The Africa business agenda

Seeing the glass half-full

May 2016

5th edition

CEOs and PwC leaders in Africa share their insights about facing the challenges and capitalising on opportunities across the continent.

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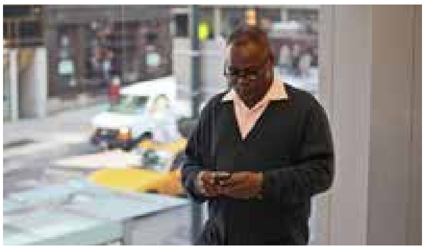


1. *Economic diversification and sustained growth*

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

Africa's business agenda

Welcome to the fifth edition of the Africa business agenda, a resource for decision-makers in Africa.

About this publication

The ***Africa business agenda*** *draws on the survey questionnaire used in* ***PwC's 19th annual Global CEO Survey*** *of 1 409 CEOs worldwide.*

The use of a common set of survey questions allows us to benchmark the views of the 153 African CEOs we surveyed against global averages.

Africa's diverse markets present opportunities for companies willing to invest the time to understand them. The cost of doing business here can be high, but so too are the rewards, particularly for those prepared to take a truly long-term view.

The cost of doing business here can be high, but so are the rewards.

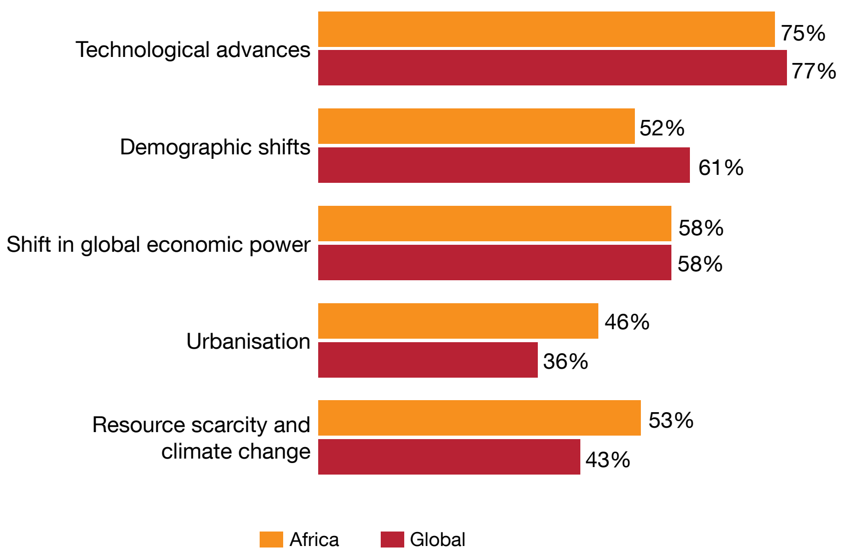
In recent times, Africa's fortunes have been negatively impacted by events beyond its control. The decline in commodity prices sparked by the economic slowdown in China; the decision by OPEC members to ramp up oil supply, resulting in the price more than halving; and the collapse in value of emerging market currencies against the US-dollar in anticipation of an interest rate hike by the Federal Reserve, are just a few that come to mind.

Notwithstanding such challenges, many of which are cyclical, we remain confident that Africa's prospects remain positive. But we are also realists. Succeeding means taking on the very real challenges doing business in Africa presents and having the stamina, flexibility and resourcefulness to persevere in achieving organisational goals. It is in this context that we have titled this year's edition of the publication 'Seeing the glass half-full'.

Within African economies, shifting demographics, rapid urbanisation, rising disposable income and technological change are all influencing growth opportunities and strategies as well as talent requirements for companies doing business on the continent.

Figure 1.1 CEOs anticipate global trends will transform stakeholders' expectations of business

Q What are the top three global trends which you believe will be most likely to transform wider stakeholder expectations of businesses within your sector over the next five years?



Source: PwC analysis
Base: Africa 153, Global 1409

The *Africa business agenda* includes insights and analysis from PwC experts and CEOs operating on the continent. They provide a deeper understanding of the opportunities, challenges and strategies on the minds of executives in Africa.

Gain insights from CEOs and PwC experts on the ground.

Our survey of CEOs reveals four common priorities among Africa's business leaders: diversification and innovation leading to sustained growth, addressing greater stakeholder expectations, effectively leveraging growth catalysts like technology, innovation and talent, and measuring and communicating shared prosperity.

Diversification is a common strategy among many organisations in Africa. There is also a dichotomy within many organisations between a sharpening focus on organisational purpose and the necessity of diversification in places where supply chains may be unstable, infrastructure unreliable, costs rising and talent scarce.

Truly understanding why an organisation is in business in the first place and why it should operate in Africa will necessarily entail a good look at the organisation's purpose by its leaders, shareholders, investors and other stakeholders. But that focus on purpose does not necessarily confine an organisation to one industry sector.

Growing convergence across industry sectors.

Indeed, one of the most striking trends in business in Africa is the convergence that we are seeing across industry sectors. When does a telecommunications company become a bank? When does a supermarket or insurance company become a real estate developer? Why would a cement manufacturer invest in sugar, rice and natural gas, and build its own road, water and power infrastructure to support these industries? At what point do these organisations become something completely different and how do they maintain a clear purpose and culture?

A supermarket chain will build shopping centres when it is profitable and when it is clear that this is what customers want. An insurance company will invest in real estate assets because the investment return is greater than the slow growth of selling policies.

A cement manufacturer will invest widely to meet the needs of growing economies that have relied heavily on expensive imports. These are not arbitrary investments. They are rational responses to the business environment. Strong leadership sets the tone from the top and instils a culture of high productivity.

Strong leadership sets the tone from the top.

We are also seeing convergence in the ways that businesses operate, in Africa and globally. Sooner or later organisations have to compete against global companies or global standards. Preparing strategically for these expectations provides organisations with a competitive and distinctive edge in the marketplace.

The success of a diversification strategy can be measured through job creation, profitability and exports, together with the stable growth in revenue and returns on investment. These are similar metrics that one could use to evaluate the successful diversification of an economy, as Uyi Akpata, PwC's Country Senior Partner of PwC Nigeria, observes in his insightful article about Nigeria and resource wealth.

Measuring and communicating success.

One of the challenges posed by diversification within companies and convergence among industry sectors is how to measure and communicate success. Which performance indicators should an organisation use? Innovative organisations are distinguished by their visionary leadership, licence to explore new ideas, readiness to collaborate and ability to commercialise innovations quickly.

These are not new indicators, but stakeholders increasingly also want to know about externalities affecting the business, its approach to governance and managing risks and how the business model operates.

In this way, I believe that business success in Africa will increasingly be defined by more than financial profit. To communicate value and build trust among a wider group of stakeholders, CEOs are challenged to consider their audience, the content of what they communicate and the media that they use to communicate it.

As Dr Charles Kimei, CEO of one of Tanzania's leading banks, told us, 'Not all stakeholders will read your annual report or integrated report.' Best intentions aside, measuring impact must be communicated in ways that build trust.

Of his stakeholders, Dr Kimei says, 'They believe we are doing good things'. His stakeholders, as is the case for most organisations in Africa, include government and regulators, investors, customers, employees, the media, NGOs and many other groups.

Technology has the potential to transform businesses, economies and people's lives.

Technology is a key enabler of communication and it can also lower the cost of doing business, particularly for high-volume, low-value transactions and for fast-moving consumer goods companies.

Technology combined with a culture of innovation can help an organisation to produce cost-effective, convenient, functional and sustainable products and services – that customers actually want, at price points they can afford and distributed in ways that make consumption convenient and reliable.

For technology and innovation to generate returns, organisations in Africa need talented people with relevant skills. With a youthful, ambitious and increasingly urban population, Africa has an immense talent pool to draw upon, which will only be fully harnessed organisations and governments can work together and continue to invest in an operating environment conducive to growth, education and skills development, job creation and political stability.

Our CEO survey shows that business leaders in Africa want to communicate the impact and value generated through their organisations' purpose and values, business strategies, innovation initiatives and impact on wider communities.

Business success will increasingly be defined by more than financial profit.

It is true that business success will increasingly be defined by more than financial profit, but we should not lose sight of the necessity of profitability for growing companies and ensuring their long-term sustainability. Our survey findings suggest CEOs are focused on profitability and cost containment, a long-term view of returns on investment and ethical, sustainable business practices, customer centricity and product diversification.

Africa's business agenda is complex and changing all the time. I hope that you find this publication informative in your decision-making and your business and interests in Africa.

Africa's business agenda is complex and changing all the time.

Joel Segal
Partner
Chair of Africa Business Group
PwC UK

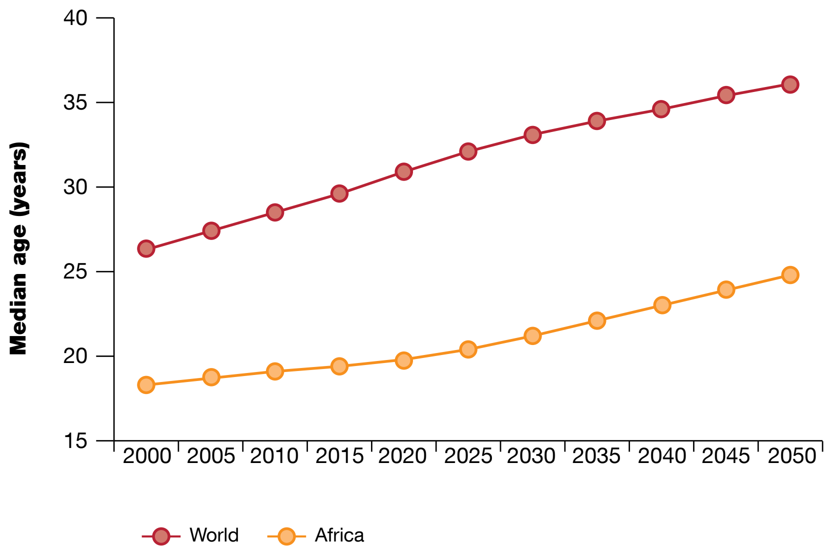
Why smart development is the key to spreading wealth

A combination of digital transformation and the demographic dividend opens up huge growth potential within Africa.

From mobile banking to renewable energy, Africa is leapfrogging developments in other parts of the world. And as populations in China[1], Europe and North America age, Africa's young and growing population and increasingly affluent middle class mean that it could come to dominate manufacturing by the middle of the century.

[1] A declining working-age population is often seen as a developed-world phenomenon, but China is now beginning to follow suit. In 2000, there were six workers in China for every person aged over 60. By 2030, there will be barely two. Guardian, 20 March 2012 (http://www.theguardian.com/world/2012/mar/20/china-next-generation-ageing-population)

Figure 1.2 Africa's population will remain young



Source: United Nations Population Division (2015). World Population Prospects: The 2015 Revision, custom data acquired via website.

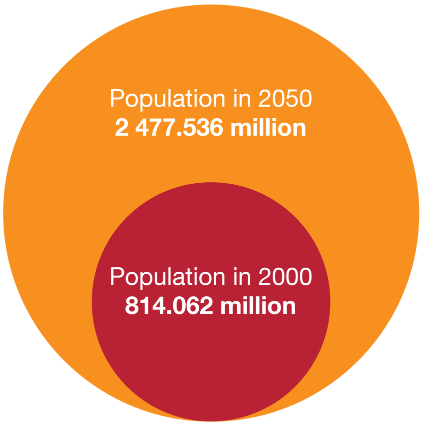
50.4%
of Africans will be below the age of 25 in 2050.
(Global: 35%)

This potential is already evident. Mobile banking is bringing many remote communities into the banking system, for example. Growing access to affordable payment and credit is in turn boosting entrepreneurial opportunities. From the Buffalo Bicycles assembly line in Ethiopia[2] to GE's plans to invest more than US$1 billion in Nigeria over the next five years[3], international businesses are also increasingly targeting Africa for factory development.

[2] Economist, 8 February 2014 (http://www.economist.com/news/middle-east-and-africa/21595949-if-africas-economies-are-take-africans-will-have-start-making-lot)
[3] About GE in Nigeria (http://www.ge.com/news/company-information/nigeria)

But hopes have been dashed before. The concern is that without proper planning we could see a repeat of the resource boom that offered so much, but ended up delivering uneven and unequal benefits.

Africa's demographic dividend



Despite 5% average growth over the past 20 years, the number of people living in poverty in Africa (less than US$1.25 a day) has continued to rise.[4] The benefits of the boom have not only bypassed the mass of the population, partly because wealth remains concentrated in so few hands, but also because of a failure to sufficiently diversify economies or develop adequate infrastructure.

People are right to ask, "Why aren't we making more finished goods and creating value from the raw materials and agricultural products our countries supply?" And as we've seen recently, overreliance on commodities brings dangerous susceptibility to dips and swings in prices.

[4] Africa in Focus, Brookings Institution, 4 May 2015 (http://www.brookings.edu/blogs/africa-in-focus/posts/2015/05/04-africa-poverty-numbers-chandy)

Just as with resource extraction, digital transformation can't foster evenly spread and sustainable wealth generation on its own. Unless we look at the bigger development picture, we risk creating islands of 'new economy' prosperity, isolated from other parts of the city and an underdeveloped hinterland. Alongside digital enablement, we therefore need massive capital investment and improved infrastructure as the foundations for enduring growth.

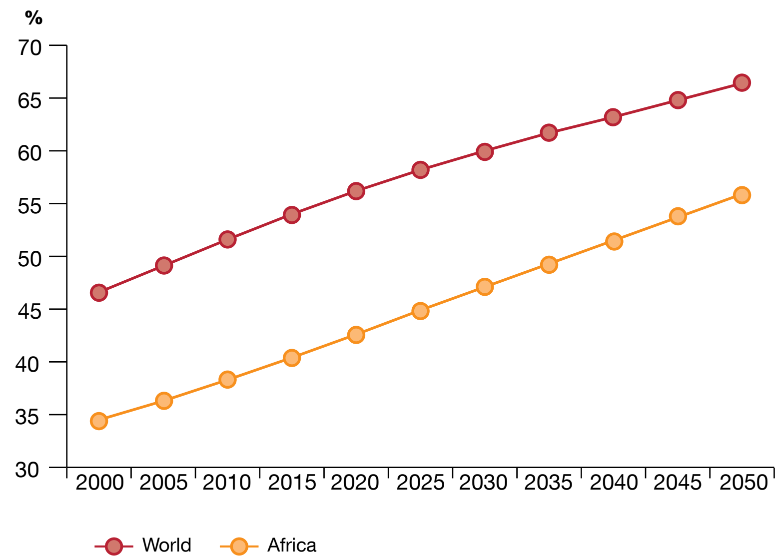
Warning signs

We only need to look at our fast-expanding cities to see how much is at stake. By 2030, half of Africa's population will be living in cities, compared to a third today. Asia's emerging megacities have been one of the main engines of growth, helping to lift millions out of poverty.

Half of Africa's population will be living in cities by 2030.

But in Africa, 60% of the urban population live in slums. Without investment in education, infrastructure and job creation, conditions could get even worse. And as the combination of disaffection and digital mobilisation seen in the Arab Spring attests, if the millions coming out of school and college find no secure or meaningful work, they could soon take to the streets. The risks are especially acute within populations that are already facing the threat of fundamentalism or communal conflict.

Figure 1.3 Percentage of population residing in urban areas



Source: United Nations Population Division (2014). World Urbanization Prospects: The 2014 Revision, custom data acquired via website.

Smart development

So how can we spread and sustain wealth? Digital transformation will be crucial in connecting and empowering citizens and creating opportunities for innovation and growth, especially around smart cities.

But we also need to look at the broader 'ecosystem' by creating an environment that encourages investment and allows businesses of all kinds to thrive.

We believe there are five key foundations for this 'smart development':

- **Stability and trust would extend sources of investment**
  Stability and trust are critical in attracting the broader and more sustained investment needed to build up infrastructure and create a more diversified economy.

  This includes strong and non-partisan leadership and real efforts to foster international collaboration and empower local government. Tackling corruption and making it easier to do business are also vital.

86%
of African CEOs are either somewhat or extremely concerned about bribery and corruption.
(Global: 55%)

Taking account of the concerns expressed by business leaders in our CEO survey, a further boost for stability and confidence would come from more consistent and equally applied policies on regulation and taxation.

- **Cities need to plan for the influx**
  As the influx into cities accelerates, the work we're doing with governments not only underlines the importance of long-term plans for housing, infrastructure, food and water, but also promotes specialist hubs within different cities. Businesses have a key role to play in increasing digital connectivity and developing skills training. We're also likely to see more public/private investment partnerships in areas such as health and housing.

79%
of African CEOs believe a skilled, educated and adaptable workforce is among the top three priorities for business to help deliver.
(Global: 75%)

- **Aim to leapfrog developments elsewhere**
  As technology becomes more affordable and easy to use, Africa has an opportunity to take advantage of the latest developments. This might be optic fibre or 4G telecommunications. In a diversified economy, it also includes making use of advances in areas ranging from seeds to solar panels.

84%
of African CEOs believe reducing the burden of tax administration would be as beneficial as reducing the rates of tax.
(Global: 73%)

- **Put agriculture at the forefront of development**
  Agriculture has continued to be at the back of the investment queue. But Africa represents an extraordinary resource, capable not only of supplying domestic needs for multiple African nations, but also of becoming a major source of world food supplies.

Food security in Africa: Water on oil

The collapse in oil prices has forced food security and agricultural development to the top of the political and economic agendas across Africa.

This is explored further in PwC's *Food Security in Africa* report, 2015.

http://www.pwc.com/gx/en/issues/high-growth-markets/africa-business-group/publications/food-security-africa-water-oil.html

Smart development would have agriculture at the forefront, bringing unused land into production, harnessing the latest technology to boost yields and moving up the value chain into areas such as seed development or chocolate production.

- **Business should play a stronger role in education**
Education of top diverse talent remains a significant challenge. Financial constraints mean that governments can only do so much. It is therefore vital that businesses take some of the strain by stepping up their contribution to education, training and development.

  Beyond businesses' own workforce needs, this would include offering 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, but with much needed soft skills.

34%
workforce diversity and inclusiveness is among the top three priorities for business to help deliver.
(Global: 35%)

52%
of African CEOs are changing their focus on their pipeline of future leaders to make the greatest impact on attracting, retaining and engaging the people they need to remain relevant and competitive.
(Global: 49%)

Critical juncture

Africa is at a crossroads: economic transformation, or more of the same. Businesses and governments have an unprecedented opportunity to deepen and broaden prosperity. But there is also a risk that development will remain fragmented and core challenges will not be dealt with holistically and thoroughly.

Businesses and governments have an unprecedented opportunity to deepen and broaden prosperity.

Without smart strategies that take account of technology and changing customer expectations, businesses risk losing out to disruptive entrants. Without smart development, governments risk alienating a young and aspirational population.

And while the impact of demographic shifts and technological advances is only just beginning to be felt, it is ultimately what we do now that will determine whether the opportunity is realised or squandered.

Jorge Camarate
Strategy&[1] Partner
PwC South Africa

Strategy that works in Africa

Companies from around the world have begun to make expansion across Africa a priority. But success requires a deep understanding of local market dynamics and the associated skills required for success.

There are few companies that are able to successfully and sustainably close the gap between their strategy and their execution. Typically, those companies that are successful – referred to as 'coherent' companies – are the ones that are able to bridge this strategy-to-execution gap by applying the unique capabilities that distinguish them from their peers.

Typically, those companies that are successful are the ones that are able to bridge the strategy-to-execution gap.

Something that coherent companies share, though, is the ability to align their value proposition with their distinct capabilities and their portfolio of products and services.

These elements shape a company's identity, culture and approach to managing resources, steering it from a perspective of 'who you are' and 'what you are good at' as opposed to being fixated on growing wherever there seems to be potential.

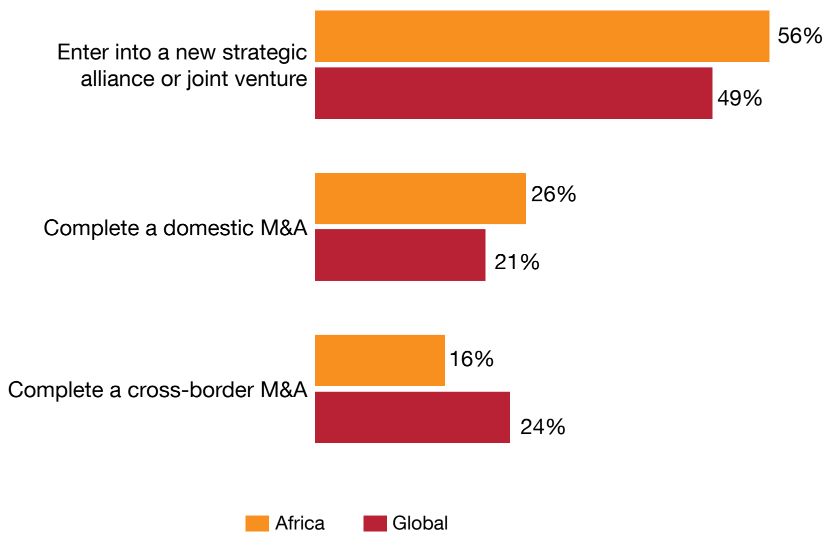
Conventional wisdom and leadership practices tend to focus on growth through revenue generation from all possible sources. For large enterprises, such an approach would almost certainly include expansion into Africa.

In our survey of CEOs in Africa, we found a sizeable minority looking to expand their businesses through mergers, acquisitions and joint ventures.

However, attempts to build businesses in Africa all too frequently result in value destruction in the short term. To succeed in Africa, businesses not only need to adopt an appropriate strategy, but also to have the stamina to maintain a long-term commitment of five, ten, or even 20 years to reaping the returns they are looking for.

Figure 1.4 A significant minority of CEOs are looking to expand their businesses through restructuring

Q Which of the following restructuring activities do you plan to initiate in the coming twelve months?



Source: PwC analysis
Base: Africa 153, Global 1409

[1] Strategy& is PwC's global strategy consulting group

Of the business expansions into Africa covered in our recent *Creating value in Africa* report, as many as 66% resulted in negative shareholder returns. Our study furthermore shows that deals with no capability alignment (32% of the total number) significantly underperform compared to those that have a clear capability alignment.

> *Strategy&'s study found as many as 66% of business expansions into Africa resulted in negative shareholder return.*

The results of our report suggest that there is a need for a new, unconventional growth strategy that builds on and enhances companies' existing capabilities. This will create more shareholder value than seeking out markets purely based on their intrinsic attractiveness.

It is crucial that companies seeking sustainable value creation through expansion into Africa should focus on their own, bespoke capabilities, aligning their efforts to successfully execute their strategy with what they are best at. It takes unconventional leadership practices to foster the behaviour required of coherent companies.

In particular, we see the following five acts of unconventional leadership as being of fundamental importance:

- Commit to an identity;
- Translate strategy into everyday operations;
- Put culture to work;
- Cut costs to grow stronger and invest where it counts; and
- Shape your future.

Commit to an identity

An enterprise needs to have a clear value proposition; it needs to identify the capabilities needed to support this value proposition; and it must have a line-up of products and services that fully utilise the identified capabilities.

Enterprises should only compete in markets where they believe their identity and distinctive capabilities will give them the edge over their competition.

A good illustration of a company with a clear identity is RCL Foods. This leading South African poultry producer has identified its Vector Logistics cold-chain distribution capability as what most clearly differentiates it overseas, so it acquires local product manufacturers and distribution networks that will benefit from that type of distribution.

> *Enterprises should only compete in markets where their identity and distinctive capabilities will give them the edge over the competition.*

According to Pierre Rossouw, Group Africa Development Manager at RCL, this approach has the additional benefit of ensuring the largest possible market for RCL's products and operational economies of scale from the first day of manufacturing.

Translate strategy into everyday operations

To achieve its targeted identity, an enterprise should create a blueprint for defining its most distinctive capabilities. These capabilities should be built out and refined so they can be taken to scale across the enterprise. It is common for companies to identify places to play without necessarily having the capability to win there, but this is not the identity or behaviour of a coherent company.

> *To achieve its targeted identity, an enterprise should create a blueprint for defining its most distinctive capabilities.*

South African financial services group Sanlam is a good example of a company that has clearly defined its distinctive capabilities and identified potential areas where it may lack the capabilities needed specifically for its African expansion strategy.

Sanlam has delivered significant shareholder value over the last ten to fifteen years as it has expanded into Africa and other emerging markets. It has supported this expansion by accessing capabilities from the group in the areas of personal finance, capital markets investment and general insurance, providing the skills needed to move into Africa's other emerging economies.

Sanlam aims to practically achieve its committed identity by focusing on its distinctive technical capabilities, looking for local partners to fill potential capability gaps in targeted African markets – in essence, building a roadmap of how to acquire the missing capabilities to pursue its strategy.

These additional capabilities include tailored distribution (for example, through mobile telephony in East Africa) and customer insight.

According to Heinie Werth, CEO of Sanlam Emerging Markets, the firm targets markets where it can deploy its technical capabilities, such as pricing and risk management, claims management, reinsurance and capital management, to add significant value. At the same time, he stresses that flexibility and sensitivity to local context are central to Sanlam's success.

Put culture to work

A company's culture should reinforce the distinctive capabilities and strengths that differentiate it from the competition. The cultures of coherent enterprises are directly linked to their capability systems and tie in with their value proposition. Their capabilities are put into action by people on the ground, and it is therefore crucial that large enterprises distil a consistent culture across all the geographies in which they choose to operate.

