Africa Business Agenda: Business Operating Environment Perspective 2023

Africa's CEOs balance competing priorities to achieve sustained outcomes

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Introduction

This publication, on the business operating environment in sub-Saharan Africa, is part of PwC's Africa Business Agenda series which draws on insights from 282 CEOs in the region who participated in our *26th Annual Global CEO Survey*.

Our survey and research reveal that CEOs in sub-Saharan Africa develop resilience and agility as they navigate an evolving and complex business operating environment. To support the sustainability and performance of their businesses, they can focus on diversifying products and services, streamlining operations to focus on purpose-led core competencies, collaborating to drive impact, investing in talent attraction and retention and focusing on good governance, ESG objectives and risk management, including cybersecurity. These and other strategies help organisations to achieve balance, which can feel like a moving target.

Balance is always difficult. Day-to-day priorities can overtake or overwhelm broader strategic transformation initiatives, and yet it is those strategic initiatives which will improve resilience and agility over time. This publication explores that balancing act by looking at our survey data in the context of sub-Saharan Africa's business operating environment.

> “To survive, and excel and beat the competition, the fundamental things to get right include putting proper operating practices in place, appropriately pricing for your services and continually endeavouring to keep your customers happy.
>
> **Jaco Prinsloo – Deals Value Creation Leader, PwC South Africa**

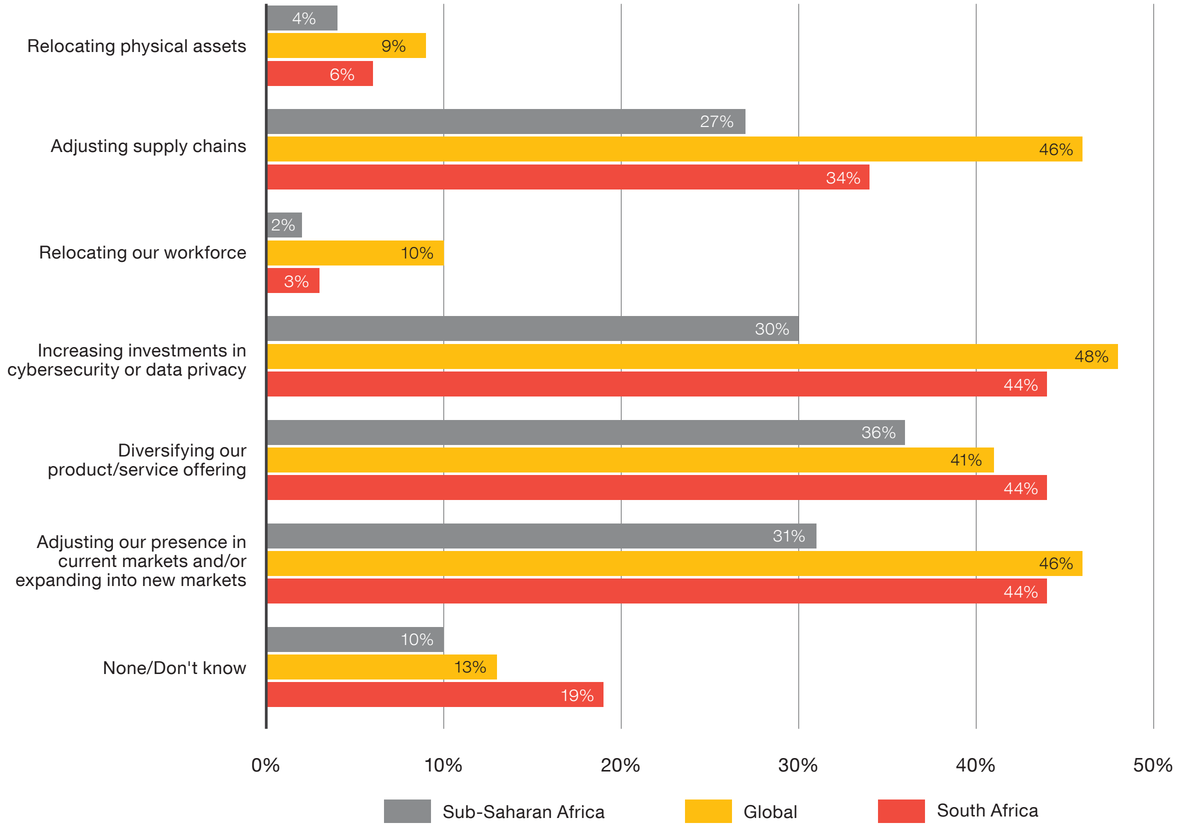
Business is a balancing act

Day-to-day, CEOs in Africa steer their businesses through various operational challenges, some of which are truly 'business critical', even as they lead efforts to optimise longer-term initiatives, such as technology adoption and ESG strategies, which are no less important. Their dual focus on the short term and the long term requires agility, good judgement and skill to maintain balance.

