifying away from oil will ensure growth is not dampened by adverse commodity price/production shocks. This requires deliberate efforts to improve value-adding activity in the non-oil economy, particularly in the agriculture and services sectors. In addition to agriculture, we've identified trade and ICT as sectors with the strongest inter-industry linkages.

Furthermore, the country must strengthen its institutions and invest heavily in infrastructure in order to support long-term growth. There is also the need to focus on developmental measures beyond GDP in order for economic growth to translate into real improvement in the lives of citizens and deliver on good governance, which includes an effective anti-corruption drive.

[1] World Bank. *Doing Business 2017*. www.doingbusiness.org/rankings

Fig. 18 Real GDP growth vs average crude oil price



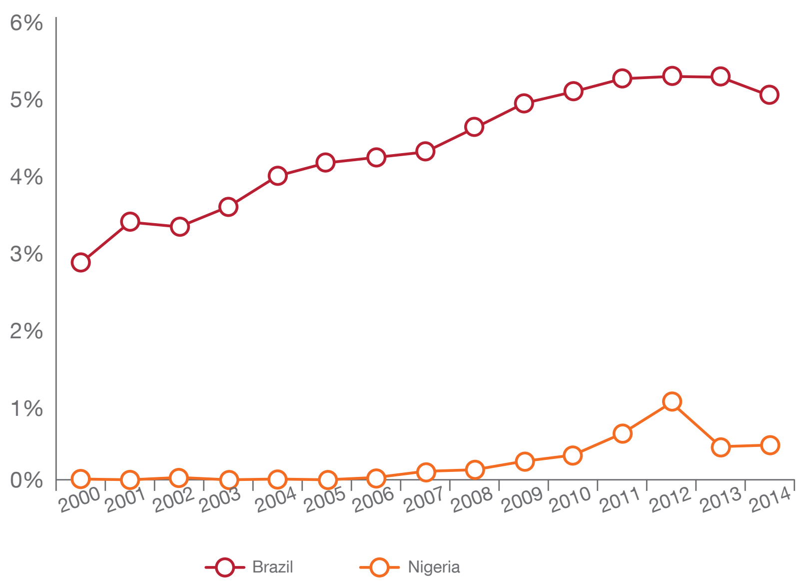
Sources: National Bureau of Statistics (NBS), Bloomberg

Drive agriculture

Forward linkages to agri-processing and other services such as logistics, and backward integration to input supply sectors could improve incomes, increase employment, improve domestic food security and deepen import substitution.

Key success factors will include improved access to productivity-enhancing technology and inputs, access to affordable finance for farmers and agribusinesses, support for research and extension services, and the provision of fiscal, investment and infrastructure incentives as well as agriculture infrastructure—in particular, storage and transport.

Fig. 19 Agriculture exports as a percentage of world agriculture exports



Source: World Trade Organisation

Improve tax collection

Nigeria is a low-taxed economy compared to its peers, with the tax-to-GDP ratio estimated at just 8%, the second lowest in Africa and the fourth lowest in the world.

Excluding oil and gas revenues, tax receipts are estimated at just 2.6% of GDP. If these could be increased to sub-Saharan Africa's average of 18% of GDP, Nigeria could potentially raise its tax revenues from about $8.6 billion to around $59.8 billion.

Broadening the net could multiply tax revenues seven times.

Higher tax revenue would not mean increased rates, but broadening the net to capture the many who currently do not pay any taxes.

Greater tax revenues would reduce government borrowing and encourage financial institutions to offer funds at lower interest rates, thereby boosting the real economy.

Make it easier to do business

A weak business environment is holding back Nigeria's economic growth. At 169th out of 190 countries in the World Bank's 2017 *Ease of Doing Business Index*, Nigeria ranks lower than Niger, Madagascar and Sierra Leone.

Attracting investment requires a conducive operating environment.

To overcome its current challenges, Nigeria must attract investment, and this will only be possible when the operating environment is friendly and conducive.

Authorities need to particularly focus on making it easier to register businesses, improve electricity supply, simplify the tax collection process and improve trading.

The inefficient public sector, unreformed institutions and high levels of red tape also need to be addressed.

Increase labour productivity

It is imperative to equip workers with the skills needed to keep pace with an economy in transition like that of Nigeria.

Average productivity of a worker in Nigeria is very low at US$3.24/hr, compared to US$19.68/hr in South Africa and US$29.34/hr in Turkey.

Improvements in productivity will require investment in the provision of good quality education and vocational training to improve value-added activity across key sectors such as manufacturing and services.

Get policies and regulation right

By supporting market transactions and creating a positive investment climate, effective regulation can result in significant economic, social and environmental benefits.

Ill-designed regulation or over-regulation, on the other hand, can have immense economic costs by causing lower economic growth, damaging investment and reducing entrepreneurship.

Effective regulation can result in significant benefits.

Similarly, consistency in government policy and its approach to development is critical to achieving inclusive growth.

Build strong institutions

In addition to forward-looking policy responses, there is a need to build strong institutions. Improving political, legal and economic institutions will leave government better placed to implement many of the policies discussed above in an efficient way. This will help to deliver long-term economic growth that is sustainable and inclusive.

The way forward

While Africa's potential is undoubted, its achievement remains in question. Business, government and civil society will need to work harder to turn potential into tangible gains against the backdrop of a rapidly changing world.

Rebalancing African economies in response to slowing global trade will require better mobilisation of domestic resources, aggressively diversifying economies with agriculture as an immediate area of advantage, better tax administration, aggressive infrastructure development, deepening of regional integration, and a focus on increasing productivity through better talent management and training, while keeping regulations friendly and government policies consistent.

Africans need to break down barriers to doing business with each other.

There is no successful path forward for Africa without massively increased trade and investment within Africa. Receding globalisation only increases the urgency for Africans to break down the barriers that are impeding us from doing more business among ourselves.

Issues around the ease of movement within the continent, trade policies, regional integration and a common currency, as well as other challenges like xenophobia, need to be addressed. This will take courage and political will, but we have no other option.

As one door closes, could another open for Africa?

Joel Segal
Partner, Chair of Africa Business Group, PwC UK

If we look back over the past 20 years, the surge in global trade has helped to lift millions of people out of poverty, most notably in Asia. Yet, in other parts of the world the benefits have been uneven.

The benefits of globalisation have been uneven.

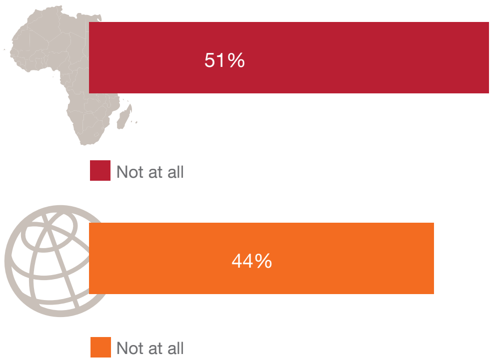
Despite 5% average growth on the back of a huge but now faltering resource boom, the number of Africans living in poverty (less than $1.25 a day) has continued to rise.[1] In Europe and North America, many voters' anger over how the pie has been sliced has led to a backlash against globalisation and a rise in populist protectionism.

The number of Africans living in poverty has continued to rise.

When asked whether globalisation has helped to close the gap between rich and poor, 51% of African business leaders (Global: 44%) said it's done nothing to promote equality.

Fig. 20 Globalisation has failed to address inequality

Q *To what extent has globalisation helped with closing the gap between rich and poor?*



And while economies around the world have become more integrated and interdependent as a result of both trade and digitisation, most CEOs in the previous edition of our CEO Survey said they anticipate a world in which multiple beliefs, value systems, laws and liberties, and trading blocs will prevail.[2]

One-to-one deals

The potential impact can already be seen in the US' withdrawal from the Trans-Pacific Partnership and the UK's exit from the European Union. In their place we're seeing a return to bilateral ties and bespoke sector-by-sector trade agreements as companies, governments and trading blocs shop around for the best deal and jostle for favoured status.

[1] Brookings Institution. *Africa in Focus.* 4 May 2015. www.brookings.edu/blogs/africa-in-focus/posts/2015/05/04-africa-poverty-numbers-chandy)
[2] PwC. *19th Annual Global CEO Survey*. 2016. www.pwc.com/gx/en/ceo-survey/2016/landing-page/pwc-19th-annual-global-ceo-survey.pdf

The rising tide of nationalism and economic fragmentation is a threat to Africa.

It's easy to see the risks for Africa from this rising tide of nationalism and economic fragmentation. In particular, aid could be curtailed and what's left could be more closely tied to national interests such as access to local resources and consumer markets.

The millions of Africans making up the diaspora studying and working in Europe and North America may also find it more difficult to access education and training, diminishing access to skills and reducing the remittances that are so important to the livelihoods of millions of people across the continent.

Plugging into the new trade order

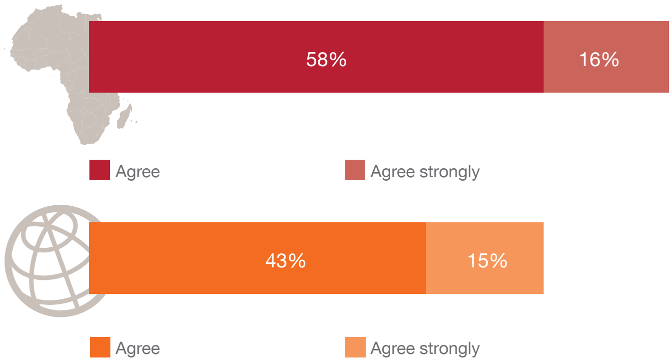
Yet as one door closes, another opens. The recalibration of the global trading system is a catalyst for Africans to get on the front foot and forge the ties and make the big deals that will take our economies forward.

The recalibration of the global trading system is an opportunity.

Nearly three-quarters of African CEOs (74%) (Global: 58%) say that more closed national policies are already making it harder to compete.

Fig. 21 Nationalism and protectionism are making business more difficult

Q *To what extent do you agree that it is becoming harder for CEOs to balance competing in an open global marketplace with trends toward more closed national policies?*



To capitalise, companies, governments and trading blocs need to optimise their bargaining position. That, in turn, demands some of the building blocks we have always needed—a clear focus on good governance, education, agriculture and other key pillars of 'smart' development and global attractiveness.

- **Where are you going to compete?**

  It's important to look at what you can offer a trading partner and what you want in return, and to be ready to push yourself forward as opportunities open up—the UK's search for trade deals beyond the EU is a clear case in point.

  Many individual governments may lack enough people with experience of complex trade negotiations, so it's important to pool resources and develop mutually agreeable strategies across multiple African trading blocs.

- **Stability is the best shop window**

  As governments and investors search for the best partners, they'll be looking closely at stability, governance and transparency.

  The economies in the strongest position will have strong and non-partisan leadership.

  Tackling corruption and making it easier to do business are also vital. There are no African countries in the top 50 of the 'Ease of doing business' rankings (Rwanda is highest at 56th)[3] – we should strive to be up there.

- **Educating our own**

  Developing world-class schools and universities in Africa is vital, especially if fewer students are able to study abroad.

  Financial constraints mean that governments can only do so much. It's therefore vital that businesses take some of the strain by stepping up their contribution to education, training and development.

[3] World Bank, *Doing Business.* 2017. www.doingbusiness.org/rankings

This includes partnering with educational institutions and helping with curriculum development.

It also includes looking beyond business' own workforce needs into areas such as training and short-term work opportunities for young and unemployed people, who can then use the experience to seek longer-term employment or set up their own enterprises.

- **Digitisation opens the way to diversification**

The resource boom and subsequent slide once again shows that economies can't put all their eggs into basket. The distribution of wealth has also been deeply unequal.

The rapid development of digital communication and the commerce flowing from it are acting as a catalyst for greater diversification and faster development within African economies.[4]

[4] We explore this further in *Disrupting Africa: Riding the wave of the digital revolution.* PwC. 2016. www.pwc.com/gx/en/issues/high-growth-markets/africa/publications/disrupting-africa--riding-the-wave-of-the-digital-revolution.html

But we also need better roads, telecommunications and other forms of basic infrastructure to ensure that economic diversification and its benefits reach beyond the cities into the less-developed rural areas.

- **Putting agriculture at the forefront of development**

To succeed globally, we need to feed our people. While agriculture continues to be at the back of the queue for investment, the riches of our land are an extraordinary resource, capable not only of supplying the domestic needs of multiple African nations, but also of becoming a major source of world food supplies.[5]

Priorities should include bringing unused land into production, using the latest technology to boost yields and moving up the value chain into areas such as seed development.

[5] We explore the future of agriculture further in *Water on oil: Food Security in Africa*. 2015. www.pwc.com/gx/en/issues/high-growth-markets/assets/food-security-in-africa.pdf

Window of opportunity

The multiple negotiations over this new and more complex trading order are likely to take at least five years, in some cases longer, but the key foundations need to be put in place as soon as possible. These foundations are not new and many are the factors needed for strong, diversified economies.