Africa poses some challenges when it comes to instilling this desired culture, as labour markets generally lack people with the necessary technical skills and relevant industry experience. This means companies must develop their own talent. Since relying heavily on expatriates is not financially sustainable or positively viewed by African governments, finding local human capital is essential.

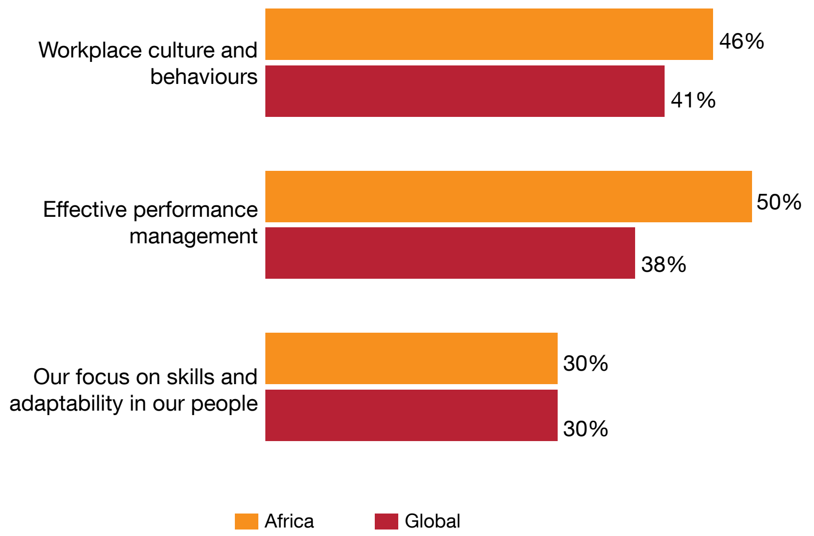
A company's culture should reinforce the distinctive capabilities and strengths that differentiate it from the competition.

Pick n Pay provides a good illustration of how to build strong local human capital that shares a common culture. Operating since 1967, Pick n Pay is a leading grocery chain in South Africa and the second-largest supermarket chain in Southern Africa (after Shoprite).

Many CEOs we surveyed are equally aware of the importance of people and their organisational culture to their success. Many of them confirm that they are changing their talent strategies to remain competitive.

Figure 1.5 CEOs recognise the value of people to their organisations and are changing their strategies

Q What aspects of your talent strategy are you changing to make the greatest impact on attracting, retaining and engaging the people you need to remain relevant and competitive?



Source: PwC analysis
Base: Africa 153, Global 1409

The retailer has set out to generate compelling customer value abroad by deploying its distinctive operational capabilities. These include quality management, in-store service and fair business practices.

Pick n Pay is currently establishing a footprint in West Africa and is committed to investing in training and development in the African countries it operates in. This often includes both on-the-ground training and bringing local staff to the home office to understand the firm's culture and ways of working.

Cut costs to grow stronger and invest where it counts

Coherent companies invest heavily in activities that support their identity and distinctive capabilities, whilst reducing spend on everything that does not support their value proposition. Costs should be linked to the enterprise's strategy and seen as an investment towards enabling strategy execution.

> *Costs should be linked to the enterprise's strategy and seen as an investment towards enabling strategy execution.*

In middle-income African countries with strong institutions, aspirational customers demand premium products and services – but need these to be delivered at a lower cost point. The widely publicised success of Kenya's Safaricom provides a powerful example of how increased investment into its core capabilities of technological innovation (the M-Pesa mobile money proposition) and cost leadership through its value chain (a low-cost distribution network) has been used to dominate an aspirational middle-income market.

Shape your future

Enterprises that can sustainably close the gap between strategy and execution manage to consistently be in front of change. They leverage advanced capabilities for sustained growth, reimagining their strong points, seeking future excellence and setting industry rules.

Coherent enterprises acknowledge that their value proposition is never fully achieved and their capabilities systems should always be open to advancement. These enterprises are able to use their capabilities to shape the competitive environment and their own destiny.

> *Enterprises that can consistently leverage their advanced capabilities for sustained growth can stay at the forefront of change.*

Successful pan-African retail chain Shoprite has changed the rules in retail expansion through its infrastructure investment strategy. Christo Wiese, chairman of Shoprite, points out how operating in low-income markets 'taught us self-sufficiency and forced us to develop an extensive infrastructure to ensure the efficient operation of our stores'.

For instance, Shoprite frequently takes the unusual step for a retailer of building shopping centres to house its stores, requiring entirely new capabilities in real estate development.

By doing so, Shoprite has shaped the retail distribution landscape of low-income markets by bringing modern business structures and formats to areas where this was not previously possible.

Business leaders in Africa who took part in our CEO survey are also looking to multiple fronts for growth opportunities. Partnerships and alliances feature prominently in their plans, with more than half of African CEOs (56%) planning to enter into strategic alliances over the next 12 months, compared to 49% globally. In addition, 16% (Global: 24%) say they intend carrying out cross-border M & A activities in the next year.

Looking at investment prospects, Kenya (22%), the UK (16%) and the US (17%) remain the countries African CEOs view as most important for growth in the next 12 months.

Summary

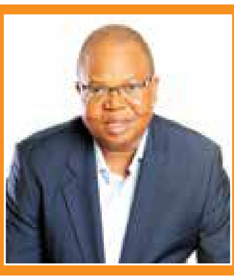
Its potential for growth makes Africa an attractive prospect for global enterprises, but the continent carries unique risks and challenges. It takes a coherent company to successfully and sustainably close the gap between strategy and execution in Africa.

Conventional leadership practices of seeking growth at all costs have resulted in many unsuccessful attempts at penetrating African markets. Coherent companies, on the other hand, apply unconventional leadership to build on and enhance their existing capabilities, improving the likelihood of successful expansion and strategy execution in the fastest-growing region in the world.

Creating Value in Africa

Companies from around the world have begun to make expansion across Africa a priority, recognising that, despite many problems, it is among the fastest-growing regions in the world. This study examines how using and enhancing existing capabilities can help businesses succeed across the continent.

For more on this topic visit www.strategyand.pwc.com/reports/creating-value-in-africa



Uyi Akpata
Country and Regional Senior Partner
in Nigeria and West Africa

Diversifying economies and businesses

Businesses and economies need to change to survive and capitalise on opportunities in Africa

Economic diversification is vital to countries' long-term economic growth, but many resource-rich nations fail to broaden their revenue base beyond oil, gas and mining, resulting in a highly volatile growth path that doesn't take adequate account of the uncertainties associated with price and production shocks.

The global financial and economic crisis has revealed Africa's vulnerability to external economic shocks.

The need for revenue diversification, however, goes beyond fluctuating prices: Being a mono-product economy can result in macroeconomic instability and exchange rate fluctuations, crowd out the development of domestic industries such as the manufacturing sector, increase the likelihood of civil unrest and undermine democratic institutions.

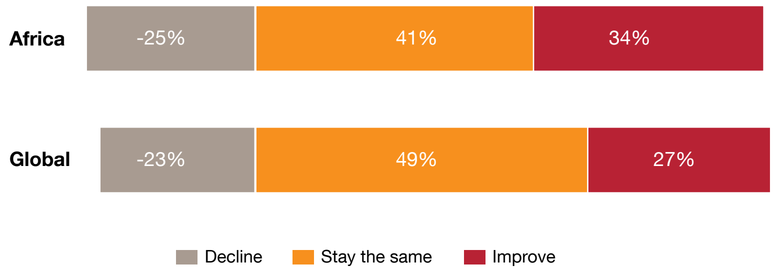
Thus, resource-rich economies in Africa have suffered setbacks in inclusive growth and efforts to meet the Millennium Development Goals as a result of the global economic slowdown and the marked decline in demand for commodities, especially from China.

Resource-rich African economies have failed to achieve inclusive growth.

CEOs in African countries are critically aware of these global issues and the impact they may have on their businesses. Of African CEOs interviewed in our survey, 66% (Global: 73%) believe the global economy will not improve in the next 12 months, while 92% (Global: 73%) are somewhat or extremely concerned about exchange rate volatility.

Figure 1.6 CEOs have a negative outlook on prospects in the global economy

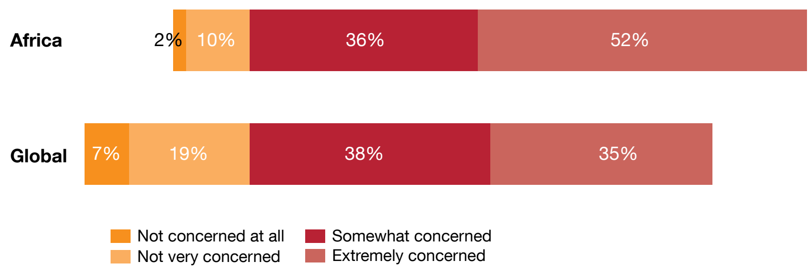
Q Do you believe the global economy will improve, stay the same, or decline over the next 12 months?



Source: PwC analysis
Base: Africa 153, Global 1409

Figure 1.7 Exchange rate volatility is a major concern

Q How concerned are you about exchange rate volatility?



Source: PwC analysis
Base: Africa 153, Global 1409

Case study: The oil industry in Nigeria

Nigeria is the largest economy in Africa with a GDP of US$478 billion[1]. It is also one of the fastest-growing economies in the world with a long-term average growth of 7.7%. As the world's seventh most-populous country, Nigeria is home to about 177 million people and is Africa's largest market.

Nigeria's population demographics are also quite favourable with a young population (67% below the age of 30) and a growing middle class (estimated at 30% of the population) driving the growth in the consumption of consumer packaged goods (CPGs).

Nigeria's economy grew by 2.7% in 2015, which represents the slowest growth rate in the past five years – much lower than the five-year real GDP average of 4.8%.

Oil accounts for close to 90% of Nigeria's exports and about three-quarters of budgetary revenues.

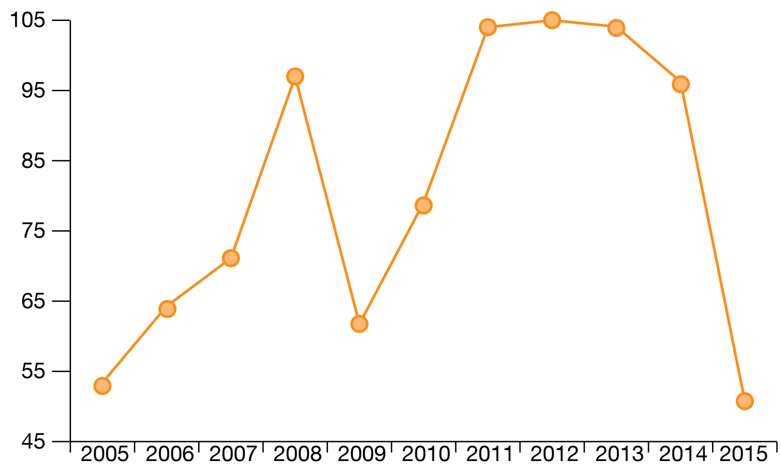
Real growth in the crude petroleum and natural gas sector was -5.4% in 2015, as oil exports declined 49% during the year. The impact of the low oil price in terms of production has been relatively capped but remains a significant risk.

Reduced oil revenues have had a significant impact on the oil-dependent nation as they pose a major challenge to the country's balance of payments and public finances. Oil accounts for close to 90% of exports and about three-quarters of the country's budgetary revenues.

[1] Data as at 2015. NGN/USD: 199, CBN rate

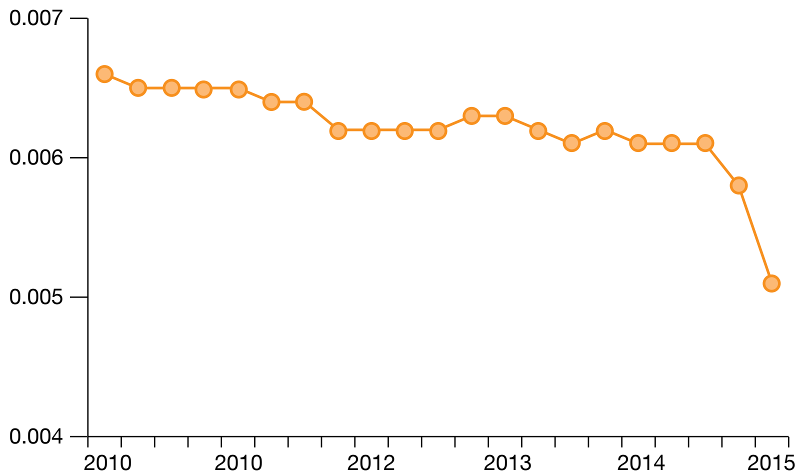
In a recent report, the Nigerian National Petroleum Corporation confirmed that revenues from oil sales had declined more than 67% between September 2014 and July 2015. During this period, the price of crude oil fell from US$98.15 to US$47.11 a barrel.[2]

Figure 1.8 Crude oil, average price (US$/barrel)



Source: World Bank Commodity Price Data (The Pink Sheet)

Figure 1.9 Historical NGN/US$ exchange rate



Source: Oanda

[2] "Revenues from Nigeria oil sales decline sharply: official", *Vanguard Media*. www.vanguardngr.com/2015/10/revenues-from-nigeria-oil-sales-decline-sharpy-official (accessed 20 April 2016

There are three core reasons why Nigeria needs to genuinely pursue diversification:

- Firstly, to insulate the economy from the risk of being vulnerable to a single commodity, as volatility in oil prices have shown.
- Secondly, to create jobs that can raise the standard of living of the average Nigerian. Jobs in the oil & gas industry account for less than 1% of total employment, and the young population can no longer be absorbed by the public sector.
- Thirdly, to prepare for life beyond the oil resource. Thus, diversification has been the subject of numerous plans and initiatives by the government, although the statistics are broadly unchanged, at least from the revenue and export perspective.

The potential for a resurgent non-oil sector clearly exists and a recent PwC Nigeria publication, *Nigeria: Looking beyond oil*, addresses the question of priority sectors[3]. The analysis identifies agriculture, petroleum (petrochemical and refining), trade, and information and communications technology as priority sectors with the potential to have the most significant impact on the broader economy.

[3] "Nigeria: Looking beyond Oil", PwC Nigeria. www.pwc.com/ng/en/publications/nigeria-looking-beyond-oil-report.html

These sectors in the medium to long term are key to boosting other sectors like manufacturing.

- **Agriculture**

  Nigeria has about 71.2m hectares of arable land, of which only about 34.2m are under cultivation. Only about 1% of arable land is irrigated. Forward linkages to agro-processing and the services sector as well as backward integration to input supplies could improve farm incomes, raise employment levels and improve domestic food security.

  It is estimated that Nigeria's agriculture exports could reach US$59 billion (2014: US$8 billion) by 2030 if the Agriculture Transformation Agenda reforms are sustained, implying a growth of 9.6% per year.

- **Petroleum, chemical and non-metallic mineral products**

  Given the experiences of more advanced oil producers, particularly those in the Middle East, diversification within the petroleum sector is key to harnessing linkages to the non-oil economy. This implies investments across the downstream sector to develop petrochemicals, fertilisers, methanol and refining, as well as industries relevant in both industrial and consumer products, which Nigeria currently imports.

- **Information and communications technology (ICT)**

  Nigeria is likely to see accelerated growth in its digital economy, and as a market with rising mobile penetration and a negligible fixed broadband infrastructure, Nigeria has the opportunity to leverage mobile technology to generate improved social and economic outcomes across the consumer sector through e-commerce, the financial services sector through mobile banking and mobile insurance, and social services such as education and healthcare.

- **Trade**

  Trade accounts for 17% of GDP and 23% of employment and has recorded average real annual growth rate of 5.48%, higher than the economy-wide real GDP growth of 5.31% over the past four years. Thus, as incomes rise along with rapid urbanisation, we project that household consumption could reach US$1.1 trillion by 2030, from US$317 billion in 2014, at a compound annual growth rate of 9% through to 2030.

Significant reforms across the labour market, business environment and fiscal management will be required to drive transformation.

The obvious policy approach is to create an economic and regulatory environment that is unambiguous, transparent, and conducive for business. This means simplifying complex regulation and processes, and eliminating the hurdles that stand in the way of a bigger and more productive private sector.

Considering that the services sector is projected to be a key driver of the Nigerian economy going forward, measures have to be implemented to improve the value-add of labour in this sector. Significant reforms across the labour market, business environment and fiscal management will be required.

Nigeria also needs to ensure sustainable fiscal management that is resilient to global oil price cycles. The real issue is not the tax rate but the low level of compliance and outright evasion. From a developmental perspective, improving tax collection and administration is imperative for achieving national growth objectives.

The real issue is not the tax rate but the low level of compliance and outright evasion.

Kenya, South Africa and the UAE have been remarkably successful in diversifying their economies and their export structures. The Kenyan economy has long been one of the most diversified in Africa and is based on traditional sectors such as agriculture and tourism.

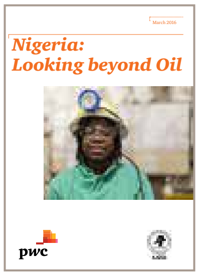
South Africa has a well-established manufacturing base and this remains a key driver of its economic growth and diversification. Dubai, as part of the UAE, provides incentives to attract foreign direct investments. These incentives include an efficient bureaucracy with little corruption and a regime of no taxes and low tariffs.

The global financial and economic crisis, coupled with the decline in commodity prices, has revealed Africa's vulnerability to external economic shocks, and economic diversification holds great potential to increase Africa's resilience and would contribute to achieving and sustaining long-term economic growth and development on the continent.

The process of diversification can take many forms, the most prominent being the shift towards industry. Diversifying economies exposes producers to a wider range of information, including about foreign markets, and so raises the number of points for potential 'self-discovery'.[4]

However, the transition to a non-oil economy will not be an easy task. Based on a 2016 PwC interview of foreign companies across Nigeria, four concerns stand out as challenges in the business environment: corruption, inadequate infrastructure, low skill levels, and macroeconomic uncertainty.

In the *2016 Ease of Doing Business* ranking, Nigeria ranks 169th (2015:170th) out of 189 economies surveyed. This represents a decline of 67 places since 2009, when it ranked 102nd. These results emphasise the need for economic and regulatory reform to create a more conducive environment for business. This will require simplifying complex regulation and processes, and eliminating the hurdles that stand in the way of a bigger and more productive private sector.



Nigeria: Looking beyond Oil

Nigeria's intrinsic potential lies beyond oil and harnessing this potential has become an imperative given the expectations of continued low oil prices. This report addresses the question of priority sectors that Nigeria should target for growth to build a diversified and more stable economy. Nigeria's intrinsic potential lies beyond oil and harnessing this potential has become an imperative given the expectations of continued low oil prices. This report addresses the question of priority sectors that Nigeria should target for growth to build a diversified and more stable economy.

To find out more, visit www.pwc.com/ng/en/publications/nigeria-looking-beyond-oil-report.html

[4] Gelb, Alan. "Economic Diversification in Resource Rich Countries". *International Monetary Fund*. www.imf.org/external/np/seminars/eng/2010/afrfin/pdf/Gelb2.pdf

CEO insight

Kamlesh Madhvani
Joint Managing Director
Kakira Sugar Limited
Uganda

There is nothing sweeter than sustainable growth

Our strategy for ensuring sustainable profitable growth in Uganda's sugar industry is to effectively execute a diversification and product optimisation strategy. We know, like our slogan says, that 'There is Nothing Sweeter' than this strategy in the sugar industry.

The sugar industry in Uganda has grown over the last nine years, with the licensing of 14 new entrants. Key success indicators show that this growth is not sustainable because of heightened instability in the supply chain. Specifically, the acreage of land cultivated by factory owners or sugarcane out-growers has largely remained unchanged. This limits the availability of sugarcane supply, creates a food security concern and jeopardises the long-term commercial viability of investments in the sector.

Sustainable diversification

Through diversification, Kakira has expanded into renewable electricity co-generation, producing 50MW. At peak production, 32MW is transmitted into the national grid. Diversification into electricity co-generation has contributed significantly to the security of our return on investment with 2015 profitability from electricity sales equal to that realised from sugar sales. Importantly, co-generation ensures that we optimise the value from bagasse, the fibre by-product that remains after the sugar extraction process.

Value optimisation from by-products is at the centre of our diversification strategy and to this end Kakira has embarked upon the establishment of an ethanol and extra neutral alcohol (ENA) plant that will use molasses, another by-product of the sugar extraction process, as raw material. This plant will be commissioned in 2016. As in Brazil, our ultimate strategy in Uganda is to produce high-quality ethanol that downstream petroleum companies can blend with end-user petroleum products like gasoline.

We are immensely proud of this development because ethanol and ENA production, together with sugar production and electricity co-generation, will ensure price stability for Kakira's sugarcane out-growers.

Diversification also protects returns for our company's shareholders and supports our ambition to be a multi-sector contributor to Uganda's economy. Our commitment to this strategy also solidifies our position as one of the leading sugar producers in East Africa.

Opportunity in every challenge

Our business has exhibited resilience in spite of a challenging environment. Unlike CEOs in PwC's Annual Global CEO Survey who have overwhelmingly identified over-regulation as one of the largest factors to have impacted the business environment, our main challenge remains under-regulation or the lack of sufficient regulation of the sugar industry.

Currently, Uganda lacks an effective integrated agricultural and industry policy that regulates investment and the operation of companies in the sugar industry. This in turn jeopardises the successful and sustainable development of the sector.

I view the success of our diversification strategy as an opportunity that will persuade the Government to establish and enforce a progressive policy for the sugar industry in Uganda – a policy that will ensure responsible investment in the sugar sector.

Such investments will support the food security objective for the region, protect out-growers, ensure expansion of the sugarcane catchment area and require product diversification by each player in the industry to maximise productivity.

As a successful regional business, we recognise that our fortunes are impacted by the interdependent global environment. Global megatrends like climate change, demographic shifts and rapid urbanisation will have a profound impact on our business in Uganda and the region. Because we are engaged in crop husbandry, changes in climate have already had an impact on yields in our sugarcane catchment area.

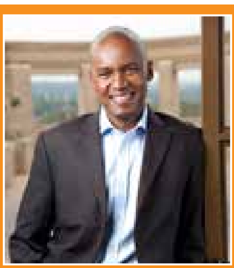
For example, recent changes have demonstrated that Northern Uganda is the most suitable area for sugarcane growing because of the adequate variation between day and night temperatures – not the Busoga sub-region where our company is based. Our response to climate change largely revolves around maintaining responsible agronomical practices.

Demographic shifts and rapid urbanisation present opportunities for growth. Eighty per cent of Uganda's population is located in rural areas. Their subsistence livelihoods mean that sugar is still considered a luxury product. Therefore, demographic shifts and rapid urbanisation will contribute to growth in our consumer market, supported by growing income levels and a growing working class.

The growing working class has also provided us with a good local resource pool from which we have been successful in recruiting talent for our company. We recognise that our progress is intertwined with the successful recruitment and retention of local talent – an essential part in the realisation of Kakira's strategic aspirations.

Overall, we are confident that our diversification strategy is the most effective response to the challenges in the business environment. I am an optimist and believe that our strategy will ensure that we are best placed to take advantage of a growing market and in turn generate a return on investment that benefits all of our company's stakeholders, who mainly comprise farmers, employees, distributors, regulators and shareholders.

2. *Addressing greater stakeholder expectations*



Dion Shango
Regional Senior Partner for PwC in Southern Africa

Stakeholders high on the Africa business agenda

Boardroom agendas are changing to keep up with broader stakeholder needs and expectations

Across Africa boardroom agendas are changing, with many additional focus areas being brought to the table, such as corporate governance, sustainability, environmental issues, cyber security, and wider stakeholder pressures.

> *Organisations are having to take a more holistic view of their businesses.*

The corporate landscape continues to undergo constant change, with companies being confronted by shareholders and other institutional investors who demand explanations around financial reporting and performance.

Businesses are now under more pressure to provide timely and accurate information to shareholders and other stakeholders regarding financial performance, control and ownership, the difference that businesses are making in the societies in which they operate, the impact that business is having on the environment, as well as on corporate governance matters.

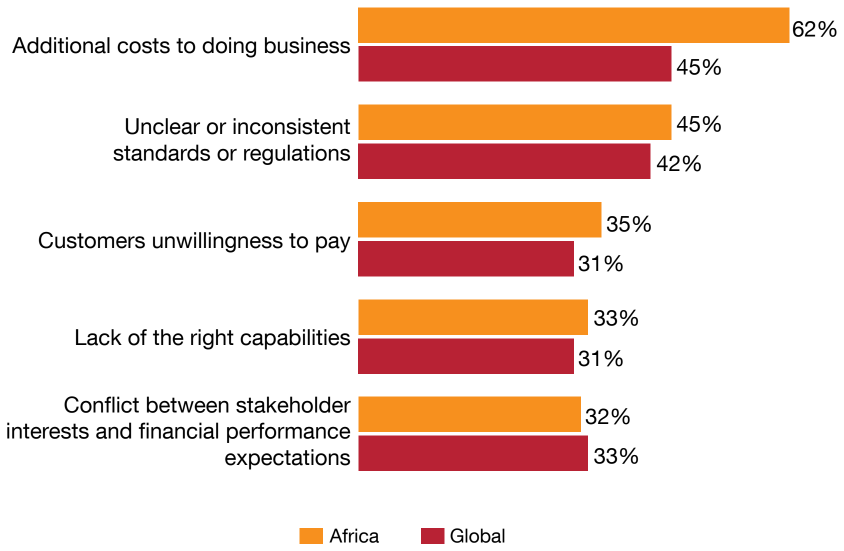
> *Business is having to account for both financial and non-financial performance.*

Doing business in Africa or in any emerging market can present significant challenges, as well as opportunities. Compared to those in developed markets, there are a number of unique challenges that have to be top of mind for business leaders in emerging markets.

