KPMG

# 2022 KPMG East Africa CEO Outlook Survey

**Growth strategies in turbulent times**

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# Contents

# Foreword

The business landscape over the last three years has been enormously challenging for business leaders. A global pandemic, inflationary pressures, geopolitical tensions, and a looming recession – and all happening in quick succession. Despite this, following a global KPMG survey on CEOs including those from East Africa, it is positive to see that our East Africa CEOs are optimistic about the growth prospects of their countries, industries, and companies. They are taking some short-term steps in various areas of their strategies to build resilience in response to geopolitics and the anticipated recession.

Environmental, Social and Governance (ESG) strategy remains important to CEOs despite the lack of a generally accepted Standard to measure agreed metrics. Yet demands by their diverse stakeholders and more specifically, the institutional investors for increased reporting and transparency on ESG are mounting. To meet stakeholder/investor expectations around consistent and robust sustainability reporting, 82 percent of East Africa CEOs expect to rely increasingly on external assurance of their ESG data.

Carrying on from steps taken in response to the pandemic, East Africa CEOs agree that the hybrid/remote work has had some positive impact on their organizations including in hiring, employee retention, morale, collaboration, and innovation. Although 78 percent see a return to in-person work over the long-term for roles traditionally based in the office, East Africa CEOs are embracing both methods.

Transforming organizations digitally to drive growth is a priority for CEOs and 71 percent of East Africa CEOs are placing more capital investments in buying new technology and view new partnerships as critical in maintaining their pace in digital transformation. In securing their organizations against cyber crime, they underscore protecting their partner ecosystem and supply chain just as important as building their organizations' cyber defenses.

Organizations are likely to operate in an uncertain world for the foreseeable future although East Africa CEOs, unlike their global counterparts, are indifferent about the anticipated recession, they agree that a recession would affect their anticipated earnings and 84 percent say that they are focusing on boosting productivity. Ultimately, agility to navigate the current challenges and minimize potential disruptions of operations will be key to maintaining the growth trajectory.

**Benson Ndung'u**
Chief Executive Officer and Senior partner
KPMG East Africa

# Four key themes

## Economic Outlook

Despite being indifferent in anticipating and preparing for a recession, and less confident about the growth prospects of the global economy compared to Global CEOs, East Africa CEOs are confident.

### Optimism in growth remains

80 percent of East Africa CEOs are confident about the growth prospects of their company and that of their country, 78 percent. Although their confidence in the growth prospects of the global economy at 44 percent has slightly waned compared to 48 percent in 2021, there is a sense of optimism despite the global geopolitical and economic challenges.

### Preparing for a recession

86 percent of Global CEOs believe that there will be a recession in the next 12 months compared to 28 percent of East Africa CEOs. Only 24 percent of East Africa CEOs anticipate and have prepared for the recession compared to Global CEOs at 76 percent. With all indicators pointing to a looming recession, East Africa CEOs are aware of the implications with 73 percent noting that a recession would upend their anticipated growth over the next three years.

### Managing geopolitics

East Africa CEOs are cognizant of geopolitical uncertainties with 78 percent saying they are reconsidering their investment strategies and 68 percent noting that they are adjusting their risk management procedures in light of geopolitical risk.

## Technology

East Africa CEOs are placing more capital investment in buying new technology. They are also directing digital investment to areas of their business that drive growth, with an emphasis on partnerships and preparedness.

### Emerging tech top growth risk

Similar to their sentiments last year, East Africa CEOs rate disruptive technology as the number one risk to organizational growth.

### Staying on the right track

Execution of digital transformation strategy remains an imperative for growth, with 73 percent of East Africa CEOs having an aggressive digital investment strategy, intended to secure first-mover or fast-follower status.

### Cyber as a strategic function

The cyber environment is evolving quickly. Both East Africa CEOs and Global CEOs recognize the place for cyber in their organizations with 57 percent of East Africa CEOs and 76 percent of Global CEOs viewing information security as a strategic function and a potential source of competitive advantage. They however emphasize the importance of protecting their Partners ecosystems and supply chains as important as building their own cyber defenses.

## Talent

East Africa CEOs have embraced hybrid work and have seen the benefits. Consequently, they are changing how they support and attract talent by experimenting with new ways of working.

### Talent a top operational priority

Out of five operational priorities to achieve growth objectives over the next three years, East Africa CEOs rated employee value proposition to attract and retain talent top.

### Recession driving short-term freezes

The world has hardly caught its breath from the ravages of Covid-19 and is now bracing for a likely global recession. East Africa CEOs were more optimistic than their global counterparts with 28 percent indicating they believe there will be a recession in the next 12 months against 86 percent of Global CEOs. Asked how they have or plan to prepare for the anticipated recession in the short-term, 74 percent of both local and Global CEOs indicate implementing a hiring freeze while 76 percent East Africa CEOs and 80 percent of Global CEOs would consider downsizing their employee base.

### Fostering as spirit of experimentation

East Africa CEOs note that remote working has had a positive impact on hiring, collaboration, employee retention, employee morale and productivity over the past 2 years. They however see a shift to in-person work over the next 3 years for roles traditionally based in the office (78 percent).

## ESG

In light of anticipated recession and the current geopolitics tensions, East Africa CEOs are balancing the need to build resilient and transparent ESG plans with the possibility of having to pause or reconsider their approaches in the short-term.

### Accelerating ESG expectations

Although only 35 percent, down from 40 percent in 2021, of East Africa CEOs see ESG as having a significant positive influence on the financial performance of their organizations, the number of those who see ESG having a negative impact has dropped from 40 percent in 2021 to 33 percent in 2022. For some, ESG effect is negligible. Despite shifting ESG expectations by East Africa CEOs, 67 percent agree that there is a demand from stakeholders – such as investors, regulators and customers – for increased reporting and transparency on ESG issues today.

### ESG impact on supply chains

With increased demand for reporting and transparency from diverse stakeholders on ESG goals, East Africa CEOs are looking at strategies to incorporate ESG in their supply chains.

### Diversity ramping up progress

Although East African CEOs disagree that progress on inclusion, diversity, and equity (IDE) has moved too slowly in the business world, 75 percent agree that scrutiny of IDE performance will continue to increase over the next 3 years and that achieving gender equity in their C-suite will provide assurance that they can meet their growth ambitions.

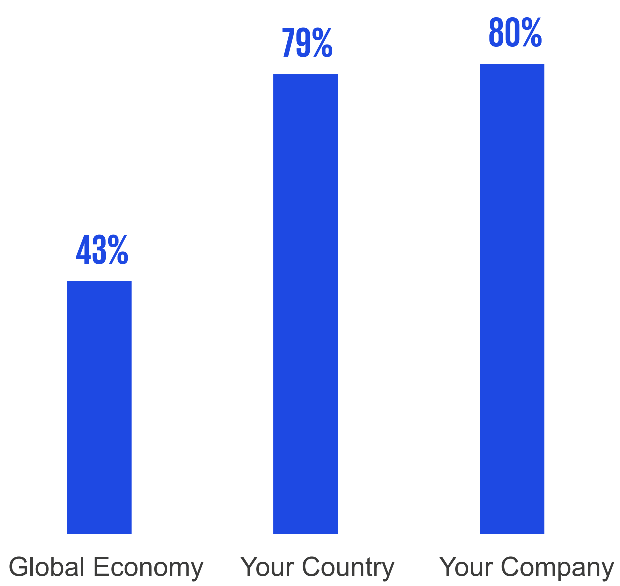
# Economic outlook

## Optimism in growth remains

The survey inquired on East Africa CEOs' level of confidence on growth prospects over the next 3 years. Despite growing geopolitical tensions adding shocks to an already fragile global economy, CEOs remain optimistic on the growth prospects as their businesses recover from the impact of Covid-19. The optimism among East African CEOs is however slightly subdued compared to the year 2021.