If future aid packages are curtailed, Africa must ensure it is at the forefront of these negotiations and in the strongest position to secure the best deals. That's why we need to move quickly and decisively to put in place the pillars for smart development and ensure we're open for business.

Globalisation and the public sector

Benson Okundi
Government and Public Sector Services Leader for PwC's East, West and South Market regions in Africa

Over the past two decades, CEOs have seen much change driven by globalisation and technological advancement. With greater convergence has come greater divergence in beliefs and values, and rising discontent over inequality. This has led to uncertainty as businesses search for global growth.

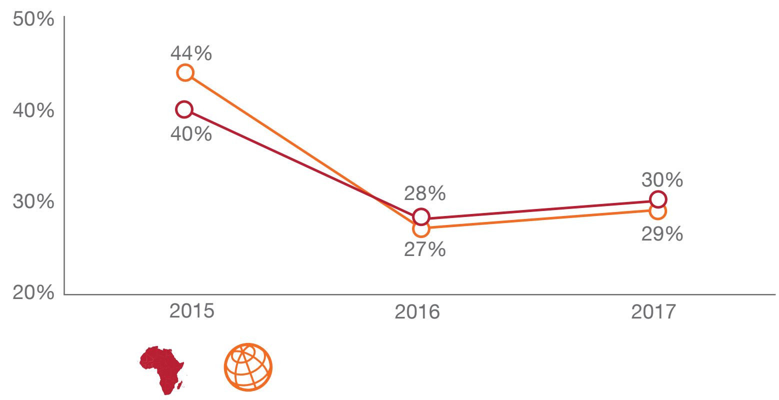
Creating an operating environment conducive to inclusive, sustainable growth

In our annual survey of business leaders, African CEOs have expressed declining confidence in the global economy over the last three years.

In 2014, 40% thought that the global economy would improve over the next 12 months. In 2015 and 2016, the percentage expecting improvement waned to 28% and 30% respectively.

Fig. 22 Declining confidence in the global economy

Q *Do you believe the global economy will improve, stay the same, or decline over the next 12 months? (Summary: Improve)*



Government and the public sector have significant roles to play in ensuring private-sector confidence in the economy. Their responses to rising US Federal Reserve interest rates or declining global oil prices, for example, can have a local impact. Sound monetary policy and economic diversification can help to reduce an economy's exposure to global changes like these—and support private-sector confidence.

Government and the public sector have significant roles to play in ensuring private-sector confidence in the economy.

Meanwhile, the private sector needs to take a leading role in influencing policies and changes affecting the business environment. We see a lot of collaboration in this area, such as forums facilitated by the private sector to share their views on the ease of doing business and tax regimes, working closely with governments to develop solutions.

Just as 76% of African CEOs in our survey are concerned about an increasing tax burden; so should they actively engage with their governments to effect change.

The public sector can (and should!) spearhead change

Increasingly we see governments—and, in particular, elected leaders—aggressively driving change across the continent. Their actions demonstrate a greater appreciation of the power of the electorate. Citizens increasingly demand that their governments meet their pledges and that they safeguard the national resources available to them.

In the next 10 years, I foresee an Africa where countries will compete on the basis of efficient and effective service delivery and enhanced living conditions for their people.

Changes in technology are having a direct impact on governments.

Changes in technology are having a direct impact on governments. Rural electrification and increased internet access have improved the accessibility of government services. Mobile money has facilitated online payment for government services. Technology has also benefited sectors like healthcare with improved record keeping and public health service delivery.

One of the positive outcomes of globalisation so far has been the prioritisation of innovation and digital capabilities by both the public and private sectors.

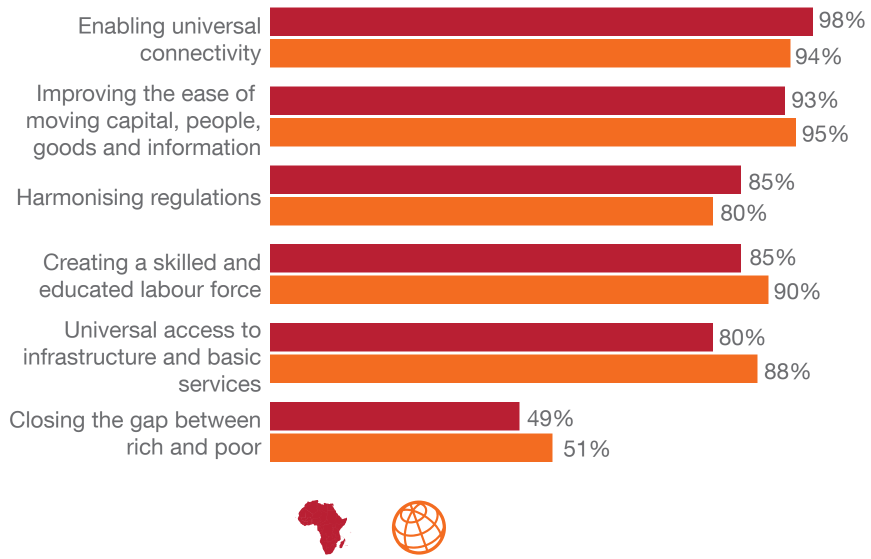
Within the public sector, digital transformation has become one of the main disruptors and the task now is to harness potential to enhance service delivery effectiveness. Government and public sector leaders can support the use of technology to improve the quality of life for citizens.

Globalisation vs government: Are they incompatible?

Despite the complexity of globalisation, Africa's CEOs are generally optimistic about the future. Among other benefits, an overwhelming majority of them believe globalisation has helped to enable universal connectivity, improved the ease of moving capital, people, goods and information, and helped to harmonise regulations.

Fig. 23 Globalisation has helped deliver many benefits

Q *To what extent has globalisation helped achieve the following benefits? (Summary: Some/Large extent)*



Globalisation has not closed the gap between rich and poor

What globalisation has not done very well is to close the gap between rich and poor—a gap that may well be widening.

While globalisation has facilitated the movement and transfer of skills and people and contributed to capacity building through skills transfer, wealth is increasingly concentrated among relatively few individuals in most economies.

The ultimate aim for every government should be citizen-centric governance

Government and public sector entities can improve the prospects of globalisation for citizens through sound public financial management, which hinges on transparency and accountability. The executive, judiciary and parliamentary arms of government must demonstrate consistent commitment to transparency. This can only be achieved through effective public financial management, which starts with budgeting, reporting and monitoring of implementation and performance.

The ultimate aim for every government should be citizen-centric governance, which closely relates to value for money, transparency, accountability and adequate reporting. We see increased democratic participation by citizens in Africa, such as the recent elections in the Gambia, and clear demonstrations that citizens are becoming more aware of their democratic rights. Governance is key and a country can only realise its vision when proper governance systems are in place.

Other megatrends influencing the prospects of globalisation in Africa

- *Industrialisation can help economies to diversify and compete regionally and globally.*
- *A rising middle class and a youthful demographic can put pressure on the public sector to ensure equitable growth. Policies that help to grow formal-sector employment and education systems designed to develop the skills needed will contribute to this.*
- *Technology has the potential to transform many aspects of society, including education and health.*
- *Health services can be enhanced and improved with personnel, technology, facilities and information management systems.*
- *Food sustainability is top of mind for most governments in Africa. By developing proper policies that promote sustainability, the public sector can ensure that food availability is reliable and sustainable.*
- *In Africa, we are seeing many governments investing significantly in infrastructure projects, including rail, roads and utilities (like electricity and water). Infrastructure facilitates trade, regionally and globally. Funding of these infrastructure projects has mainly been through borrowing from development partners and through public-private partnerships in which the private sector is involved with a projected return on investment. If the initial cost projections are correct and the money set aside for such projects is used as it should be, the return on these infrastructure projects is likely to be good and appreciated by its citizens.*
- *Cities are growing and transforming significantly and there is pressure to accommodate urbanisation in terms of housing, transport, water, sewerage systems and electricity.*

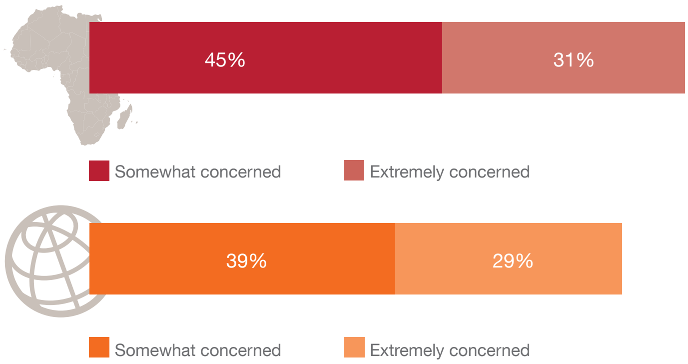
Tax burdens undermining growth

Paul de Chalain
Head of Tax for PwC's East, West and South Market regions in Africa

In PwC's 20th Annual Global CEO Survey, 76% of African CEOs (Global: 68%) cited an increasing tax burden as one of the most pressing matters impacting their growth prospects. They are also concerned about tax transparency and the impact of tax on their organisations' reputations.

Fig. 24 Tax burden weighs on CEOs

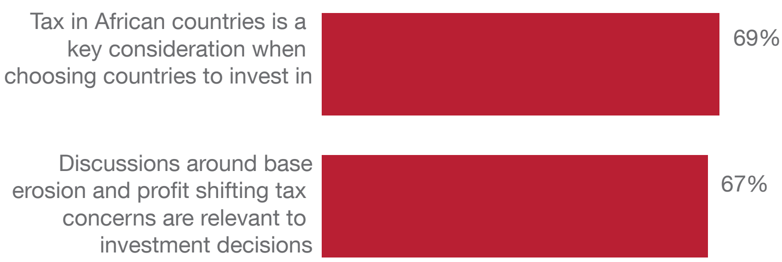
Q *How concerned are you about an increasing tax burden?*



Consistent with this high level of concern about the increasing tax burden, PwC's *Africa Tax Survey 2016* found that tax considerations have a significant influence on investment decisions in Africa. The survey was conducted among 48 organisations in 13 countries.

Fig. 25 Importance of the tax environment to investment decisions

Q *Is the total tax contribution in African countries a consideration for which countries you choose to invest in?*



Source: PwC. Africa Tax Survey 2016. www.pwc.co.za/en/publications/pwc-africa-tax-survey.html

Global context

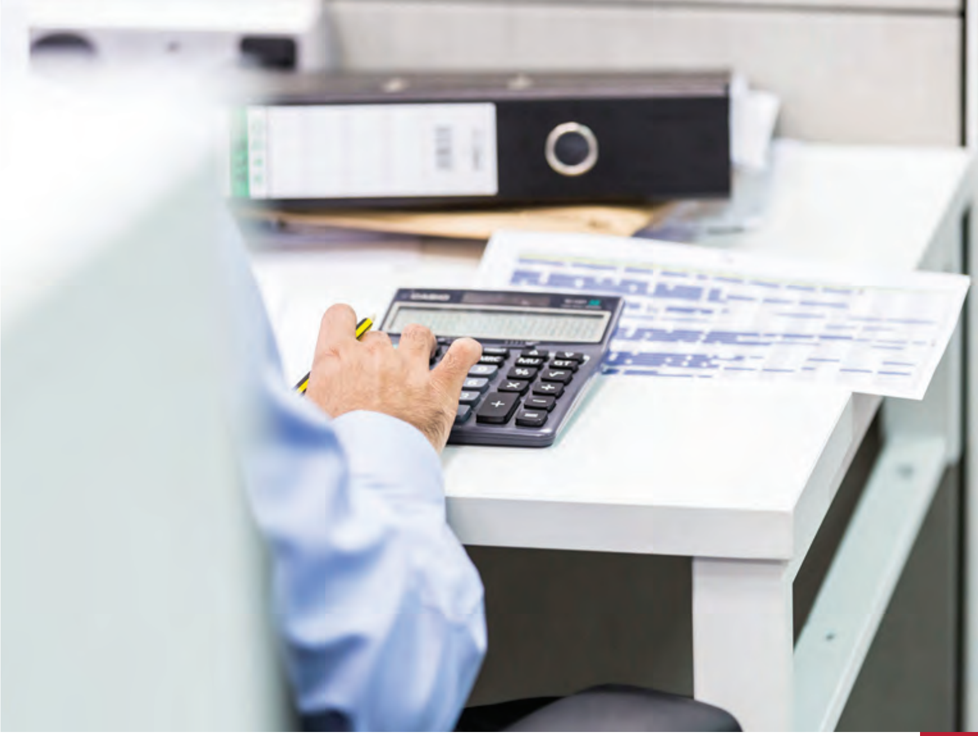
An expanding compliance burden, an increased frequency in audits and the potential for increased and double taxation are just some of the challenges facing companies globally due to the rapidly evolving global tax landscape.

The rapidly evolving global tax landscape has increased the challenges facing companies.