These include under-developed infrastructure, poverty and inequality, high rates of unemployment, corruption, inadequate education and legal systems, and violations of human rights.

Figure 2.1 Business is encountering a range of challenges in responding to wider stakeholder expectations

Q Which of the following barriers is your organisation encountering when responding to wider stakeholder expectations?



Source: PwC analysis
Base: Africa 153, Global 1409

Over the past decade, there has been an upsurge in the number of non-governmental organisations (NGOs) and civil society organisations, which have played an influential role in changing policy, social and environmental practices across the continent.

In addition, civil society organisations, governments, regulators, investors and other stakeholders are more vigilant than ever and driving increased scrutiny of business conduct and demanding more accountability and transparency.

Stakeholders are demanding more accountability and transparency.

A number of organisations have responded to these demands and trends by engaging and communicating more openly with stakeholders, implementing new business practices and systems, and innovating new products and services. As part of this response businesses have developed new codes of ethics, supplier codes, codes on workers' rights, and policies around environmental and social matters.

Organisations have also taken steps to enter partnerships with NGOs and other civil society institutions. Industry coalitions have been formed to deal with some issues having an impact on society. The Extractive Industries Transparency Initiative and the Carbon Disclosure Project are two examples.

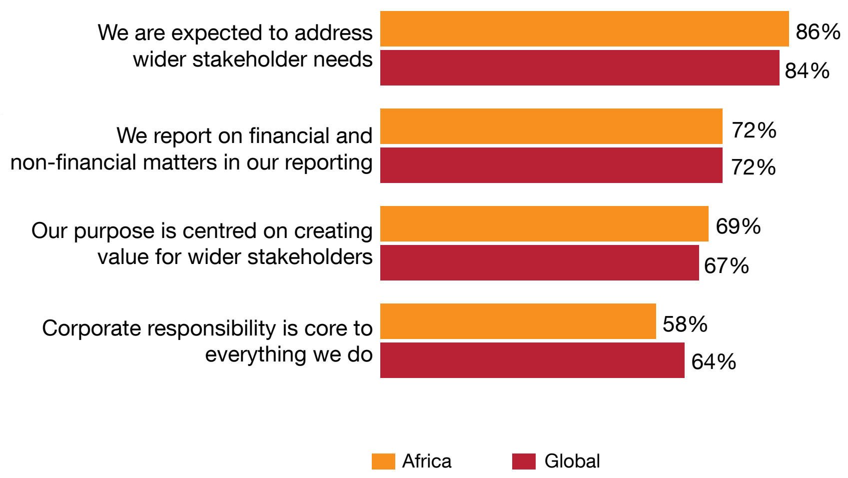
African CEOs we spoke to identified customers and clients; government and regulators; supply chain partners; employees and investors as the stakeholders who had the most significant impact on their business strategies.

From business' perspective, stakeholders can be divided into three groups:

- Those invested in an organisation;
- Those impacted by an organisation; and
- Stakeholder circles impacted by the organisation.

Figure 2.2 Business is expected to address wider stakeholder expectations

Q Thinking about the wider stakeholder expectations you see, which of these statements best describes your organisation?



Source: PwC analysis
Base: Africa 153, Global 1409

Where businesses should consider placing stakeholders on the agenda

88%
of African CEOs are making some or significant changes in response to changing stakeholder expectations about how they measure success and what they hold themselves accountable for.
(Global: 86%)

Invested stakeholders

- **Customers and clients**
Customer and clients' needs must be prioritised and taken into account. The customer is paying the business for its goods and services, and if not satisfied can take its business to a competitor. Therefore it is vital that the business adds value and innovates new products and services to maintain its competitive advantage.
- **Employees**
It is critical that the business recruit and retain top talent. The business's human capital that delivers the services and products to the customer/client and therefore is an essential compont of the organisation. Many organisations consider their people to be their greatest asset.
- **Suppliers, distributors and other partners**
The business will need to collaborate with suppliers and other partners, both traditional and non-traditional, to succeed in achieving its goals.
- **Investors**
Shareholders, owners and public investors invest money in the business and have a vested interest in its activities and success.

Stakeholders impacted by the organisation

- **NGOs, civil society institutions and society at large**
The organisation must be and be seen to be a good corporate citizen and collaborate and engage with broader stakeholders. It should have a corporate social responsibility policy and programme in place.
- **Employees' families**
The welfare of employees can have a direct impact on that of their families and broader society. Issues such as working conditions, occupational health and safety, remuneration and morale are among the array of factors that can have a broader impact beyond the employee.

Stakeholder circles impacted by the business

- **Local government, regulators and standard setters**
  The business should comply with the laws and regulations of all the jurisdictions in which it operates, as well as policies and best practice in its particular industry.

89%
of African CEOs are making some or significant changes in response to changing stakeholder expectations about how they partner and who they partner with.
(Global: 85%)

The catalogue of stakeholders and potential stakeholders is boundless. It can even include future employees and future suppliers. At times, some stakeholder interests may override others and even conflict with one another. Ultimately, the business should act ethically and within the confines of the law and principles of good governance when managing stakeholders' needs and expectations.

Businesses need to carefully manage conflicting stakeholder interests.

Engaging with stakeholders can be extremely difficult for organisations, particularly those operating in extractive industries, like oil & gas, minerals and resources, where the expectations of government, regulators and other stakeholders is intensifying.

Increasingly, many advanced companies are recognising that engagement with stakeholders is improving business performance and sustainability. The smart African CEO knows that the relationship with stakeholders needs to be managed proactively and with a high degree of consistency.

54%
of African CEOs believe creating value for wider stakeholders helps their organisations be more profitable.
(Global: 52%)

Even those companies that are late adopters have realised the damaging effect that having bad or no relationships with stakeholders can have on reputation, as well as the bottom line.

For many companies, there have been a number of pitfalls when engaging with stakeholders. Others have become extremely successful. For example, Coca-Cola is taking a collective approach to water scarcity, while Nestlé is addressing challenges around establishing a more sustainable cocoa value chain.

Successful companies tend to be collaborative and collective in their engagement.

More successful companies tend to be collaborative and collective in their engagement with stakeholders. Leaders require particular insight and the ability to identify and understand key stakeholders in the wider business and political landscape.

They need to have a business rationale for engaging and collaborating with stakeholders, while being acutely aware of the risks posed by not engaging with all relevant stakeholders.

One of the most significant benefits of engaging and collaborating with stakeholders is that an organisation may be able to engage new markets in Africa and speed up the introduction of new products and services. This often requires organisations to be more innovative than ever before.

Stakeholder engagement needs to be effectively planned and managed.

Like any other business process, engagement with stakeholders needs to be planned and managed. It needs to be driven by a clear strategy and have a comprehensive set of objectives.

All staff in the business need to be made aware of the programme and why it is being undertaken. Furthermore, there needs to be a shared understanding of the desired project outcomes.

Organisations that take a systemic approach are likely to get better results in the long term, and will ultimately be able to monitor and manage stakeholder relationships and risks more effectively.

Anne Eriksson
Country and Regional Senior Partner for PwC in Kenya and East Africa

Building trust and a shared sense of purpose

Trust is emerging as an important differentiator in the business community. Do consumers trust what organisations are doing? Do they trust in the authenticity of an organisation's brand and products?

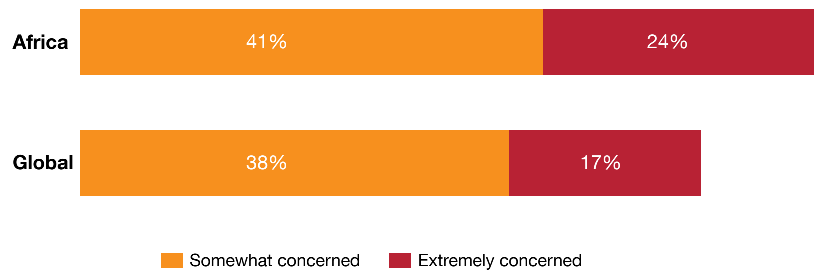
Building trust helps organisations to attract investment and build stakeholder loyalty. East Africa is in a good place now in terms of demographics and relative political stability. The region is seen as a good destination to invest, whether for multinationals or venture capital or private equity funds.

65%
of African CEOs are somewhat or extremely concerned about lack of trust in business.
(Global: 55%)

From that viewpoint, I think if you are talking about the environment in which CEOs operate and their ability to convince their head offices to support expansion, I get the sense that this region is not hard to sell. I attribute this relative ease of doing business to demographic attributes like rising disposable incomes among younger people as well as the quality of talent available in the region.

Figure 2.3 CEOs are critically concerned about lack of trust in business

Q How concerned are you about lack of trust in business? (Summary somewhat/extremely concerned)



Source: PwC analysis
Base: Africa 153, Global 1409

East Africa is seen as a good investment destination.

I often wonder whether organisations and their leaders get carried away with some of the trends that are happening in their sector, however. They seem to make decisions based on what other organisations are doing and their new product or service offerings.

I see this happening with purpose statements and mission statements. As stakeholders, we should ask: 'How realistic are some of the mission statements that come out?' I feel that sometimes organisations are driven overly much by the competitive environment and the need to satisfy their shareholders in particular.

Organisations need to build trust to attract investment.

For PwC, our purpose is to build trust in society and help solve important problems. Like many organisations, we measure and communicate this purpose through the health of our brand in the marketplace and the satisfaction of our clients. Internally, we manifest this purpose by reinforcing a strong desire among our people to deliver the highest quality of work.

As the senior partner for PwC Kenya and the eastern Africa region, I believe that I am directly responsible for measuring and communicating our purpose effectively. Indeed, I am directly responsible for ensuring we deliver on our global purpose. Our global standards and processes contribute to the trust that our clients place in our business – in fact, these standards and processes are our ticket to the marketplace. The same purpose we apply to our assurance business is just as applicable to our tax and advisory businesses. We are united by this purpose, and it forms the basis of how we can offer our clients an integrated solution rather than silos of services.

Challenges to trust in the marketplace

We have seen organisations expand significantly in East Africa, and I think that what continues to be a challenge for most of them is ensuring that they can meet demand and so achieve their shareholders' objectives, but at the same time maintain standards of high quality. Counterfeit products undermine trust in quality, as do significant business failures due to mismanagement.

Counterfeit products and mismanagement undermine customer loyalty to a brand and employee morale, reputation in the market and trust among all stakeholders.

Many businesses expanding in Africa face the challenge of meeting demand and achieving shareholders' objectives, while also maintaining standards of high quality.

We should also consider the impact of regulation on the competitive environment. Regulation can influence the cost of doing business. We are seeing more and more regulation, whether it is in the telecommunications space, the oil and gas sector, utility and power generation and especially financial services. A lot of that regulation crosses borders, regionally and globally; regulation is quickly becoming borderless.

79%
of African CEOs are somewhat or extremely concerned about over-regulation.
(Global: 79%)

While regulation is one of the factors that influence the cost of doing business, high costs can become a barrier that has an impact on trust. Export duties or transfer pricing taxes do contribute to the cost of doing business. If an organisation is not competitive, its leaders will look for ways and means of becoming more successful in the marketplace.

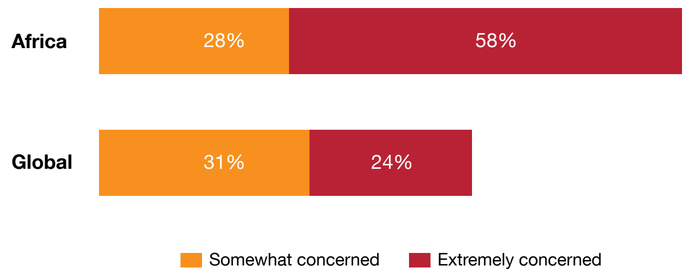
Regulation can impact on the competitive environment by increasing the cost of doing business.

Corruption is a major challenge that I see CEOs grappling with when it comes to doing business. Corruption can very quickly undermine an organisation's and an individual's reputation. We are starting to see targeted efforts in which the private sector is really pushing for legislation and the codification of business practices in an effort to fight corruption. These and other efforts will help to foster a less corrupt business environment. But it must be led from within, from the top, by everybody.

86%
of African CEOs are somewhat or extremely concerned about bribery and corruption.
(Global: 55%)

Figure 2.4 Bribery and corruption is a major concern for African CEOs

Q How concerned are you about bribery and corruption? (Summary somewhat/extremely concerned)



Source: PwC analysis
Base: Africa 153, Global 1409

The recent move by the Kenya Private Sector Alliance (KEPSA) in collaboration with the UN Global Compact Initiative to spearhead a business code of conduct is positive. Government should now enact legislation to promote the prosecution of people found to have engaged in corrupt practices in the private sector – not just in the public sector. I see this as a positive development with significant potential to influence other economies in this region.

We are starting to see targeted efforts by the private sector for legislation and codes of business practice to fight corruption.

Measuring and communicating impact

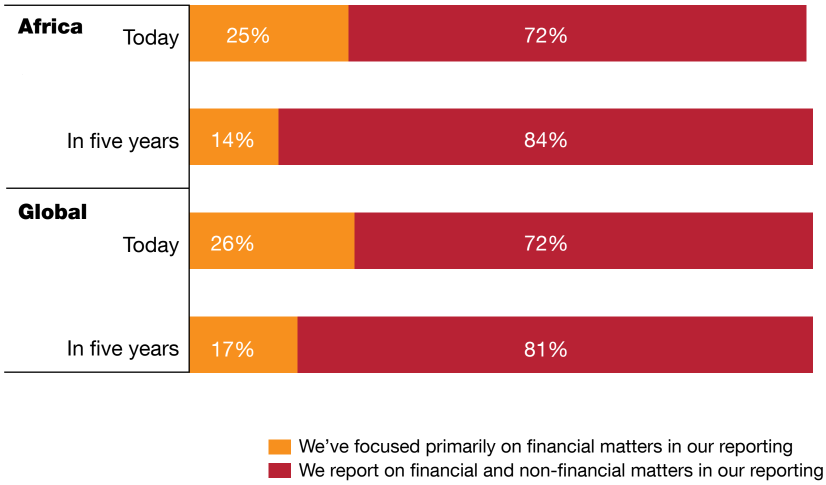
Integrated reporting helps organisations to share a more holistic view of performance. At PwC, we encourage our clients to move in this direction. Integrated reporting contributes to transparency about a business's strategy and impact on the economy as a whole, not just corporate social responsibility initiatives. Integrated reporting should really be called 'total value reporting', in my view. It includes, but is not limited to, traditional financial reporting and corporate responsibility.

> *Integrated reporting helps organisations to share a more holistic view of performance.*

To report effectively on holistic performance, organisations must have mechanisms in place to collect and process the required information, much of which is non-financial in nature. This is not easy, particularly for small and medium-sized enterprises, but it can also become more complicated than it needs to be.

Figure 2.5 CEOs recognise the growing importance of reporting on non-financial matters

Q Thinking about the wider stakeholder expectations you see, which of these statements best describes your organisation?



Source: PwC analysis
Base: Africa 153, Global 1409

> *Integrated reporting contributes to transparency about a business's strategy and impact on the economy as a whole.*

> *Businesses build trust in their organisations when they convey more than just financial information.*

It can be hard to prioritise integrated reporting, because the exercise forces the organisation to dig deep, introduce internal measures that go beyond financial ones and continuously critique the organisation's purpose and its alignment to that purpose.

Some organisations shy away from integrated reporting because their leaders worry about sharing non-financial, market-sensitive information. I sympathise with this point of view. But for listed companies, there is much value in communicating strategy and how value is created as they deliver that strategy.

Historical financial reporting tells only part of the story, and holistic integrated reporting can contribute to the trust that stakeholders have in the business.

The exercise of integrated reporting helps to strengthen corporate culture and inspires more trust. We know from our survey interviews with CEOs and many interactions in the market that the exercise of integrated reporting creates a deeper sense of pride among employees. When organisations convey to the public, shareholders, government and other stakeholders more than just financial information, they build more trust in their business.

CEO insight

Larry Ettah
Group Managing Director
UAC of Nigeria

UAC of Nigeria Plc is a diversified business principally operating in the manufacturing & processing, warehousing & logistics and real estate sectors.

Growing in complicated times

Looking globally, I think there's a lot of convergence in the ways of doing business. Capital is moving across the whole world. We are going to compete either against global companies or against global standards.

Also, there are a lot of things happening around technology through the internet: if you look at simple things like price, you really can't compete any longer as a commodity because price discovery is very easy. People can easily find out what prices are in different geographies and relate to that.

So in terms of our growth strategy and prospects, this means the landscape of business is going to be much more competitive. To that extent, what we see is that we must have a different view about how we grow, how we source capital and how we deploy technology.

We also have to be looking at how we structure business partnerships so that they also bring best practices into our own business. What we've done over the years is to look for best-in-class operations within Africa with whom we can collaborate to ensure that our business is sustainable. This means that we have to become what I will call 'early adopters' of leading practices in technology, so that we are not found wanting when some of these developments take place here.

These changes also give us the opportunity to begin to review how we look for capital: we can access global capital markets rather than just thinking that access to capital is restricted. It could be that Asia is a possible source of capital rather than focusing on Europe or America.

Also, talent itself could become much more available and much more mobile. We have to be thinking about our people moving out of the country for opportunities elsewhere, and we should also be open to looking at where we can bring talent into the business from other countries.

Addressing greater expectations

Turning to our stakeholders' wider expectations and our organisation's purpose, I share the view that there is a kind of nexus between values that organisations have and the commercial competence of the organisation itself. So if you have a company that has strong values in terms of stakeholder expectations but has poor commercial competence, the truth is that it is a badly run business. If you have one which has weak social values and also has weak commercial competence, then it is a bad business. But if you have a business that is weak on the social values as such but has strong commercial competence, then it's a risky business, because it can't operate sustainably.

So we try as much as possible to balance our social values with our commercial competence, because the day we stop delivering on the commercial competence we cease to be a business. So it's that fine balance. And in doing this in UACN, for instance, our payoff is 'doing good' – which means we want to be a good investment to our shareholders, a good employer to our employees, a good corporate citizen because we create jobs, we pay taxes, we also do things which are enriching for the entire nation, and we also want to be a good member of the community in which we operate in terms of our corporate social responsibility to our immediate community.

One global trend that's influencing our outlook in terms of stakeholder expectations is environmental issues – because the impact of your operations on the environment is very critical. We look at ourselves as people who want to not just create a society where you have goods and services, but who also want to create a safe and sustainable society.

So our manufacturing practices in our various factories have to reflect the fact that though certain activities could impact the environment, we have identified ways of giving back to society with a view to restoring a balance.

So our manufacturing practices in our various factories have to reflect the fact that certain activities could impact on the environment. Another thing in terms of corporate social responsibility is that we encourage our leaders to volunteer their time to help with education by teaching and mentoring students.

There's a significant congruence between my personal values and my organisation's values. I've been in this company for 28 years; it's the only company I've worked for and ever applied to. And it reflects my personal values: I tell the young managers that if you're looking for a job then this is not the place, but if you're looking for an environment that supports you, then this is the place.

Transforming: technology, innovation and talent

As we work to align our people to the changes happening, one change we've seen is in technology. The fact that we have to adopt leading technology practices in our enterprise risk management framework and get the whole organisation aligned with that, that's one part.

The other part of technology itself is the digital evolution that's happening. And then added to that are the manufacturing processes, which we're also changing within the organisation, and the relationships we've built with our strategic partners, and getting people to accept that when you have a marriage, there are certain culture conflicts that will happen initially, and you have to be open to accepting superior knowledge.

Added to that is that the business itself, in order to be sustainable, must continuously look how to divest and acquire. So it means that our portfolio of business could change over time, and in that process sometimes there is a sad but necessary responsibility to let go of some things and let go of some people.

But that is something that has to continue for the business itself to grow. And communicating that with some level of empathy for people to appreciate that change is coming is also part of the responsibility of leadership.

So that's been the kind of situation we find ourselves in. In addition, we've seen a situation where our universe of shareholders has changed given what has happened in the financial markets; the pension funds have become much more dominant in terms of shareholding in different businesses, and also the expectations of global investors.

So things like investor relations, a lot more access and openness, communication to address stakeholder concerns in terms of your quarterlies – those are things that we were not used to, but we now have to put ourselves out for this 'fashion parade'.

Measuring and communicating success

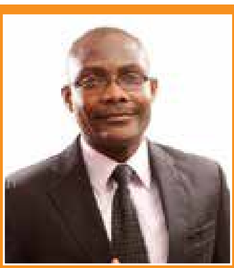
Looking at the measures of success for modern businesses, financial measures are important, I'm not discounting that. But added to that is how responsibly you are using resources, and how responsibly you are also not creating a nuisance for the environment.

The other one is in terms of capacity building. If you look at this country, for instance: knowledge, education, employment and employability are big issues. So too is how you are helping in that capacity building and how you as a corporate citizen are helping in articulating and advocating for the right behaviours within your environment.

Despite the best of intentions, politicians, try as they might, often become a disaster in terms of managing their nation. So it's about ensuring that the right questions are asked as businesses, and that you are advocating the right practice and are a force for good. And about how you're helping to improve people's lives, because it goes back to "what's my purpose, why am I alive: how are you helping people to have a meaningful life?"

In terms of areas where businesses should be doing more to measure and communicate their impacts and value, I think they should be much more confident about communicating their contribution to society in terms of the taxes they are paying and what that means to the economy itself.

In terms of creating employment, capacity building within the total economy and helping society with issues around the environment, businesses should be communicating and measuring these impacts as well as emphasising how they're encouraging best practice in the public sphere when it comes to integrity, trust, leadership and all those kinds of issues.



Tola Ogundipe
Assurance Leader
for PwC's East, West and South Market regions in Africa

Regulatory change, the importance of compliance and an environment conducive to growth

Regulation can facilitate economic growth and prosperity, while ill-designed rules and requirements can destroy growth and opportunity.

Why some countries grow faster than others is one of the most important questions in economics. The answer to this holds the promise of improving the living standards for a significant proportion of the world's population.

> *Regulations governing business activity are major determinants of economic growth.*

Regulations governing business activity are major determinants of economic growth. There are multiple debates about the positive and negative effects of regulation, including:

- Regulation can support market transactions, investment climate and can result in significant economic, social and environmental benefits;
- Regulation can support fair competition, maintain stability and secure public interests, including social security, ownership rights including minority shareholders, set up barriers against illegal activities and crime, including money-laundering and corruption;
- Ill-designed regulation can have immense economic costs resulting from an onerous regulatory burden;
- Regulation can cause serious economic distortion and lower economic growth, damage investment and reduce entrepreneurship;
- Regulatory costs may act as a barrier to entry into an industry or market; and
- Complying with regulation can be unduly costly.

In recent years, a number of countries have undertaken initiatives to introduce 'better regulation'. The attributes of 'better regulation' were articulated in the UK in 2005 in Sir Philip Hampton's 2005 review, R*educing administrative burdens: effective inspection and enforcement*, which investigated how to reduce unnecessary administration for businesses without compromising the UK's excellent regulatory regime.

> *A number of countries have undertaken initiatives to introduce 'better regulation'.*

The Hampton review considered consistency of regulation to avoid unnecessary uncertainty, accountability to the democratic process, transparency in terms of operations and effects, a proportional approach to tackling market failures, targeting the problems that need to be addressed and avoiding unintended impacts elsewhere in the economy.

44%
of CEOs in Africa believe unclear or inconsistent standards or regulations are a barrier when responding to wider stakeholder expectations.
(Global: 42%)

Another example of better regulation is an initiative of the Australian Securities and Investment Commission (ASIC) published in 2006. Based on the ACIS priorities, better regulation means: transparency in a regulator's approach, accessibility of regulator and information about decisions, minimisation of duplication and reduction of regulatory burden on business, better outcomes for consumers and investors, and understanding of the business impact.

The expectation is that 'better regulation' leads to higher GDP growth, higher productivity and more business start-ups.

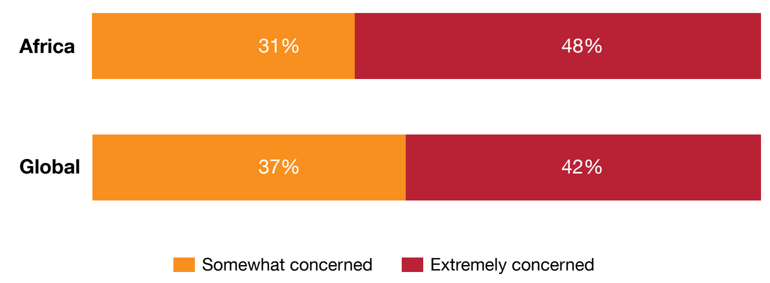
The expectation is that conformance with the attributes of better regulation leads to economic improvement, such as higher GDP growth, higher productivity and more business start-ups.

The relationship between regulation and growth is complex. The effect of regulation can be positive (removing market failures and improving the investment climate, trust and economic efficiency) and negative (creating substantial compliance costs) at the same time. The overall impact on economic growth depends on which effect is larger.