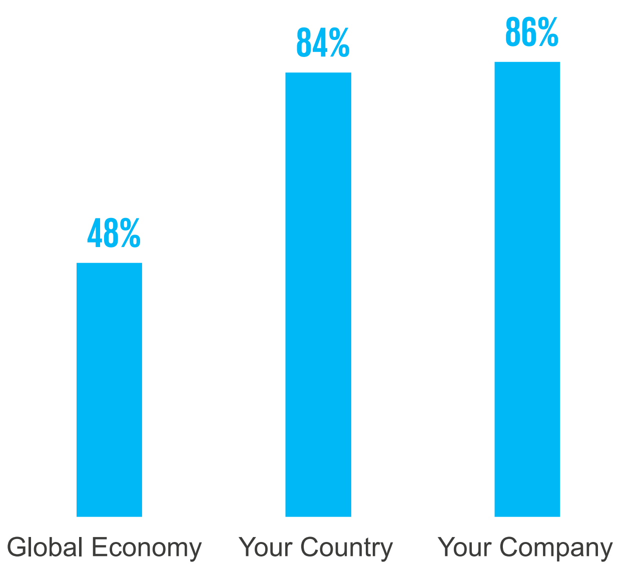
The charts below compare East Africa CEOs views on the growth prospects for their companies, countries and global economies for the years 2022 and 2021.

July/August 2022 -East Africa CEOs views




Source: 2022 KPMG East Africa CEO Outlook

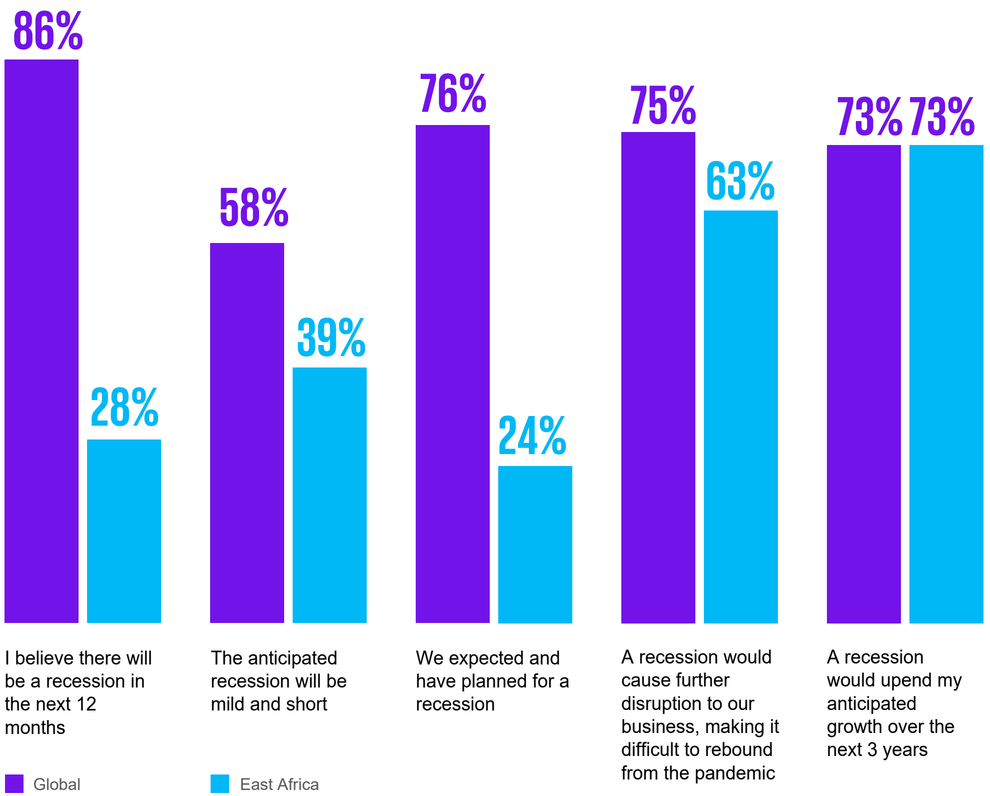
July/August 2021 - East Africa CEOs views




Source: 2021 KPMG East Africa CEO Outlook

## CEOs anticipate a recession – but they are prepared

The Russia – Ukraine conflict, compounded challenges caused by the pandemic for the East Africa region, leading to increase in prices due to disruption in energy and food supply chains in the region. It is not surprising therefore, that 28 percent of East Africa CEOs, anticipate a recession within the next 12 months. This is however lower compared to 86 percent of Global CEOs. 39 percent of East Africa CEOs expect the recession to be mild and short compared to 58 percent of Global CEOs. Higher expectation of recession among Global CEOs comes amidst fears of disruption in energy and food supply chains as the Russia – Ukraine conflict continues into the winter.




Source: 2022 KPMG East Africa CEO Outlook

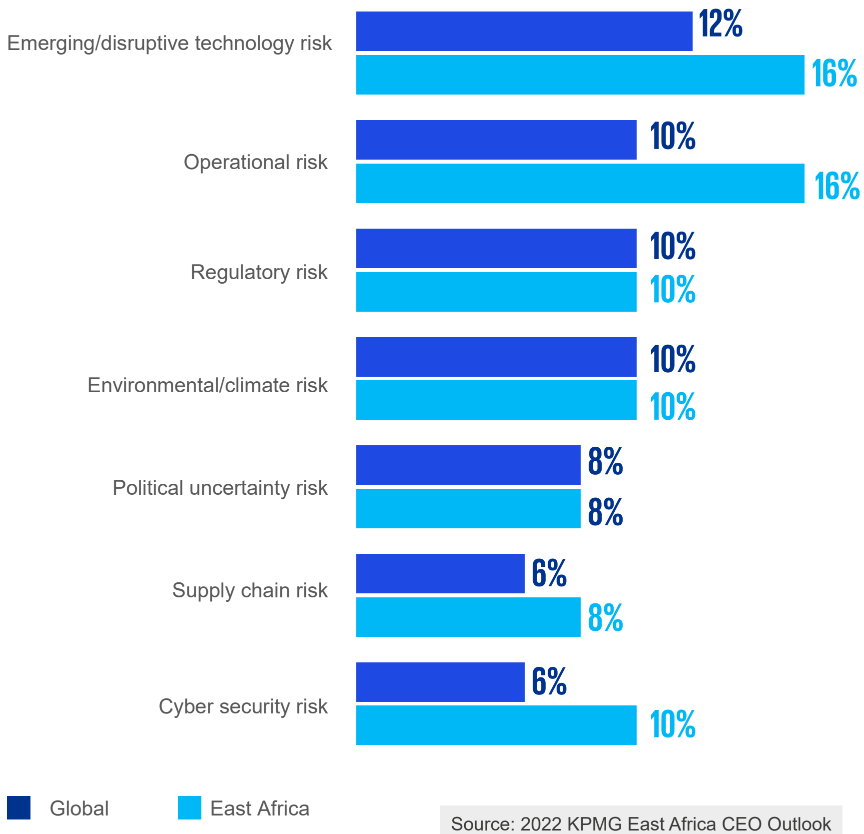
**Despite concerns over the anticipated recession, East Africa CEOs have adopted or are planning to adopt resiliency measures in order to weather challenges anticipated in the short-term. Top three measures introduced include: diversifying supply chains, pausing or reducing spending on digital transformation strategies, and pausing or reconsidering existing or planned ESG efforts.**

## Top risks looking toward 2025

East Africa CEOs consider emerging/disruptive technology and operational risks as posing the greatest threat to their organization's growth, over the next three years. Other risks include environmental, regulatory, supply chain and political uncertainty risks.

The chart below provides a summary of the risks identified by East Africa CEOs as posing the greatest threat to organizational growth.