Arguably, ***"CEOs in Africa may have an advantage when it comes to dealing with a challenging business environment.*** Given the history of the African political environment and periodic challenges to peace and security as well as significant climate events, CEOs that are familiar with doing business on the continent may have a better chance of navigating Africa's unique business environment." Jan Groenewald – PwC Africa Deals Leader, PwC South Africa

There are many strategies for managing this balancing act and maintaining a dual focus. CEOs in Africa highlight efforts to diversify their product and service offerings and streamline their operations, focusing on areas that are core to their brand and purpose. Cybersecurity and data privacy can safeguard a corporate reputation and strengthen trust among stakeholders. These strategies are not mutually exclusive; market research may signal a new customer segment whereas a business review may reveal cyber and supply chain vulnerabilities as well as cost centres that are not core to delivering the business' purpose. In this way, a business may expand in one area, or contract in another, over different time periods.

Which of the following actions, if any, is your company considering to mitigate against exposure to geopolitical conflict in the next 12 months



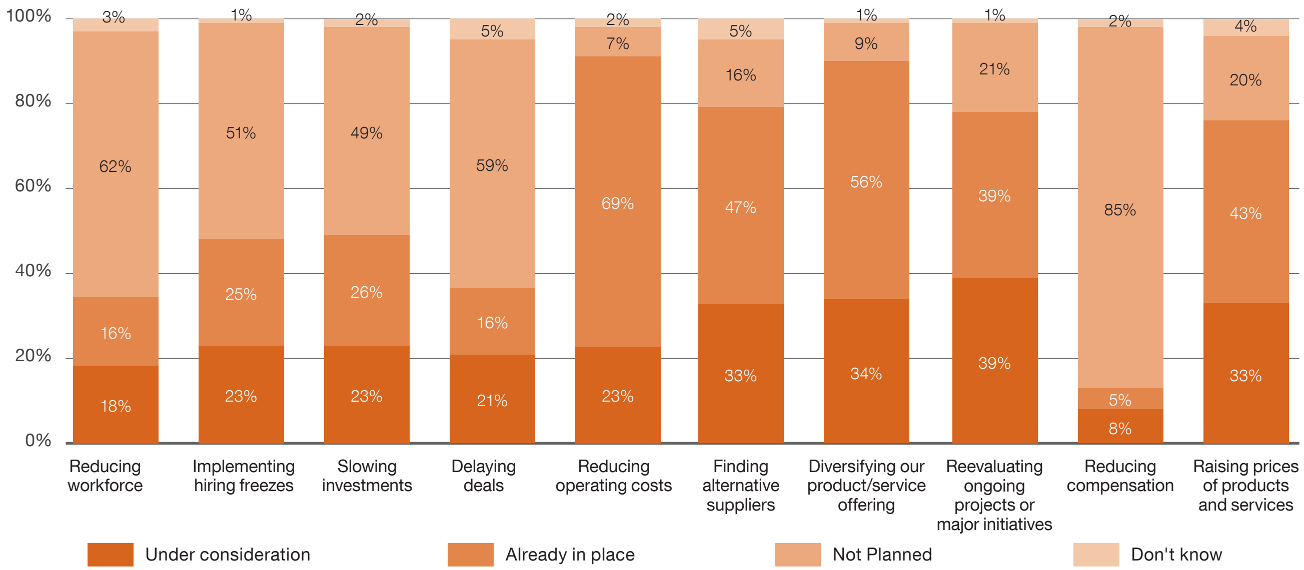
Source: PwC's 26th Global CEO Survey

This balancing act is not new, but it is an evolving challenge complicated now by factors like technology, geopolitical supply chain and climate disruption and local factors like load-shedding. CEOs that succeed in maintaining the balance will instil in their organisations the agility to manage through disruption without losing sight of longer-term, strategic initiatives. After all, those longer-term initiatives will build the agility and competitiveness needed to navigate the disruptions and opportunities of tomorrow.