In our survey of African and global CEOs, over-regulation was pinpointed as one of the leading threats to companies' growth prospects. This is the fourth year in succession that concerns about regulation have risen globally.

Figure 2.6 Over-regulation is a concern for most CEOs

Q How concerned are you, if at all, about over-regulation?



Source: PwC analysis
Base: Africa 153, Global 1409

CEOs believe regulatory requirements are becoming stricter.

The opinion of CEOs reflects stricter regulatory requirements introduced during the last few years in response to corporate scandals and concern about risks to investors. Reforms have also been made in response to the deficiencies of multiple existing requirements. These have created an immense regulatory burden in certain territories, increasing the cost of compliance and raising questions about the technical feasibility of compliance with all regulatory requirements. This, in turn, increases the risk of corruption.

The World Bank Group's *Doing Business 2016* report, which measures regulatory constraints affecting domestic small and medium-sized enterprises in 189 countries, found that the economies with the best scores in their 'ease of doing business' ranking are not those with little regulation, but those with good rules that allow efficient and transparent functioning of business and markets while protecting the public interest.[1]

Protection of public interest is motivating audit reform and corporate governance developments globally.

Audit reforms and corporate governance developments have become areas of the highest attention by regulatory bodies aiming to support protection of the public interest in different countries, as well as globally.

[1] "Doing Business 2016". World Bank Group, 2016. http://www.doingbusiness.org/

The major trends in audit regulation and areas of debate include:

- Development of independent audit oversight bodies, providing important contributions to audit quality;
- Audit firm independence, including restrictions on non-audit services provided by the auditor and auditor rotation;
- Introduction of more informative, readable and transparent audit reports; and
- Expectations for auditors to report to the regulator any illegal or fraudulent activities identified during the audit.

However, to achieve high-quality financial reporting, company management and boards have an important role to play together with the auditors. Accordingly, there is an increasing interest in corporate governance, including proposed changes to corporate governance codes, partly driven by the recently revised Organization for Economic Co-operation and Development's (OECD) *G20/OECD Principles of Corporate Governance*.[2]

Changes to corporate governance codes present opportunities to benefit financial reporting, company performance and capital markets.

Global tax regulation has emerged as an important regulatory focus area in an increasingly interconnected world.

Another important regulatory focus area today is global tax regulation and the fairness of the benefit across territories. In an increasingly interconnected world, national tax laws have not always kept pace with global corporations, fluid movement of capital and the rise of the digital economy, leaving gaps and mismatches that can be exploited to generate double non-taxation. This undermines the fairness and integrity of tax systems.

44%
of African CEOs believe a clearly understood, stable and effective tax system should be among the government's priorities in the country in which they are based. **(Global: 56%)**

Base erosion and profit shifting (BEPS) refers to tax planning strategies that exploit the gaps and mismatches in tax rules to artificially shift profits to low or no-tax locations where there is little or no economic activity, resulting in little or no overall corporate tax being paid. BEPS is of major significance for developing countries due to their heavy reliance on corporate income tax, particularly from multinational enterprises.

Considering the technological changes being seen across the world, accelerated by the dawn of the digital era, more regulation might be expected in such areas as internet business, social media and digital data. For instance, there is currently hot debate in a number of countries about personal data protection and the ability of governments and regulators to access such data in light of public security interests.

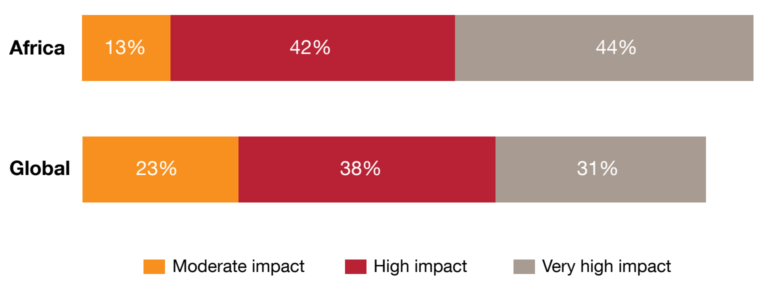
Regulators should create an environment conducive to sustainable long-term growth.

On the question of how regulatory changes can support an environment conducive to growth, regulators might consider the attributes of 'better regulation' discussed above and aim not just for growth, but rather sustainable growth from a long-term perspective.

Good regulation can provide market stability, allow free competition and protect public interests if it is consistently introduced and complied with.

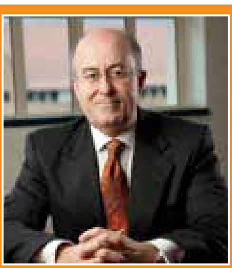
Figure 2.7 Government and regulators have a major impact on organisational strategy

Q What impact do government and regulators have on your organisation's strategy?



Source: PwC analysis
Base: Africa 153, Global 1409

[2] "G20/OECD Principles of Corporate Governance". OECD, 2015. http://dx.doi.org/10.1787/9789264236882-en



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

Stakeholders demand more transparency and disclosure from corporates

Taxation is a growing concern for CEOs concerned about profits and business sustainability.

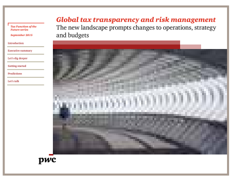
In our survey of global and African business leaders, almost nine out of ten CEOs cited tax as one of the most pressing matters that they will need to manage effectively to grow their businesses.

84%
of African CEOs are somewhat or extremely concerned about the increasing tax burden on their organisations.
(Global: 69%)

Similarly, the increased tax burden concerns more than three-quarters of African CEOs. They are also worried about the transparency and impact of tax on their organisations' reputations. Overall, business leaders believe an effective and stable tax system would be more beneficial to their organisations than reducing tax rates.

CEOs are concerned about the transparency and impact of tax on their organisations' reputations.

Worldwide, companies are paying more attention to tax compliance, recognising the risk of both hefty penalties and the potential of damage to corporate reputation. They have become increasingly aware of the wider audience scrutinising their conduct and their business decisions, including their strategy on tax.



Tax Function of the Future series

In PwC's *Tax Function of the Future* thought leadership series we examine how evolving trends are changing the way tax functions are operating, both day-to-day and with long-term strategic planning.

Our analysis also considers how five global megatrends are fundamentally changing the way businesses, including the tax function, operate. In particular, shifting global economic power, demographic changes and technological breakthroughs have already had a significant impact on tax functions.

To find out more about this series, visit www.pwc.com/taxfunctionofthefuture

Shifting global economic power, demographic changes and technological breakthroughs have already had an impact on tax functions.

The demand for tax transparency is also reflected in conversations as well as on the agendas and action plans of the Organisation for Economic Co-operation and Development (OECD), the G20, the UN and the European Union.

One of the most significant initiatives that is expected to impact tax processes and functions in the near future is country-by-country reporting (CbC). Companies will be required to account for information on the global allocation of profit, taxes paid and certain other indicators of economic activity in the countries in which they operate.

This is not the first tax transparency initiative undertaken by authorities; nor is it expected to be the last. What makes it so significant is its far-reaching requirements and the potential impact on taxpayers, tax authorities and even the public.

33%
of African CEOs think government has been effective in achieving a clearly understood, stable and effective tax system.
(Global: 22%)

A number of African countries have already taken steps in adopting country-by-country reporting.

A number of African countries have already taken steps in adopting CbC reporting. In South Africa, the Davis Committee recommends that CbC reporting be made mandatory for large multinational companies, and draft regulations have been issued that will apply to tax years starting from 1 January 2016.

Other initiatives such as the European Commission's proposals for public CbC reporting as well as unilateral government actions are also expected to change the way in which companies manage and disclose their tax affairs.

31%
of African CEOs believe tax should be part of a business strategy that reflects an organisation's impact on society.
(Global: 27%)

In South Africa, the draft King IV report focuses on the concept of stakeholder inclusivity and contains tax governance requirements for organisations and governing bodies[1]. The report states: "It is no longer acceptable [for companies] to have overly aggressive tax strategies and to exploit mismatches between the tax regimes of various jurisdictions, even if these actions are legal".

The report recommends: "The governing body and an audit committee of an organisation should be responsible for a tax strategy and policy that are compliant but also congruent with corporate citizenship and wider stakeholder considerations, and take account of reputational repercussions."

65%
of African CEOs are making some or significant changes to the way they manage their tax affairs in response to changing stakeholder expectations.
(Global: 62%)

Global tax information reporting requirements and other initiatives on transparency and disclosure are expected to increase substantially and have a material effect on the operations and processes of organisations.

Companies will be compelled to relook their tax decisions in the light of stakeholder scrutiny and reputational risk.

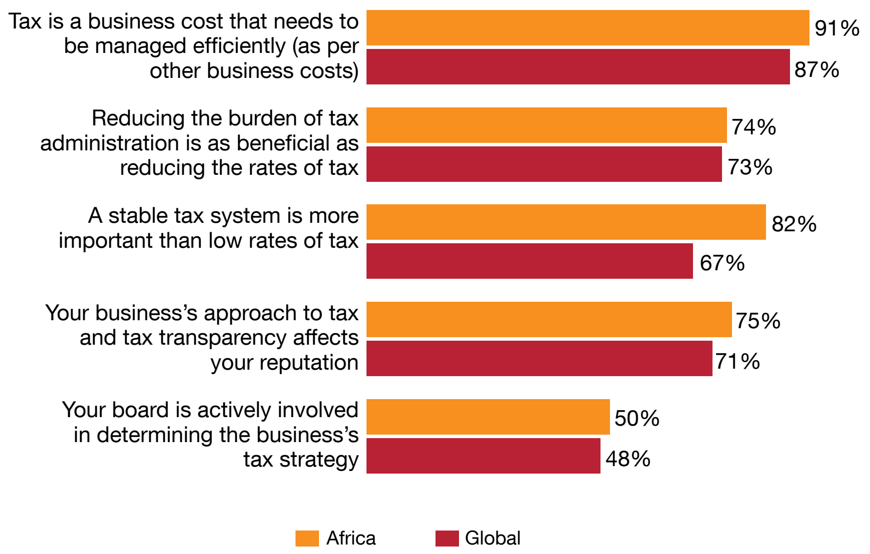
Companies will be compelled to relook their tax decisions in the light of stakeholder scrutiny and reputational risk. Organisations will need to strategically address these tax risks, while proactively engaging with tax authorities, governments and other stakeholders.

1 "Draft King IV Report". *Institute of Directors of Southern Africa*, 2016. https://c.ymcdn.com/sites/iodsa.site-ym.com/resource/resmgr/King_IV/King_IV_Report_draft.pdf

The need for change is imperative given the challenge that companies' tax processes and strategies are facing. However, the ultimate benefit and investment will be worth it in the long term.

Figure 2.8 Tax is having a major impact on the strategy and operations of business

Q To what extent would you agree with the following statements? (Summary agree/agree strongly)



Source: PwC analysis
Base: Africa 153, Global 1409

CEO insight

Bruno Witvoet
Executive Vice-President
Unilever Africa

Multinational consumer goods company Unilever has been operating in Africa for more than 100 years. The company aims to build a sustainable and growing consumer business that maximises social impact and improves consumer's lives through affordable high-quality brands. Its products include food, beverages, cleaning agents and personal care products.

Q: _What growth strategies have been successful for Unilever in Africa?_

A Being there for the long term. We are emerging from a period that saw a surge of interest in Africa a few years ago on the basis of high growth projections followed by a recent period where many companies are scaling back.

We're very proud of the fact that Unilever has been operating on the continent for over 100 years and our strategy builds markets for the long term. Short-run volatility is a fact of life in emerging markets and while we focus on getting the returns our shareholders deserve, the same as in any region, it is particularly important to invest in Africa with an eye beyond the immediate headlines.

It is important to invest in Africa with an eye beyond the immediate headlines.

Along those lines, we are continually developing our supply chain to maximise local production and use local raw materials wherever possible to boost employment and growth in local economies, including in our tea plantations. In this way we become contributors to growing the African economy rather than merely profiting from its growth. The key for Africa is not just growth, but sustainable growth.

The key for Africa is not just growth, but sustainable growth.

Making sure our sustainable business model works for Africa has therefore been crucial, not just in our supply chain. This revolves around providing everyday consumer goods at a range of price points, from affordable essential items to more premium products.

But at the heart of everything we do is our commitment to building a more inclusive society. We have invested in local communities and built a portfolio of products deeply rooted in those communities.

Rather than just repackaging global products, we develop specific products for individual countries and match our brands to local needs. Blue Band margarine and Geisha soap in Kenya are specifically formulated to appeal to Kenyan consumers.

We develop specific products for individual countries and match our brands to local needs.

We have developed other products which address particular public health issues. For example, our Knorr iron-enriched bouillon cubes brand aims to tackle anaemia in women and girls in Nigeria and our Blue Band Margarine has Omega 3 and 6 oils designed to help provide a balanced diet for children in East Africa.

We've found that our policy of putting a social mission such as hygiene or nutrition at the heart of a brand builds consumer loyalty and trust. In many countries, we partner with schools so that we can educate and inform young people on hygiene through our Lifebuoy and Domestos brands and nutrition through Blue Band.

Putting a social mission at the heart of a brand builds consumer loyalty and trust.

We know that we alone can't solve the world's problems but we're determined to be part of the solution. Having purpose at the heart of our strategy, just like PwC, works for the continent and is also good business.

Q: *What is the biggest opportunity for Unilever in Africa in the next five years?*

A Our go-to-market approach and unique breadth of brands allows us to focus on the mass market segments with some reach to the premium end and adapt to changes in the different economies across the continent.

Our approach of targeting a mass market means we are ready to benefit from demographic changes such as population increases or rapid urbanisation, which therefore present a big opportunity for us. This is why Africa will remain a critical market for Unilever and why we see accelerating growth across the continent as playing a full role in the success of Unilever globally.

Targeting the mass market brings benefits from demographic changes such as population growth.

Over the last 12 months, we have seen strong growth in many African countries but there are obviously always areas we could do better. Like many other companies operating across the continent, South Africa is a huge market for us, but much growth is also likely to come from other countries such as Nigeria, Ethiopia and Tanzania, where populations are increasing quickly, and creating opportunities for us to compete for a bigger share of the market.

Even in South Africa, despite our well-established presence, we are still investing heavily as there are still regional differences and changing markets within the country that can represent opportunity.

Q: *What are the biggest short term challenges to doing business in Africa?*

A There are two very topical challenges that are making trading difficult in the short term. Currency volatility is a big issue for many businesses working on the continent and Unilever is no exception.

Obviously as a global company, we manage the unpredictability and volatility of currencies in many countries but it is a particular short term challenge in Africa with volatility more in the order of 20% than the 3-5% we commonly see elsewhere.

Currency volatility is a big issue for many businesses working in Africa.

The second challenge is around infrastructure especially roads. We are committed to producing as much of our product locally as possible rather than importing products and to reaching as many consumers as we can.

This commitment to helping the local communities in which we operate is a key part of our global values. However, as a consumer goods company, we need to have a reliable and safe distribution mechanism to do this.

Energy and infrastructure challenges hinder efficient operations

In some countries, it can be challenging to move goods by road. Further, energy supplies in some regions can be unreliable, which can hinder our ability to manage our manufacturing processes. And the pace of progress on infrastructure projects is often not as quick as it could be.

Q: *What is your biggest challenge with regard to talent?*

A I think the biggest challenge is to ensure that the standard of what is provided in public and private education continues to rise across the continent. There are some world-class institutions in Africa, but we need to ensure that we are always striving to improve them.

Standards of education need to continue improving

This will help ensure that businesses like ours have a pipeline of high quality home-grown talent that we can develop into the next generation of leaders.

Diversity in our people is also a key global value at Unilever and we have a number of programmes in place to increase the level of African talent in our organisation.

There are two sides to this. One is about developing African talent by exposing them to global experience. For example, at the moment we have about 90 African employees working in different parts of the world to give them experience in different markets and bring that and their new capabilities back to Africa.

Diversity in talent a key global value

The second is to tap into the diaspora at key universities internationally to attract them back to Africa.

Ultimately, our aim is to grow more African leaders who one day will be the next CEO, CFO and board members of our business.

Q: *What strategies have worked for you in combating corruption?*

A Corruption is an issue that affects all companies operating on the continent and the only response is to have a zero-tolerance policy internally. The reputation of our values is too closely linked to our brand to do otherwise, so we at Unilever have a clear Code of Business Principles and integrity is a core value for us.

Integrity is a core business value

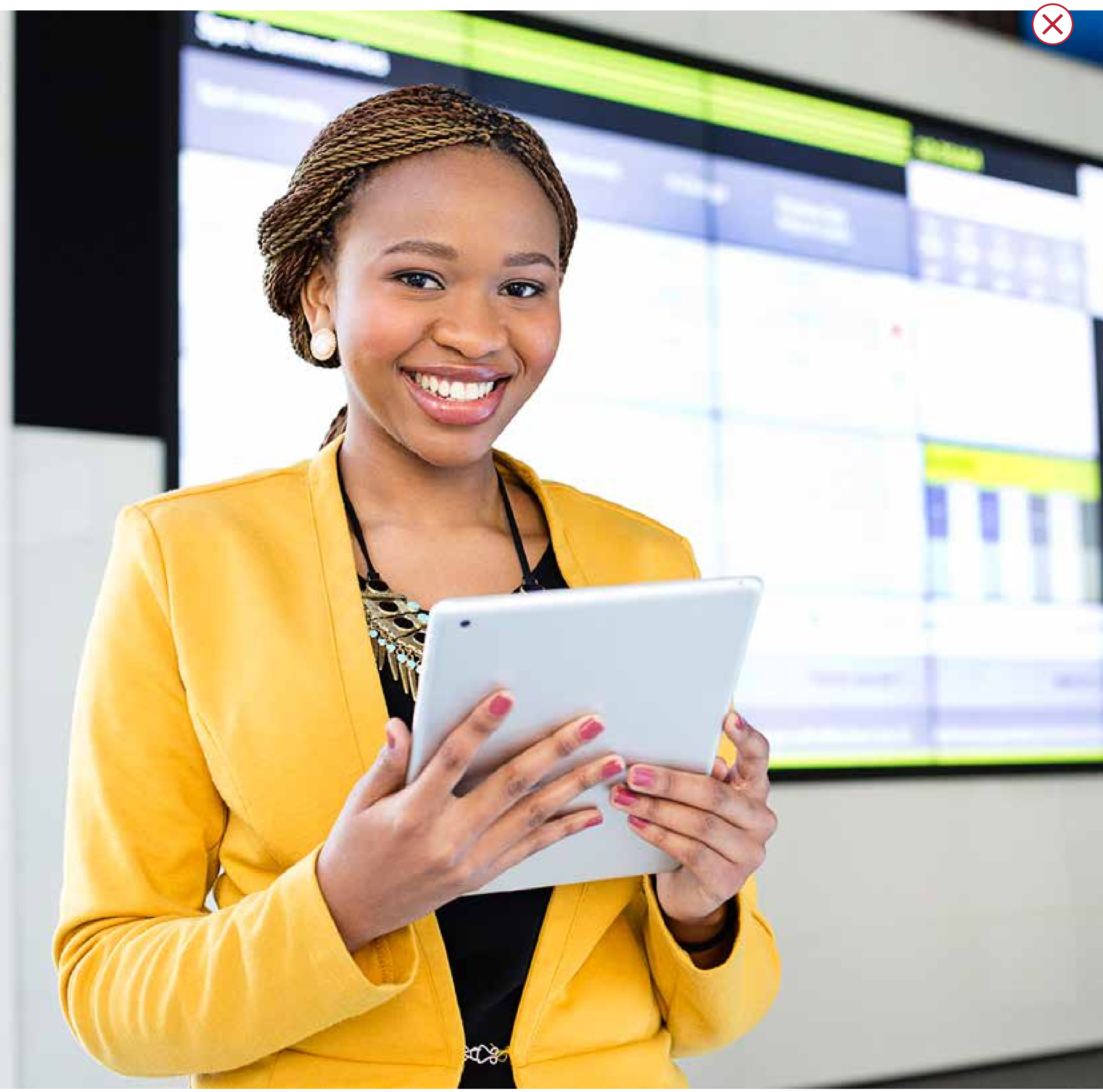
Any employee engaging in corrupt or inappropriate behaviour won't last long in our organisation. Our ethos is simple: if corruption occurs, we will investigate thoroughly and if there is clear evidence of wrongdoing then we will act quickly and decisively.

Of course we have strategies such as extensive mandatory training, anonymous whistle-blower hotlines for all employees, including on our plantations, and technology such as e-learning.

Leading by example

However, the truth is that there is nothing better than leadership and the example set by the many upstanding and excellent African managers across our business who operate to global best practice standards of integrity.

3. *Growth catalysts: Technology, innovation and talent*



Nizar Yaiche
Partner
Technology, Media & Telecommunications Consulting
Leader for PwC in the Maghreb and Francophone Africa

Building the ICT infrastructure Africa needs to fulfil its potential

There are many stumbling blocks to accomplishing the objectives of ICT projects in Africa

The impact of ICT infrastructure on economic and social development has been confirmed by numerous studies carried out around the world. The evidence for its positive impact is even stronger for the African continent where the gap between the current situation and the target is significant.

The potential impact of ICT in Africa is huge because the gap between the current situation and the target is significant.

Among the long list of technology-driven projects underway across the continent, we can highlight the following types of projects, among others:

- E-government, E-education, E-health;
- Smart cities;
- Business intelligence and customer value management projects;
- 4G migration and mobile network extension, fibre-optic networking and complementarity of different broadband technologies;
- New regulation;
- Large transformation projects of incumbents and other telecom operators;
- Mobile money, fintech;
- Hosting, software as a service (SaaS); and
- E-commerce.

High ambitions with limited and very slow progress

Despite important efforts made by different stakeholders over recent decades, including government, regulators, telecom operators and others, we are still at the beginning of a long journey in a large number of sub-Saharan Africa countries.

We are just at the beginning of a long journey in a number of countries.

The remaining part of the journey is much harder than what is behind us. There is an urgent need to change the way that we address the issues and the way that we design the solutions.

The situation is not homogeneous across the continent, but overall, evolution is rather slow. There are several reasons for this slow rate of change, including:

- Increased competition, which impacted negatively on the investment power of telecom operators;
- Most of the ICT gap is in rural areas where most of the population lives and where the ROI on incremental CAPEX is negative;
- Under-regulated markets and in some countries, regulation is almost non-existent;
- Failure in designing and implementing a pragmatic approach for universal funds;
- A large number strategies at ministerial level are exclusively technology-driven;
- Failure to identify and develop the right competences and talents to lead the sector;
- Failure to understand the interactions of technology projects with their external environments;
- Poorly-adapted governance models; and
- The level of complexity of some projects in terms of the business model, where small mistakes can lead to the failure of an entire project.

Recent research highlights a number of common mistakes made in implementing ICT projects in Africa. In some cases, high-level concepts and ideas have almost no link to the reality on the ground, particularly when some approaches are 'copied and pasted' from other markets.

ICT projects need to take account of the reality on the ground.

Some studies focus on two angles, like technology and financing, but neglect or undervalue others like profitability, customer experience, market dynamics, human resources, people capabilities and other difficulties like access to reliable electricity and political unrest or uncertainty.

Decision-makers may also be misled by special interest groups or their own willingness to launch 'cutting-edge technologies' without properly assessing the overall impact on end-users, value addition and related costs.

Figure 3.1 CEOs believe their businesses should be doing more to measure impact and value in a range of areas

Q Within the context of wider stakeholders, in which of the following areas do you think your business should be doing more to measure impact and value?

Source: PwC analysis
Base: Africa 153, Global 1409

Changing the pace by changing the approach

After almost 20 years of significant efforts to develop ICT across Africa, it is time to change the approach. The approach that should be carefully understood and properly executed in each step of every project is pragmatism.

Pragmatism is needed to effectively implement ICT projects in Africa.

Pragmatism should be translated into each key success factor for ICT projects in Africa. These success factors include:

- Identifying the right people with the right skills to lead the project;
- Properly clarifying project objectives and scope;
- Proposing a realistic work plan with realistic timelines;
- Implementing a proper governance model;
- Mobilising the right people and communicating well around the project;
- Understanding the real added value of the technology and its impact on end-users;
- Understanding all interactions the project may have with other projects and external stakeholders;
- Removing all emotional and political aspects from the project as much as possible;
- Preparing the field by understanding and addressing the prerequisites of the project; and
- Preparing a realistic business case for heavy Opex and/or Capex consuming projects.

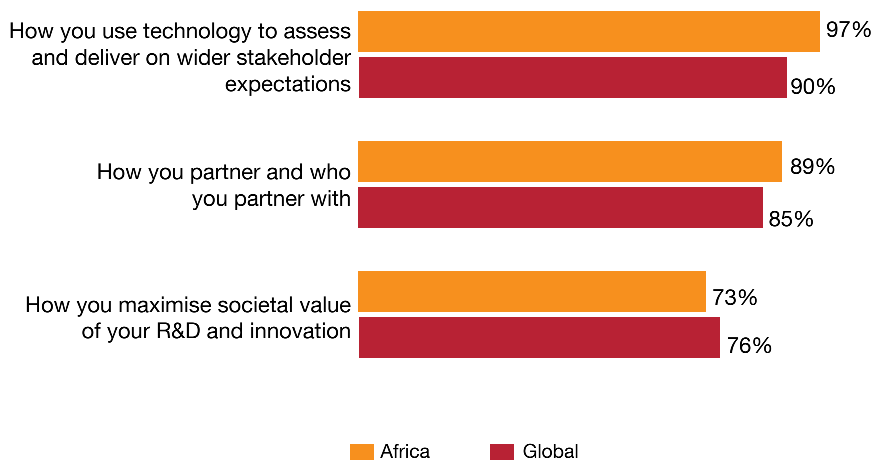
In every project there are important technical and other choices that need to be made with implications for the expected financial flows of the project.