Below are the top 7 out of the 14 greatest threats to organization's growth over the next 3 years according to East Africa CEOs.




Source: 2022 KPMG East Africa CEO Outlook

## Changing views on taxation

The pandemic put pressure on public finances and highlighted the need for transparency in the tax system. East African CEOs recognize the pandemic has shifted their view on taxation.

**71%**

East Africa CEOs believe that there is greater public desire to report their tax contributions – to show that their companies are playing their part.

**67%**

East Africa CEOs agree that there is a link between public trust and their tax approach.

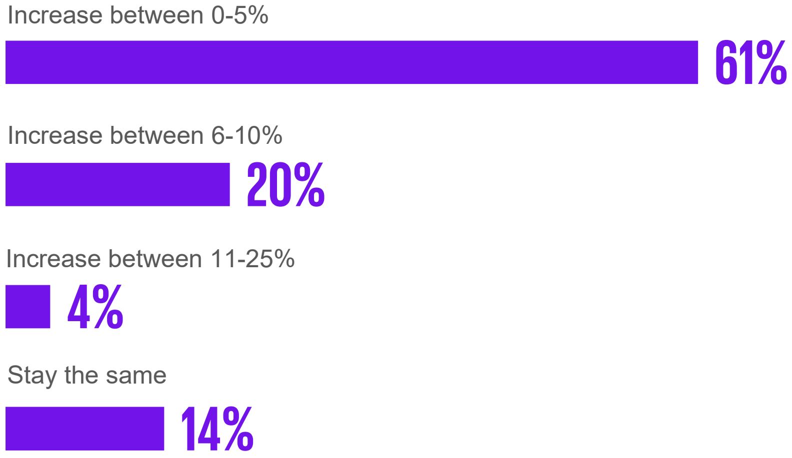
**73%**

East Africa CEOs believe that a global minimum tax regime will be a major hindrance to their growth aspirations.

## Anticipated increase in headcount

As part of strategies to achieve anticipated growth, 85 percent of East Africa CEOs expect the headcount to increase by at least 5 percent. Among operational priorities planned over the next three years include, adopting employee value proposition to retain the necessary talent, advancing the digitization agenda, and increase measures to adapt to geopolitical issues.

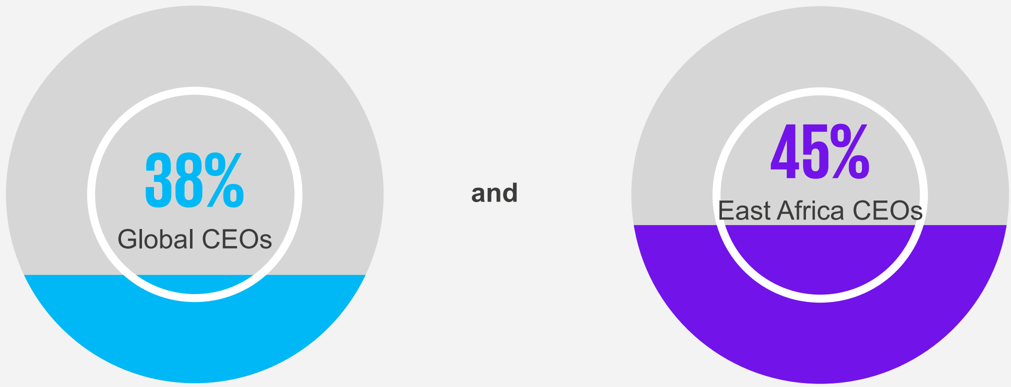
Out of 9 parameters, below are CEOs' top in anticipated increase in headcount over the next 3 years.




Source: 2022 KPMG East Africa CEO Outlook

## Primary sources of growth

East Africa CEOs have continued to show increasing appetite for growth through mergers and acquisitions (M&A), and formation of strategic alliances, over organic growth. Across East Africa, 86 percent of CEOs believe the primary source of growth will be from M&A activity, and 24 percent consider organic growth to be the main driver. 38 percent of Global CEOs and 45 percent of East of East Africa CEOs believe they will make an acquisition over the next three years.




believe they will make an acquisition over the next three years.

Source: 2022 KPMG East Africa CEO Outlook

## Emerging strategies for growth

The CEOs of East Africa are very aligned with their global colleagues on growth opportunities over the next three years. Despite economic uncertainty arising from the Russia/Ukraine war and the resulting increase in fuel and food prices, 87 percent of Global CEOs still felt there was either moderate or high likelihood of entering into a M&A activity, whereas in East Africa, 86 percent of CEOs agreed. However, with the increasing level of interest rates seen across the world, there may be a greater focus on value creation and the certainty to deliver the growth in such M&A activity. There may also be, in the short-term a divergence between prices sought by sellers and those the purchaser is willing to pay. It may be too early therefore, to confirm whether the desire to enter into M&A activity will result in an increase in the number of deals seen over the next three years.

On growth strategies, entering into a strategic alliance with a third party was the number one strategy for Global CEOs (26 percent) and East Africa CEOs (37 percent). The substantially higher focus on strategic alliances across our region this year could be because most alliances are first struct at a global level and then implemented gradually, with East Africa slighlty behind the global curve.

Organic growth was second for both Global CEOs and those East Africa; 22 percent and 24 percent respectively. Despite the high appetite for M&A activity over the next three years, M&A was the third most important strategy 11 percent (Globally) and 14 percent across East Africa. The one area where there was some divergence between the Global CEOs and those in East Africa was around the importance of managing geo-political risks. Globally, 20 percent of CEOs felt this was important to deliver growth compared to 10 percent of E African CEOs.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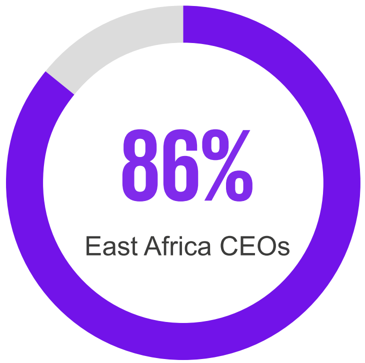



still felt there was either moderate or high likelihood of entering into a M&A activity.

Source: 2022 KPMG East Africa CEO Outlook

# Technology

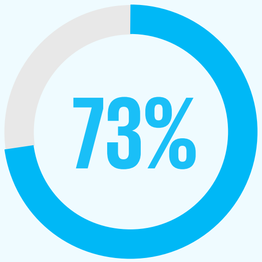
## Digital Transformation in uncertainly

### Emerging technology lands a top growth risk

CEOs remain preoccupied with technology risk in the short and long term. Disruptive technology has emerged as a top risk and one of the greatest threats to organizational growth over the next three years for Global CEOs. According to East Africa CEOs, a company operational risk ranks par with disruptive technology as the top risks to organizational growth. This is not surprising considering the direct correlation between operational risk and technology. Economic factors like rising interest rates, rising inflation and anticipated recession are the topmost pressing concerns for business leaders in the short-term – 6 months; followed closely by reputational risk including misalignment with customer / public sentiment for East Africa business leaders. In the face of these risks, CEOs continue to invest and execute digital transformation programmes as imperative for growth, with 73 percent of East Africa CEOs having an aggressive digital investment strategy, intended to secure first-mover or fast- follower status.

CEOs are directing digital investments to areas of their business that drive growth, with an emphasis on partnerships and preparedness, and advancing digitisation and connectivity of all their functions – this connectedness internally and externally is integral to providing a customer and user experience that is in keeping with customer demands.

Furthermore, advancing digitalisation and connectedness across functions is intricately linked to providing a wholesome employee value proposition to attract and retain necessary talent, a top operational priority to achieve growth over the next three years. Focus on digital transformation has been accelerated by the pandemic in the past two and half years. This has further been enhanced by increasingly flexible working arrangements, heightened awareness of cyber security risks and geopolitical uncertainty.




of East Africa CEOs have an aggressive digital investment strategy, intended to secure first-mover or fast-follower status.