The demand for greater tax transparency is reflected in the agendas and action plans of the Organisation for Economic Co-operation and Development (OECD), the G20, the European Union and the United Nations, and is placing more pressure on companies' tax functions to better manage tax and related risks by strengthening the control environment.

There have been several developments relating to base erosion and profit shifting (BEPS) since July 2013, when the OECD published the 15-point BEPS action plan.

One of the most sweeping initiatives faced by tax functions is the OECD's Country-by-Country Reporting (CbCR) recommendation and template.



Intergovernmental initiatives are placing more pressure on tax functions to better manage tax and related risks.

Companies have voiced concern over how disclosures of wider tax and financial information on a country-by-country basis to tax authorities will be interpreted and even potentially misused, including the broader implications of such information ending up in the public domain.

More recently, the OECD released the text of the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting under Action 15 (the multilateral instrument). The instrument will implement the tax treaty-related BEPS measures into existing bilateral or multilateral tax treaties.

Currently, there are more than 3 000 such treaties in force. Bilateral renegotiation of these territories in conventional ways would have taken decades and hampered the implementation of the treaty-related measures.

The multilateral instrument is expected to lead to the amendment of at least 2 000 of these treaties in the coming years. The first high-level signing ceremony will take place in June 2017.

In the past decade significant changes have been made to tax legislation and policy globally. In a bid to boost tax collection, most tax authorities have tightened their controls, with numerous audits being undertaken.

In addition, governments all over the world are using environmental taxes, carbon taxes and, more recently, the imposition of beverage taxes to raise additional revenue, opening up new sources of uncertainty, especially for multinationals, over their tax burdens.

Greater tax information transparency and anti-tax avoidance legislation have reduced the ability of taxpayers to avoid and evade taxes.

Making the most of globalisation

Authorities have also been focusing on and expanding the scope of legal instruments in order to safeguard tax revenues.

By implementing information exchanges and bilateral tax agreements, vigorously promoting tax information transparency, and introducing anti-tax avoidance legislation, they have reduced the ability of taxpayers to avoid and evade taxes.

This has increased pressure on corporate tax departments. PwC's *Africa Tax Survey 2016* revealed organisations in Africa find compliance with tax laws and practice the biggest challenge their tax functions face.

Authorities have reduced the ability of organisations to avoid and evade taxes.

Organisations have also stated that tax authorities in Africa are not always competent or cooperative and tax officers within the authorities are not always informed of legislative changes being implemented.

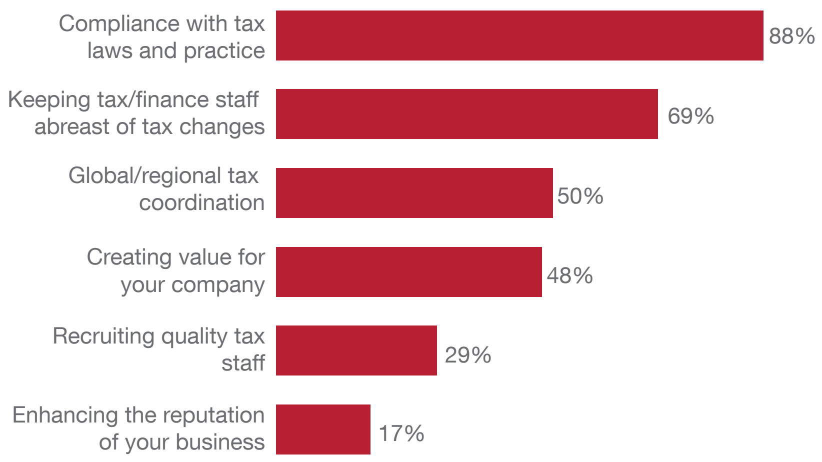
No less than 86% of respondents in our tax survey listed managing relationships with fiscal authorities among the three most significant tax management challenges they face.

Managing relationships with fiscal authorities is a major challenge.

Among other tax areas that companies find most challenging, transfer pricing and withholding tax appear to pose considerable difficulties for most organisations. This is not surprising, since transfer pricing has become an area of focus for authorities and withholding tax is a contributor to key tax revenues for most African countries.

Fig. 26 Challenges facing tax functions

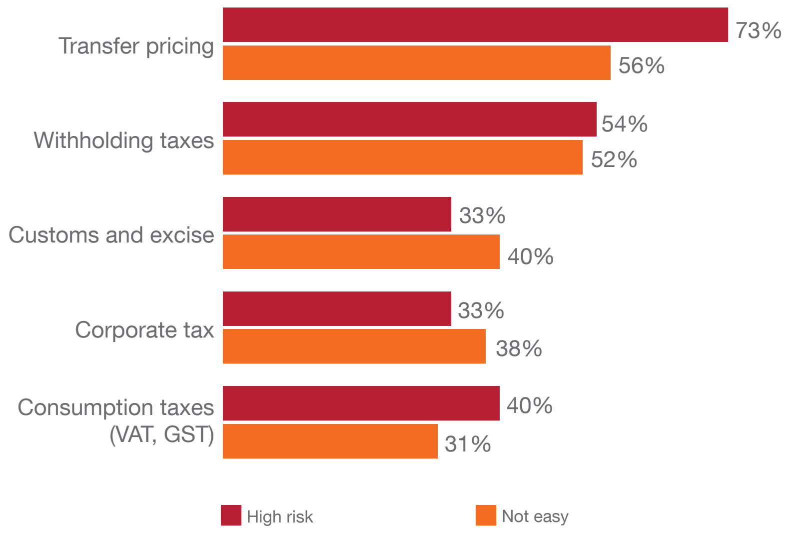
Q *Please rank the three most important challenges facing your tax function with regard to your African operations. (Summary: Top three challenges)*



Source: PwC. Africa Tax Survey 2016. www.pwc.co.za/en/publications/pwc-africa-tax-survey.html

Fig. 27 High–risk, high–difficulty areas of taxation

Q *What has been your company's experience in relation to tax and regulatory compliance in the African countries where you operate? What degree of risk do you associate with these areas of taxation?*



Source: PwC. Africa Tax Survey 2016. www.pwc.co.za/en/publications/pwc-africa-tax-survey.html

Tax audits in Africa are also increasing in frequency, with authorities sometimes being slow to respond to appeals.

The ambiguity of legislation in many countries further contributes to lengthening the audit process. As a result, companies are becoming more proactive when conducting their business in reviewing the tax environment in readiness for scrutiny from the tax authorities.

In addition, cross-border transactions are proving to be challenging, in particular with regard to the application of tax treaties.

The pressure to increase tax revenues has resulted in the withdrawal of several tax exemptions, especially in East and West Africa, which has also contributed to the increase in the tax burden.

Pressure to increase tax revenues has seen the withdrawal of several tax exemptions, especially in East and West Africa.

These trends, amongst others, are pushing companies to reconsider how they manage their tax affairs, the need for increased connectivity between the tax function and operations and, ultimately, how this is communicated to stakeholders in annual and integrated reports.

Global tax information reporting requirements and transparency initiatives will continue to grow significantly and will have a material effect on companies' internal communications, tax controls and processes.

In the short term, BEPS will receive more focus from governments, non–governmental organisations, the media and other interested stakeholders. There is also likely to be more information sharing between tax authorities and governments, as well as robust audits.

Global tax information reporting requirements and transparency initiatives will continue to grow significantly.

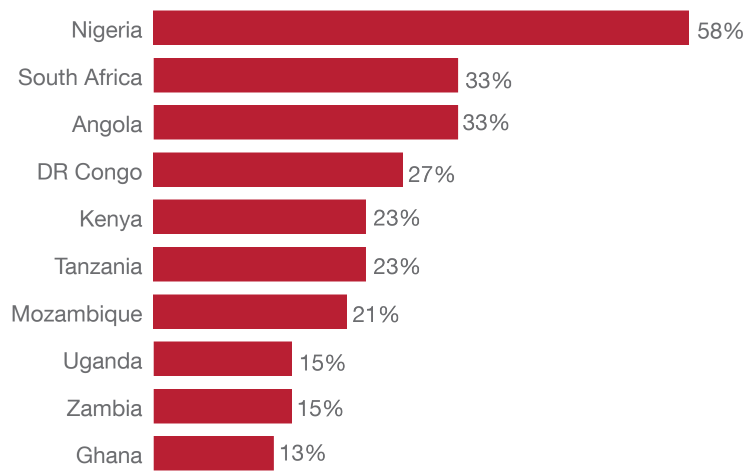
Multinational organisations operating in Africa will need to stay abreast of these developments and trends in the international tax arena, and ensure that they are compliant with the various regulations and legislation that impact them in the countries in which they operate.

Companies need to think differently and strategically to address these risks while proactively engaging with their broader stakeholders.

Now is the time for companies to create a multi-year plan to expand their tax function capabilities, integrate new reporting requirements, and invest in the management of tax compliance and risk.

Fig. 28 African countries posing the greatest tax challenges

Q *Please rank the three African countries that present the most difficult tax challenges for your company. (Summary: Top three countries)*



Source: PwC. Africa Tax Survey 2016. www.pwc.co.za/en/publications/pwc-africa-tax-survey.html

CEO insight

Bharat Shah
Vice-Chairman and past Managing Director of Kenafric Industries

Kenafric Industries is one of Kenya's leading manufacturers of confectionery, food, footwear and stationery products. Its success mirrors many of the changes in Kenya's economy since the 1970s. Today, the company employs more than 1 500 people and exports to 13 other African countries.

Early days

Bharat joined the business in the early 1980s when Kenafric was largely a distributor of retail and wholesale goods like sugar, maize flour, cooking fat, confectionery, sanitary paper products and pharmaceuticals. In 1982, major political upheaval in Kenya almost wiped out the business.

Major political upheaval almost wiped out the business.

The company had also recently bought a furniture manufacturer and initially, business was booming. But Bharat soon realised that the furniture business' turnover was limited. Times were tough. He sold the furniture business but values the experience as worthwhile. "It was a learning experience, like finishing nursery school," he says.

Shoe business

Meanwhile, Kenafric had also expanded into polyvinyl chloride (PVC) products like shoes, slippers and gumboots. Managing Kenafric Shoe Industries was Bharat's first experience with importation requirements.

They created a shoe style called 'Dancing Queen' that took the Kenyan market by storm. Their competitors were quick to copy their success, however. One competitor had 11 production machines compared to Kenafric's three.

Taking risks is the only choice.

"My only choice and weapon was to take risks", he recalls. The family committed to establishing Kenafric as the number one shoe manufacturer in Kenya in three years. They sustained the business through a difficult price war and fierce competition in the school shoe segment.

The price of shoes fell dramatically and destabilised the market. Bharat recalls the number of shoe manufacturers declining from 18 to four or five during this time. "The people who didn't have the guts—this is about the guts or courage that you need—started packing up and leaving," he says.

In 1989, the war between Iraq and Iran disrupted the market once more. PVC is a petrochemical by-product and as the war caused the price of oil to skyrocket, the price of PVC went up as well.

Businesses that depend on imported inputs are vulnerable.

Kenyan consumers could not tolerate the price increase and Bharat realised they were playing with fire. Businesses that require imported inputs are vulnerable to external shocks and very often, the business has no control.

He notes, “It’s very important to build the domestic line and the domestic market because if foreign markets collapse, you still have a strong local business. Product and market diversification helps to cushion you against these risks.”

Diversifying

The family had always dreamed of going into sugar manufacturing and by 1989, they had closed the distributorship to focus on manufacturing. Furthermore, having experienced pressure on the PVC supply line during the Middle East war, they were keen to focus on a new product line: confectionery goods. They bought second-hand machinery to produce hard-boiled candy and later bubble gum, ball gum and white mints.

Their interest in confectionery began with a realisation that 50% of Kenya’s population consisted of children. “There is nothing cheaper than a sweet, for a child to enjoy his life,” says Bharat. And while the business was initially successful, in 1991 the value of the dollar fluctuated significantly in response to trade liberalisation policies and frozen development partner activity.

The company was buying gum base from Belgium and needed foreign exchange to pay for it, but all the company had was Kenyan shillings. “Fortunately, the supplier was an owner-operated company and understood the dilemma,” Bharat recalls. “If it had been a big corporate, we might have had problems.”

These were testing times for the business. “It made you think,” he says. “It made you analyse risks very carefully.”

Misreading the market

Among all of the lessons that Bharat has learned in his 30-year working career, one of the most difficult lessons involved chocolate. Until this time, the business had focused on the cheaper end of the confectionery market, but they believed that Kenya’s growing middle class presented an opportunity for more expensive products like chocolate.

Unfortunately, Bharat recalls, “we misread the market. Our chocolate line failed, and this was very disruptive to our business.” At the same time, non-tariff costs were increasing and the shilling was depreciating. Sales declined, cash flow took a hit and the VAT refund owed to the business was very large.