Stakeholder interests need to be acknowledged and managed.

Stakeholders may include public and private players, incumbent and new suppliers, different technologies and suppliers and their proponents. Given the diversity of their interests, trade-offs and compromises need to be reached between different stakeholder groups. Protecting the team working on the project from unnecessary influences is the best way to accomplish the ultimate objective of any ICT project: 'Serving the end-user well by spending well'.

Figure 3.2 Many CEOs are making significant changes in response to changing stakeholder expectations

Q To what extent are you making changes in response to changing stakeholder expectations in these areas? (Summary some/ significant change)



Source: PwC analysis
Base: Africa 153, Global 1409

Florence Gatome
Partner
PwC Rwanda

Driving economic growth and investment through technology

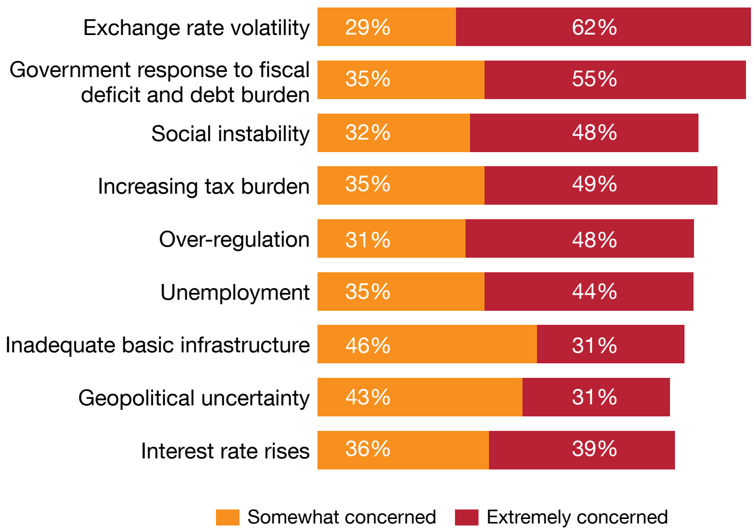
Organisations and governments are turning to technology to drive transformation.

The global business environment has become increasingly complex for companies to read and adapt to. In our survey of African CEOs, the three top concerns included exchange rate volatility (92%), government response to fiscal deficit and debt burden (90%), and social instability (80%). Other concerns included the increasing tax burden, over-regulation, unemployment, and inadequate infrastructure, among others.

The diversity of issues and degree of concern expressed by CEOs suggest businesses globally, and particularly in Africa, are facing a wide range of major risks.

Figure 3.3 CEOs in Africa face a range of major risk concerns

Q How concerned are you about each of these?



Source: PwC analysis
Base: Africa 153, Global 1409

Businesses today face a wide range of major risks.

To equip their businesses for the significant challenges they face, CEOs are focusing on three main capabilities, namely addressing greater expectations from customers and other stakeholders; harnessing technology, innovation and talent to execute the strategies that meet these greater expectations; and developing methods of measuring and communicating success to stakeholders through focusing on data and technology to get better insight into business processes. They are also looking to technology to improve communication with stakeholders.

Business leaders recognise that technology is transforming their relationships with customers as well as with other stakeholders.

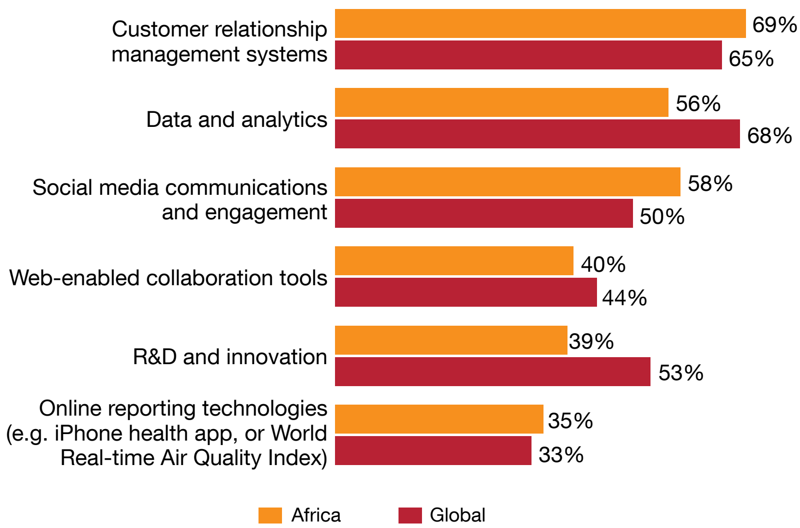
73% of African CEOs are making some or significant changes in how they maximise the societal value of R&D and innovation. **(Global: 76%)**

Technological transformation

Business leaders recognise that technology is transforming their relationships with customers as well as with other stakeholders. Technology was seen by CEOs in the survey as the best way of assessing and delivering on customer expectations by implementing customer relationship management systems, interpreting the complex and evolving needs of customers through data and analytics, and improving communication and engagement by means of social media.

Figure 3.4 Technology is transforming stakeholder engagement

Q Moving to technology, please select the connecting technologies you think generate the greatest return in terms of engagement with wider stakeholders.



Source: PwC analysis
Base: Africa 153, Global 1409

Research and development (R&D) and innovation technologies are expected to generate the greatest return in engaging stakeholders through harnessing technology and innovation to produce cost-effective, convenient, functional and sustainable products and services.

There are also a number of barriers CEOs say they are encountering when responding to the changing expectations of consumers and other stakeholders. The main challenges are the additional costs of doing business, cited by 62% of African CEOs (Global: 45%) and unclear or inconsistent regulations, cited by 45% of CEOs (Global: 42%), which result in additional costs that are passed on to customers via higher prices.

62% of African CEOs say the additional costs of doing business is the greatest barrier they face in responding to wider stakeholder expectations. **(Global: 45%)**

Harnessing technology to drive economic growth: Focus on Rwanda

Given the importance of technology in business, and to society at large, governments in some countries are prioritising technology and innovation to drive economic growth. Rwanda, for example, is positioning itself as a regional ICT hub, while leveraging on its excellent position in Africa in doing business, competitiveness and security.

Rwanda's adoption of ICT as a key driver of economic growth is well engrained in the government's economic blueprint (Vision 2020) and its Economic Development and Poverty Reduction Strategy (EDPRS I & II). To support this vision, national information and communications infrastructure plans (NICI I to III) were developed, covering the 2000-2015 period.

Rwanda's adoption of ICT as a key driver of economic growth is engrained in economic policy.

The first phase of NICI put in place foundational legal and regulatory frameworks to allow the liberalisation of the telecommunication sector and attract investments from the private sector.

The second phase focused on accelerating infrastructure roll-out to connect people through telecommunications networks and the implementation of the national optical fibre backbone.

The third phase focused on services to government, citizens and businesses. The country is now implementing a five-year Smart Rwanda Master Plan (SRMP) which will lead to its Vision 2020. The expected investment value of projects under SRMP amounts to more than US$500 million, covering 67 identified priority projects, some of which are already underway.

SRMP initiatives are derived from different government initiatives and programmes covering seven sectors that have a multiplier effect in mainstreaming ICT in socio-economic development.

These include health, finance, trade and industry, agriculture, education, government, and women and youth empowerment in technology. This provides a wide range of investment opportunities, including e-health, ICT-based agriculture, online education courses, online financial services, business process outsourcing (BPO), ICT R&D centres and providing effective public service delivery through e-government, among other opportunities.

Rwanda is positioning itself to provide an enabling business environment that is ICT driven.

Another upcoming project is Rwanda's ICT Centre of Excellence, which will be based in Kigali Innovation City. The aim of the Centre will be to turn Rwanda's ICT sector into a cluster of highly differentiated companies that will grow through partnering with multinational organisations to create innovative solutions, products and services for export.

It is envisaged that the Centre will host the local operations of multinational ICT companies, local ICT companies and a consortium of universities led by Carnegie Mellon University (CMU), which already has a campus in Rwanda.

Given the importance attached to technology and innovation by global CEOs, Rwanda is positioning itself well to provide an enabling business environment that is ICT-driven. The World Economic Forum (WEF) on Africa, to be held in Kigali in May 2016, will focus on connecting Africa's resources through digital transformation. This offers the country a unique opportunity to showcase itself as a regional high-tech hub.

CEO insight

Fredrik Jejdling
President & Regional Head Sub-Saharan Africa
Ericsson

Ericsson is a Swedish multinational that provides communication technology and services. These include software and infrastructure in information and communications technology (ICT) for telecommunications operators, traditional telecommunications and Internet Protocol (IP) networking, mobile and fixed broadband, operations and business support services.

Q ***Which of these connecting technologies do you think generate the greatest return in terms of engagement with other stakeholders: Data and analytics; social media communications & engagement; and customer relationship management tools?***

A All three of these technologies are important. When used properly they can create game-changing technologies like Uber. However, it is also important to note that these technologies are facilitated by mobility, mobile broadband and cloud-based services. In Africa, this is fundamental because fixed infrastructures have not been in place historically; therefore the underlying technology that facilitates this is imperative as it opens up new opportunities.

Mobile broadband and cloud-based services are fundamental in Africa where fixed infrastructure is lacking.

When these connecting technologies (data and analytics; social media and customer relationship management tools) are used in an effective, integrated way, you will find a completely different economic premise. Take Uber as an example, it enables connections between drivers and customers by using all three connecting technologies.

Q ***In Africa, what technologies are emerging and how is your organisation preparing for technological change, particularly in terms of business processes and operating functions?***

A We are moving from voice to data now. We are steadily deploying 3G and 4G. That is the major technological shift that is taking place in Africa today. This is a major area in which we are actively participating in 40+ countries across the continent. The availability of 3G and 4G brings other services, such as media solutions and mobile commerce solutions.

The migration from 3G to 4G is the major technological shift taking place in Africa today.

Ericsson's latest *Mobility Report* estimates total mobile subscription penetration in sub-Saharan Africa will reach 100% by 2021, with over a billion mobile subscriptions.[1] The report also projects that there will be 150 million 5G mobile subscriptions globally by 2021. 5G will connect new types of devices, enabling new usages related to the Internet of Things.

We are driving the development of 5G technologies together with partners and leading operators in these markets around the world. And, as we deploy 4G technologies in sub-Saharan Africa, we help our customers' networks get ready for this transition when the time is right.

Q ***How are you preparing for this in terms of your business processes and operations?***

A Having been in Africa and the mobile networks business for a long time, we have a strong base in mobile technology that we are able to build upon. That is just one aspect. We also have a competitive edge in having a strong presence in 180 countries.

Ericsson has a strong base in mobile technology to build upon.

Having local presence and building local trust is also essential for us. Taking the local technology that we have installed, together with the local relationships we have built, we are able to develop and evolve networks for the future.

We then have global supply chains through which we facilitate requests. We also have a strong talent management process, where we look at what our business requires six to 12 months ahead from a local perspective and then look at the talent we need to facilitate this from a global perspective.

Q ***How concerned are you about shifts in consumer spending & behaviours, new market entrants, the speed of technological change and convergence among industries?***

A We believe that communication is a fundamental human need. Today, we are all beneficiaries of communication. With a whole new world opening up to people through access to mobile broadband, we see a change in the speed of data consumption. However, data offerings still need to be made more competitive and affordable.

Data needs to be made more competitive and affordable.

We are concerned about new market entrants – we would be foolish if we were not. There is no doubt that it is a highly competitive industry. But I am more concerned about being relevant and having a good relationship with our customers.

While we keep an eye on the technology that our competitors are building, we remain relevant by maintaining a solid relationship with our customers and offering them game-changing technology and services.

Being relevant requires strong customer relationships and being adaptable to technological shifts.

We are not concerned about the speed of technological change. As a leader in technology with over 39 000 patents, we are part of driving that change. The mobile network keeps evolving. Technology brings benefits for the end consumer and as long as it does that, it is excellent.

If I have to look at the carbon footprint of new technologies, it gets increasingly better. One thing is for sure, you need to stay very agile when it comes to shifts in technology. In our industry we work with fixed networks, mobile networks and cloud-based services – you have to be very nimble to stay relevant in this business.

Yesterday's success does not guarantee sustained success for the future.

1 "Ericsson Mobility Report", Ericsson, November 2015. http://www.ericsson.com/mobility-report

Yesterday's success does not guarantee sustained success for the future. We have to work extremely hard if we want to remain leaders in technology for another 140 years – you can't take it as a given.

If you look at our industry and the technological basis on which it transforms, convergence will happen and we see it as an opportunity. Convergence of media and telecommunications will ultimately take place and much faster than before.

Convergence is not driven by large institutions and companies. When technology becomes available to all, the way it is used by people will drive convergence.

The way technology is used by people will drive convergence.

Innovation will be driven by different factors because in many instances there simply are not many bricks and mortar solutions. In Africa, greater opportunities for ideas that would change the market have never been more obvious.

Being connected puts innovation in the hands of people.

Institutions, big companies and governments don't have monopolies over innovation any more. Being connected puts innovation in the hands of people and I believe this is really good.

Q ***Which stakeholders have the greatest influence on your African business agenda?***

A Our customers, employees, regulators and governments, as well as society, have the greatest influence on our African business.

Stakeholders need to work together.

In the telecoms business you need to create an ecosystem that is conducive to growth. That means that all these stakeholders need to work in a much more harmonised way. There are a number of regulations around mobile telephony and broadband spectrum and if you get it wrong you are not able to benefit from the scale of 3G and 4G.

So if you don't, from a government perspective, have a national plan on mobile telephony and broadband spectrum and a regulator that understands issues like broadband spectrum and harmonisation; and if you don't have a technology provider with a strong workforce that stays relevant to the affordability of the region, it won't work.

It is critical that you get the relationship with these four stakeholder groups right. The job and role of Ericsson is also to share its knowledge and advice on what has worked in other markets.

Q ***What are the barriers to responding to wider stakeholder expectations?***

A If you look at telecommunications regulations, we have evolved from market standards to one where everything is converging into 4G. This is as a result of harmonisation. But it takes time to get to that level of harmonisation and get regulators on board with a common agenda. That is one of the things that can prevent the evolution of a technology.

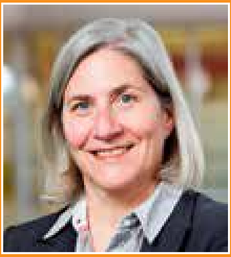
It takes time to get regulators and stakeholders to agree a common agenda.

There are also the logistics of pricing spectrum to be considered. That can also pose a challenge. The whole process of harmonising an industry is time consuming. Various fora need to be established to generate this harmonised agenda. It involves multiple stakeholders and can be a lengthy process. It involves a big decision – about infrastructure for 15 to 20 years; therefore you need to get it right.

Q ***What changes are you making in regard to changing stakeholder expectations?***

A Ericsson is always willing to partner with governments, operators and other key stakeholders in various industries, to support them in driving a transformation agenda through enabling ICT solutions.

We currently serve as advisors and provide support to various governments and regulatory bodies across the region.



Liesbeth Botha
Strategic Digital Transformation Leader
for PwC's East, West and South Market regions in Africa

Africa is set for a digital revolution

Africa is set to unlock its potential for digital innovation.

Global megatrends ranging from urbanisation and demographic and economic shifts to advancements in technology have brought about fundamental changes in governments' national policies, fiscal policies and international trade agreements.

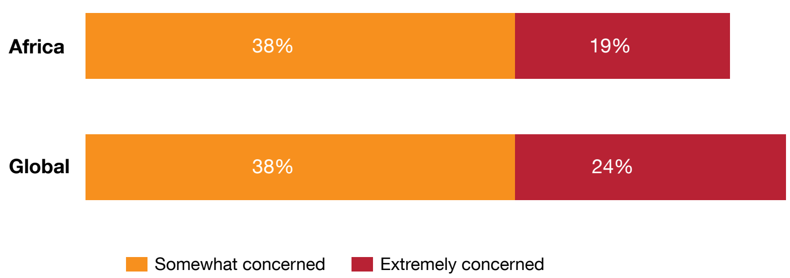
Growing markets have also given rise to a new wave of 'technopreneurs', innovators who see new opportunities for technology-based business models in growing markets. In addition, Africa's burgeoning middle class is creating new consumer demand for products and services that never existed before. These developments have fundamentally changed the way in which organisations do business across the continent.

Technology-based business models and a burgeoning middle class have fundamentally changed the way in which organisations do business across Africa.

If Africa is to maintain this momentum of growth, it needs to take steps toward creating and fostering an environment that makes it possible for the continent's innovators to revolutionise, create and add value to their work, and this environment is becoming predominantly more 'digital'.

Figure 3.5 Most CEOs are concerned about the speed of technological change

Q How concerned are you about the speed of technological change?



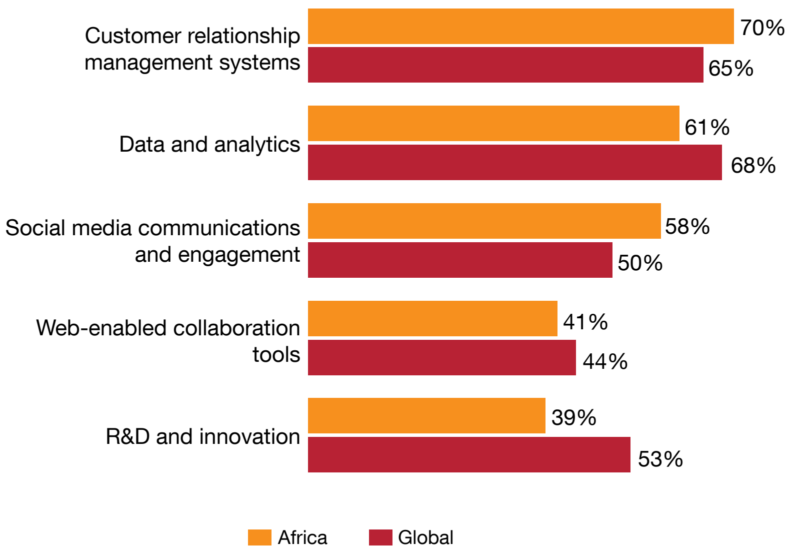
Source: PwC analysis
Base: Africa 153, Global 1409

Innovation, combined with entrepreneurship, is one of the most critical contributors to economic growth in any market. Innovators and entrepreneurs create wealth and jobs and attract investment. Innovation is, and should be, deeply rooted in organisations that employ executives who hold senior positions as well as among independent people who have their own businesses.

Innovations in digital platforms and systems are constantly evolving. Digital channels have opened up a whole new world of unprecedented choices for consumers. The expectation of companies and communities to go digital is significantly increasing. Many of the major transformations are being driven by powerful technologies such as cloud computing and mobile, while others are being fuelled by changing consumer demands and expectations.

Figure 3.6 Connecting technologies are driving stakeholder engagement

Q Please select the connecting technologies you think generate the greatest return in terms of engagement with wider stakeholders.



Source: PwC analysis
Base: Africa 153, Global 1409

Increasingly, organisations are using technology to challenge business models and disrupt competitors in markets. For example, Uber has disrupted the personal transport sector and Airbnb is rapidly reshaping the hospitality industry. This process of disruption started almost two decades ago with companies like Amazon launching e-commerce, but it is gaining momentum as broadband and mobile devices become more affordable and accessible.

Organisations are using technology to challenge business models and disrupt competitors in markets.

In 2005, Internet penetration in Europe was almost 20 times that of Africa. By 2014, it was less than four times greater[1]. Wireless broadband and mobile Internet are the key drivers of access to the Internet across the continent.

Africa's mobile subscription rate is in excess of 70% and increasing substantially. Although new technologies continue to drive Internet growth across the continent, there are a number of disparities across markets. This is due to the size and diversity of the African continent.

Global research by PwC has found innovative organisations are distinguished by their visionary leadership, licence to explore new ideas, readiness to collaborate and ability to commercialise new ideas quickly[2]. Increasingly, innovation is moving up the boardroom agenda as CEOs recognise its importance to sustaining growth.

Innovative organisations are distinguished by their visionary leadership.

Innovation's rise up the CEO agenda is indicative of the immense changes in the business environment. Market conditions have been transformed as the Internet, social media and new digital devices revolutionise the way consumers buy products and services as well as what they expect from their suppliers.

[1] Towela Nyirenda-Tere and Tesfaye Biru, "Internet development & Internet Governance in Africa", *The Internet Society*. 2015. www.internetsociety.org/sites/default/files/Internet%20development%20and%20Internet%20governance%20in%20Africa.pdf

[2] "Unleashing the power of Innovation". PwC, 2014, p8. www.pwc.com/gx/en/services/advisory/consulting/unleashing-the-power-of-innovation.html

75%
of African CEOs consider technological advances among the top three trends most likely to transform wider stakeholder expectations of businesses within their sector over the next five years.
(Global: 77%)

The African CEOs we spoke to are also cognisant of emerging technologies that can transform their businesses in the next five years across the continent. These technologies include not only mobile devices, but also the Internet of Things (IoT) (wirelessly connected controllers using sensors and actuators) and 3D printing-on-demand.

Business leaders have become more engaged with understanding how traditional and emerging technologies impact their company's long-term strategic goals. This increased focus demonstrates a commitment on the part of CEOs to ensure an approach that aligns technology and business strategy over the long run.

Business leaders are engaging with traditional and emerging technologies to ensure an approach that aligns technology and business strategy over the long run.

Corporate governance has also brought IT to the fore. IT governance is an essential component in ensuring the efficient and secure operation of the business. In South Africa, the King IV Report recognises that information technology (IT) has become an integral part of doing business today[3]. The report recommends that the organisation provide strategic direction for the management of technology and IT.

Any business going on a journey of digital transformation should start by imagining a future state of the business in the digital world – a vision that would embody their business strategy in this digital world.

Organisations must include digital technology in their overall business strategy.

Nowadays, organisations don't need a digital strategy to transform their organisation. Rather, they must include digital in the organisation's overall business strategy. It is about a company undergoing transformation and preparing for change based on what new possibilities and challenges technology may provide.

97%
of African CEOs are making changes in how they use technology to assess and deliver on wider stakeholder expectations.
(Global: 90%)

With this vision explicitly articulated, the company should then iteratively and continuously *innovate* to imagine, develop and commercialise new products and services for their ever-changing customers and communities, led and managed through digital social media platforms that are always 'on'.

At the same time, through internal *digital business transformation*, organisations should continuously and iteratively improve the way they operate to incorporate the efficiencies of the social-mobile-analytics-cloud (SMAC) paradigm and reimagine their business model in a digital world.

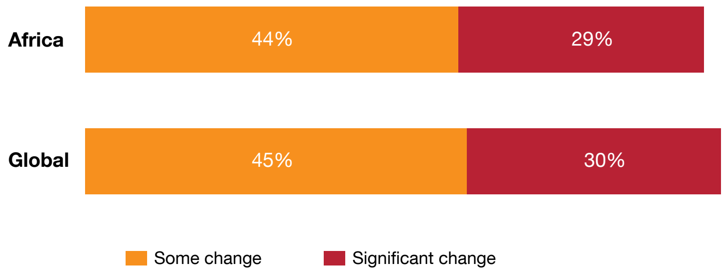
*Through internal **digital business transformation**, organisations should continuously and iteratively improve the way they operate.*

This journey will not happen organically in an organisation, but rather through visionary, strong and decisive leadership. The CEO and C-suite team must be able to imagine a future state of the business in a digital world, articulate and communicate it, and then have the commitment, perseverance and resolve to make it happen.

[3] "Draft King IV Report". Institute of Directors of Southern Africa, 2016, p53. https://c.ymcdn.com/sites/iodsa.site-ym.com/resource/resmgr/King_IV/King_IV_Report_draft.pdf

Figure 3.7 CEOs are changing their approach to maximising the value of their R&D and innovation

Q To what extent are you making changes in response to changing stakeholder expectations in how you maximise the societal value of your R&D and innovation?



Source: PwC analysis
Base: Africa 153, Global 1409

Throughout the innovation and digital transformation journey, it is important that the learning and the agenda are continuously articulated and driven by the organisation's leadership.

The role of the chief information officer (CIO) is becoming more strategic, while the CEO must become much more digitally empowered. Many companies are also now appointing CMOs or CDOs (chief marketing/digital officers) to assist with strategic digital transformation.

There are a number of great examples of managed innovation cultures to learn from, such as Google, where employees are encouraged to manage projects themselves. Digital innovation comes with successes as well as challenges.

As a business grows, it naturally develops more challenges and concerns. Organisations that want to innovate will also need to disrupt their own businesses as they make it work on a day-to-day basis.

Organisations that want to innovate will also need to disrupt their own businesses.

That may sound like a challenge in itself, but it is possible. At PwC we have developed a number of methodologies to assist clients at the C-suite level to innovate. We create an environment conducive to *ideation*, imagining their future and figuring out how to disrupt their own business, and we *co-create* this future with them.

We also focus on building our digital capabilities internally, gathering big data for us and clients. In addition, we set up alliances with strategic partners, combining our strengths to improve our client offerings in areas such as data analytics and digital enterprise.