Source: 2022 KPMG East Africa CEO Outlook

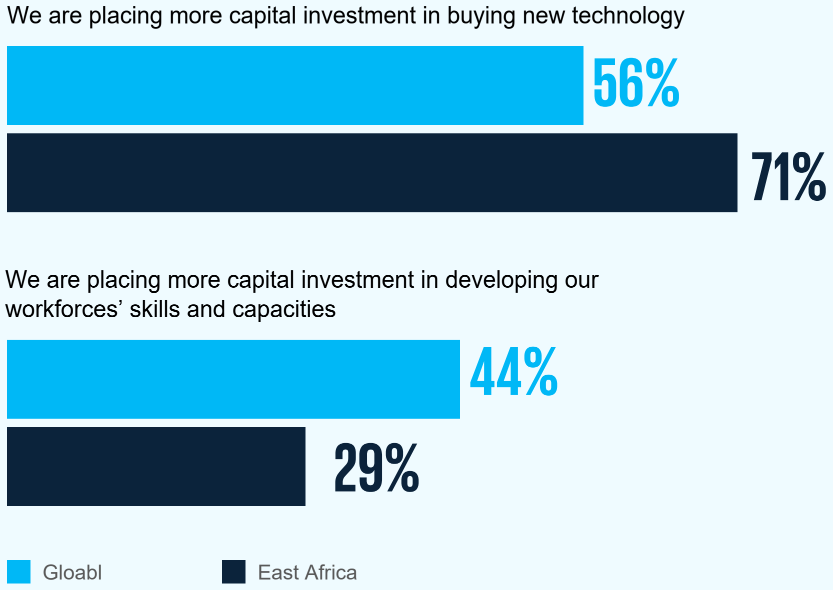
## Staying on the right track

The anticipated recession may be pushing businesses to reconsider their strategies over the short-term. 77 percent of Global CEOs note that their businesses are pausing or reducing their digital transformation strategies to prepare for the anticipated recession. In East Africa, 35 percent of CEOs surveyed have paused or reduced, and 33 percent plan to pause of reduce their digital transformation programmes in the short-term. 6 in 10 CEOs in East Africa say they need to be quicker to shift investments to digital opportunities and divest from those areas where they face digital obsolescence.

Many organizations have been on accelerated digital transformation over the past two years. There is an increasing recognition that businesses need to address burnout from accelerated digital transformation. Digital transformation has become more expensive in recent years, so more than ever, investment should be prioritised in those areas that enable growth – and potentially slowed or reconsidered on efforts that may be non-critical - as noted by 73 percent of Global CEOs compared to 65 percent of CEOs in East Africa. In uncertain times it is imperative that businesses focus their digital investments on impactful, and measurable, value creation opportunities most able to support their strategic goals.

## Bringing people and technology together

Effective digital transformation calls for investment in both technology and digital workforce. In thinking about growth and transformation objectives, when asked about how they were prioritising their investments, East Africa CEOs were placing more capital investment in buying new technology (71 percent) compared to placing more capital investments in developing their workforce skills and capabilities (29 percent), including investments in cyber security culture. In comparison, global counterpart CEOs continue to narrow the gap between their digital transformation objectives and investing in their workforce, 56 percent and 44 percent respectively.




Source: 2022 KPMG East Africa CEO Outlook

To ensure progress on business transformation is not held back, more than six out of ten East Africa CEOs agree on the need for having relevant people skills to manage the strategic and operational rollout, measuring, and reporting on the benefits and managing risk and compliance of the transformation.

As businesses have implemented their digital tools, their attention has shifted to adoption, engagement and change management to support their people working in a dynamic world. To drive growth, CEOs may be looking to make their existing people more productive through transformation.

### Building successful partnerships

Businesses rely on their ecosystems. Building successful partnerships is a key ingredient to a business attaining competitive edge. Increasingly CEOs view partnerships and alliances as important and meant to continue the pace of their digital transformation - in East Africa 63 percent of CEOs have adopted this approach compared to 71percent of their global counterparts, representing a substantial increase in adoption of this approach from 59 percent in February 2022. CEOs also say building strategic alliances with third parties is the most important strategy to help reach their growth objectives over the next three years. It has become more important for businesses to partner with companies that can help them bring agility and resilience to growth. This trend is particularly evident in East Africa, as evidenced in the financial services banking and telecommunications industry where we see partnerships between large corporates, partnerships with start-ups, fintech and more. To drive successful transformation, CEOs need the right partners – and the ability to connect them to shared goals and objectives.

**"We have always been confident in our technology and innovations but in our conversations with clients, we realized they needed more than just products - they needed integrated, value-adding capabilities to help advance their own digital transformations. I said that we would change from an IT to digital experience company to meet that demand and reflect a sense of urgency that we are not going to be a company that just follows old traditions."**

**Takahito Tokita**
President and Chief Executive Officer, Fujitsud

## Building successful partnerships

Digital transformation is happening at the heart of every business - across all industries.

**Working together to enable ongoing success and business performance**

In today's complex and disrupted marketplace, ongoing success involves seeing beyond organizational walls, harnessing the power of collaboration with appropriate organizations globally.


1. **Comprehensive offerings** – delivering end-to-end results
2. **Accelerated innovation** – delivering results with speed and accuracy.
3. **Optimized investments** – delivering results with strong ROI
4. **Broader reach and scale** – delivering scalable results anywhere, anytime
5. **Increased confidence** – delivering results with trust and lasting value.

### Digital transformation strategy

**73%**
CEOs in East Africa region have the aggressive digital investment strategy with intention to have first mover advantage or fast-follower status.

**55%**
Of the top leaders and CEOs in East Africa region have already invested on the right technology for their organization and intend to invest more.

**63%**
CEOs in East Africa region believe that New Partnerships and Alliances will be critical to continue the pace of digital transformation.

**59%**
CEOs in East Africa region continue to drive digital transformations at a rapid pace which is critical in the competition for talent and customers.

## Cyber as a strategic function

East Africa countries have demonstrated a rapid post-pandemic recovery with an increase in consumption and adoption of digital technologies at the grassroots level. Whilst these technologies have enabled faster growth, they have also led to challenges related to cyber security.

Various research reports suggest that African enterprises are a favourite target for cyber attackers. The cyber security landscape across East Africa is highly dynamic and is rapidly evolving, propelled by widespread digitalisation across business sectors. While regaining strength in the aftermath of Covid-19, organizations have been forced to rethink their ways of working while leveraging digital initiatives, aimed at streamlining operations and ensuring business continuity. However, this drive for digitisation remains to be matched by adequate investments in protecting assets and data from cyber threats.

Realising the importance of digitalisation and increased risk of data breaches, various governments are rapidly introducing legislation and adopting frameworks to ensure consumer privacy and data security for protecting public interest. All these factors, combined with an ever expanding threat horizon, create a perfect storm for organizations that are forced to meticulously measure the opportunity cost of every investment in a world of economic uncertainty. Organizations are rebuilding their cyber strategies to meet these demands and to ensure integrity and resilience of operations. Furthermore, with the increasing risk in digital supply chains, new risk mitigation initiatives are being strategized by organizations globally. Agile cyber security measures enhance an organization's risk resilience, thus enabling organizations to harness new opportunities for revenue growth and business success.

While other risks may now feature as top concerns for Global CEOs, the cyber environment is evolving quickly and 57 per cent see information security as a strategic function and a potential competitive advantage. Geopolitical uncertainty is increasing worries over corporate cyber-attacks for many CEOs (67 percent) compared to last year (61 percent in 2021). In fact, three out of four CEOs (71 percent) say that protecting their partner ecosystem and supply chain is just as important as building their own organization's cyber defenses.