Discouragement at board level trickled down to the rest of the business. Bharat recalls that it took about a year to recover. He learned some very important lessons. “With our chocolate business, we never looked at the other side of the coin,” says Bharat: “If it fails, how do you manage that scenario?”.

Diversification and professionalisation

The company is now expanding into juice and food additives, having learned some important lessons about competitive advantage. Bharat believes that the keys to competitive edge are innovation, careful thinking and marketing.

Innovation, careful thinking and marketing are key to having a competitive edge.

“Brand has more value than your factory,” he says. “The common mentality was never to spend money on marketing but this is changing.” He attributes this change to the next generation coming on board. “They have brought a degree of professionalisation to our marketing”, he adds.

Kenafric has invested in professionalisation on many fronts, such as by implementing reporting levels and structures and identifying the right people to run the business. The business has several advisors who contribute expertise in different areas.

Bharat recommends using trusted business advisors who have different perspectives to insiders. He encourages the next generation of family business owners to do their homework, use the business’ experience and invest wisely.

Education is meaningless without experience.

Looking back on his career Bharat says “Even if you’re educated, without experience, education is meaningless. Also, it’s good to fail sometimes.” Bharat continues to have a strong ambition to “grow the pie such that Kenafric’s thriving business fulfils the dreams of the next generation”.

Moving ahead

In February 2017, Amethis Finance and Metier, a private equity fund manager, announced their partnership with Kenafric in the acquisition of a significant minority stake in their business. The move to bring in external investors is part of the Shah family’s plan to institutionalise the business and achieve its ambitious vision.

Technology and talent driving innovation

The new age of people management

Gerald Seegers
Head of People and Organisation for PwC's East, West and South Market regions in Africa

The forces of globalisation and technology are increasingly transforming the world. Robots are entering the services arena; 3D printing can be used to make cars and aircraft; biotechnology will change the way we grow crops, produce food and manufacture medicines; and nanotechnology and artificial intelligence will affect numerous industries.

Given these advances, it is hardly surprising that people are apprehensive regarding the use of technology in the workplace. This year, PwC surveyed more than 5 000 members of the public in 22 countries to identify what they think about many of the same topics that were raised with CEOs in our *Annual Global CEO Survey*.

Achieving the right mix of people and machines in the workplace is the critical talent issue facing organisations today.

Our findings show that 79% of people believe technology will cause job losses over the next five years. A number of experts also believe that technology could replace humans in a number of sectors, although when —or whether—that day will arrive is a matter of debate.

Achieving the right mix of people and machines in the workplace and the implications for business is the critical talent issue facing organisations today.

Our annual survey of global CEOs found that more than half are exploring the benefits of humans and machines working together, while 36% of African CEOs (Global: 39%) are considering the impact of artificial intelligence on future skills needs.

In addition, 53% of African CEOs (Global: 52%) say that they are considering exploring the benefits of humans and machines working together in the workplace.

In some sectors, automation has already replaced some jobs entirely. As individual tasks become automatable, jobs are being redefined and recategorised.

As automation takes deeper root in the workplace, companies in Africa will have to increasingly focus on achieving the right cognitive re-apportionment between man and machine. This is a delicate balancing act for CEOs in every sector and region.

CEOs believe investment in talent is a business priority.

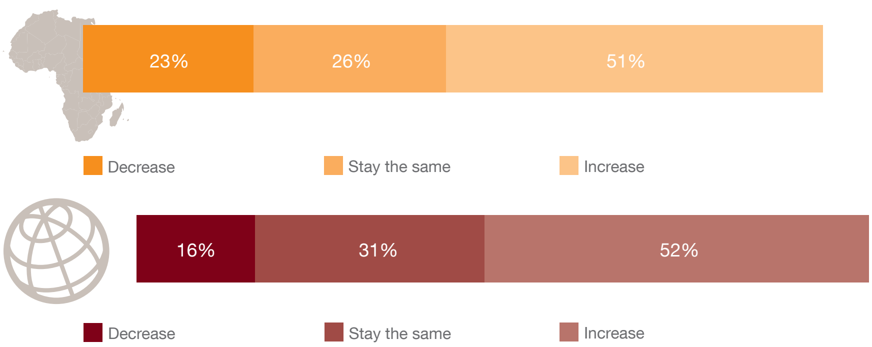
However, as CEOs develop their services, they are finding that human interaction in the workplace is still important and place the investment in talent as a business priority.

Our survey of African CEOs reinforces this view. Just over half (51%) (Global: 52%) say they plan to increase their headcount in the next 12 months.

Conversely, 23% (Global: 16%) plan to cut their company's headcount over the coming year, with more than two-thirds of expected reductions being attributed to automation and other technologies.

Fig. 29 More than half of CEOs expect to increase headcount in the next year

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



While many worry that technology will lead to major job losses, the skills CEOs consider most important are those that cannot be replicated by machines. In fact, they are precisely the qualities required to stimulate innovation—the area CEOs most want to strengthen to capitalise on new opportunities.

Skills CEOs consider most important cannot be replicated by machines.

Another reason why organisations continue to need people is because of the time it takes to adopt new technologies. The regulatory environment can also be a big factor. For instance, some of the world's largest manufacturing exporters, like Brazil, have been slow to adopt robotics, largely because of stringent labour regulations.

Organisations need skills to support their investment in digital and technological capabilities.

Although CEOs are generally feeling upbeat about the future, it is possible that their willingness to recruit more talent is a sign that they are rebalancing their workforces.

CEOs say they need to strengthen their innovation, digital and technological capabilities to capitalise on new opportunities and they need the skills to support that investment.

The search for skills

According to the results of our survey, no less than 80% of African CEOs (Global: 77%) see the availability of key skills as the biggest threat to growth (ahead of the speed of technological change and changing consumer behaviour). They are finding it particularly difficult to source soft skills—adaptability, problem solving, creativity and leadership.

80% of African CEOs see the availability of key skills as the biggest threat.

Challenging times for human resources

Since we began our *Annual Global CEO Survey* 20 years ago, CEOs have worried about the availability of skills. Their level of concern has steadily risen, but business leaders have not been able to find a solution to the problem.

One of the difficulties may be that CEOs are hoping to find fully formed employees with the precise skills that the organisation needs, not only today, but for whatever the future may bring. Our survey results show that creativity and innovation are considered important criteria for an organisation (Africa: 96%; Global: 92%). Employees like these are difficult to find.

Innovation is about more than skills.

Besides, innovation isn't just about skills; creativity thrives in the right environment, where free-thinking people with diverse skills and experiences can come together and collaborate.

Innovation-creating skills can be encouraged through the right training and development, the right creative environment, and the right performance management approach.

The workplace model is changing fundamentally and navigating the change is fraught with unintended consequences. CEOs need to be cautious about how they address the risks and dangers of technology, while capitalising on the opportunities it may bring.

CEOs will be looking to their human resources functions for support and guidance as they find a way to capitalise on technology alongside humans to the best advantage in the workplace.

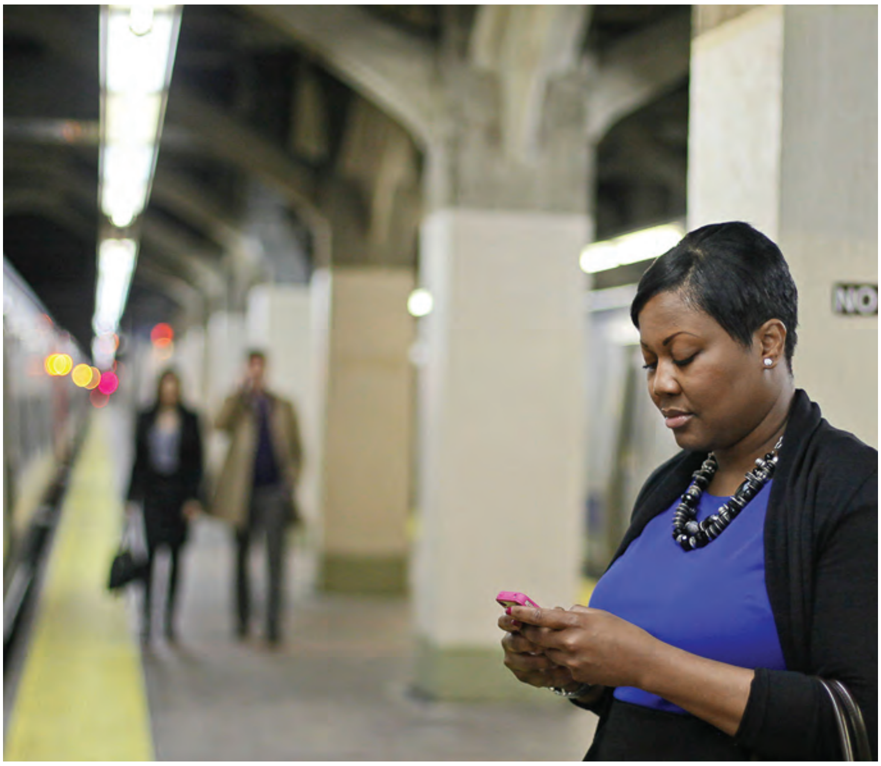
No less than 85% of African CEOs (Global: 78%) say they have changed their people strategy to reflect the skills and employment structures they need for the future.

People and skills are essential in the machine age.

Nearly two-thirds (61%) of African CEOs (Global: 60%) say they're completely rethinking their HR function, as organisations increasingly need to prepare their human resources functions for the recruitment and retention challenge — people and skills are essential in the machine age and competition for good talent is intense.

Fig. 30 CEOs are realigning their people strategies for the machine age

Q *To what extent do you agree that with the following statements? (Summary: Agree/Agree strongly)*



The changing nature of talent in business

Bernice Kimacia
Human Capital Leader for PwC's East, West and South Market regions in Africa

With new jobs being created almost daily, traditional learning systems are now less effective at preparing young people for their future careers. That's why business leaders are looking for talent with the ability to learn. They are hiring people now whose careers could span many disciplines, some of which have yet to be invented.

Traditional education systems, recruitment processes, career development and performance management all need to change.

But employers face challenges finding people who can adapt, create and learn.

Traditional education systems, recruitment processes, career development and performance management all need to change.

CEOs in our survey clearly see the value of marrying technology with uniquely human capabilities that can't be replicated by machines.

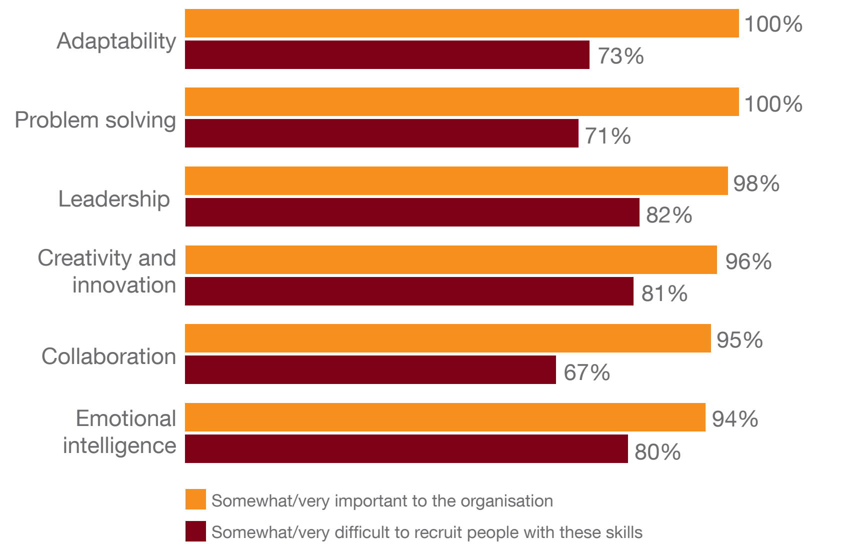
CEOs in Africa rank problem solving (100%), adaptability (100%) and leadership (98%) as important to their organisations. Creativity and innovation, collaboration and emotional intelligence also ranked over 90%.

Soft skills are the hardest to find.

More than 80% of CEOs say that it is very difficult to recruit people with skills like creativity, innovation and leadership. They say that it is the soft skills that are the hardest to find. Creative, innovative leaders with emotional intelligence are in very short supply.

Fig. 31 Importance of soft skills vs difficulty in recruiting them

Q *How important are these skills to your organisation and how difficult is it to recruit people with these skills?*



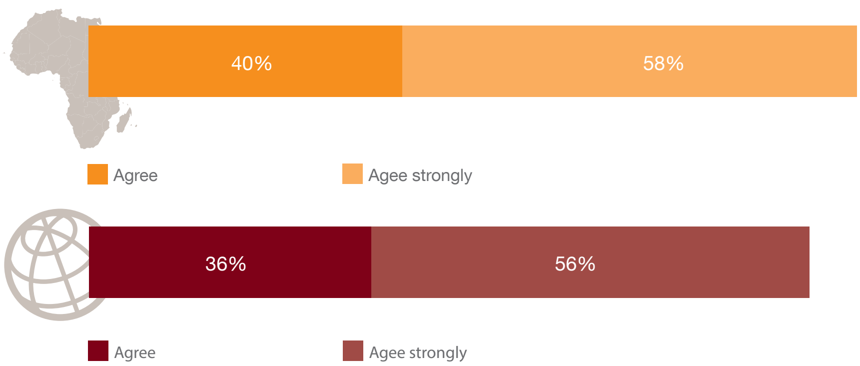
Managing change purposefully

One way to address these challenges is to cultivate a strong sense of purpose among employees. Purpose will drive individuals to cultivate the capabilities and qualities needed.