Recently, PwC Europe and Google launched an Innovation Lab in PwC Northern Ireland's headquarters in Belfast. The PwC and Google Innovation Lab is only the third such facility worldwide, others being in New York and Sydney.

The Belfast Lab will work collaboratively with companies across the UK and Europe, using digital technology to drive innovation and new ways of working. PwC Africa is setting up one in Cape Town, and planning one for Johannesburg.

Throughout the innovation and digital transformation journey – which, true to the 'world in beta' concept, will never end – it remains important that the learning and the agenda are both explicitly and continuously articulated and driven by the organisation's leadership.

Nothing goes untouched: employees, culture, brand, operations – all are energised and empowered by digital and inspired by innovation, while the business grows and becomes more sustainable and relevant for tomorrow.

Unleashing the power of innovation

This study explores the changing role and nature of innovation in today's businesses, drawing on responses from a survey of 246 CEOs around the world.

For more on this topic, visit www.pwc.com/gx/en/services/advisory/consulting/unleashing-the-power-of-innovation.html

CEO insight

Patrick Mweheire
Managing Director
Stanbic Bank Uganda

Stanbic Bank Uganda is the largest commercial bank in Uganda and is listed on the Uganda Securities Exchange. It offers a range of personal, business and corporate banking products and services through a national network of 95 branches. SBU is a subsidiary of Stanbic Africa Holdings Limited, which is in turn owned by Pan-African banking group Standard Bank Group Limited.

Q ***How are technology and innovation shaping your business and relationships with stakeholders?***

A Technology will play a big role in transforming the banking sector for the foreseeable future. Banks need to embrace technology and invest in the interface with the customer, which is increasingly digital. Customers want to bank 24/7 and they want to be in more direct control of their banking.

Technology offers a great opportunity for banks to lower their cost to serve.

Technology also offers a great opportunity for banks to lower their cost to serve. For example, we have significant market share in terms of collecting school fees in Uganda. We charge roughly US$1 to collect the fees at one of our bank branches. Processing this school fees payment and the cash carrying costs, reconciliation and all of the related bank processing activities costs us closer to US$3.

Technology provides a perfect solution and we are working with our telecommunications partners to launch a mobile money solution that moves these high-volume, low-value transactions onto a digital platform. This would remove significant costs from our network and free up our branches to focus on higher-value, more-complex transactions and ultimately improve service to customers.

As the largest listed entity in Uganda, we have to take a leadership position with regard to investor relationships. We need to leverage technology to share our strategic initiatives, our financial performance and any critical developments at the bank in close to real time with our investor base. We are working on providing a lot more information on our websites and also utilising our SMS alert platform to reach our retail investors. We also conduct periodic conference calls and roadshows for our institutional investors.

The business is evolving and adapting constantly as customers demand more

Our business is evolving constantly as our customers demand more and we need to adapt and change accordingly. We are better prepared than we have been in the past, but not as prepared as we need to be.

We need to mine the data we have on customers better and use it more efficiently to improve customer service. Today, we collect a lot of data and we do very little analysing of that data. There must be a mind shift for all of us in the banking sector to leverage our data. There are several disruptors along our entire value chain and they are more nimble and cost-effective than we are. Our competitive advantage is our relationships with customers and the data that we have.

There needs to be a mind shift in the banking sector to leverage data.

Q ***What are the long-term drivers of value for your business in terms of industry convergence?***

A Banks must embrace mobile money. It has been a game-changer and we cannot ignore the simple fact that its ubiquity and low cost have allowed mobile money to reach 20 million users in five years in Uganda, while the banking sector has barely reached five million accounts in 50 years. The discussion is no longer 'us vs. them' but more about how do we utilise the success of mobile money to provide more financial products and services.

Mobile money is a game-changer that cannot be ignored

We are in advanced discussions with our telecommunications industry partners to launch a micro savings and loan product via mobile money. We are thrilled about the possibility of reaching 20 million Ugandans to mobilise savings.

In my view, this is a powerful win-win proposition for banks, Ugandans and telecommunications providers. The potential for collaboration and increased market share is huge and we are reviewing international remittances, insurance products and several other products and services that fit into this win-win category.

Agency banking is another game-changer for us and it fits nicely into our strategy of reducing our cost to serve and moving low-value, high-volume transactions away from the branch.

Agency banking fits strategy for reducing cost to serve and reaching more customers

We are in discussions with potential agents across the country who will initially facilitate payments for us. They will collect cash and pay out cash on our behalf. This will dramatically increase our points of representation from roughly 100 today to multiples of that overnight.

We will also be able to provide services at earlier or later hours, as long as the agent is open. New bancassurance legislation will allow us to close a revenue leakage that we have experienced for many years; we will now provide products like mortgage insurance directly rather than through third-party providers.

Q ***How do you harness talent as a catalyst for growth***

A Talent is a critical issue across Africa. The recent trend of more African talent returning home from the diaspora because of stagnant and dropping real wages in Europe and the USA is encouraging.

The return of African talent from Europe and the USA is encouraging.

We have been able to attract talent and pay them more competitively than we could have seven or eight years ago. In real purchasing power terms, talented people can leave New York or London without taking a huge pay cut. This will help to plug the talent hole.

Our greatest competitive advantage is our people. We believe that all of our employees are assets to be invested in and not expenses to be managed.

In 2015, we continued to invest massively in our people through training and development. Our employees completed more than 5 000 training courses last year. We manage careers actively and show our people what their next job could be. This helps with retention.

Our greatest competitive advantage is our people.

Our biggest challenge has been high attrition at the junior level. We have 500 tellers across the bank and their 15% attrition rate means that in six years, we have a whole new complement of tellers.

We have also struggled to get mid-level management to take ownership and accountability for their business. There is a general fear of making decisions and being held accountable and we lose efficiency as a result.

Building confidence in mid-level management to make decisions

We are intervening at this level to drive managers to be a lot more responsive and empowering them to make more decisions. We want to move away from the model that all answers are at the head office's Ivory Tower.

Personally, I believe that the manager in the field has a lot more context and can reach the right decision quicker than someone at the head office. We need to convince managers that this empowerment is real, but also provide guidance about what is acceptable and what is not.

People are concerned about the social values of employers.

It has always been true that talented people are concerned about the social values of employers. There is a segment of employees who are not motivated by money. Doubling their compensation does not necessarily increase their productivity. We need a robust value proposition that takes into account all of the different motivating factors like corporate social responsibility, our drive to transform lives and commitment to extraordinary banking.

I truly believe that each of us must find meaning in our work. The best work happens when you know that it's not just work but is something that will transform other peoples' lives.

Fabrice Comlan
Senior Manager
People & Organisation Services
PwC Francophone Africa

Focussing on talent strategies

CEOs need to respond to evolving staff requirements in the workplace

Attracting and retaining the right people

While many global organisations are expanding, or seeking to expand in Africa, attracting and retaining the right people continues to be one of the main challenges facing growth and expansion on the continent.

Increasing competition for talent.

More than half of the CEOs we surveyed in Africa expect to increase their headcount over the next year, while the talent trends that we are seeing suggest that the environment is becoming more and more competitive.

52%
of African CEOs expect headcount at their companies to increase over the next 12 months.
(Global: 48%)

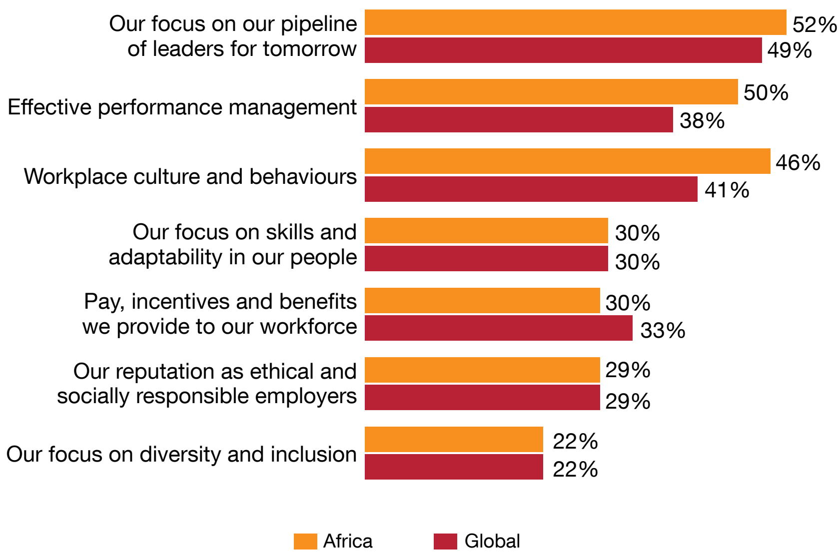
As a result, companies are being required to review their talent management strategies and think in different ways about their skills and talent needs as well as what strategies they need to have in place in order to keep their people.

To be well-armed in the war for talent, most CEOs in Africa expect to change some aspects of their current talent management strategy. Around half plan to invest more in their leadership pipeline and focus on developing their institutional culture.

Companies are having to review their talent management strategies.

Figure 3.8 CEOs are changing their talent strategies to stay relevant and competitive

Q What aspects of your talent strategy are you changing to make the greatest impact on attracting, retaining and engaging the people you need to remain relevant and competitive?



Source: PwC analysis
Base: Africa 153, Global 1409

It's clear that in an environment of rising talent shortages, attracting and retaining the right people requires more than just attractive compensation packages. Companies need to also take the changing demographics of the workforce, made up of more and more Millennials (those born between 1980 and 2000), women and the diaspora, into consideration in their talent management strategy.

Factors we see steadily gaining in importance in attracting and retaining talent are: the quality of the workplace, the work experience, training, coaching and mentoring programmes, customised career paths, more involvement in the business and the employer's brand. Their importance is now just as significant as monetary and financial benefits.

Investment in leadership development.

Increasingly, we see many companies investing in in-house leadership development programmes or building partnerships with local or international universities for their top performers and encouraging greater mobility among their staff within the organisation or across the continent.

More than three-quarters of CEOs in Africa say that a skilled, educated and adaptable workforce should be a priority for business in the country where they are based.

79%
of African CEOs believe developing a skilled, educated and adaptable workforce should be a priority for business
(Global: 75%)

This is such a critical concern for them that most believe it should also be a top priority for government. At the same time, the majority of African CEOs say they are investing more in their leadership pipelines, as they try to gain a competitive advantage by equipping their future leaders with the right management and/or technical skills.

Focusing on the leadership pipeline will also help ensure that future leaders understand what it takes to be a 'true leader' and gain significant knowledge around key skills such as business acumen, team building and change management. Most importantly, they must be able to motivate their people and align the entire workforce behind business and growth goals, which is critical to effective execution.

Talented people want to work for organisations with social values aligned to their own.

The notion of corporate social responsibility has quickly become a crucial part of any organisation's strategy used not just for marketing purposes, but for recruitment as well.

Attracting and retaining the right people requires more than just attractive compensation.

Employees want more from their employer than just a paycheck; they want a sense of pride and fulfilment from their job. They are looking for a purpose and more importantly, they want to be associated with an organisation whose social values are aligned to their own.

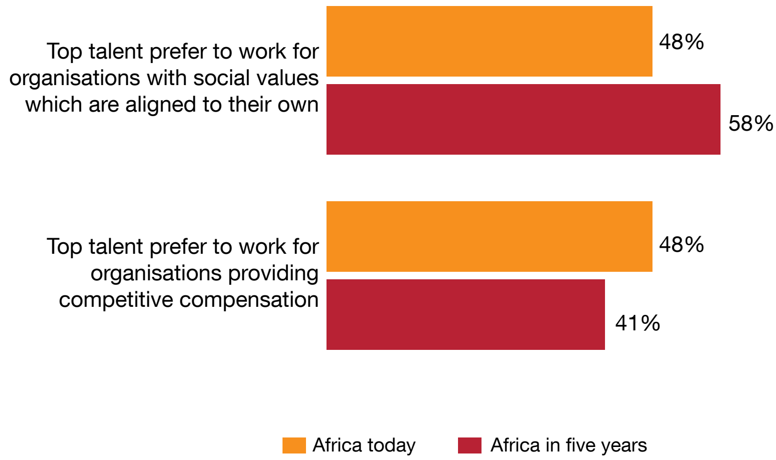
79%
of African CEOs are making changes in response to changing stakeholder expectations in their values, ethics and codes of conduct.
(Global: 74%)

In our survey of CEOs, 48% of business leaders in Africa believe that top talent prefer to work for organisations providing competitive compensation today, while only 41% think this will still be the case in the next five years.

Changing employee expectations.

Figure 3.9 CEOs recognise the changing values of talent

Q Thinking about the wider stakeholder expectations you see, which of these statements best describes your organisation?



Source: PwC analysis
Base: Africa 153, Global 1409

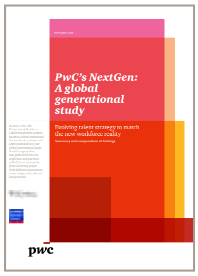
Most CEOs in Africa are aware that employee expectations are changing regarding the values of their employers; 48% of them recognise that top talent prefer to work for organisations with social values aligned to their own, while 73% believe that corporate social responsibility will be even more important five years from now.

We see candidates, especially Millennials, placing more emphasis on an organisation's reputation and commitment to the community. Since Millennials will make up most of tomorrow's workforce, it is important for employers to better understand their needs and what kind of corporate social responsibility initiatives or practices are well received by this generation.

It is important to understand Millennials.

Within our own organisation, *PwC's NextGen* study conducted in 2013 confirmed that almost 80% of the workforce of PwC firms would be Millennials by 2016.[1] The findings of this study helped us understand the basic drivers (attraction to employers) and needs of both Millennials and non-Millennials.

This understanding has been key in enabling us to rethink our recruitment and talent management strategies. Consequently, the current global turnover rate in the PwC network of firms continues to decline, while people engagement around the globe is increasing.



PwC's NextGen: A global generational study

The largest, most comprehensive global generational study ever conducted into the attitudes of Millennial employees has found that in order to foster a greater sense of commitment among Millennials, it will be necessary to transform the core dynamics of the workplace.

Find out more at www.pwc.com/gx/en/services/people-organisation/publications/nextgen-study.html

[1] "PwC's NextGen: A global generational study", PwC, 2013. www.pwc.com/gx/en/services/people-organisation/publications/nextgen-study.html

4. Measuring and communicating shared prosperity

Zubair Wadee
Partner
Capital Markets and Accounting Consulting Services
PwC South Africa

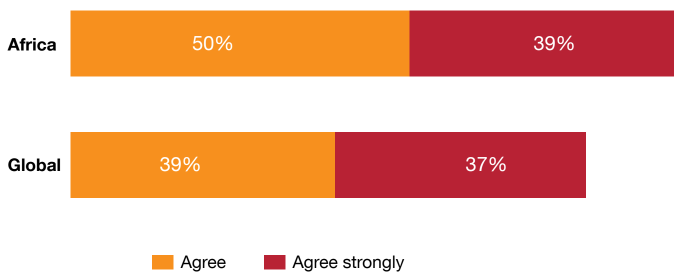
Doing more to measure and communicate value

Business success will increasingly be defined by more than financial profit.

An overwhelming majority of African CEOs agree that business success will increasingly be defined by more than financial profit. Success can no longer be defined as cash in the bank as customers and society put increasing pressure on organisations to be responsible corporate citizens.

Figure 4.1 The majority of CEOs believe business success is defined by more than financial profit

Q To what extent do you agree that business success in the 21st century will be defined by more than financial profit?



Source: PwC analysis
Base: Africa 153, Global 1409

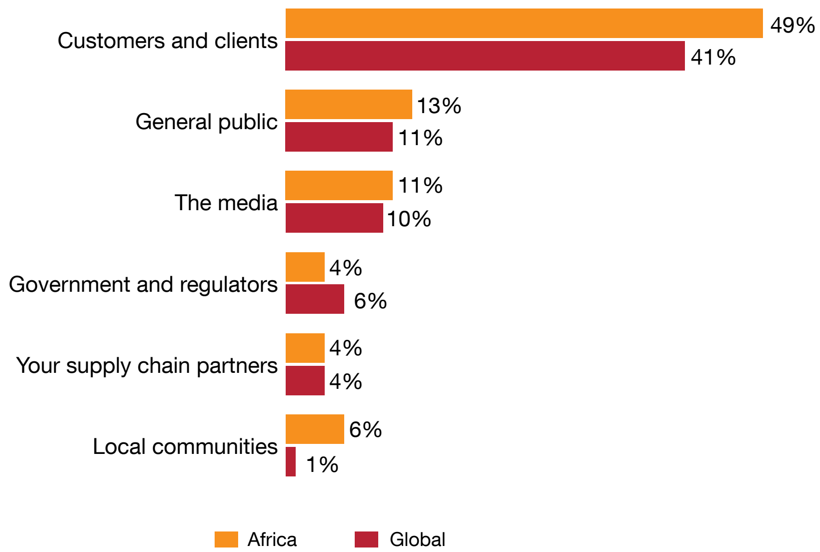
The reality is that, in today's hyper-connected society, where transparency is a click away, organisations cannot continue to make profits for shareholders without considering the impact on other stakeholders, including society at large.

Most African CEOs surveyed not only believe that success is dependent on more than just making money, they also believe that their organisations should do more to measure and report on the broader impact of their activities and how these activities create value for stakeholders.

CEOs want to communicate on the impact and value generated through their organisation's purpose and values, business strategy and innovation initiatives, and their impact on wider communities. They also want to do more to measure and report on non-financial indicators such as brand health and customer satisfaction.

Figure 4.2 CEOs believe customers and clients would influence them most to communicate more non-financial information.

Q Which stakeholder group do you believe would be most influential in causing you to communicate more non-financial indicators (e.g. brand)?



Source: PwC analysis
Base: Africa 153, Global 1409

Consistent with their taking a broader view of the impact of their activities, African CEOs also want to improve their communication on their organisation's environmental impact, key risks and employee practices.

Given the wishes of CEOs to be more transparent and report more holistically, the question arises how this should be achieved. One of the foremost proponents of this broader value reporting is Professor Mervyn King, Chairman of the International Integrated Reporting Council. In his view, communicating how an organisation's business activities influence its ability to create value is a key aspect of disclosure and transparency[1]. One of the ways in which an organisation can communicate the value it creates is through the integrated report.

Communicating how an organisation's business activities influence its ability to create value is a key aspect of disclosure and transparency.

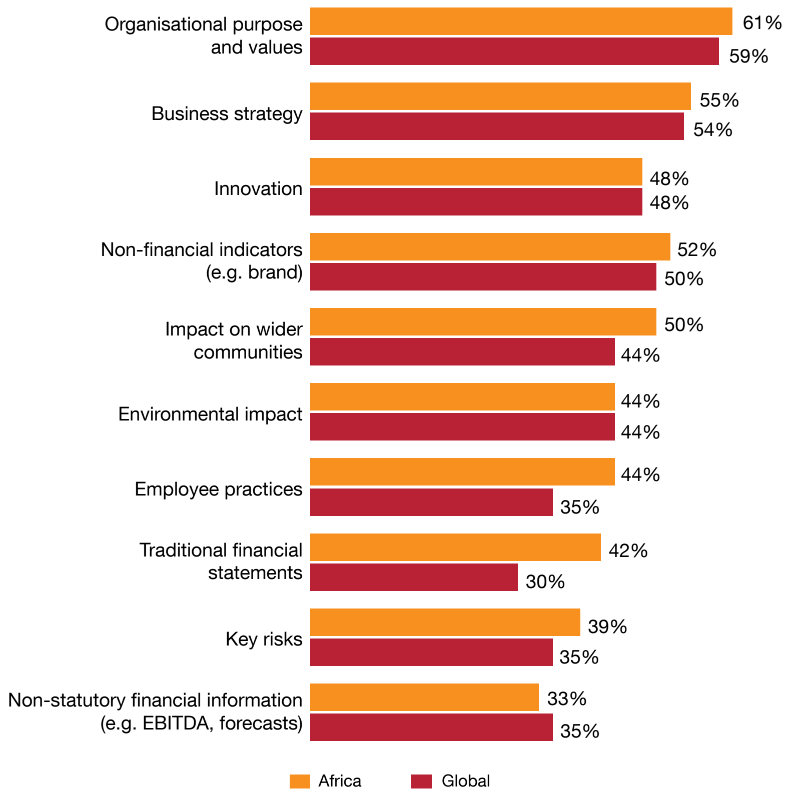
Reporting on an organisation's value creation process in an integrated report gives investors and other stakeholders insight into how the organisation increases, decreases or transforms its financial, natural, relationship, people, manufactured and intellectual resources (or capitals) as a result of its business activities[2].

[2] "The International <IR> Framework", International Integrated Reporting Council, 2013. http://integratedreporting.org/wp-content/uploads/2015/03/13-12-08-THE-INTERNATIONAL-IR-FRAMEWORK-2-1.pdf

[1] "Reporting on Outcomes – An information paper", Integrated Reporting Committee of South Africa, 2015. http://www.integratedreportingsa.org/Portals/0/Documents/IRCReportingOutcomesIP.pdf

Figure 4.3 CEOs believe they should be doing more to communicate impact and value in a range of areas

Q Within the context of wider stakeholders, in which of the following areas do you think your business should be doing more to communicate impact and value?



Source: PwC analysis
Base: Africa 153, Global 1409

Investors have themselves said that a key benefit of integrated reporting is that it bridges the gap between the internal management information needs of the organisation and the information needs of investors[3].

For entities that are looking to communicate value, the scope of corporate communications has expanded to include a broader group of stakeholders such as customers, suppliers, employees, societies and communities within which the entity operates, lenders and creditors, regulators and strategic alliances.

We think businesses should take three things into account when determining how to communicate to stakeholders:

- **Audience**

  The meaning of a message does not reside in written text, but can only be created by the reader of the text. The context and perceptions of the reader should also be taken into account when communicating with stakeholders. As all stakeholders would not necessarily be financially literate, communication of non-financial information becomes increasingly important.

- **Content**

  Materiality and conciseness are two of the guiding principles of the International Integrated Reporting Framework. The Framework describes materiality both in terms of relevance and significance, which should be key considerations when communicating with stakeholders. Profit is by no means the only material matter in a business.

- **Medium**

  The medium through which communication takes place is as important as the content. This third element therefore establishes a 'wrapper' for the delivery of information to stakeholders, taking into account the elements above.

  It consequently follows that entities may not wish to communicate important information in text format to illiterate or semi-literate stakeholders, but should think carefully about who the audience is and what the best manner of engaging with each stakeholder grouping is.

  It is encouraging to see that today's CEO realises that doing business is no longer only about making money but that it is also about being a responsible corporate citizen and about being able to continue to create value in the future.

[3] "Creating value – Integrated Reporting <IR> and Investor Benefits", International Integrated Reporting Council, 2015. http://integratedreporting.org/wp-content/uploads/2015/12/Creating-Value-Integrated-Reporting-and-investor-benefits.pdf

CEO insight

Dr Charles Kimei
Chief Executive Officer
CRDB Bank Plc

CRDB Bank Plc is a leading financial services provider based in Tanzania. It provides corporate, retail, business, treasury, premier and wholesale microfinance services through a network of over 120 branches and more than 1 500 banking agents across the country. The bank was established in 1996 and is listed on the Dar es Salaam Stock Exchange.

Q Which stakeholders influence your strategy and why?

A The main driving force for any strategy is the customers – both existing and potential. However, in our countries (Tanzania and Burundi), government is a very significant stakeholder, in some cases accounting for more than 40% of business done in the economy.

We do a lot of business with public corporations as well as with the central government and local government authorities. In addition, governments promulgate laws, regulations and policies (fiscal, structural and monetary) that affect the way we do business and our performance.

This role of government is particularly important for institutions in the banking sector.

This role of government is particularly important for institutions in the banking sector and sometimes we are called upon to lobby for appropriate policies.

With government, you will always find it necessary to communicate and ensure that they have a very good understanding of the business. Such information is also important for equity owners and/or other capital suppliers. They require information to assess the risks involved in dealing with us, just as we require these from our borrowers.

We at CRDB Bank collaborate with international and financial institutions like the IFC, AfDB and EIB, whose stakeholders demand very high standards of corporate governance and care for economic, social and environmental sustainability.

Stakeholders demand high standards of corporate governance and care for economic, social and environmental sustainability.

We must, on a continuous basis, prove to them that we conduct our business in line with acceptable standards. We have, for example, adopted criteria that require thorough assessment of the economic, social and environmental sustainability of projects we finance.

We publish our financial statements in line with international financial reporting standards (IFRS) and we have an extensive annual report, which includes a lot of non-financial information.

Among the wider public, very few people read and analyse financial statements.

Some stakeholders, like employees read them, but among the wider public, there are very few people who read and analyse them. We also address professional investors or depositors through special quarterly 'professional analyst days' for the purpose of better informing our large investors.

Q ***African CEOs predict that in five years' time, investors will seek more ethical investments. Is this in line with what you observe currently in the investment environment?***

A No, I don't agree with that viewpoint. In Africa, what is attracting investment now is extractive industries, especially mining.

Extractive industries are attracting investment to Africa, but weak systems are failing to ensure sustainability.

Producers are trying to relocate from old, exhausted and already environmentally denigrated territories to the new-found lands of Africa. Unfortunately, due to weak systems of ensuring environmental sustainability, there are no mechanisms for ensuring that the technology they are transferring to Africa is state-of-the-art, rather than obsolete.