Growing experience of the challenges of cyber security is also giving CEOs a clearer picture of how prepared — or under prepared — they may be. More CEOs recognize the need to prepare for a cyber attack. Even though there was an improvement of those under prepared from 18 percent in 2021 to 8 percent in 2022, preparedness for a cyber attack cannot be underestimated.

This year, 65 percent of East Africa CEOs say they are prepared and nearly three-quarters ( 69 percent) say their organization has a plan in place to deal with a ransomware attack, compared to 65 percent in 2021.

The rapid increase in cyber-attacks, coupled with the increasing difficulty of detecting attacks on time, calls for automation and innovation in dealing with cyber incidents.

**57%**

of East Africa CEOs see information security as a strategic function and a potential source of competitive advantage.

# Talent

## Talent a top operational priority

Talent management was turned on its head during the pandemic and in the immediate aftermath.  What appeals to employees has shifted significantly from the traditional focus on career advancement and compensation to include focus on workplace flexibility and support for health and wellbeing. Many organizations across different industries and geographies have suffered the 'great resignation' which has seen them lose staff in unprecedented numbers.

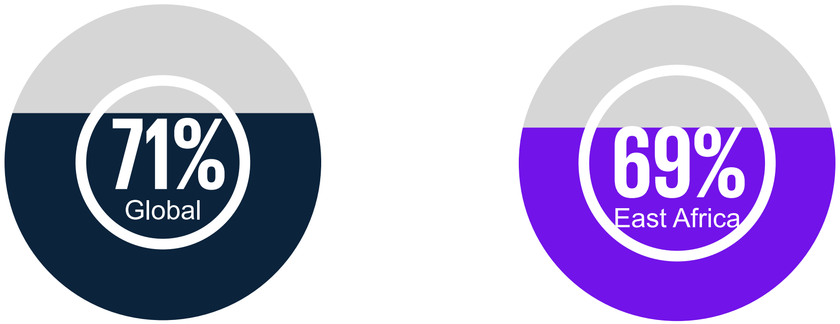
At the same time, the growing awareness of Environmental, Social and Governance (ESG) factors has meant that employees are not only attracted by how well a company is doing financially but also by its impact in the community where it serves. Many especially Generation Y and Z will be looking for an organization with which their individual purposes align. In the survey, 16 percent of CEOs in East Africa (22 percent global) ranked recruitment challenges as one of the primary downsides to not meeting ESG expectations, third after ability to raise financing and competitors gaining an edge.

Despite these challenges, the retention of staff remains a priority. 69 percent of East Africa CEOs and 71 percent of Global CEO agreed that the ability to retain talent amidst inflationary and rising costs was among the factors that would impact their organizations within the next three years.

In the face of very many moving parts, how can an organization remain attractive to employees and at the same time remain authentic to its purpose? 29 percent of the East Africa CEOs (25 percent Global) indicated that having a clear employee value proposition (EVP) to attract and retain the necessary talent is a top operational priority to achieve their goals in the next three years. The EVP ranked as the highest operational priority for EA CEOs ahead of advancing digitization and increasing measures to mitigate geopolitical issues.

This confirms that CEOs acknowledge the place of talent in a very volatile world. Whereas the employee landscape will continue to evolve, clarity on what the organization is able and willing to offer employees will continue to attract and retain the right fit and skills needed for organizations to meet their strategic objectives.

CEOs note that the ability to retain talent amidst inflationary and rising costs was among the factors that would impact their organizations within the next three years




Source: 2022 KPMG East Africa CEO Outlook

## Recession driving short-term freezes

The world has hardly caught its breath from the ravages of Covid-19 and is now bracing for a likely global recession. East Africa CEOs were more optimistic than their global counterparts with 28 percent indicating they believe there will be a recession in the next 12 months against 86 percent of Global CEOs. Asked how they have or plan to prepare for the anticipated recession in the short-term, 74 percent of both local and Global CEOs indicate implementing a hiring freeze while 76 percent East Africa CEOs and 80 percent of Global CEOs would consider downsizing their employee base.

At the onset of the pandemic, organizations scrambled to stay afloat. While many had to let employees go, others managed through different retention strategies. These included the rationalisation of business needs and leveraging technology and clarity as to manpower needs into the future to meet the organization's goals. Coming out of the worst of the pandemic and taking a longer-term view, many know what talent they require. 84 percent of EA CEOs expect their head count to increase in the next three years and 14 percent expect that it will stay the same hence underscoring the value in retaining talent.

Traditionally, organizations have opted for staff reduction or freezes during turbulent economic times. While it has short-term benefits, the downside and impact of downsizing are also well known. That both Global and East Africa CEOs would still consider it as an option demonstrates the tension between the immediate need for survival and the long-term benefits of having a stable workforce. We have learnt during the last two years that turbulence is the new way of life.

**74%**

of East Africa CEOs indicate implementing a hiring freeze.

**76%**

of East Africa CEOs would consider downsizing their employee base.

**"During the pandemic which was unforeseen, organizations came up with innovative ways of retaining staff and succeeded. How can leaders cushion their businesses continually to withstand hard times and allow for a strategic view of their talent without always defaulting to staff reduction?"**

**Jane Mugo**
Partner
KPMG East Africa

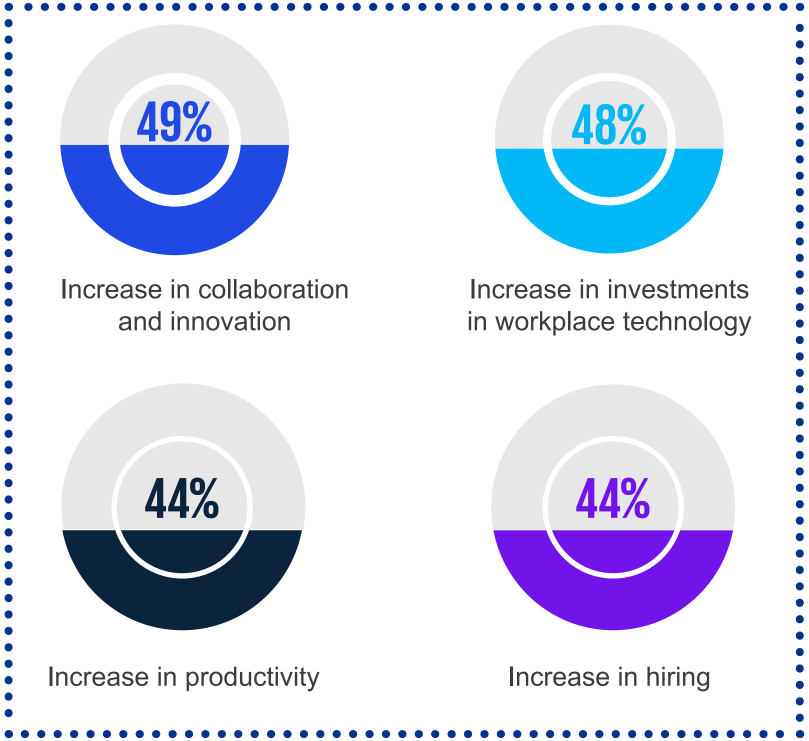
## Fostering a spirit of experimentation

