KPMG

KPMG 2022 South Africa CEO Outlook

Potential growth in uncertain times

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Contents

Focusing on future opportunities

"The events of recent years have created real turbulence for the business community. Our findings should provide some cautious optimism that, in contending with and overcoming these ordeals, executives are more confident in their companies' resilience and are focused on mitigating some of the very real uncertainties we face today."

Bill Thomas, Global Chairman and CEO, KPMG International

The latest edition examines the global pandemic, inflationary pressures and geopolitical tensions while reflecting some positive outcomes with local CEO's stating that they are already mitigating any anticipated recession risks by focusing on **Technology, Talent and ESG** to shape their progress over the next 3 years.

Local CEOs are adequately prepared for the anticipated recession in the next twelve months

In fact, the survey revealed that 6 out of ten local executives believe the most important growth objectives over the next three years is organic growth (i.e., innovation, R&D, capital investments, new products and recruitment) as well as strategic alliances with third parties.

A promising **72%** of local executives have already taken steps to boost productivity in preparation for anticipated recession, indicating CEOs are cautiously focused on future opportunities during such uncertainty.

The biggest challenge in delivering ESG strategy over the next 3 years will be on identifying and measuring agreed metrics.

When examining the challenges in delivering ESG strategies we have seen that local CEOs list "identifying and measuring agreed metrics" as the biggest challenge compared to "pressing business/economic matters redirecting focus from ESG" for global CEOs."

The importance of ESG initiatives on businesses, especially with regards to improving financial performance, driving growth and meeting stakeholder expectation cannot be stressed enough.

CEOs expect changes in headcount over the next 3 years

In fact, 70% of CEOs indicated that they are expected to increase headcount over the period by a maximum of 10%, with most CEOs focusing on Talent and Technology in preparedness for forecasted recession.

It is important to note that the single most pressing concern for local executives is economic factors such as rising interest rates, inflation and, anticipated recession.

Therefore, while the International Monetary Fund (IMF) expects Africa's most developed economy to see an economic growth rate of 2.1% for 2022 down from July's forecast of 2.3%, South Africa's economy is still expected to slow down significantly to 1.1% from 1.4% in 2023.

We are excited to partner again with Business Leadership South Africa (BLSA) in this second edition which outlines positive shifts in the level of confidence in global economy resilience over the next 6 months – local CEOs are remaining cautiously focused on future opportunities during the current uncertainty.

Ignatius Sehoole
Chief Executive Officer,
KPMG in South Africa
KPMG Africa Chairman

Addressing priority elements in times of uncertainty

It's heartening that 71% of global CEOs are confident about the global economy's growth prospects over the next three years, even though more than 80% first expect a global recession, likely to hit over the next 12 months.

Overall, they portray confidence in the resilience of the global economy and believe the recession will be short-lived.

South Africa will be entering this recessionary period on an extremely weak footing, with its high levels of poverty and unemployment making it extremely vulnerable to the effects stemming from the global slowdown in economic activity. In that context, the country desperately needs the global economy to recover quickly and resume growth, which will lift our economy along with other emerging markets.

Apart from the economic outlook, KPMG's survey found the majority of the 1,325 CEOs they interviewed between July 12 and August 21 had three key areas of focus: technology, talent and ESG.

Technology and talent

Their concerns on technology revolve around disruptive technology being the number one risk to organisational growth and many CEOs are directing investment to digital opportunities and divesting where they face digital obsolescence.

I'd venture to say that SA's private sector is up to world-class standards when it comes to business technology. The long-awaited spectrum auction was completed in March this year and although the process has stalled until the migration from analogue to digital television is completed, SA's telecoms companies will be better equipped to compete internationally once they are able to use the extra bandwidth.

Where SA is lacking, however, is in integrating fourth industrial revolution (4IR) technologies into our education system. 4IR encapsulates the rapid changes to technology, industries and societal patterns and processes due to increasing interconnectivity and smart automation.

This ties in with the next priority element: talent. The state of our basic education system is sub-optimal with South African learners consistently ranking among the lowest in the world in terms of maths, science and literacy. The absence of 4IR in the syllabus will leave our matriculants further behind.

This means the skills shortage in South Africa will remain chronic for some time to come, while local companies are further hampered by too many restrictions and overly bureaucratic procedures when it comes to hiring skilled personnel from outside the country. There has been some progress in trying to streamline the procedures and to match the government's critical skills list to private sector requirements but a lot of progress is still required.

Environmental, Social, Governance

For South Africa it's tempting to say that the 'S' is the most urgent factor in ESG given the urgent socioeconomic problems we face, with more than a third of the workforce unemployed and with workplaces still skewed largely in favour of white people, particularly at senior management levels. Indeed, there is an intense debate happening on whether to introduce a permanent basic income grant.