For example, in Tanzania, some investors from the Far East have been coming in with old, dilapidated factories for steel production. In my view, the type of equipment brought in needs thorough evaluation to attest to the fact that the perceived benefits of these investments are real relative to the cost of environmental denigration.

Strong policy frameworks needed to regulate foreign investments and ensure ethical practices.

So long as we don't have strong policy frameworks to regulate foreign investment, we will never get to the point where investment becomes ethical. In the end it is still the normal pursuit of profit, capital gains and return in emerging markets. These are not factors that are likely to change the ethics of investment.

Q ***Why do you think a higher percentage of CEOs in Africa plan to share and report non-financial information than CEOs globally?***

A I fully agree that non-financial information is important. It leverages your being accepted in the community as a good citizen. For retail-oriented businesses, especially banks, strengthening corporate goodwill is one way to create a competitive edge.

Strengthening corporate goodwill can create a competitive edge for retail businesses.

We don't have a society that is interested in the details of financial statements. The public would rather have a general understanding of a particular business and get assurance that it is producing a high-quality product or service in terms of established standards, with an effective and efficient distribution network and competitive pricing.

The public wants to know that the company cares for the society.

On top of this, the public wants to know that the company cares for the society. It is important to get the buy-in of the public and thereby ensure the ability to sell and grow sales and compete with international imports from the rest of the world.

You can only do this by showing society that you care. With government, you want to be able to say, "This is what we are doing and this is the big picture". You want leaders in government to understand that this is a good company for the country.

Q *How do you measure and communicate non-statutory and non-financial information and indicators?*

A Our bank has been growing at almost 25% annually for almost 20 years. A key driver of this growth has been the way that we have communicated with society about how we take care of their needs in terms of our products and services as well as in corporate social responsibility.

However, in doing so one cannot avoid providing basic financial statistics relating to performance of the relevant entity. Most important is that the general public requires basic information rather a full set of financial statements.

Q *Do you think it is more important to communicate business strategy, organisational purpose and values and employee practices than it is to measure these areas?*

A I think communication matters more to our stakeholders. Measuring of some of these metrics is sometimes very subjective and may not be interpreted in a uniform manner.

In my experience, key stakeholders need to have a broad view of the vision, strategy, values and employee practices for them to position themselves to benefit from the products and services of the company.

Stakeholders judge organisations by how they walk the talk.

The stakeholders will make their own judgement regarding the effectiveness of the company in implementing its organisational purpose and values.

They see how you walk the talk. Specific measures of performance of key indicators of the company's objectives are more relevant for management purposes. You communicate vision, strategy and organisational values also as a way of strengthening the company's brand. The public, from where we draw our customers, has to accept us and in order to buy our products and services.

Customers have to accept a business before they will buy its products and services.

In short, through communication, you can motivate customers and interact with them while taking cognisance of the needs of your target customers and ensure that these needs are aligned to your strategies.

Q *What actions do you think governments could be taking to develop a skilled workforce and improve infrastructure?*

A To achieve these outcomes governments need to prioritise these areas in budget allocations. But we all know how tight our budgets may be, especially when they are highly donor dependent. Furthermore, prioritisation is diluted by the short-term aspirations of politicians. During election campaigns a lot of promises are made, which are sometimes in conflict with long-term priorities.

Governments need to prioritise skills and infrastructure development in budget allocations.

For example, right now in Tanzania, the top priority is education, not only because the government promised to deliver free education during the election campaign, but also due to the understanding that the country needs to build an effective and productive workforce with necessary skills. Given the constraints on the government budget, the best way to address the gap is through public-private partnerships.

The private sector should also invest in education and infrastructure.

The private sector should be able to chip in to invest in education (especially vocational) as well as infrastructure.

Government education efforts end at the academic level with schools producing graduates and even postgraduates, but after that there are no institutions to build skills and so most skills development happens through employment, vocational training and on-the-job learning.

Q ***How does your organisation develop and build skills? What types of programmes are most effective?***

A We spend about US$3-5 million every year to train and build staff capacity. All of our staff go through a structured programme, including induction and field training, before coming back for more training and testing.

We are building managers, senior managers and CEOs. We send our talented staff to accelerated management development programmes at Harvard, Darden and London Business Schools, among other institutions.

We have branches all over the country and so e-learning and distance learning is the most cost-effective way to make sure that all our staff have equal learning opportunities. E-learning and distance learning constitute 30% of our training.

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

Organisational purpose and aligning societal outcomes

How to lead in complicated times? That's the question all CEOs are seeking to answer at a time of prolonged and continuing uncertainty.

There is a tremendous imperative for growth and development in Africa. Growth provides people with opportunities to work and can lift them out of poverty. It generates income to fuel a progressive and stable society to sustain livelihoods and promote well-being.

Until recently, growth, as measured by profits, dividends and GDP, has been a benchmark of success. But not all growth is the same. Many developing countries have growth, yet often it is not translating into the jobs or wider societal benefit they need.

Looking for 'good growth'

Despite the need for growth there is increasing recognition that this growth cannot come at any cost. Governments and broader society are looking for 'good growth' that creates value for all stakeholders and is sustainable over the long term. CEOs in Africa feel this good growth imperative strongly, considering the context that their businesses operate in.

83%
of organisations surveyed in Africa consider stakeholder expectations to be integral to their purpose, including their broader impact on society.
(Global: 69%)

Figure 4.4 Stakeholder expectations are significantly shaping organisational purpose in Africa

Q In which of the following ways has your organisational purpose been impacted by wider stakeholder expectations?

Source: PwC analysis
Base: Africa 153, Global 1409

While the business sector needs to play a central role in achieving 'good growth', the business models of the past have shown themselves to be inadequate. New business models are needed, and measuring and managing impact is essential for organisations to increase the value they create for their stakeholders.

New business models are needed, and measuring and managing impact is essential for organisations to increase the value they create for their stakeholders.

Moving beyond financial performance

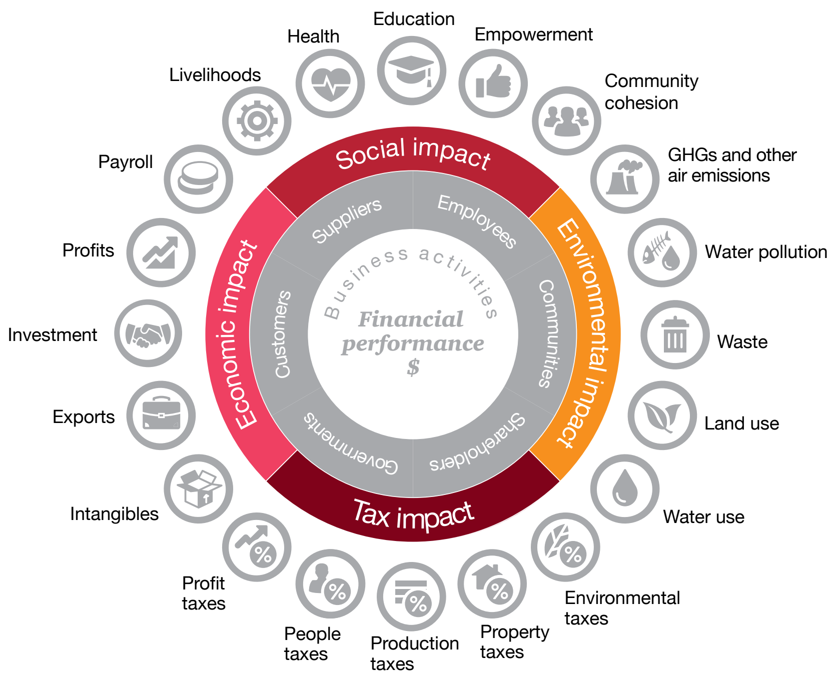
There is growing recognition that an organisation's ability to create value and achieve long-term success is dependent on a broader range of issues than financial performance.

In short, we need to look beyond the traditional, narrow measures of input, output and profit, to something that's more real, more inclusive, more responsible and more lasting.

And we need businesses that are focused on achieving value through appropriate vision and strategy.

Businesses need to have the appropriate vision and strategy to deliver value.

Figure 4.5 A multidimensional picture of business impact



Source: PwC, Measuring and managing total impact: A new language for business decisions, 2013, 23. http://www.pwc.com/totalimpact

Broader sustainability issues shape the way that businesses can operate and create value, as illustrated in the figure above. In light of this, management teams need clear, unambiguous performance information beyond their annual financial activities.

Stakeholder relationships

They need such a holistic view to drive more effective and robust strategy and decision-making. They also need sufficient information to communicate to stakeholders who want to know what will impact on a business's ability to create value and destroy it. For example, stakeholders want to know about the external drivers affecting the business, its approach to governance and managing risks, and how the business model operates.

89%
of African CEOs say that business success in the twenty first century will be redefined by more than financial profit.
(Global: 76%)

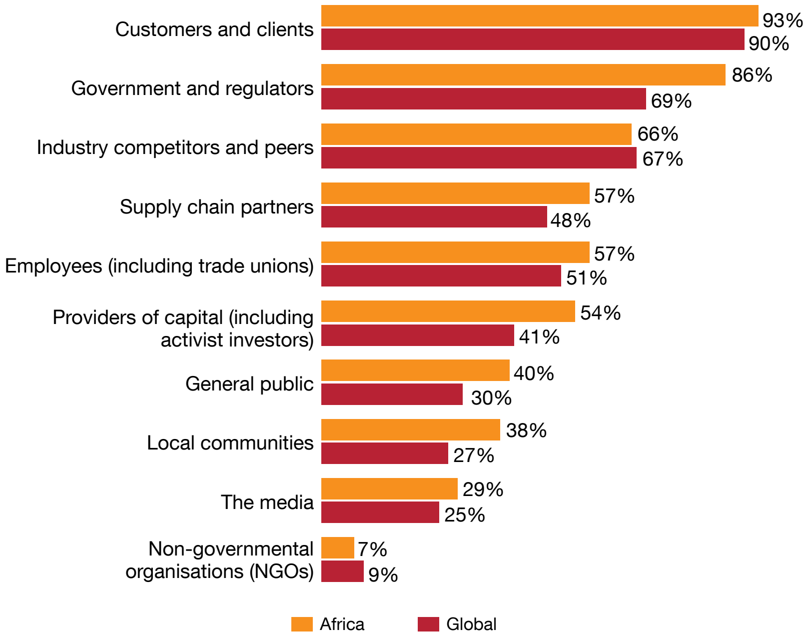
69%
of African CEOs say their purpose is centred on creating value for wider stakeholder.
(Global: 69%)

28%
say it is centred on creating value for shareholders.
(Global: 32%)

84%
tell us their companies prioritise long-term over short-term profitability.
(Global: 82%)

Figure 4.6 Stakeholders have a significant impact on organisational strategy

Q What impact do these factors have on your organisation's strategy? (Summary high/very high impact)



Source: PwC analysis
Base: Africa 153, Global 1409

65%
of African CEOs are concerned about the lack of trust in business today.
(Global: 55%)

Developing an integrated approach

However, a refined approach to business strategy, management, governance and reporting is not without its challenges:

- **Transparency and trust**
  These have become central to the longer-term success of businesses and are fundamental to maintaining good stakeholder relationships.

  Engagement with stakeholders is now taking on a new meaning. For example, beyond the traditional customer expectations of cost, convenience and functionality, there is a growing number of customers seeking relationships with organisations that address wider stakeholder needs.

  Similarly, there is a strong trend for talent to want to work in organisations that share their social values, while investors are increasingly seeking out ethical investments.

- **Integrated approach**
  There is relatively high focus and commitment of effort on the financial aspects of a business, but a potential lack of strategic focus. Information shared in external reporting tends to remain separate from internal management information, and sustainable development is still often a stand-alone process, more focused on annual reporting than the way in which the business is managed.

  For an organisation to be able to understand and communicate in an integrated way regarding its environmental, social and economic issues, it needs to ensure that it manages these issues in an integrated way throughout the company on a daily basis.

This approach needs to start at the top with boards and management teams identifying environmental, social and economic risks and opportunities across the value chain and ensuring that they are effectively managed in the organisation.

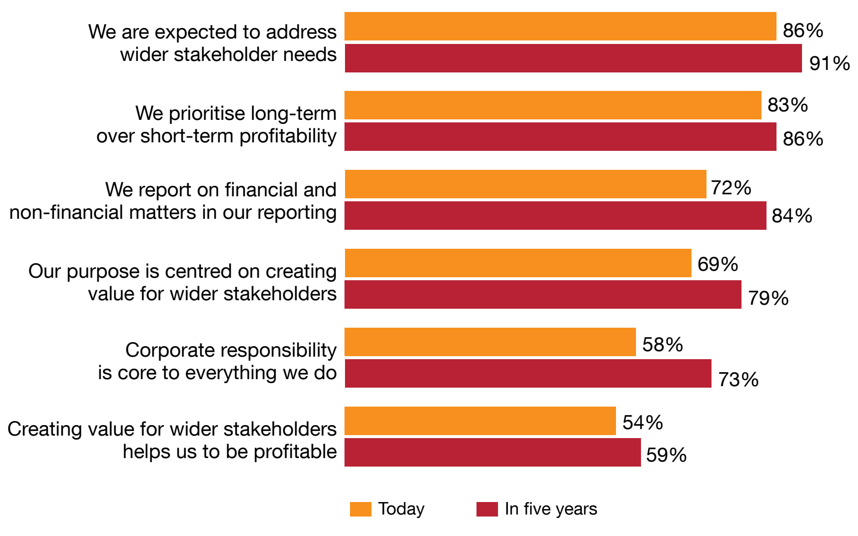
Leadership needs to ensure that key risks, opportunities and issues are integrated into the organisation's decision-making and operating processes. They also need to ensure that the business manages the data and information to feed into its reports. Critically, they must then help to make decisions based on future rather than on past performance, helping to build a more resilient organisation.

In interviews with PwC, chief executives acknowledged that businesses will make better long-term decisions if they consider their company's environmental and social footprints alongside financial impacts, but that very few are doing so because of a lack of information.

The majority of CEOs, globally and in Africa, believe that measuring their organisation's total impact, including jobs supported, environmental impact and taxes paid and borne, could enable better decisions about business risk and build a stronger reputation with employees, investors and regulators, than using financial measures alone.

Figure 4.7 Organisations in Africa are responding to calls to 'do the right thing'

Q Thinking about the wider stakeholder expectations you see, which of these statements best describes your organisation?



Source: PwC analysis
Base: Africa 153, Global 1409

Where to next?

Business cannot succeed in societies that fail. There is no future for successful business if the societies that surround it are not working. Governments and business must create partnerships to deliver essential societal services like energy, water, health care and infrastructure.

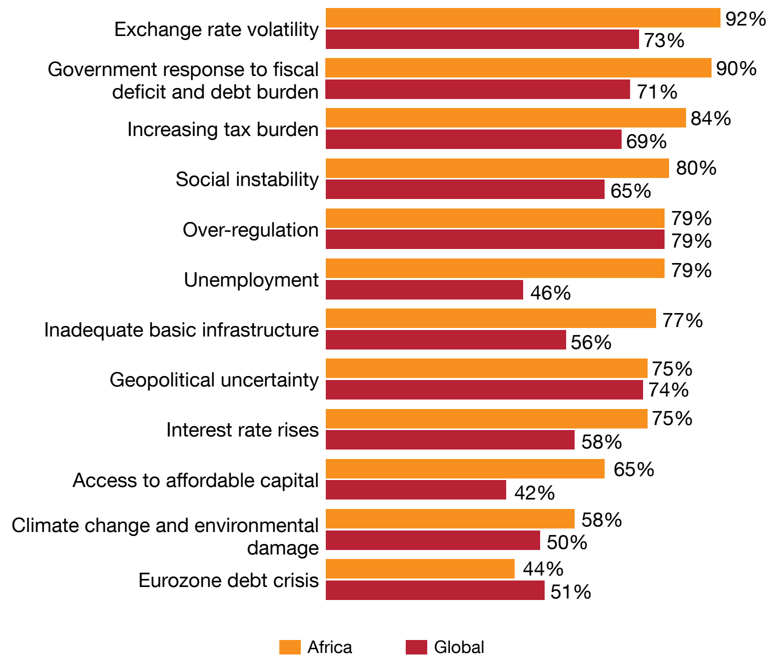
Odd S. Gullberg, Chief Operating Officer, World Business Council for Sustainable Development at the SETAC World Congress, United States, 2004. http://oldwww.wbcsd.org/plugins/DocSearch/details.asp?type=DocDet&ObjectId=MTIxNDQ

The analysis in this section summarises the focus of our journey forwards. Our 'business as usual' of the future will focus on the well-being and success not only of individual companies, but also of the system within which they operate.

Globalisation and the way in which natural systems function means that we exist within a truly interconnected world. Many of the grand challenges that confront business, as diverse as climate change, the instability of markets, the deterioration of natural resources, the availability of energy, and the impacts of poverty and conflict, are the result of this interdependent web of cause and effect that is affecting us on a global, national and local scale.

Figure 4.8 CEOs are concerned about a multitude of factors impacting growth

Q How concerned are you, if at all, about the following? (Summary somewhat/extremely concerned)



Source: PwC analysis
Base: Africa 153, Global 1409

Businesses are faced with new and emerging risks, and these impact their ability to create value. However, these risks in a business' external environment are usually too broad for a company to address on its own, and are linked to issues which are important at a global scale. In this light, two key actions are proposed:

- **Resilience management**

  Risks to a business arise directly from the ability or inability of its social-ecological system to respond and adapt to change. The more a system's resilience is compromised through its approaching critical social and ecological thresholds, the less able it is to support thriving businesses. Ultimately, the system may shift to a state that is no longer able to sustain value creation.

In short, embedding the management of the resilience of its social-ecological system will ensure that a business is better able to continue operating and creating value in the short and long terms; respond to opportunities arising from change; and anticipate, identify and adapt to emerging risks.

97%
of African CEOs confirm they are making some or significant changes in response to changing stakeholder expectations in how they define and manage risks. **(Global: 93%)**

- **Collaboration to achieve societal goals**

The Sustainable Development Goals (SDGs) or Global Goals (2015) were developed to follow from the Millenium Development Goals (MDGs) set by the UN in 2000. UN member states are expected to use the goals to frame their agendas and political policies over the next 15 years.

The SDGs' indicators are centred on economic, social and environmental progress areas of improvement that are applicable to all member states, regardless of their level of economic development. To achieve the SDGs, governments are likely to change the landscape by implementing new regulations and taxes in order to measure and monitor progress.

Businesses should recognise the potential impact the SDGs could have on the economic landscape, the business marketplace and the regulatory environment, and be prepared to leverage the associated opportunities.

Governments are already using the SDGs to inform the development of policy and regulation. Businesses that align their strategy with national priorities will most likely be given a licence to operate by government and communities alike. Those that do not, or struggle to demonstrate alignment with these national interests, cannot expect equivalent treatment, thereby creating competitive disadvantage.

It is generally accepted that business models of the past cannot be the business models of the future. African business, in its developing and growing phase, is in a unique position to learn from others and respond to local circumstances, and deliver 'good growth' from the early stages of its economic transformation.

Feedback received from African CEOs suggests this is happening, as businesses in Africa are already understanding and responding to broader stakeholder expectations and identifying a range of risks and opportunities in the external environment.

However, there is still much to be done to build resilience into business models and integrate all impacts – financial, non-financial, positive and negative – into business decision-making and external reporting.

93%
of citizens believe it is important that business signs up to the SDGs[1].

85%
of citizens said they were more likely to buy the goods and services of companies that had signed up to the SDGs[1].

[1] "Make it your business: Engaging with the sustainable Development Goals", PwC, 2015. www.pwc.com/sdg

Make it your business: Engaging with the Sustainable Development Goals

Governments have agreed on new Sustainable Development Goals (SDGs) to achieve, but how ready is business to help them achieve these SDGs? What's their intention and their vision? Will they be business-as-usual or business-critical?

For this report, PwC surveyed business and citizens to get their perspective on awareness and plans for the launch of the SDGs.

Find out more at www.pwc.com/sdg

Purpose and trust

Q: In your own words, what is the purpose of your organisation today?

To provide a product safely and at a cost below the cost of production without harming or damaging the environment

To maintain our long-term sustainability through preserving and enriching our agricultural resources, engaging, respecting and providing significant economic empowerment to our surrounding communities.

To help people, businesses and organisations to connect in a trusted way, enabling them and the economy to prosper.

We are partners for growth for all our stakeholders. We meet expectations of customers, motivate and develop employees and enhance shareholder value.

Shirley Machaba
Public Sector Leader
PwC Southern Africa

The public sector needs to renew its focus on achieving fiscal balance and boosting the agility of the sector

Governments have work to do in delivering on the expectations of society and business.

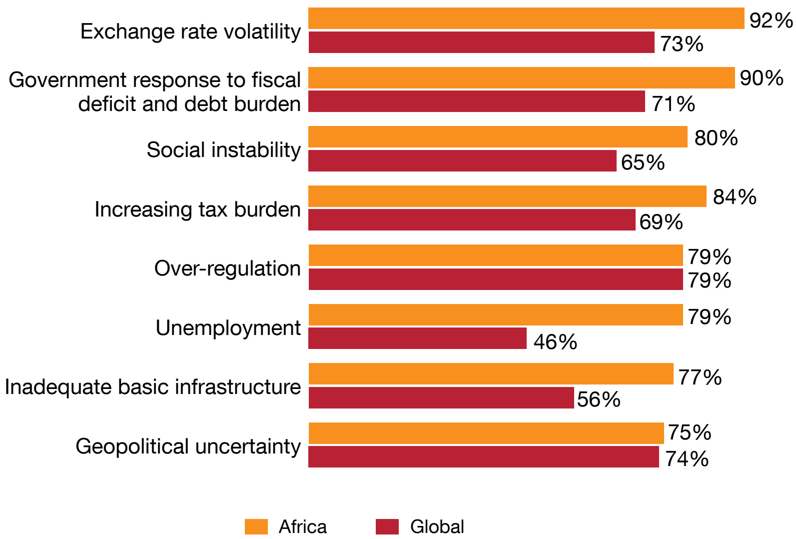
Governments worldwide need to renew their focus on strategically managing their costs and increasing demand for services and doing 'better for less'. At the same time, they have an opportunity to boost the agility of their sectors by innovating and making better use of digital and big data.

Governments worldwide need to focus on doing 'better for less'.

These are just two of the highlights to come out of our survey of global CEOs as well as interviews with government representatives and state-backed CEOs across the world.

Figure 4.9 CEOs are very concerned about issues government can influence

Q How concerned are you about each of these? (Summary somewhat/ extremely concerned)



Source: PwC analysis
Base: Africa 153, Global 1409

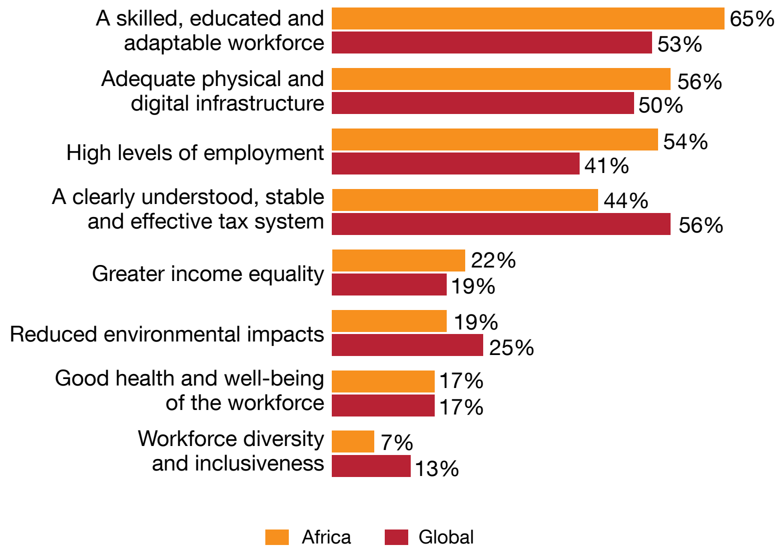
Closer to home, exchange rate volatility and fiscal deficits remain in the spotlight, with more than half of African CEOs extremely concerned about this threat. It is critical that the public sector manages its budgetary constraints in the face of budget cuts to reduce fiscal deficits in many countries. This means delivering services more effectively and efficiently as well as prioritising the public services that matter most to citizens and business.

CEOs believe that creating a skilled, educated and adaptable workforce should be governments' top priority.

Other concerns for business are the availability of key skills, social instability, an increasing tax burden and over-regulation.

Reflecting on the threats to their businesses, African CEOs identified developing a skilled, educated and adaptable workforce, high levels of employment and adequate physical and digital infrastructure as areas that should be governments' top priorities.