Short-term solutions also require a long-term view

When businesses are facing headwinds such as inflation and challenging macroeconomic conditions, it is no surprise that reducing costs (91%), diversifying products (90%) and increasing prices (74%) will be top of mind for CEOs. The choices they make, however, are key to the success of the business. Even when searching for a short-term solution, CEOs need to apply a long-term view.

Which of the following options best describes any action your company may be considering to mitigate against potential economic challenges and volatility in the next 12 months?



Source: PwC's 26th Global CEO Survey

When it comes to reducing costs, CEOs need to be careful. A critical starting point is understanding the differentiating capabilities - those areas where the organisation needs to exceed in order to deliver its value proposition. Differentiating capabilities are those aspects where the organisation needs to be better than its competition, and will be the key drivers of growth: the cost base should then be targeted and aligned to these areas of growth

> Knowing when your cost base is not aligned to the areas which will drive top line growth, or when certain areas of your business have started not making economic sense, needs to be supported by detailed delayering of the cost base. Understanding the cost to income ratio at a detailed level is vital as it allows a business to extract wasteful costs from areas which will not drive future growth and re-invest this in parts of the business which have or require differentiating capabilities.
>
> **Pieter Crafford – PwC Africa Strategy& Leader, PwC South Africa**

The right to win is determined by knowing where and how the business wants to play, backed up by a clear understanding of the company's differentiating capabilities and an optimised suite of products and services. Keeping and growing the parts of the business that are driving those differentiated capabilities and selling or downsizing other parts is a tough but necessary decision that allows organisations to scale for profitability and identify appropriate acquisitions or investments in the future.

CEOs need to be honest about their business and where it would make sense to disinvest from, or partner, with other organisations who are better at delivering certain capabilities. Those that do this first, and that make the tough decisions now, are the ones to capitalise and succeed in the long term.

Collaboration supports impact

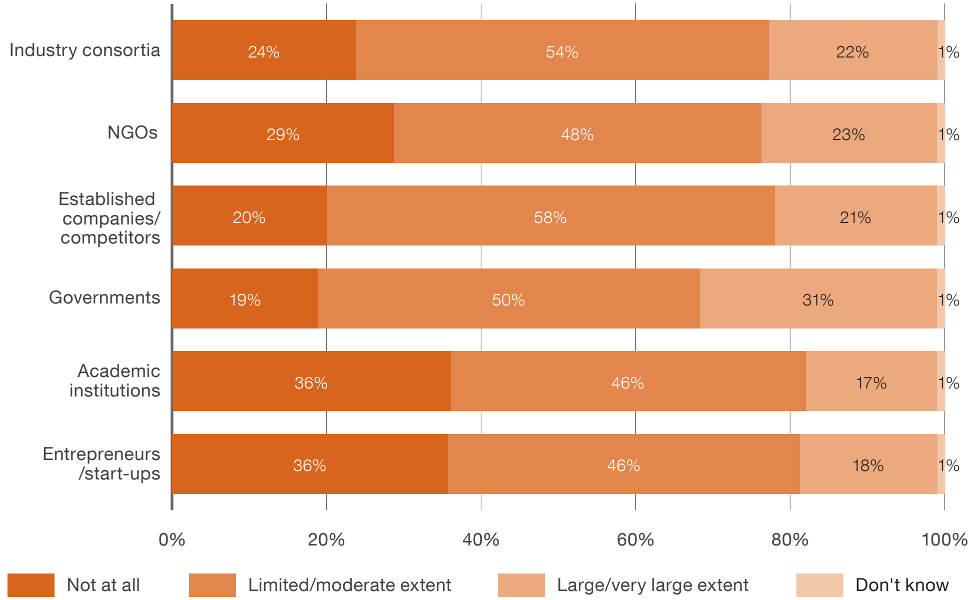
The balancing act of business can further be supported through collaboration, but collaboration requires trust. Partnering with other organisations to deliver more value to stakeholders or to address societal challenges is not always a common approach, according to CEOs in sub-Saharan Africa. Only 31% identify the government as a partner or collaborator in addressing societal issues, and a smaller percentage work with industry consortia, NGOs or competitors in a collaborative manner.