**"The only way you improve is to try new things." – Charles Koch**

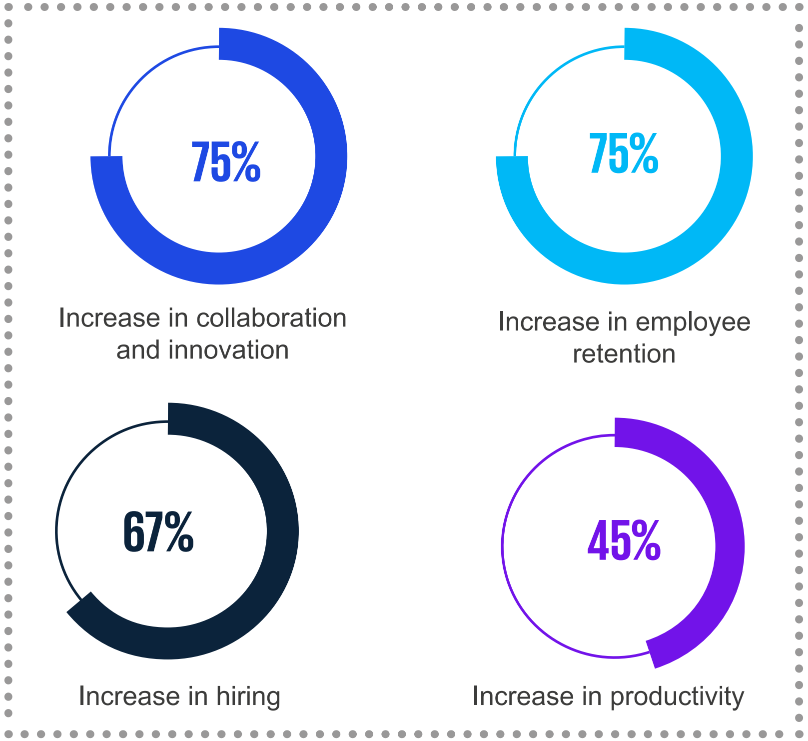
As we get a better hang of what it takes to push past the effect of the pandemic and go as far as embracing the challenges and leveraging them to thrive and innovate, many multinational organizations are now more deliberate about their return-to-office plans.

According to this year's survey, CEOs note that over the past two years, hybrid/ remote working has had several positive impacts as shown below:

**1** Positive impact of hybrid/remote working according to Global CEOs:




**2** Positive impact of hybrid/remote working according to East Africa CEOs:

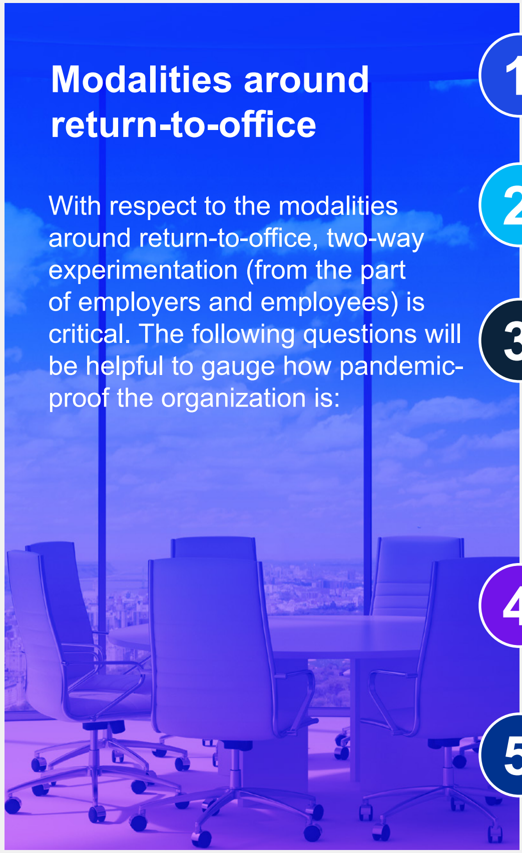



However, when asked about what they envision for the future of work environment for roles that were traditionally on-site over the next three (3) years, 65 percent of global CEOs and 78 percent of East Africa respondents expect those roles to be fully back on-site.

What this means is that despite the great benefits we realized from remote and hybrid work when things were tougher, it seems that many organizations are now more confident to make the shift back to on-site work.

## Look before you leap.

Just as hybrid and remote working during the pandemic required careful planning and analysis, this return to on-site work also requires deep thought. What the pandemic thought us is that at less than a moment's notice, the way we do business could be massively disrupted. With this knowledge in mind, it is imperative that each organization approaches their full return to on-site work with a good level of preparedness. As this conversation evolves, employee expectations regarding the modalities also continue to evolve. Therefore, CEOs must balance business and employee expectations in a way that ensures their people have purposeful pandemic-proof interactions.



### Modalities around return-to-office

With respect to the modalities around return-to-office, two-way experimentation (from the part of employers and employees) is critical. The following questions will be helpful to gauge how pandemic-proof the organization is:

1. Is our supporting infrastructure for full on-site work at full capacity?
2. Have our processes evolved / matured to remove inefficiencies that we had pre-pandemic?
3. Is there clarity within the organization on roles that need to be fully on-site and roles that can remain hybrid?
   - Is the cost vs benefit or cost vs productivity analysis compelling?
   - Have we adequately revamped our performance management processes to support us in a situation where we have more on-site presence but still have some remote work?
4. How do we keep the gains in collaboration, innovation, productivity and employee retention that was experienced during hybrid/ remote working?
5. How do we ensure we continue to improve technology focused on improving employee productivity and experience in view of a full on-site return?

Collaboratively answering the above questions will form a basis for testing the sustainability and pragmatism of whatever working model organizations choose to adopt going forward. Chief Human Resources Officers and the rest of the C-suite must support the organizations in ensuring that the answers to the first three questions above are in the affirmative.

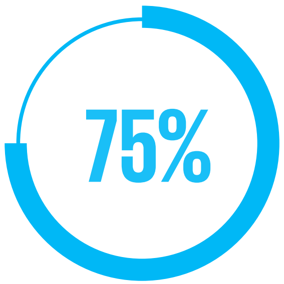
# ESG

## Accelerating ESG expectations

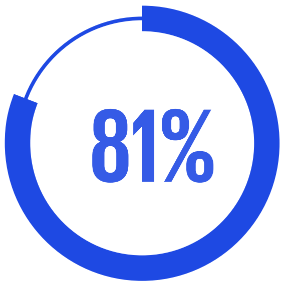
ESG continues to be an important area of focus for East Africa CEOs. Although the real impact of ESG on their bottom line continues to be something they differ in their responses, 67 percent of the CEOs agree that they are seeing increased demand from stakeholders – such as investors, regulators and customers – for increased reporting and transparency on Environmental, Social and Governance (ESG) issues. They are also cognizant of the downside of failing to meet the expectations of stakeholders especially in raising funding and attracting talent.

East Africa CEOs see corporate purpose having the greatest impact in the long term in several key areas in their organizations. 75 percent agree that corporate purpose is important in driving financial performance and 81 percent in building customer relationships.

Identifying and measuring agreed metrics and increased or frequently changing regulations are East Africa's CEOs biggest challenges in delivering their ESG strategy. Yet the lack of an accepted global framework for measuring and disclosing ESG performance continues to be a concern for both East Africa and Global CEOs. While regulation concerns remain high, this may highlight how global governments and regulators need to work together to align around ESG requirements.




East Africa CEOs agree that corporate purpose is important in driving financial performance.




East Africa CEOs agree that corporate purpose is important in building customer relationships.

**Articulating their story:**

Comparable to last year, both Global and East Africa CEOs continue to see their ability to articulate a compelling ESG story a key challenge in communicating their ESG performance to stakeholders.

**Key drivers to accelerate company's ESG strategy:**

While East Africa CEOs rate proactive approach to societal issues as a top driver, they comparably see governance, diversity, inclusion & equity, and taking action on an organization's carbon footprint as important.

**Investments are forthcoming:**

61 percent of East Africa CEOs plan to invest between 6-10 percent of their revenue in programs that enable their organization to become more sustainable.