Figure 4.10 Infrastructure, skills development and job creation should be government priorities

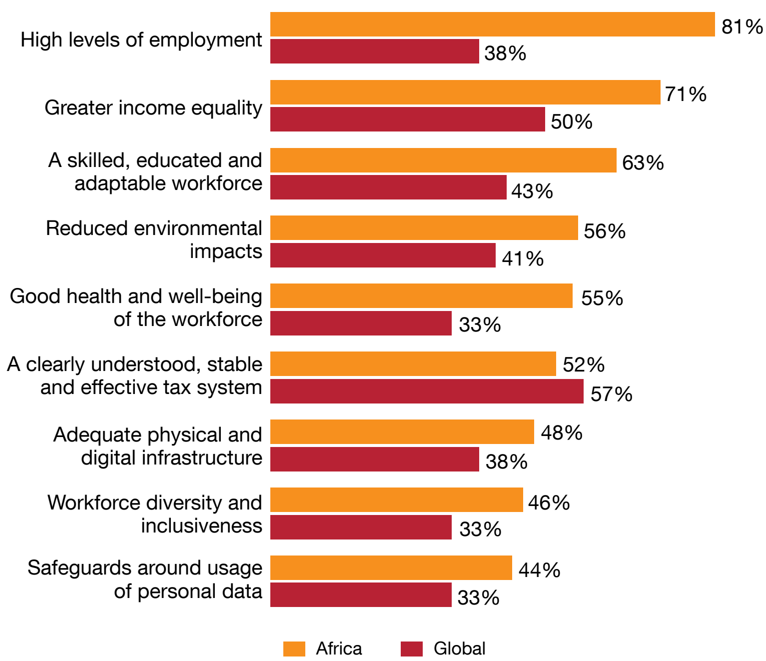


Source: PwC analysis
Base: Africa 153, Global – 1409

Governments and business have a long way to go in developing a shared vision for growth and development. CEOs globally and in Africa think government must shoulder its share of the responsibility for developing the labour supply and creating an environment conducive to increasing levels of employment.

Governments and business have a long way to go in developing a shared vision for growth and development.

Figure 4.11 CEOs believe governments are largely ineffective in achieving positive outcomes



Source: PwC analysis
Base: Africa 153, Global – 1409

While some policymakers have been proactive, African CEOs are particularly negative about how effective their governments have been in achieving these outcomes.

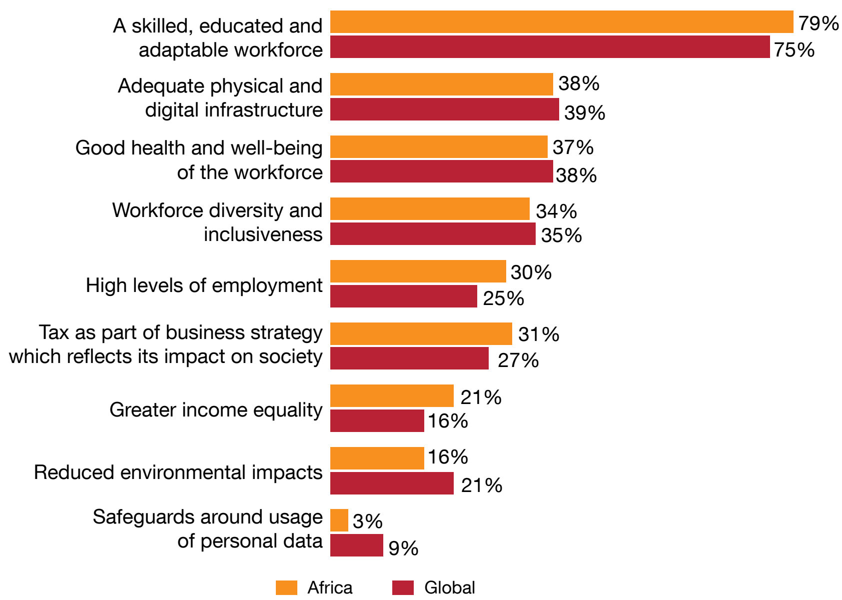
But while CEOs believe governments should be doing more to address these critical issues, they acknowledge that business can't function in isolation from the society in which it operates.

When asked how their organisation's purpose had been impacted by wider stakeholder expectations, more than half of African CEOs stated that they have always had a purpose that includes a broader impact on society, while more than three-quarters indicated that they are expected to address wider stakeholder needs.

CEOs acknowledge that business can't function in isolation from the society in which it operates.

In this context, a significant proportion of African CEOs say their organisations are committed to playing a meaningful role in national development, most notably in the areas of workforce development, diversity and inclusiveness, as well as infrastructure development.

Figure 4.12 CEOs believe business has a significant role to play in national development



Source: PwC analysis
Base: Africa 153, Global – 1409

Following the launch of our *Annual Global CEO Survey* earlier this year, PwC's Public Sector Research Centre has published its latest report entitled *Government & the Global CEO: Redefining success in a changing world*. The report calls for governments and public sector organisations to respond in four key ways:

- **Redefine purpose and restore public finances: Delivering better for less**
  Since the financial crisis, CEOs' concerns about the ability of governments to tackle fiscal deficits have continued at a high level. Despite efforts to restore fiscal balances in many countries, there is still much work to be done. For instance, in its *The State of Public Finance 2015*, the OECD states that "although OECD countries have achieved a considerable amount of fiscal consolidation from 2009 to 2014, there is still a significant gap left to attain a debt ratio of 60% of GDP by 2030".[1] It is therefore critical to take a look at the purpose of public bodies, invoking a zero-based strategic review of their activities, costs and assets.

Despite efforts to restore fiscal balances in many countries, there is still much work to be done.

Meanwhile, consideration should also be given to how to make better use of digital technology and build the agility and resilience of public sector organisations to cope with future changes and challenges.

The acceleration of technology has put pressure on governments to catch up with the private sector and to invest in innovating and R&D, even if it means taking on more risk, coupled with the possibility of failure.

1 OECD. "The State of Public Finances 2015: Strategies for Budgetary Consolidation and Reform in OECD Countries", OECD Publishing, 2015. http://dx.doi.org/10.1787/9789264244290-en

With digital technology, there is now more data available than ever before. There is also the potential for big data and analytics to improve outcomes for the public.

- **Actively own and manage parastatal organisations.** State-backed organisations are gaining greater influence across the globe. For example, the proportion of parastatals among the Fortune Global 500 grew from 9% in 2005 to 23% in 2014, driven largely by the growth of Chinese organisations[2].

In our survey of African CEOs, 8% lead organisations with some form of state backing. Their perceptions of key concerns are similar to non-state backed CEOs. For example, overregulation, geopolitical uncertainty and exchange rate volatility emerged as their most pressing concerns.

Parastatals need to be evaluated on their financial results and their contribution to society.

Parastatals need to be evaluated on the basis of their financial results, as well as how they contribute to societal value creation. Consequently, they need to be actively owned and managed. This means establishing a clear purpose that must be linked to desired societal objectives, and continual monitoring to ensure that public value is delivered.

They also need to be transparent and accountable, delivering quality and reliable reporting on their performance.

- **Build the foundations for growth** With the majority of African CEOs expressing concern about the availability of key skills, there is an important opportunity for collaboration and partnering between the private and public sectors to deliver an outcome that is of benefit both to business and society.

Business and the public sector need to collaborate for the benefit of business and society.

One of the biggest challenges facing the public sector is the attrition and retention of top talent, with severe competition from the private sector. For CEOs, the availability of skills remains a key concern and, with many public bodies facing pay restraints and job cuts, it becomes even more important for public leaders to invest in their people and offer attractive careers.

To address the challenges they face, many organisations are changing their talent strategies, focusing on the pipeline of leaders, workplace culture and behaviours, as well as effective performance management. No doubt, public-sector leaders will also be looking to act in a similar fashion in order to seek and preserve the talent they need to deliver their missions.

- **Measure success in new ways** Our survey of CEOs looked at the ways in which CEOs measure success. It is clear that businesses are responding to stakeholders' views and taking a more holistic approach. Governments, regulators and consumers are increasingly demanding more of business and many business leaders agree that they should be doing more to communicate their impact on wider stakeholders.

It is important for public leaders to deliver on these four areas. Meeting business priorities, alongside societal outcomes, requires genuine leadership and trust between citizens and the state for each to do the right thing.

[2] Based on number of companies, with China alone comprising 15% in 2014.

CEO insight

Vishal Nunkoo
Chief Executive Officer
Velogic Limited

Velogic is an integrated logistics provider based in Port Louis, Mauritius. It has 32 offices in eight territories, extending from the Indian Ocean Islands to Africa, Europe and the Far East.

Q ***Our survey of African CEOs suggests stakeholders are directly causing them to communicate more information in their financial statements. Who are your stakeholders and what kind of information are they seeking?***

A My stakeholders include my shareholders, who are my holding company (Rogers) and a foreign French investment company. Other stakeholders of importance are clients, suppliers, staff and other providers of capital such as banks.

I communicate with the Chairman of my Board of Directors who is also the CEO of the majority shareholder, Rogers, on a regular basis through formal and informal meetings. As a listed company on the Stock Exchange of Mauritius (SEM), my holding entity Rogers has to communicate to its direct and indirect shareholders. Rogers communicates in several ways including the annual report, investors' briefings, press releases and its website.

Communications with the other directors who are nominated by the shareholders are done in board meetings and also on an ad-hoc basis as and when required for both informative and decision-making purposes.

Our foreign shareholder requested a non-financial audit before they invested.

Velogic's website is more directed to our clients. Our clients are not that interested in financial statements but rather in our service offering, quality of service and the price. They show interest in our overall development of activities and when they too operate abroad, in our overseas expansion.

Our foreign investor and now shareholder, in addition to the traditional due diligence, requested a non-financial audit to be conducted on our company before they invested.

They were particularly looking at ethical standards such as our stand and action regarding corruption, the environmental impact of the business, health and safety for our employees and other areas. That audit was a key element to them before investing.

Board directors request information on the state of the company on a continuous basis. They will monitor the state of our ongoing activities and our planned and agreed development, business opportunities, our projections, etc.

We also reach out to them to develop our market. Our foreign investor, for instance, has helped us to penetrate the African market through our recent investments in Kenya.

Banks also look at the state of the company, but more from a financial perspective.

Q *Do you think that stakeholder interest in the measurement and communication of non-financial indicators is increasing, staying the same or decreasing?*

A It is definitely increasing. For instance, ten years ago, Rogers' annual report used to be very financial. Nowadays, the annual report talks about sustainability, environment and corporate social responsibility, among other areas. Likewise, we also report on those aspects.

Q *What kinds of ethical investments do you think investors are looking for?*

A In Africa, investors are quite focused on the handling of the existing corruption culture, impact on the environment, health and safety.

Here in Mauritius, we are guided by existing ethical standards. Rogers is a listed company and as such complies with requirements from the SEM. Our own ethical standards are thus governed by those of our parent company. It also forms part of our shareholder agreement and is driven by a will to fight corruption, improve our working environment and reduce pollution.

The audit that I mentioned earlier was quite thorough. It eventually required additional spending and physical improvements in our work environment (e.g. in terms of health and safety and pollution/sustainability), despite the fact that we already adhered to Mauritian norms and standards.

Being a larger company, we could afford to invest, I am not sure if smaller operators could bear the expense of such investments.

Q *Is the focus on ethical investments reducing or changing the influence of income and capital growth, among factors that investors typically look for?*

A Ethical investments do limit a company's flexibility and this can become a constraint. There is an impact on the costs of doing business. Particularly in instances where the culture and acceptable standards of the territory in which the company operates is different from yours), change cannot happen overnight. It makes business less competitive compared to other less ethical operators.

In terms of sustainability, the costs of doing business will be higher in the short term. For health and safety, for example, we need to adhere to safety levels. In our land transport business, there are a lot of implications for our trucks, our people, etc.

One can indeed be disadvantaged compared to competitors who get away with less stringent standards and end up being cheaper. Very few clients are ready to pay more, even if it is for the right cause.

Q *Does your business measure and/or communicate its impact on the environment and communities?*

A In terms of environmental impact, our main factor is pollution through trucks. Emission levels are monitored and our newer trucks are more efficient and environment friendly.

For older vehicles, we check and conduct good and regular maintenance. In addition, we limit the use of paper as much as we can; I personally am almost paperless now.

Affordability is a factor in measuring and monitoring environmental impact.

We communicate in general terms. We don't give figures or statistics. We explain what we've done and what we intend to do. We might do more if there is a monitoring requirement, and if measurement tools are available and affordable.

Do we plan to do it in the future? Probably when measuring tools becomes more available and affordable, but currently this is not the case, neither in Africa nor in Mauritius.

For the time being our stakeholders are not looking for these details, as long as they are aware that you have policies and standards you are following.

I believe you need to reach a certain standard before starting to be more precise through measurement.

Legislation should require that the basics are done first and by all operators, which should also be enforced.

For recycling, for instance, there needs to be a proper countrywide collection system and recycling facilities in a fully -integrated system where the whole community is involved. Then you get the volume and it makes sense.

Q *Are there challenges to measuring and communicating environmental/ community impact?*

A I believe the main challenge in Mauritius is that measurement tools are not common and affordable.

Conducting an environment impact assessment (EIA), for example, is costly, time consuming and cannot be afforded regularly.

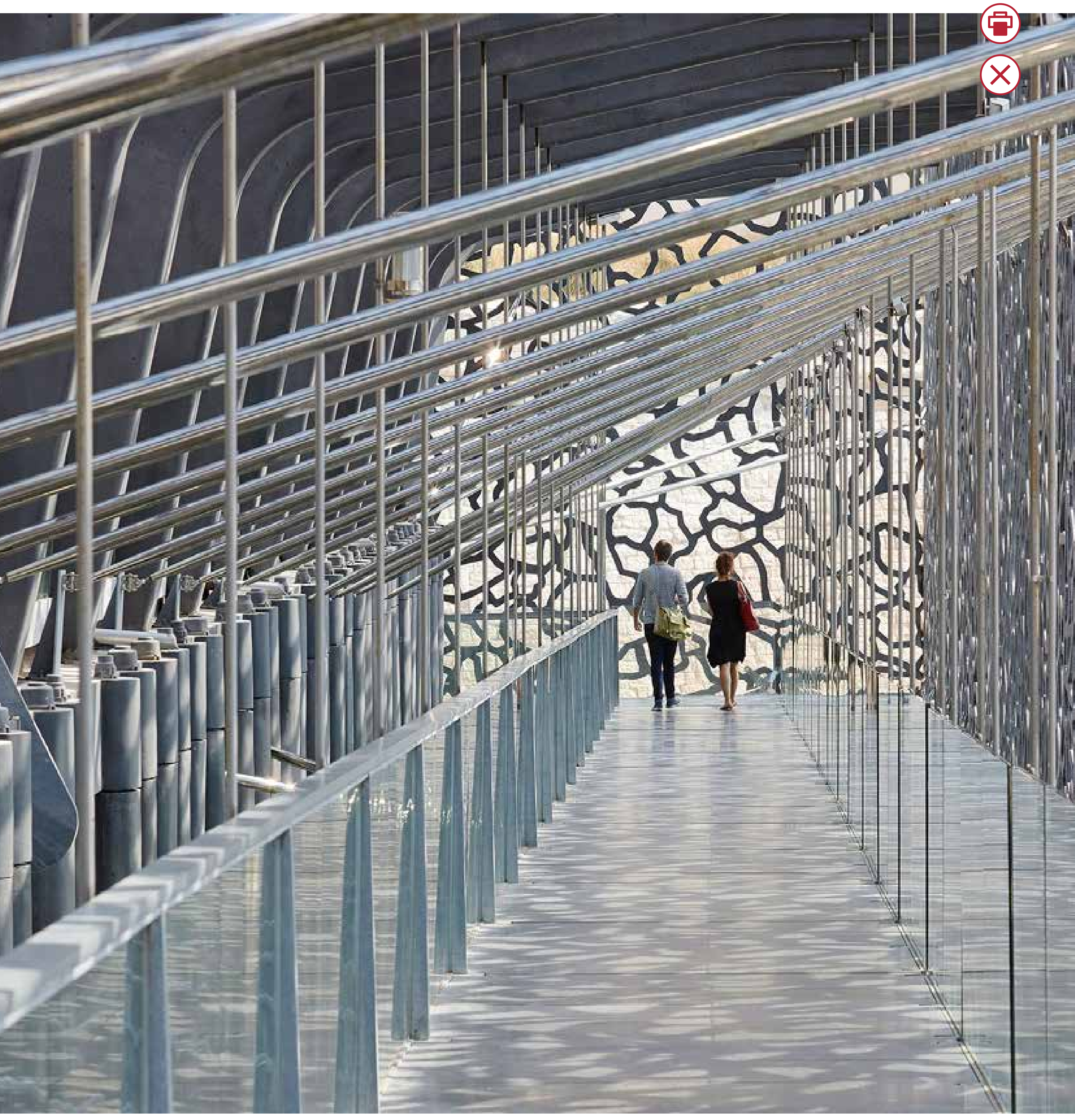
In Mauritius, the EIA is compulsory before starting a project. We do it, although it takes a lot of time and is costly. We also did an exercise more recently because it was a requirement from our foreign investor.

We need to invest significantly to put standards in place.

In terms of pollution, we do have standards to follow and that we apply to our fleet, our garage, etc.. The same applies for health and safety. We operate in a few African countries and we can see the difference because it is much more difficult in the sense that African countries follow fewer standards.

We need to invest significantly to put standards in place as they hardly exist or are unknown. There is more of a laissez-faire culture and this does not always facilitate our competitiveness as there ends up not being a complete level playing field.

5. *Methodology*



About the survey

The *Africa Business Agenda* is based on a survey of 153 CEOs in Africa. The survey draws on the survey questionnaire used in PwC's *19th annual Global CEO Survey* of 1 409 CEOs worldwide. The use of a common set of survey questions allows us to benchmark the views of African CEOs against global averages.

Our survey of African CEOs was conducted between November 2015 and April 2016 and the results of this form the basis of this publication.

In the publication, 'Africa' results refer to the average of the 153 surveys carried out in Africa.

In some cases, percentages may not add up to 100% due to respondents who chose not to answer a question.

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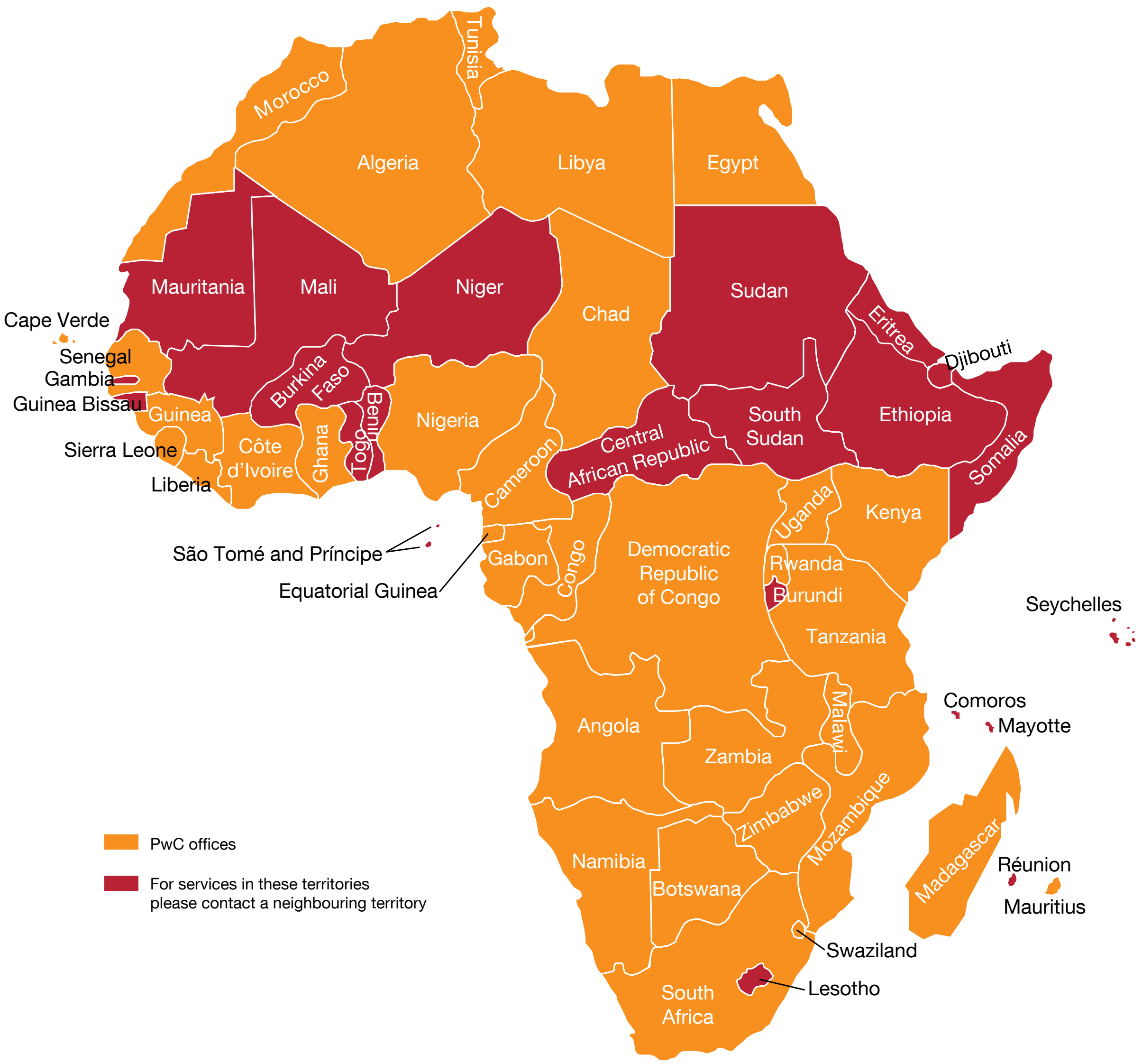
6. PwC in Africa

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



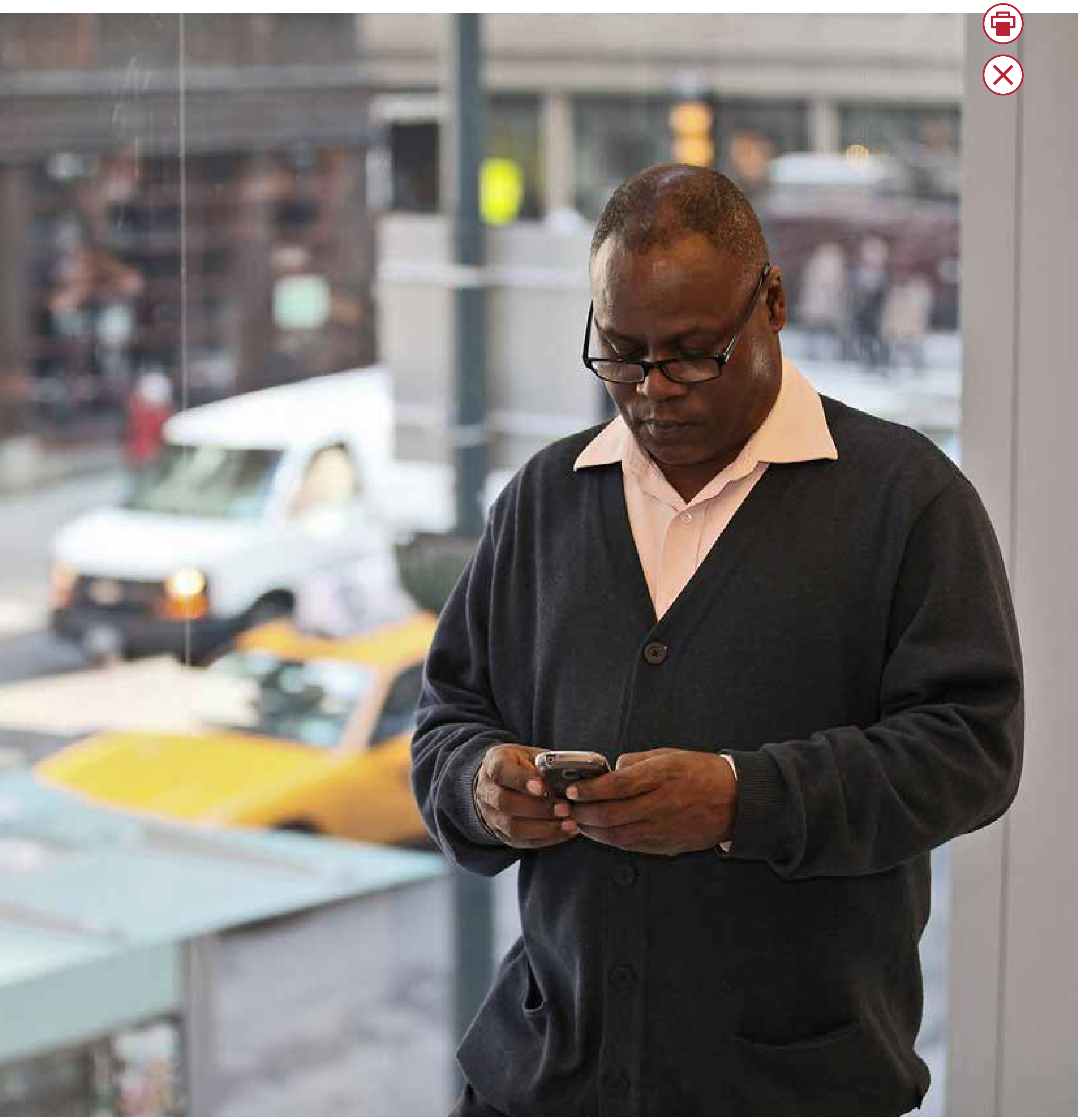
We know that value goes beyond a single engagement or a single result. Value is defined by a relationship – one that is born of an intelligent, engaged, collaborative process.

With our African network, our people and 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. This means that we're able to provide our clients with seamless and consistent service, wherever they do business.

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

7. Contacts



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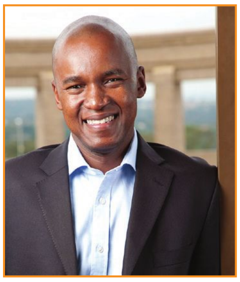

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