And yet collaboration can have a beneficial impact, not just in addressing some of the societal challenges that can destabilise the business operating environment but also in building stronger, more agile industries. For example, in South Africa's Limpopo Province, a water user association comprising government and mining sector members collaborated to develop an accelerated integrated water infrastructure programme to address bulk and potable water needs in the area. What is unique about the programme is that government and business came together in a special purpose vehicle to share control and financial contributions to address their shared interests. This collaboration leverages significant infrastructure spend to unlock socio-economic development benefits while providing much needed water to communities and businesses in the region.

Smart companies prioritise and choose where to invest, what to produce and sell, how to create a distinctive niche, who to employ and work with and when to take risks or pull back. Necessarily, this ongoing process helps to identify opportunities — including opportunities to refocus. Other organisations may have stronger capabilities to deliver certain complementary products and services, and collaboration may also help to solve some important problems.

It takes bold leadership to identify and accept the kinds of things you're not that good at, and also courage to walk away from being the market leader in certain market segments. However, CEOs who do this well can then focus on finding suitable opportunities for collaboration with partners that do have the right complementary expertise. Overall, 50% of CEOs in sub-Saharan Africa invest time in building collaborations with different stakeholders in both business and society (although this is still only to a limited or moderate extent).

To what extent do you expect the cost profile of your business to be impacted by climate risk in the next 12 months?



Source: PwC's 26th Global CEO Survey

A critical business review can identify areas of the portfolio that are most closely aligned to an organisation's purpose and profitability. Focusing on those areas, and exploring opportunities for collaboration, or mergers/acquisitions, to fully deliver in other areas, can streamline efforts to deliver a more impactful strategy. This approach has the added benefit of identifying opportunities for delivering more value to society, such as in ESG areas. An organisation's specific strengths and capabilities can make a unique contribution to environmental stewardship or social cohesion, for example, but partnerships with other organisations can often amplify those efforts.

Talent drives performance

Organisations in sub-Saharan Africa that successfully navigate change tend to invest significantly in talent and supportive performance cultures. These investments only really deliver value where there is sustained retention of talent. And although 53% of CEOs in South Africa may not anticipate any change to retirement/resignation rates at their companies, 42% of CEOs in Africa overall expect this rate to increase. Across the board, a relatively small percentage of CEOs expect retirement/resignation to decrease. In other words, retention is likely to remain at the top of the CEO agenda in Africa for the foreseeable future.

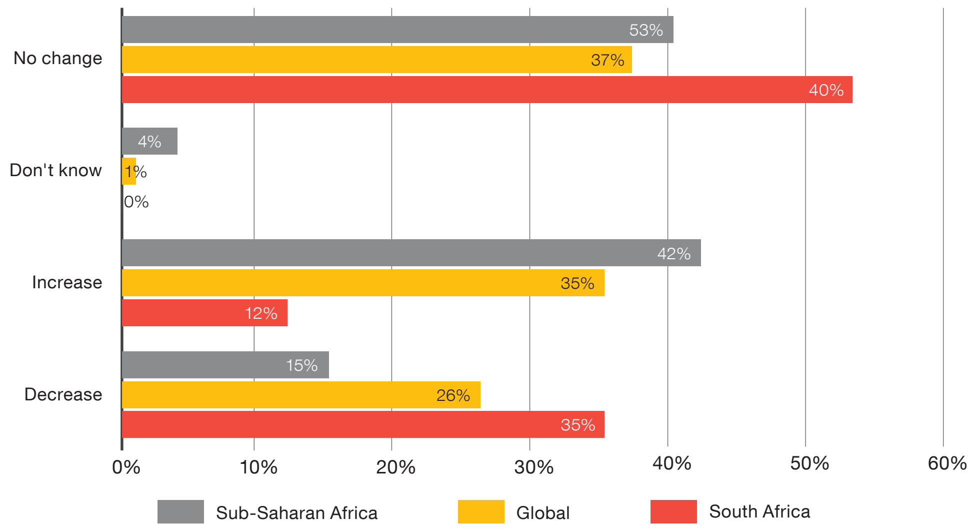
CEOs clearly prioritise the retention of talent that is agile and skilled in strategic focus areas. In our recent *Africa Business Agenda: Workforce Perspective* publication, 45% of CEOs in sub-Saharan Africa and 52% globally believe that skills shortages will impact profitability over the next ten years. These skills vary by company and industry, but increasingly organisations require advanced capabilities to deliver value through technology as well as '*green skills*' to drive sustainability and ESG priorities. With the business operating environment evolving across Africa, organisations require flexibility, creativity, innovation and insight – and a diverse workforce that brings different perspectives, experiences and ideas to the table.