In an increasingly digitised world, 58% of African CEOs (Global: 56%) strongly agree that it is important to have a strong corporate purpose that drives an effective culture and behaviours.

Fig 32. Having a strong corporate purpose is more important than ever

Q *In the context of an increasingly digitised world, to what extent do you agree that it's more important to have a strong corporate purpose that's reflected in your values, culture and behaviours?*



Organisations sometimes try to reinforce a common purpose statement, but that is not sufficient to drive results.

Most people feel more fulfilled, and will therefore be more productive, if they believe that they are making a difference.

One way of prompting this kind of engagement is to make it personal and ask people:

"What is your story? What is our organisation's purpose and how relevant is it to you? How are you contributing to that purpose?"

If an organisation succeeds in earning the trust of employees and achieving alignment of purpose, then performance will follow.

But work is not just about purpose and drive and accomplishment. We need a new definition of work that also includes the time and space to dream and create.

It is difficult to recruit people with skills like creativity, innovation and leadership.

Releasing people, perhaps by carving out a 10% time allotment for innovation or special projects, will make their remaining 90% more productive and fulfilling.

We can unlock opportunities for the individual and the organisation by focusing less on measurement and more on trust and empowerment.

Organisations need people who can think clearly and creatively. But heavy exam loads, complex assessment criteria, memorisation and repetition do not create the thinking, creative, purpose-driven employees that employers need.

Organisations need people who can think clearly and creatively.

Rote learning creates robotic behaviour suited to repetitive tasks, roles which will soon be automated and conducted via artificial intelligence.

No amount of machine learning can replace the ability to relate to people, however. Computers completely fail at soft skills. There is no algorithm for kindness or a sense of purpose.

Attitude, not just aptitude

The ability to learn says something about someone, and getting good grades can indicate the ability to thrive later on. But our recruiting and career development methods should also tell us more about how people think.

Psychometrics and role plays and scenarios are great, and we can also expand internship programmes so that potential recruits can interact with us and understand our expectations sooner.

Recruiting and career development methods need to tell us more about how people think.

Some of the impatience attributed to the millennial generation (but often apparent among employees of all generations) relates to the desire to be seen and heard.

People are generally happy with their career when they are engaged in interesting work and have leadership opportunities. Many of them also want more access to senior people, but since junior people outnumber senior people, business leaders must carve out more time to spend with more people.

The emphasis is on the word 'with', because we need to value our interactions with each other and our teams. Effective leaders spend time with their people—and they are powerful listeners.

We can also appraise people in senior positions on the basis of the performance of their people and particularly those that are two levels below them.

Working with high-performing people is easy, but bringing everyone up to that level takes work, which is really the essence of management.

When people demonstrate growth, development and the ability to deal with difficult problems, then their leaders are doing a good job.

When people demonstrate growth, development and the ability to deal with difficult problems, then their leaders are doing a good job.

The nature of human capital is changing. It's time to ask ourselves: 'What is my story?' and reflect on our purpose at work and in society.

CEO insight

Lizé Lambrechts
Chief Executive Officer of Santam

Santam is South Africa's leading general insurer with a domestic market share of more than 22%. The Group provides a diverse range of general insurance products and services to more than a million policyholders in Southern Africa and internationally through a network of 2 700 intermediaries and direct channels in 31 countries.

What is your outlook about global growth as well as Santam's prospects in the short to medium terms?

We anticipate a slight improvement in global economic growth. However, we see continuing headwinds in some of the emerging markets where we have grown our exposure. We remain concerned about the slowing growth rate and the impact of the sub-investment downgrade status here in South Africa.

The Santam Group's strategy is two-fold. The one is to continue our expansion into emerging markets in Africa, India and Asia through our specialist insurance and reinsurance businesses.

The second is to unlock growth opportunities in South Africa through a multi-channel approach and focus on niche insurance segments where we have low penetration. Although difficult, we are fairly confident about our prospects for growth following this strategy.

What specific business, economic, policy, social and environmental threats are you facing and how are you tackling them?

Over-regulation

As we grow our footprint outside South Africa, a combination of changing political agendas and regulatory regimes influences how we do business. We need to be adaptable. We believe that over-regulation can stifle business opportunities but also that good governance supports market development and customer protection.

Over-regulation can stifle business opportunities.

We need to be a part of the conversation that shapes insurance governance, increases the value of insurance and provides customers with the insurance products and services they may require in protecting them from insurable risk.

Climate change and environmental damage

We are increasingly seeing changing weather patterns accounting for an increase in global insurance claims. Weather risks are materially impacting risk profiles and claims patterns, and we are adapting our underwriting and risk management strategies to ensure continued sustainability as an industry.

Existing tools for assessing and managing future risks are being questioned. We are adopting new ways of thinking and a more systemic approach, which is driving change in our organisation and industry at a fundamental level.

The climate challenge is a collective one.

The climate challenge is a collective one—it is a shared global priority that requires innovative systemic risk solutions. It calls for decisive action at multiple levels of society, and collaboration between governments and the private sector.

Uncertain economic growth

Trading conditions in the South African insurance industry remain very competitive within a low-growth economic environment. The low GDP growth equates to low growth of insurable assets. Our focus as a Group will be on increasing our international diversification through the development of our general insurance businesses in emerging markets and ensuring we drive profitability and add value for our shareholders in the geographies in which we operate, while also remaining competitive in our home market.

Operational threats

The availability of key skills, the speed of technological change and the potential negative impact of cyber risk concerns us most and will increasingly impact the global short-term insurance industry.

Capable people with the right skills sets are fundamental in achieving our business goals. Recruiting and retaining the right people is a top priority for us in taking our business forward.

As an insurer serving a large and diverse base of customers, we are investing a great deal of time and resources in adapting our business model and distribution capabilities to meet the changing needs and expectations of our clients.

Technology is transforming every aspect of business.

Technological developments continue to transform every aspect of the business landscape. Factors driving this change include the increasing connectivity of people to the 'connected world'. The massive proliferation of big data to meet and match changing consumer needs is also advancing at a rapid rate. We need to be alert to these and other shifts in the insurance value chain in order to continue meeting our customers' needs.

?

How are you managing talent and technology to meet your changing business needs?

To meet customer needs and preferences, our go-to-market strategy is now both intermediary and direct. This requires us to focus on developing the relevant technological capability to enable our people to understand and work with new technologies to deliver services to our clients and business partners.

This also enables us to develop a better understanding of our client needs, the market dynamics and the right products/service offering for the diverse needs of our clients within diverse markets.

Greater emphasis on partnerships and collaboration.

As we've grown our business, our organisational structure has evolved to include matrix and flatter structures, where required, which places a greater emphasis on partnerships and collaboration.

With businesses in various geographies, collaboration is also critical to ensure that we leverage the synergies in our business, facilitate and encourage learning and ensure optimal utilisation of our staff capabilities.

Santam continues to invest in the development of technical, behavioural as well as leadership skills to ensure successful execution of our strategy. In our leadership development we have included critical capabilities such as leading and managing change, collaboration and leveraging of synergies, diversity and client centricity.

The world has become more complex due to the increasing rate and pace of change. The workplace is more diverse and technology is impacting how we work. These dynamics require high levels of adaptability across the organisation—and strong leadership capabilities to lead and manage change and diversity.

Digital skills are vital to our business.

Digital skills are vital to our business. With systems and processes becoming more integrated and sophisticated, people with the skills and capabilities to support our operations are very critical.

Risk management remains a core focus within our business and we have made considerable progress in enhancing our underwriting capabilities in respect of risk assessment. This also has benefit to our customers as we can provide cover that is appropriate to their needs—and the risks inherent in their environment.

Building trust

Focusing on financial and non-financial indicators for success

Anton van Wyk
Clients and Markets Leader for PwC's East, West and South Market regions in Africa

Companies face a rapid acceleration in change as technological innovation and increasing customer expectations transform the business landscape. At the same time, the demands from employees around the purpose and value of their work, a decline in the levels of trust in companies, and the changing role that businesses are expected to play in the broader community are reshaping the corporate environment.

It is no longer enough for CEOs to steer their businesses through a complicated and challenging economic climate—they also need to meet the changing expectations and demands of current and future employees, and other stakeholders.

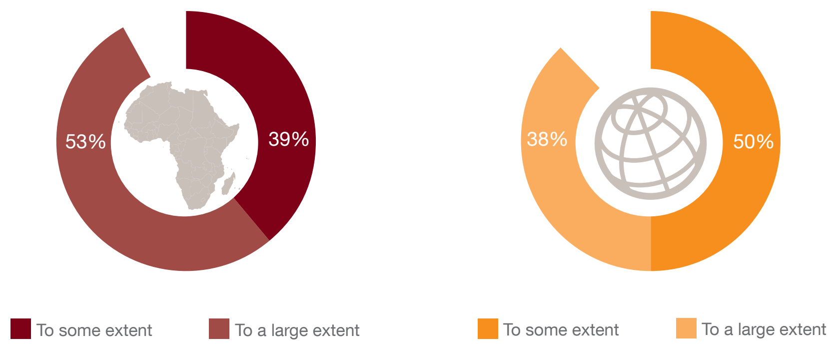
Stakeholders are increasingly relying on sustainability disclosures to make informed decisions.

Shareholders and other stakeholders are increasingly relying on sustainability disclosures to make informed decisions. The advent of technology and social media also demand that information is available to stakeholders immediately.

The results of our annual CEO Survey show that 53% of African CEOs (Global: 38%) believe risks from the use of social media will impact negatively on trust levels in their organisations over the next five years.

Fig. 33 Social media expected to negatively impact stakeholder trust

Q *To what extent do you think risks from use of social media will impact negatively on stakeholder trust levels in your industry in the next five years?*



Building trust

A sizeable number of CEOs believe that in an increasingly digitised world, it is harder for businesses to gain and retain people's trust. They also think it has become more important to run their companies in a way that addresses wider stakeholder demands and expectations (Africa: 44%; Global: 38%) and to establish a strong corporate purpose that is reflected in their organisation's values, culture and behaviour (Africa: 58%; Global: 56%).

Organisations do not operate in a vacuum.

These findings point to the fact that business leaders realise that their organisations do not operate in a vacuum and that their success is linked to the success of their stakeholders.

Stakeholders can be defined as all entities and individuals that are affected through a business running its operations. The most prominent stakeholders include owners, investors, staff, suppliers, customers, creditors and host communities.

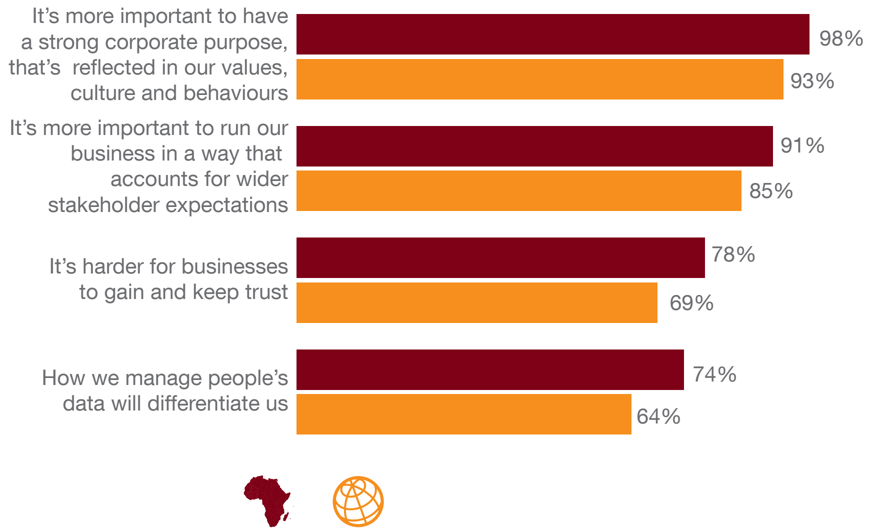
Every decision and action that a business takes also has a bearing on the company's trust. Therefore, stakeholders are interested not just in what the business does, but also in the reason why it does it.

CEOs globally are looking at ways to redefine their purpose in their culture, as well as ways to rebuild trust and remain relevant. Having a 'sense of purpose' requires an organisation to understand its role in relation to all of its stakeholders.