## A likely recession impact on ESG

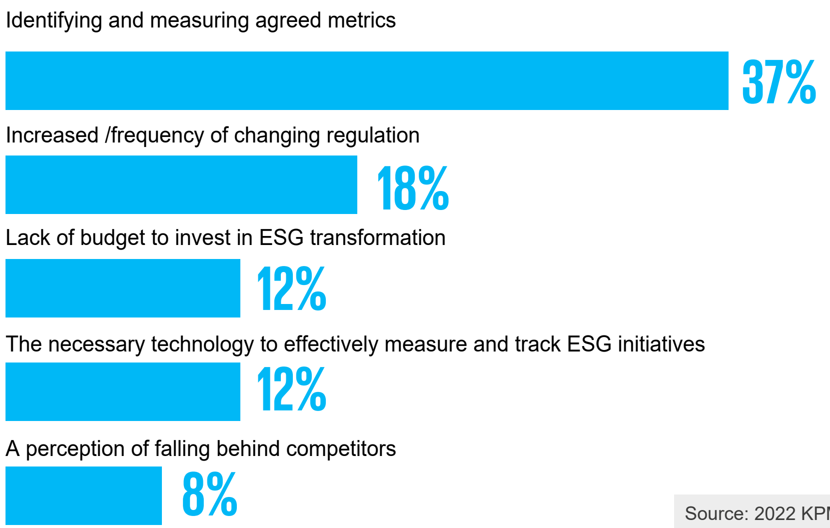
The East Africa CEOs remain optimistic on the economic outlook with only about 28 percent envisaging a possible recession within the next 12 months. Out of these, 39 percent are confident that such a recession would be mild and short lived. It is thus not surprising that only 24 percent have planned for such an eventuality. The CEOs however do acknowledge that in the event that a recession occurs, it would cause further disruption to their businesses making it hard to rebound from the pandemic. As a result, ESG progress could suffer as CEOs reassess initiatives in many areas of the business such as staffing, transformation and supply chains.

Only 4 percent of the CEOs see execution of ESG initiatives as a top operational priority towards meeting their business growth objectives over the next 3 years, with 51 percent pointing that they are either pausing or reconsidering their existing or planned ESG efforts in the short-term, and 18 percent have already done so.

ESG has become an imperative for all businesses and delaying ESG efforts could have significant implications for the economy and for the society. Global carbon emissions must be cut by 45 percent by 2030 and be at net zero by 2050 to fulfil the Paris Agreement temperature goal of keeping global warming to below 1.5°C.

While the East Africa CEOs (37 percent) see identification and measurement of agreed metrics as their biggest challenge in delivering on their ESG strategy within the next three years, their global peers point to other pressing business/economic priorities as the key factor that could cause them to shift away from ESG (17 percent).

The following are East Africa CEOs top 5 challenges in delivering ESG strategy over the next 3 years.




Source: 2022 KPMG East Africa CEO Outlook

**67%**

of East Africa CEOs agree that increased worldwide geopolitics have affected their ESG plans and strategy.

**75%**

of East Africa CEOs agree that fulfilling their ESG strategy and commitment will have an impact on their business over the next 3 years.

While 74 percent of the Global CEOs agree that their organization's digital and ESG strategic investments are inextricably linked, only 55 percent of their East Africa peers hold the same view. Rather, they consider advancing digitisation and connectivity of their functional areas as an operational priority to achieving their growth objectives over the next 3 years.

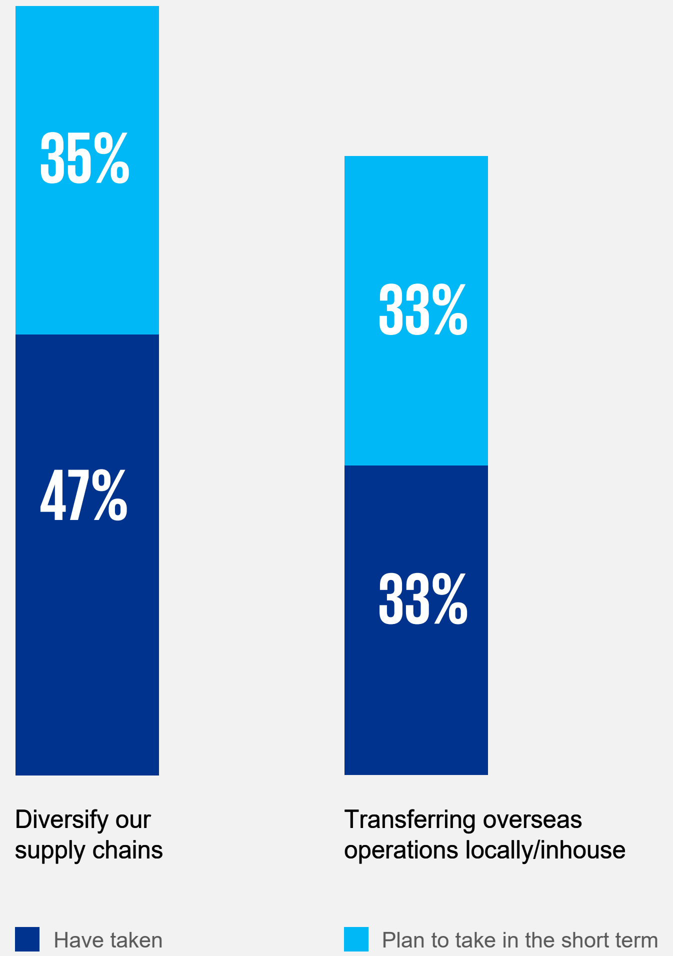
## The ESG shadow cast by the supply chain

Organizations' supply chains often account for more than 90 percent of their total greenhouse gas (GHG) emissions, when considering their overall climate impacts. According to data from CDP, emissions in the supply chain – attributed to goods and services bought by companies – are 11.4 times greater than operational emissions. It is therefore critical for CEOs to understand how sustainable their entire business really is because decarbonizing the supply chain is a significant hurdle towards attainment of net zero targets. CEOs thus increasingly see reporting and transparency as important to their ESG goals — and this includes insight into their broader supply chain. Setting targets to reduce emissions throughout the value chain (scope 3) is thus becoming a new business norm.

Our survey shows that nearly half of the East Africa CEOs (47 percent) have taken steps to diversify their supply chains while a further 35 percent plan to diversify in the short-term in response to geopolitical challenges. The results also show that a third (33 percent) have transferred their overseas operations locally or inhouse, while a further 33 percent plan to do so in the short-term. The key driver for this shift is to improve their production and operational efficiency. Disruptions to supply chains experienced in the past two years resulted to major shortages and laid bare the dire need for better visibility and flexibility to de-risk the supply chain. Further, the number one strategy that CEOs are considering towards mitigating supply chain issues is to monitor deeper into their supply chain (at the third and fourth levels) to better anticipate problems. Why? Because the environmental, sustainability and human-rights practices of their partners and suppliers may impact their business and reputation.

With CEOs increasingly accountable for their supply chains and reporting to broader stakeholders, their success is dependent on their digital systems. Where does the business source their raw materials? Do they know their suppliers' human-rights records? Multinational organizations need to focus more broadly on ESG — and into all the shadows cast by the organization.

Steps already taken or planned to be taken by East Africa CEOs in the short-term, to adjust their strategy to prepare for the anticipated recession.