But given that the country is the world's 12th-largest carbon emitter, the environment aspect of ESG must be tackled with an equal amount of urgency.

This brings together the E and S factors because SA's coal industry employs about 60,18,00 people and in pivoting away from our coal-based energy supply to renewables, the social element of minimising job losses is crucial. The environmental and social issues are thus deeply integrated in SA's just energy transition.

Grappling with many structural constraints including insufficient energy supply and inefficient transport and ports systems, SA will struggle to keep up with the global growth anticipated in this survey until the reforms to address the problems are successfully implemented. It is only through economic growth that we can sustainably address our deep social challenges.

Busisiwe Mavuso
Chief Executive Officer,
Business Leadership South Africa

Four key themes emerge from this year's South Africa CEO Outlook:

Economic outlook

CEOs in South Africa are ready and prepared to weather any geopolitical and economic challenges.

Optimism in growth remains

Despite geopolitical and economic challenges, confidence of local CEOs in the growth of the global economy over the next three years

Confidence in the resiliency of the global economy over the next 6 months is optimistic – with 64% of local executives, compared to the 73% for global executives – indicates CEOs are cautiously focused on future opportunities during uncertainty.

Preparing for an anticipated recession

CEOs feel well prepared to navigate their businesses through turbulent times.

While CEOs may be resilient, they're also realistic about the challenges ahead. 70% of local executives note that a recession would upend the anticipated growth over the next year.

Technology

Current uncertainty is driving CEOs in South Africa to prioritise corporate digital transformation.

Emerging tech is top growth risk

Disruptive technology has emerged as the number one risk to organisational growth. CEOs in South Africa continue to prioritise digital investment- with 84% local executives compared to 71% globally.

Bringing people and technology together

58% CEOs in South Africa compared to 56% CEOs globally are placing more capital investment in buying new technology.

Cyber security as a strategic function

Cyber security as a strategic function, was identified as the top risk in 2021 and early 2022, is less of a threat to businesses, with 82% local CEOs noted they are quite prepared for cyber attacks, compared to 56% globally.

Talent

CEOs in South Africa are changing how they support and attract talent, and their efforts are buoyed by a focus on their people and experimenting with ways of working.

Talent as a top operational priority

In the long term, employee value proposition to attract and retain the necessary talent is a top operational priority to achieving the three-year growth objectives. 70% of CEOs expect to increase headcount (by up to 10%) over the next 3 years to address growth objectives, compared to 76% of global CEOs.

Anticipated recession driving talent freezes

In the short-term, 36% CEOs in South Africa compared to 39 % CEOs globally have already implemented a hiring freeze,

and 42% of local executives are considering downsizing their employee base over the next six months.

Remote or hybrid work has had a positive impact on collaboration

76% of local executives envision workers working in the office full-time in three years, compared to 65% globally.

Local CEOs would prefer their workforce back in the office full time.

ESG

CEOs recognise the importance of ESG initiatives to their business, especially when it comes to improving financial performance and driving growth.

Meeting ESG sustainability reporting requirements

54% local CEOs agree with meeting Environmental, Social and Governance (ESG) requirements, compared to 69% globally.

Stakeholder pressure increasing accountability in ESG CEOs are also increasingly aware there is a lack of an accepted global framework for measuring and disclosing ESG performance – which highlights how global governments and regulators need to work together to align around ESG requirements.

Diversity ramping up progress

Businesses in South Africa are seeing a major focus put on the social aspect of ESG. 50% CEOs in South Africa believe that progress on Inclusion, Diversity and Equity (IDE) has moved too slowly in the business world (compared to 68% globally), and 72% of local executives in line with CEOs globally believe scrutiny of IDE performance will continue to increase over the next three years.

South African Economic Overview

Navigating through uncertainty

South Africa is returning to pre-Covid levels of economic growth and is facing the inflationary implications that arose as a direct consequence of the pandemic and the Russian invasion of Ukraine. Interest rates are rising and, as with the rest of the world, growth prospects have been reduced accordingly.

Even though increasing interest rates have resulted in slowing growth prospects, the main contributor in this regard remains the insufficient and inconsistent supply of electricity from South Africa's energy supplier, Eskom, with over half of all business days in the second quarter of 2022 experiencing some degree of load shedding.

GDP is set to grow by around 1.8% in 2022, led by contributions from the finance, real estate and business services sector, growth in personal services as well as mining, agriculture and trade, catering and accommodation. The projected growth in 2022 is noticeably lower than that achieved in 2021. Growth in 2023 is expected to decline further to 1.6%, with higher interest rates and lower global growth reducing aggregate demand locally.