A sense of purpose articulates the company's vision of how it intends to operate sustainably as a successful company. Worldwide, studies have shown that organisations with a strong sense of purpose tend to outperform their competitors. They recruit and retain the best employees; they also engage more meaningfully with customers; and they achieve higher returns for shareholders and investors.

Fig. 34 The challenge of gaining trust in a digitised world

Q *In the context of an increasingly digitised world, to what extent do you agree with the following statements? (Summary: Agree/Agree strongly)*



Organisations with a strong sense of purpose tend to outperform their competitors.

Existing frameworks for reporting on environmental, social and governance (ESG) standards are considered an important starting point to improve the visibility of corporate actions for customers and other stakeholders.

The Global Reporting Initiative (GRI) provides sustainability reporting guidelines, while the International Integrated Reporting Council (IIRC) supports integrated reporting for annual reports.

Integrated reporting provides companies with an opportunity not only to report on their financial performance, but also to understand and comprehensively communicate their long-term value creation and impact on society.

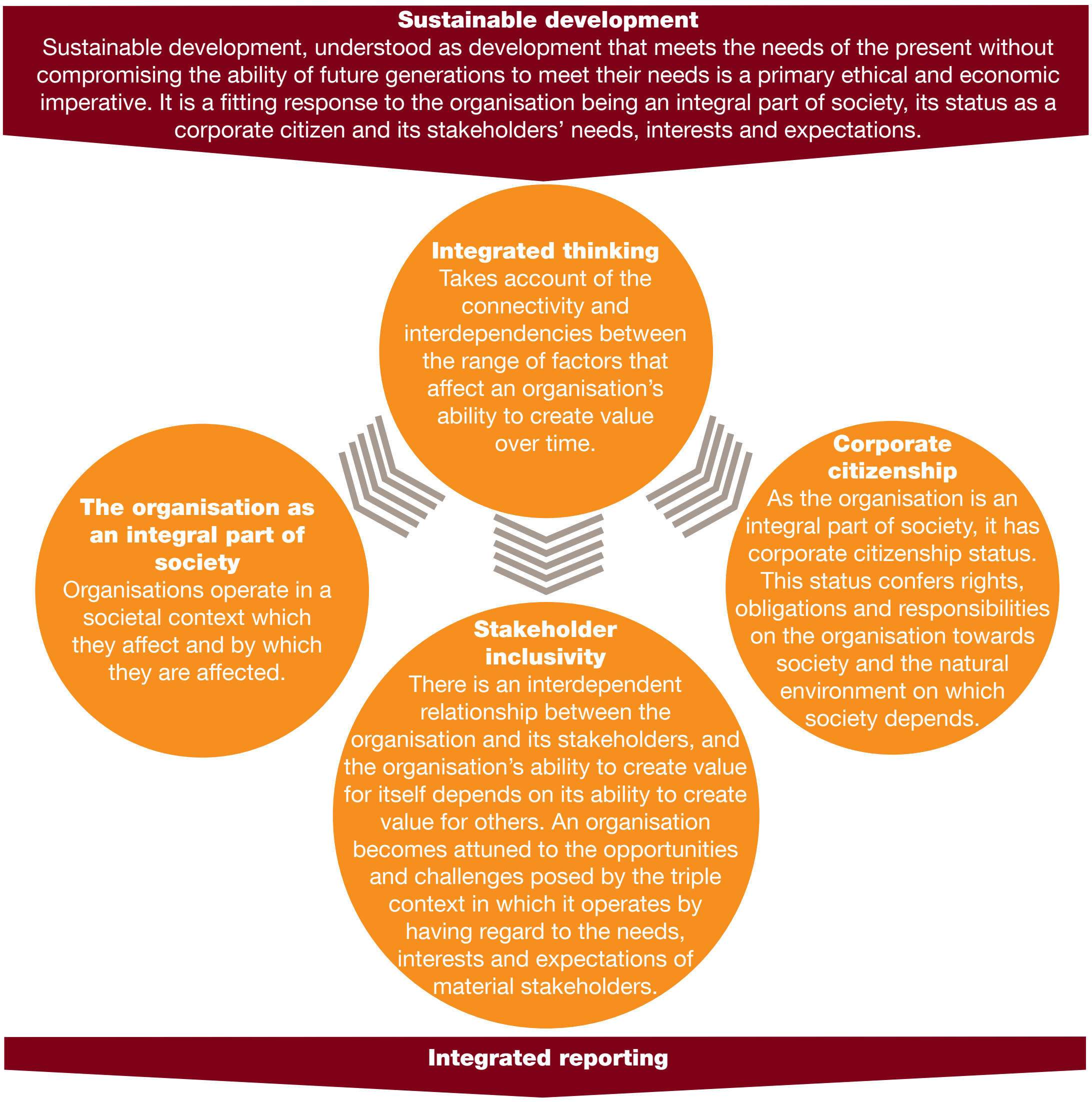
Some companies have implemented their own sustainability policies and processes. There is also an opportunity to report within a framework such as that provided by the King IV Report on Corporate Governance™, and for the responsibilities of institutional investors and majority or sole shareholders to be incorporated in a company's corporate governance system of checks and balances.

Like its predecessors, the King IV Code™ focuses on the concept of stakeholder inclusivity and highlights that organisations are not merely responsible for financial performance, but critically need to consider the societal and environmental impacts and outcomes of their operations.

CEOs need to consider the societal and environmental impacts and outcomes of their organisations' operations.

In addition, there is more focus on the leadership, integrity and responsibility of boards as a result of the recent economic and sociopolitical uncertainty. The King IV Code™ places emphasis on the role of ethical and effective leadership.

The underpinning philosophies of King IV™



Source: Institute of Directors. King IV Report on Corporate Governance™ 2016. www.iodsa.co.za/page/KingIVReport

Today's business leaders must deliver seamless strategy and operational excellence. This leadership role encompasses:

- Providing direction to organisations through strategy;
- Giving effect to that strategy through the development of appropriate policies;
- Providing oversight over management's implementation of the strategy; and
- Demonstrating accountability and transparency through disclosure.

The discharging of these duties and the adoption of the King IV Code™ provide an organisation with the necessary building blocks for a sound foundation of good corporate governance.

In general, CEOs are encountering a number of difficulties as they try to respond to the changing expectations of stakeholders. Some of these include the cost of doing business; insufficient information about stakeholders' expectations; and a conflict between stakeholders' interests and the outcomes of financial performance.

CEOs are finding it difficult to respond to the changing expectations of stakeholders.

These difficulties are creating numerous conflicts for companies as they seek to address a balance between stakeholder demands with pursuing growth in revenue and profitability over the short and long terms.

Nonetheless, it is important for businesses to overcome these challenges in order to truly transform their organisations as they focus on and consider financial and non-financial indicators of success.

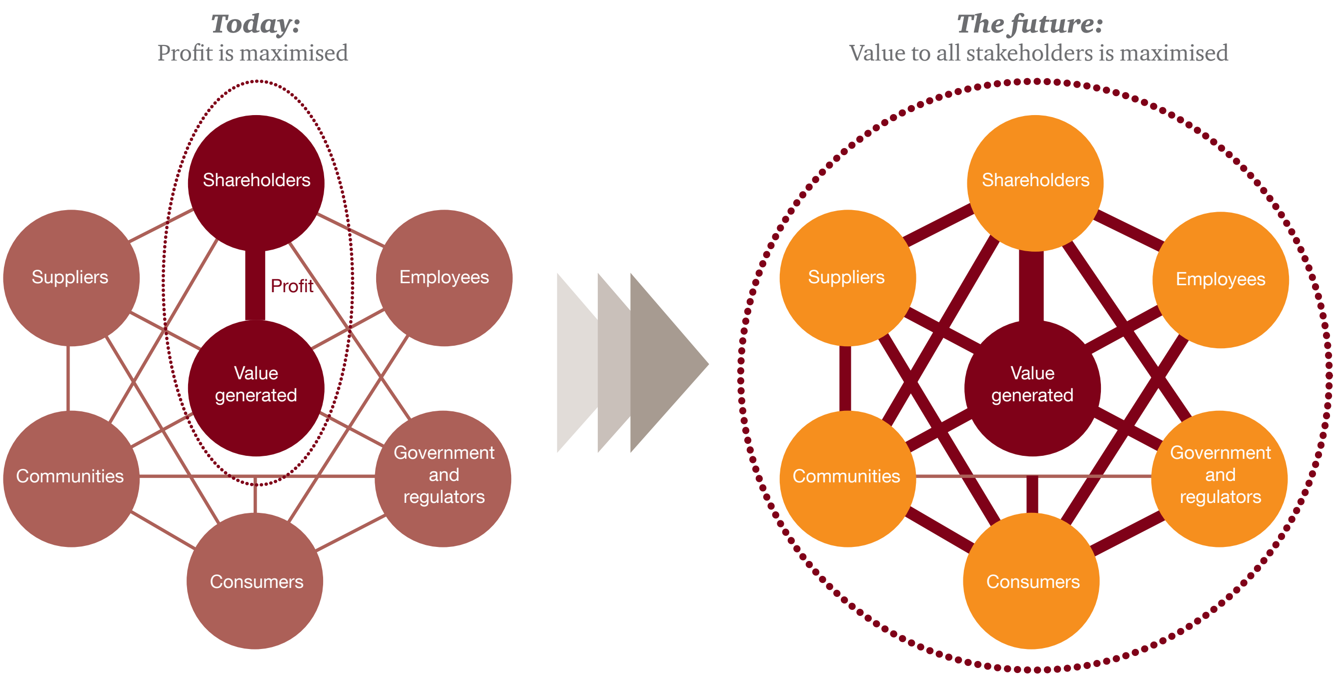
Delivering value and gaining stakeholder trust

Jayne Mammatt
Sustainability and Climate Change Leader for PwC's East, West and South Market regions in Africa

Moving away from a shareholder-centric position to one that considers other influencers is a very different way to look at business, and one that could drive very different strategies and outcomes.

Shifting the emphasis from shareholder and share price, and appeasing investor pressure for short-term results, is difficult—it takes a clear vision and strong leadership to achieve.

Fig. 35 Moving from a shareholder to a stakeholder model



Traditionally, businesses have sought to maximise value to shareholders (i.e. profit) and overlooked value to all other stakeholders.

Stakeholders are increasingly influential. So to ensure long-term success, stakeholder value must also be maximised.

Source: PwC. Business through a new lens. 2016. www.pwc.com/newbusinesslens

Moving from shareholders to stakeholders

Over the last few years of our CEO Survey, and again this year, business leaders have told us that they are moving down this road. They say they are in it for the long haul and that they are centred on creating value for all stakeholders, not just shareholders.

Looking from the inside out and adapting the model to maximise value to stakeholders, not just shareholders, makes good business sense. It's about understanding who has influence on an organisation's strategy and respecting their interests.

CEOs say they are committed to creating value for all stakeholders.

For CEOs, their customers, government and competitors/peers have a big influence on business strategy. Understanding their needs and working towards addressing them can help build trust, maintain reputation and lend a licence to operate.

It works in the best interests of business to be operating in a thriving society in a thriving environment, as it's not all one way—society provides the votes, taxes, employees and customers, and the environment provides the land, the resources, the water and the air. There are very clear relationships, responsibilities and dependencies that need to be recognised and managed.

Business needs to recognise and manage its responsibilities and dependencies.

Fig. 36 CEOs overwhelmingly recognise the importance of stakeholder expectations

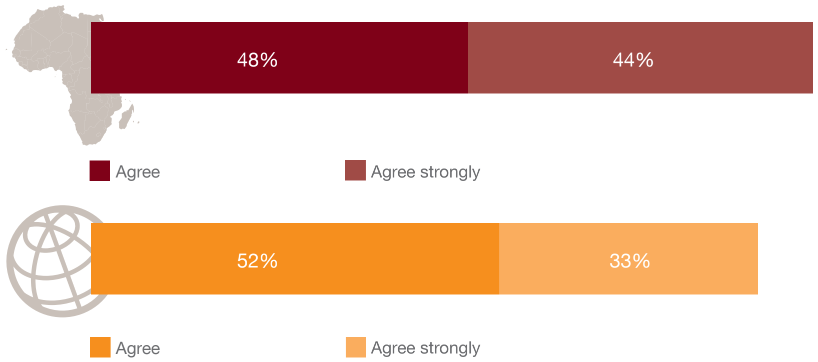
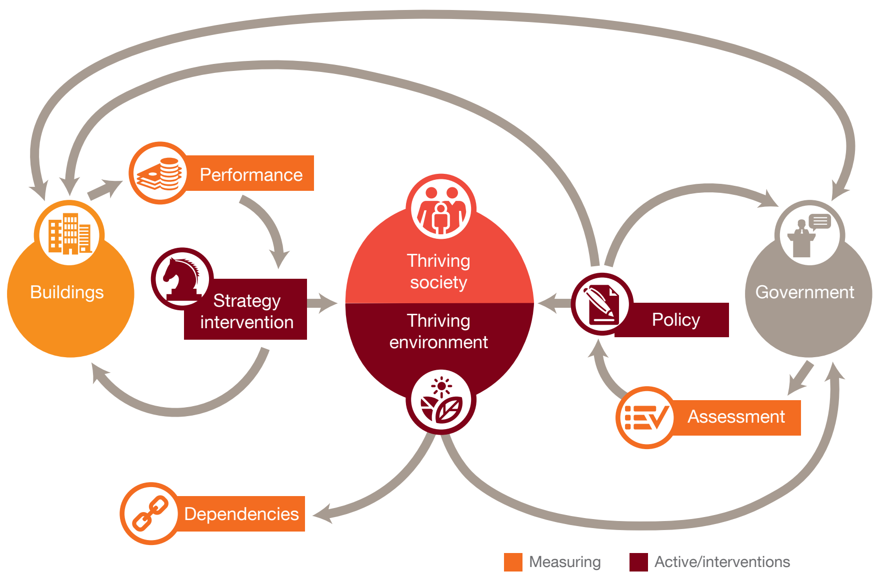


Fig. 37 Interconnected: Business in context



Source: PwC. Business through a new lens. 2016. www.pwc.com/newbusinesslens

A business that is considering its wider impacts and stakeholders understands how it fits into the bigger picture, recognises that its activities have consequences for others and understands its contributions (positive and negative).