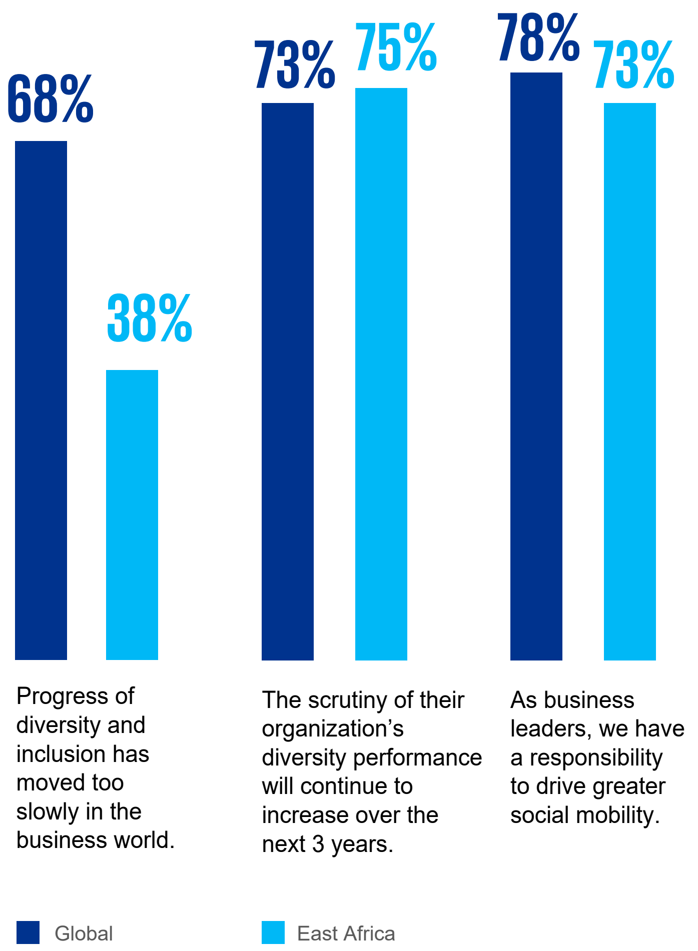

Source: 2022 KPMG East Africa CEO Outlook

## Diversity ramping up progress

Both Global and East Africa CEOs note that there is a focus on organization's performance on social issues such as ethnic, racial and gender make up of employees by diverse stakeholders. While 68 percent of Global CEOs feel that the progress on inclusion, diversity, and equity (IDE) has moved too slowly in the business world, only 38 percent of East African CEOs share in this believe. Despite this, 75 percent of East Africa CEOs agree that the scrutiny of their organization's diversity performance will continue to increase over the long term.

Globally, CEOs are taking charge in driving ESG and IDE. 73 percent of East Africa CEOs agree that they have a responsibility to drive greater social mobility in their organizations, and that achieving gender equity in their C-suite will help to assure they meet their growth ambitions, 59 percent.

Diversity and inclusion




Source: 2022 KPMG East Africa CEO Outlook

# Exploring opportunities for growth

## Technology

CEOs are directing digital investments to areas of their business that drive growth, with an emphasis on partnerships and preparedness, and advancing digitisation and connectivity of all their functions.

- **Bring your people and technology together:** Organizations have invested so much in digital transformation that they need to make sure people adopt these technologies and use them to their full potential.
- **Work with partners to drive value:** With CEOs increasingly interested in partnerships, identifying, integrating and managing third parties effectively can help increase speed to market, reduce costs, mitigate risks and supplement capability gaps in delivering the customer promise.
- **Get closer to customers:** Orchestrating compelling customer experiences requires companies to begin with the customer and work backwards, taking an outside-in perspective to reverse-engineer and shape what the experience should be; then, they should adopt an inside-out view to define how the experience should be delivered.
- **View cyber security as a strategic function:** Increasingly, cyber is no longer seen as only an IT issue; it’s a fundamental business operation imperative. The exponential increase in cyber attacks, coupled with the difficulty of detecting an attack in a timely manner, calls for automation and innovation in dealing with cyber incidents.

# Talent

**“The challenge of the unknown future is so much more exciting than the stories of the accomplished past.” – Simon Sinek**

Despite the multi-faceted challenges in the past two years, many of the CEOs surveyed still expect some form of growth over the next three years.

To realize this growth amidst unfolding challenges, organizations need to focus on three (3) things:

**Experiment with ways of working:** As organizations launch their return-to-office plans, CEOs must balance business and employee expectations in a way that ensures their people have purposeful pandemic-proof interactions without losing the previous gains on hiring, productivity, collaboration and inclusion.

There needs to be effective communication and flexibility to ensure that employees and employers co-create on work models that are best suited for their business.

As the future unfolds, employees and employers need to deepen the ability to co-innovate on strategies that drive growth and at the same time push the envelope on productivity and employee experience. **This ought to be the new measure of agility!**

**Tell your ESG story:** An organization’s approach for managing its impact around Environmental, Social and Governance (ESG) is increasingly seen as a differentiator when it comes to attracting and retaining talent. And with many CEOs saying they’re struggling to tell a compelling ESG story, it’s important for CEOs to articulate the steps they’re taking to address ESG within their organizations.

Employees see companies with strong ESG initiatives as purposeful. Within such organizations, employees feel committed to bring their best to work as ESG provides a sense of giving back to the society. This in turn improves the brand value and enhances talent attraction and customer acquisition.

Like any other initiative, ESG requires articulation of a practical strategy and actionable steps. Let's say the goal is to reduce the carbon footprint of our organization. To do this, the organization needs to answer the following questions:

- How do we assess our current carbon footprint?
- What capabilities and mechanisms do we have for this assessment?
- What are the drivers for our current footprint?
- Where do the opportunities for improvement lie?
- How can we spread awareness on the improvement opportunities?
- How do we incentivize compliance?

Since the above questions are impossible to answer without the right data, investing in the right tool or framework to facilitate the capture, storage, analysis and visualization of ESG-related data is critical. In our local environment, we need to be prepared for a situation where having a solid ESG response becomes a competitive advantage.

**Build, don't follow:** Organizations and their employees are changing, and leaders need to reinvent. The old talent management playbooks are out of date, and the challenge is that there aren't new ones to replace them — yet.

The way forward involves strategies that include reinventing the workforce, focusing on the social side of ESG, leveraging analytics and designing a nurturing experience.

When the organization takes accountability for building a sustainable society then it is bound to get support from all spheres - government, society, unions, corporations etc. Diversity and Inclusion, Fair Pay, Unbiased Employment opportunities, Investment in Education, Code of Conduct, Equality and other such examples are part of the "S" in ESG. This not only uplifts the society but creates a strong reputation for the organization.

## ESG

- **Recognize ESG's impact on financial performance:** ESG has become integral to long-term financial success. CEOs increasingly agree that ESG programs improve financial performance, which includes being able to secure talent, strengthen employee value proposition, attract loyal customers and raise capital.
- **Invest in appropriate technology solutions:** CEOs should monitor deeper into their supply chain (i.e., at the third and fourth levels). Global supply chain leaders are starting to double down on investing in technology — including real-time, end-to-end analytics — to identify where issues exist and improve visibility across the entire value chain.
- **Invest in upskilling and building expertise to implement solutions:** CEOs see lack of skills and expertise as the greatest barrier to achieving net zero or similar climate ambitions for global corporations (39 percent).
- **Revamp/build internal governance and controls:** A top-down approach will greatly facilitate the ESG integration process of a company. The tone at the top sets forth a company's guiding principles, values and ethical climate. The Board's support is fundamental to nurturing a supportive culture for driving the ESG agenda or initiating ESG-related discussions across the company.
- **Build strong connections among functions:** Resilient organizations have well-connected internal teams, for example, the finance function is aware of what the ESG teams are doing.
- **Take the lead on IDE:** CEOs can play a powerful role in helping lead and drive the IDE agenda in the years ahead. It's important to normalize and create a culture of IDE across the organization to attract and retain new employees.

# Methodology

## About KPMG's CEO Outlook

The 8th edition of KPMG CEO Outlook, conducted with 1,325 CEOs between 12 July and 24 August 2022, provides unique insight into the mindset, strategies and planning tactics of CEOs as they grapple with the lingering impact of the pandemic and the geopolitical challenges that the world faces today.

51 CEOs from Kenya, Uganda, Tanzania, Uganda, Rwanda and Ethiopia participated in the survey.

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