Company cultures that favour flexible ways of working are increasingly attractive to the top talent that CEOs in Africa want to attract and retain. According to Olusegun Zaccheaus, Partner and Leader for Strategy& in PwC's West Market Area, "In a post-COVID-19 world where working remotely has become part of our lives, companies recognise the need to be flexible and allow their people the freedom of working from localities that boost their creativity, instead of being confined to uninspiring office spaces. This is particularly common among the younger and junior members of staff who are products of this increasingly digitising world." CEOs in sub-Saharan Africa recognise the risk of losing talent to companies with cultures that enable online, digitally driven and flexible work — unless their companies also evolve in this direction, as many of them are doing.

Talent drives a lot of value for organisations but there are also costs, and some organisations may need to manage costs through unfilled positions, halting recruitment or implementing redundancies. CEOs may fully recognise the imperative of participating in socio-economic growth through employment generation, but employment growth may not be possible in the current environment. Instead, focusing on having the right number of people with the right skills employed in the right areas may help to 'right size' their organisations so that they can fully meet the expectations of customers and clients and, in time, grow their businesses as well.

> There is now a need to deploy technologies such as artificial intelligence to optimise the time spent by employees at work. This allows for businesses to free up different parts of employee activity profiles to redirect talented people, and those with specialist skill sets, to areas where they are needed most. This way the machines and other digital tools can be deployed to speed up the more mundane, bureaucratic and duplicate activities.
>
> **Emma Whalley-Hands –**
> **PwC Africa Operational Restructuring Leader, PwC South Africa**

How do you believe employee resignation/retirement rates in your company will change in the next 12 months?



Source: PwC's 26th Global CEO Survey

ESG strategies build trust

Increasingly, more stakeholders expect organisations to be purpose led and committed to contributing towards important ESG goals. Purpose-driven companies are reaping the benefits of focusing on the triple bottom line of people, planet and profit and positioning themselves for sustainable success.

The ESG executive agenda is helping companies and executives pivot away from a sole focus on managing ESG-related activity through corporate social investment programmes and towards a more holistic, operational approach where concerns about social wellbeing and the environment are fully integrated with corporate strategies. Furthermore, ESG data can help organisations to manage operations more cost effectively and also facilitate supply chain visibility, customer insights, innovation and risk management.

However, our recent *Africa Business Agenda: ESG perspective* publication reported that just 50% of sub-Saharan African companies are working on or have delivered a data-driven, enterprise-level strategy for reducing emissions and mitigating climate risks, compared to 65% globally. The region's business leaders do show concern about climate change and social instability and, depending on regulatory requirements, many companies now need to report certain ESG-related information in their annual reports. For reporting to be impactful and efficient, organisations need to create internal capacity to collect and verify information on the E, the S and the G components of this holistic approach. ***The business operating environment is shifting in response to ESG priorities and requirements, and organisations can build resilience and ensure competitiveness by staying ahead of the curve.***

Conclusion

The 282 CEOs in sub-Saharan Africa who participated in PwC's *26th Annual Global CEO Survey* are focusing on the business operating environment and making important decisions to achieve balance and success going forward. Despite many challenges, CEOs in Africa have the tools to grow, evolve and sustain their businesses for the long term. One of those tools is collaboration, which can enable them to contribute more to society and also deliver more value for stakeholders. Another tool is Africa's talent pool, which has the rich and vibrant potential to transform business and society. Finally, good governance and transparency support greater trust and confidence.

Balance requires difficult decision making and prioritisation, and constant change means that the operating environment is never the same, day-to-day. This makes it difficult to plan and prioritise, but by training a consistent focus on a few strategic priorities, CEOs can win today's race while running tomorrow's.

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