In the past, for some companies, the relationships between business and society, and business and the environment were conveniently overlooked.

However, with new technology for data and image collection and storage, and the ability to share quickly and widely, secrets are harder to keep and old-school behaviours are easily exposed.

Trust is eroded and without trust business will no longer be able to operate effectively and efficiently, and long-term viability will be threatened.

Trust in business, government, NGOs and the media has declined.

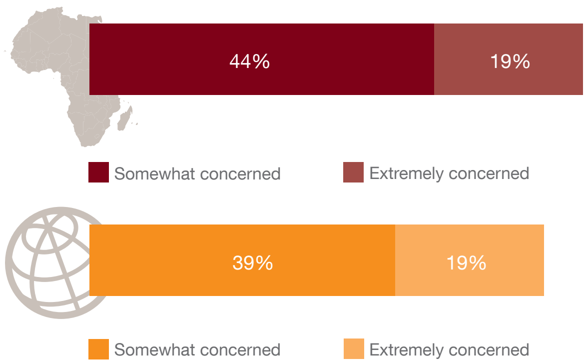
The 2017 Edelman Trust Barometer reveals that “the general population’s trust in all four key institutions—business, government, NGOs, and media—has declined broadly, a phenomenon not reported since Edelman began tracking trust among this segment in 2012”.[1]

Furthermore, and most worrying for business, the Business & Sustainable Development Commission’s *Better Business, Better World 2017* report shows a “double-digit decline in the credibility of CEOs in 80% of countries”.[2]

The importance of trust and the challenges in this new technology age are reflected in our own survey results, with two-thirds of African CEOs being concerned about lack of trust in business.

Fig. 38 Lack of trust in business is a significant concern

Q *How concerned are you about lack of trust in business?*



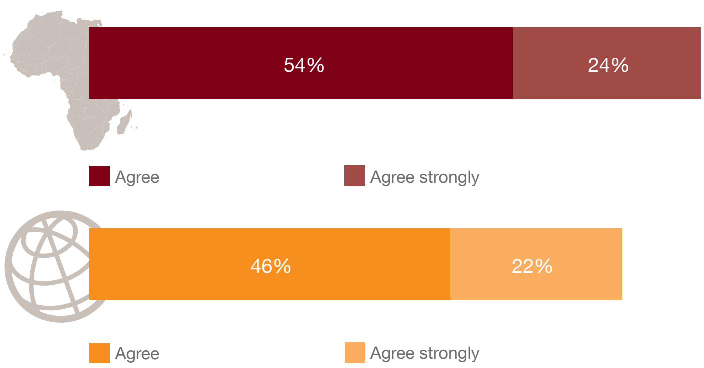
CEOs are also concerned about social instability, which can be seen as being a consequence of a lack of trust in business, government, NGOs and the media.

Social instability is a major concern in Africa.

In Africa, 85% of CEOs are concerned about social instability (Global: 68%) and they believe it is harder for business to gain and keep trust.

Fig. 39 It’s harder to gain and keep trust

Q *In the context of an increasingly digitised world, to what extent do you agree that it’s harder for business to gain and keep trust?*



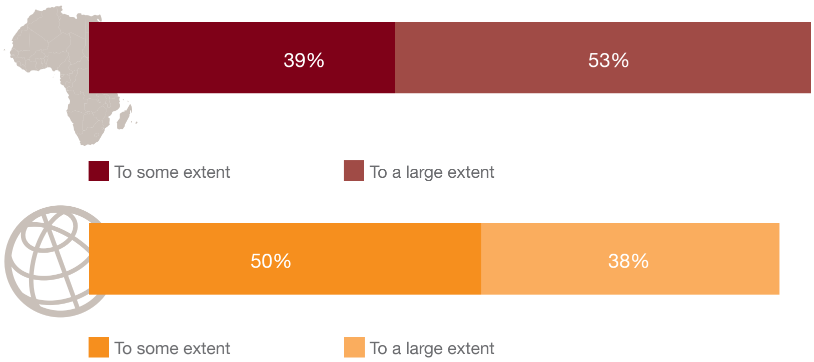
[1] Edelman. *Edelman Trust Barometer 2017*. www.edelman.com/trust2017

[2] Business & Sustainable Development Commission. *Better Business, Better World 2017. report.businesscommission.org/report*

Furthermore, social media platforms are ensuring that organisations are under even greater scrutiny, with 91% of African CEOs (Global: 87%) believing the risks arising from social media will impact negatively on stakeholder trust levels.

Fig. 40 Social media negatively impacts stakeholder trust

Q *To what extent do you think risks from the use of social media will impact negatively on stakeholder trust levels in your industry in the next five years?*



Twenty years ago, trust wasn't as prominent on the business radar as it is today. In fact, we didn't survey CEOs about it until 2002, when the business community was reeling from accounting fraud scandals, the bursting of the dotcom bubble and the collapse of the equity markets.

With hindsight, it seems hard to believe that only 12% of global CEOs thought public trust in companies in their country had greatly declined, and only 29% thought the fallout from corporate misdeeds was a serious threat.

The financial crisis catapulted trust into the limelight.

Since then, the financial crisis has catapulted trust into the limelight, and the after-effects of stagnant economic growth and spiralling debt levels continue to fuel a climate of mistrust.

The impact on CEOs has been significant. In 2013, 42% of African CEOs and 37% of global CEOs worried that lack of trust in their industry would harm their company's growth. This year, the number has jumped to 63% in Africa and 58% globally.

Tough questions about gaining from connectivity without losing trust:

- *Does your CIO know the extent to which the technology you're investing in today will affect how your stakeholders trust you tomorrow?*
- *What are you doing to protect customer and employee data from theft, loss or misuse? How robust are those strategies?*
- *How can you build the right infrastructure for collecting, managing, governing and securing data?*
- *As cybersecurity risks increase, have you got clear protocols in place for when systems go down and inconvenience your customers?*
- *What can you do to measure and leverage trust in your brand as a competitive advantage?*

Gaining trust is critical in the digital era

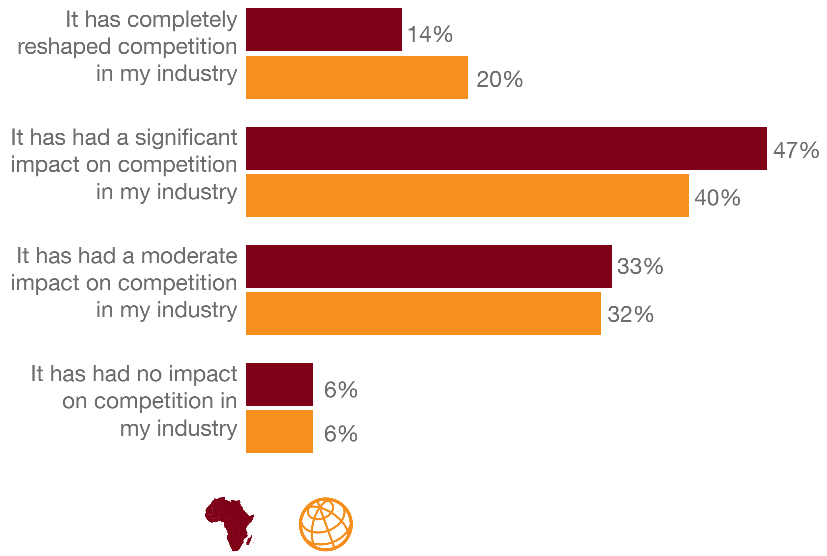
Busisiwe Mathe
Risk Assurance Cyber and Privacy Leader for PwC in Southern Africa

The advent of the digital era has shaken many organisations to the core. Technology is bringing a multitude of products and services to customers, many of whom had no access before.

Technology has also brought about a number of advancements in efficiency and the ease of doing business in Africa. No less than 94% of African respondents (Global: 92%) in our CEO Survey believe technology has changed competition in their industry in the past five years.

Fig. 41 Technology is having a massive impact on business

Q *To what extent has technology changed competition in your industry over the past five years alone?*



Technology such as big data analytics is being used to detect diseases and target treatment and prevention. Drones offer opportunities for both businesses and governments to share data and combine resources to better estimate where populations are concentrated and areas where deprivation is most severe and, consequently, where to target investment and services.

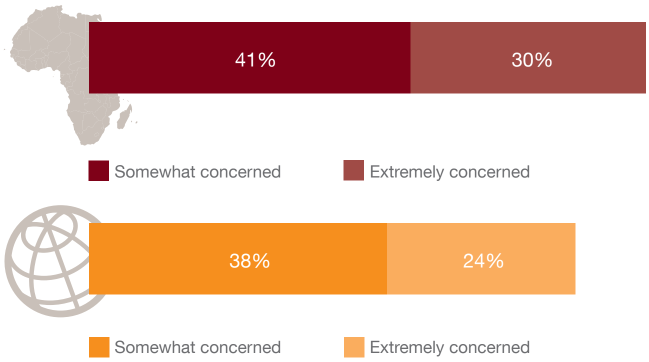
Digital technology has changed the world, but not always in a good way.

While the digital era offers a host of opportunities, it also creates significant challenges and constraints in the arena of privacy and security.

As more products and services of all types become connected to the Internet of Things (IoT), data privacy, protection and trust have become critical business requirements as exponentially more consumer and business information is generated and shared. In our survey, 71% of African CEOs (Global: 62%) say they are concerned about cyber threats.

Fig. 42 Cyber threats are a significant headache

Q *How concerned are you about cyber threats?*



Organisations are holding increasingly large volumes of personal data about their customers, suppliers and employees.

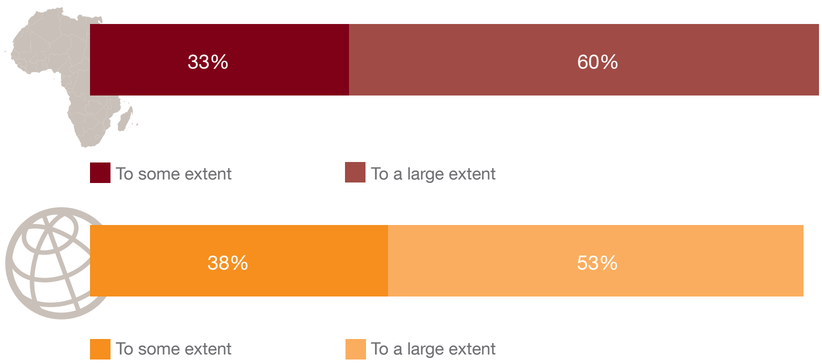
Many of these businesses do not have experience in storing this kind of data. They may be operating in industries or countries that have not previously required data regulations.

There may also be a lack of oversight or internal procedures. In the process these companies have become targets for malicious online attacks or attempts to steal data.

The vast majority of African CEOs (93%) (Global: 91%) believe that cybersecurity breaches affecting business information or critical systems will negatively impact stakeholder trust levels in their respective organisations in the next five years.

Fig. 43 Cybersecurity breaches a risk to stakeholder trust

Q *To what extent do you think cybersecurity breaches affecting business information or critical systems will impact negatively on stakeholder trust levels in your industry in the next five years?*



Reports of cybersecurity incidents have become common, touching almost every industry in every corner of the globe.

A recent cybercrime report by Cybersecurity Ventures estimates that the global cost of cybercrime will rise from $3 trillion in 2015 to $6 trillion by 2021.[1]

The financial loss may include loss of revenue, disruption of business systems, penalties and the erosion of customers. Non-financial damage may include reputational damage, product piracy, and impacts on innovation such as stolen product designs or prototypes, theft of business processes, and the loss of sensitive information.

As cybersecurity incidents become more frequent, the costs of managing and mitigating breaches also rise.

As security incidents become more frequent, the costs of managing and mitigating breaches also rise. Cybersecurity Ventures suggests that up to $1 trillion will be spent globally on cybersecurity between now and 2021.

[1] Cybersecurity Ventures. *Hackerpocalypse: A Cybercrime Revelation*. 2016. www.herjavecgroup.com/get-the-2016-cybercrime-report/

It is becoming increasingly clear that organisations will be held responsible not only for how they protect personnel and customer information, but also for how they use it. Many organisations are taking steps to invest in processes and usage policies aimed at minimising this risk.

Solutions such as data governance, data access and authentication controls are being used in this regard.

Despite this progress, 96% of business leaders in Africa (Global: 90%) are worried that IT outages and disruptions could impair trust in their respective industries in the next five years. An overwhelming majority say they are already taking steps to forestall such problems (Africa: 99%; Global: 92%).

Fig. 44 IT outages and disruptions threaten stakeholder trust

Q *To what extent do you think IT outages and disruptions will impact negatively on stakeholder trust levels in your industry in the next five years?*

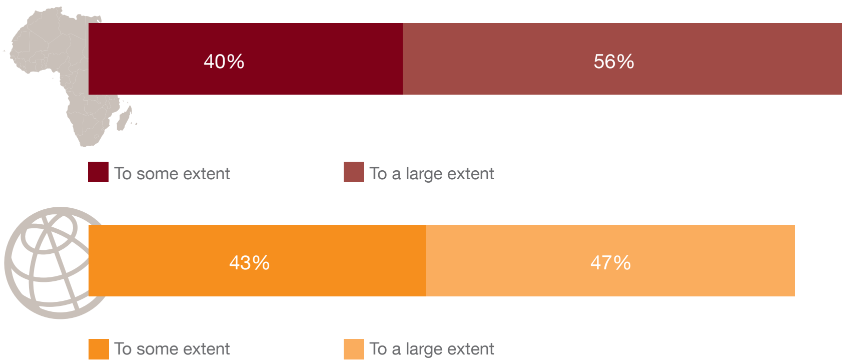
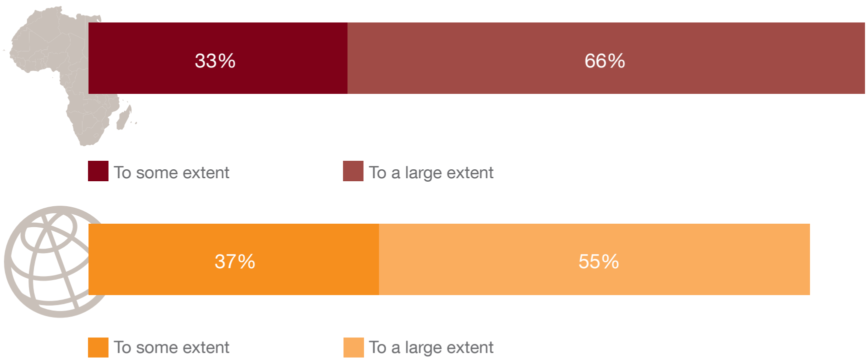


Fig. 45 Organisations are being proactive about IT disruptions

Q *To what extent is your organisation addressing IT outages and disruptions today?*



Just over two-thirds of African CEOs (69%) think automation and artificial intelligence will pose a threat to stakeholder trust over the next five years. They are right to be concerned. How we navigate websites and how we interact with connected devices is influenced by algorithms and codes. This creates numerous challenges for business, like ensuring that machines carry out orders effectively—in the way they were intended.

It also raises ethical questions, such as the extent to which it is acceptable to influence human choices and whether the humans who write the codes—or the companies they work for—can be trusted.

Many CEOs say they are already taking steps to address the risk of artificial intelligence and automation, including blockchain.

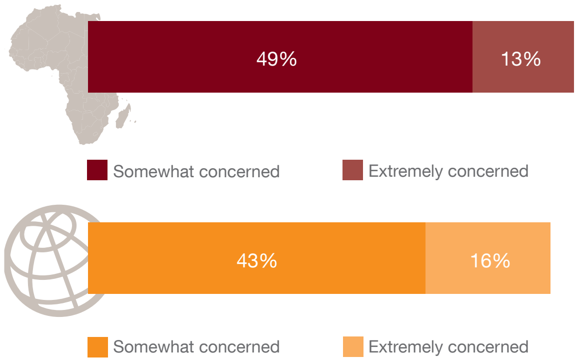
More than half of African CEOs (59%) (Global: 58%) say they are already taking steps to address the risk of artificial intelligence and automation, including blockchain.

As disruptions gain more speed, the ability to ensure trust, security and privacy across all interactions will become critical to businesses' competitiveness. But almost two-thirds of African CEOs (61%) (Global: 59%) are concerned that they are underprepared to respond to a crisis in their business, should one arise.

Regulations, norms and guidelines for the protection of data will need to be revised and implemented in order to ensure a trusted, secure, efficient and seamless digital landscape.

Fig. 46 Many companies aren't adequately prepared to deal with a crisis

Q *How concerned are you about you organisation's readiness to respond to a crisis?*



Building trust

CEO insight

Kaddu K Sebunya
President of the African Wildlife Foundation

The African Wildlife Foundation (AWF) is the largest African conservation organisation. Founded in 1961, it was established to focus on Africa's unique conservations needs. With a presence in 17 countries and operations in almost every sub-Saharan Africa country, the AWF's mission is to ensure wildlife and wildlands thrive in modern Africa. The organisation believes this can be achieved by prioritising both conservation and development through building partnerships and stakeholder capacity.

? ***The AWF operates at the intersection of government, the environment and business. How can a common sense of purpose help to ensure that they intersect in ways that benefit Africa's development?***

We believe that ecosystem services (ecological infrastructure) are fundamental to the definition and governance of purpose. Any organisation's mission should take into account its impact on ecosystem services and also what other players are doing.

Any organisation's mission should take into account its impact on ecosystem services.

For example, an investor and a government might be interested in a hydropower plant. Their purpose is to generate reliable and affordable power while generating an investment return. Both the investor and the government should also ask: "How can we ensure that the water continues to flow for the next 40 years?" Because otherwise, the hydropower plant will not generate a return on investment and it will not deliver on the sustainable development goals.

The beauty of ecosystem services like flowing water is that they maintain themselves, which is why they are seen to be free. Protected areas provide water, and so the purpose of the hydropower plant must include the conservation of the ecosystem services that determine whether water will continue to flow.

In this way, conservation intersects with business and government to support a common purpose.

Businesses and governments have many priorities, and they tend to look at the environment or conservation separately from growth, whereas we believe that ecosystem services factor into the bottom line directly. Maintaining these services is not just a responsibility, it is an obligation and necessity.

We cannot relegate responsibility to sustain ecosystem services to government and conservation organisations.

We cannot maintain ecosystem services in isolation, nor can we relegate responsibility to sustain ecosystem services to government and conservation organisations. If we work together as conservation and industry, we can influence government.

We can challenge ministers of finance and central bank governors to explain why conservation matters to development, instead of relegating 'conservation' to the ministries of environment or tourism.

As Africans, we need to challenge the attitude that wildlands are for the enjoyment of foreign visitors and look beyond conservation for the sake of tourism.

Conservation is not just for tourism. It is for development too. Tourism and development are by-products of conservation. At the same time, conservationists also need a healthy dose of pragmatism. As conservationists, we need to be seen as part of the solution and part of development.

Conservation is not just for tourism. It is for development too.

Companies tend to look at corporate responsibility through their value chains, and they document the various ways that they act responsibly. This is what they call corporate responsibility.

As AWF, we would like to support them to look at responsibility not only through their value chain but also with a 'landscape' appreciation for ecosystem services.

Look beyond your gate, as a company. Look at your business as one of many players in a landscape. Consider the ecological infrastructure. This needs to be the underlying 'purpose' for all of us, to look beyond our gates.

? ***How can your organisation work with governments and policymakers to drive systemic change in areas like averting climate change and resource scarcity?***

Africa is developing fast and we need to consider what we want Africa to look like when it is developed. Is it like China, which is suffering from ecological degradation? Is it like Europe or North America, which have worked hard to regain their ecological services?

One of the realities that we face here in Africa is urbanisation. How we urbanise will determine the space that we leave for wildlands. Rapid population growth is another factor on the continent. How we manage and plan for this will determine future investments in schools, hospitals and industries and the sustainability of current investments.

If we do not take care of ecosystem services, which provide the conducive environment for investment, the future does not look bright for Africa. The future conflicts on this continent will be resource-based and we need to have the discussion now about the role of wildlife and wildlands in our development. So far, however, we have been chasing growth at any price.

If we do not take care of ecosystem services, the future does not look bright for Africa.

We can address the challenges and opportunities of development and globalisation through collaboration. While we have implemented projects successfully with individual governments, we know that central or regional decisions by economic blocs like the Common Market for Eastern and Southern Africa (COMESA) can have more impact.

If we are successful with COMESA, we will streamline 24 countries from Egypt to Swaziland, and specifically their policymaking, to influence the entire regional investment environment.

We will help investors to secure their investments using a landscape approach. Many investors have multi-country investment ambitions, and the harmony of policies across the region will contribute to attracting investment.

China is very interested in the COMESA region for investments in industrialisation. We have an agreement with COMESA to bring us to the table when investors like China express interest in the region.

We look at the whole landscape and what others in the region are doing. Then we help to define responsibilities and conservation requirements as part of the contract, and also the portion of the investment that government will dedicate to protecting ecosystem services.

Increasingly, contract negotiations between government bodies and industry specifically reference the Sustainable Development Goals (SDGs). Investors talk to the ministers of planning and the presidents. This is where conservation organisations need to be: in the boardrooms where the SDGs are discussed.

Economic development and conservation are one and the same thing.

Let's say we grow our economies and create jobs. We urbanise efficiently and provide good healthcare. We educate all Africans. Then what? Investments in economies, jobs, health and education are meant to create good living conditions for more people. This includes clean water and air, and healthy soil. In this way, it is not a choice between economic development and conservation; they are one and the same thing.

Research methodology

The Africa Business Agenda is based on a survey of 80 CEOs in Africa. The survey draws on the survey questionnaire used in PwC's 20th annual Global CEO Survey of 1 379 CEOs worldwide. The use of a common set of survey questions allows us to benchmark the views of African CEOs against global averages.

The survey was conducted between September and November 2016 and the results of this form the basis of this report. For the purposes of the publications, 'Africa' results refer to the average of the 80 CEO surveys carried out in Africa.

In some cases, percentages may not add up to 100% due to rounding and some respondents choosing not to answer questions.

For more information about the report, please contact:

Southern Africa

Catherine Ensor
+27 (0)11 797 4556
catherine.ensor@.pwc.com

East Africa

Emily Ansell
+254 708 114 558
emily.ansell@pwc.com

West Africa

Delia Asuzu
+234 (1) 271 1700
delia.asuzu@pwc.com

United Kingdom

Chika Chukwujekwu
+44 (0) 207 804 2286
chika.chukwujekwu@pwc.com

Maghreb & Francophone Africa

Gregory Bradamantis
+33 677 737 246
gregory.bradamantis@fr.pwc.com

Media contact

Sanchia Temkin
+27 (11) 797 4470
sanchia.temkin@pwc.com

PwC in Africa

PwC's extensive African footprint means we're there for you, wherever you do business.

We know that value goes beyond a single engagement or a single result. Value is defined by a relationship—one that is born of an intelligent, engaged, collaborative process.

With our African network, our people and our experience, we're ready to help you realise that value wherever you do business.

PwC is the largest provider of professional services in Africa, with more than 400 partners and over 9 000 staff on the ground in 34 countries.

Our in-depth knowledge and understanding of African operating environments enable us to offer tailored tax, assurance and advisory solutions for every business challenge.

Contacts

Hein Boegman

Territory Senior Partner for PwC's East, West and South Market regions in Africa

hein.boegman@pwc.com

[+27] (11) 797 4335

Noël Albertus

PwC Advisory Leader for Maghreb and Francophone Africa

noel.albertus@ma.pwc.com

[+212] 522 99 98 00

Dion Shango

Regional Senior Partner for PwC in Southern Africa

dion.shango@pwc.com

[+27] (11) 797 4166

Uyi Akpata

Regional Senior Partner for PwC in West Africa

uyi.n.akpata@pwc.com

[+234] (1) 271 1700

Joel Segal

Partner and Chair of PwC UK Africa Business Group

joel.segal@pwc.com

+44 (0) 20 7804 1661

Anne Eriksson

Regional Senior Partner for PwC in East Africa

anne.eriksson@pwc.com

[+254] (20) 285 5000

Edouard Messou

Regional Senior Partner for PwC in sub-Saharan Francophone Africa

edouard.messou@ci.pwc.com

[225] 20 31 54 11