Table 2.1 Economic growth in selected countries

Region/country	2020	2021	2022	2023
Percentage	Actual	Estimate	Forecast	
World	**-3.1**	**5.9**	**4.4**	**3.8**
Advanced economies	**-4.5**	**5.0**	**3.9**	**2.6**
United States	-3.4	5.6	4.0	2.6
Euro area	-6.4	5.2	3.9	2.5
United Kingdom	-9.4	7.2	4.7	2.3
Japan	-4.5	1.6	3.3	1.8
Emerging and developing countries	**-2.0**	**6.5**	**4.8**	**4.7**
Brazil	-3.9	4.7	0.3	1.6
Russia	-2.7	4.5	2.8	2.1
India	-7.3	9.0	9.0	7.1
China	2.3	8.1	4.8	5.2
Sub-Saharan Africa	**-1.7**	**4.0**	**3.7**	**4.0**
Nigeria	-1.8	3.0	2.7	2.7
South Africa[1]	-6.4	4.8	2.1	1.6
World trade volumes	**-8.2**	**9.3**	**6.0**	**4.9**

1. National Treasury forecast
Source: IMF World Economic Outlook, January 2022

The financial authority forecasts that debt to GDP will continue to increase through 2023 with debt service costs making up an increasing proportion, and currently the fastest growing component, of public expenditure. International rating agencies will continue to follow the growth and management of national debt as they contemplate future ratings adjustments.

The recently launched KPMG Global Economic Outlook report found that global GDP growth could range between 3.3%-4% this year and between 2.5%-3.2% in 2023, depending on the scenario.

Risks to KPMG's forecast are currently skewed to the downside.

However, in South Africa the forecast is much lower with a 1.8% growth in 2023 and a possible convergence back to the average pre-COVID-19 level of 1.7%. This driven by insufficient tangible policy action to increase the lower investment and consumption spending caused by a reaction to several governance challenges including ongoing policy uncertainty, corruption, aging infrastructure and continued power shortages, the absence of growth stimulating policy interventions and inadequate levels of service delivery.

The escalated conflict between Russia and Ukraine highlights the downside scenario, with cuts to energy supplies for example causing a significant disruption to production in parts of Europe. The COVID-19 pandemic is still causing shutdowns in major economies such as China, and a new wave could undo the progress in easing global supply chain blockages.

Frank Blackmore
Lead Economist,
KPMG in South Africa

Economic outlook

Focusing on the potential bounce back

The KPMG 2022 CEO Outlook surveyed CEOs globally as well as in South Africa on their three-year outlook on the business and economic landscapes. Despite geopolitical and economic challenges, the confidence of CEOs in South Africa in the global economy has marginally increased from previous years.

As companies in South Africa navigate the post pandemic landscape, 64% CEOs are confident in the resilience of the global economy in the short-term, while long-term growth outlook is yet to bounce back. This figure is in comparison to 73% confidence from global executives.

Despite CEOs in South Africa having lower confidence levels in global economy resilience, they remain focused on the bounce back potential in the short term and cautiously focused on future opportunities during such uncertainty.

Table 1: Confidence levels in growth prospects

August 2022	Global (August 2022)	South Africa (August 2022)
Growth prospects for your company	85%	78%
Growth prospects for your country	85%	70%
Growth prospects for the global economy	71%	64%
Growth prospects for your industry	85%	84%

Source: KPMG 2022 CEO Outlook

Table 2: Confidence levels in resilience in the next 6 months

August 2022	Global (August 2022)	South Africa (August 2022)
Confidence in the resilience of your company	79%	78%
Confidence in the resilience of your country	76%	70%
Confidence in the resilience of global economy	73%	64%
Confidence in the resilience of your industry	81%	84%

Source: KPMG 2022 CEO Outlook

CEOs in South Africa anticipate a recession-but they are prepared

Untouched by recession worries, only 28% CEOs in South Africa, a much lower proportion as compared to 86% CEOs globally, anticipate a recession in the next 12 months. As a result of the above, only 38% local CEOs compared to 76% CEOs globally, are expecting and have planned for a recession. At the same time, 20% CEOs in South Africa, compared to 58% of their global counterparts feel that the recession will be mild and short.

Local CEOs highlight more the implications of a recession in the short terms (impact on anticipated growth in the next year at 70%)

When asked about their confidence in the resilience of the global economy over the next six months, **64% CEOs in South Africa were positive compared to 73% globally.**

The long-term factors impacting CEOs in South Africa include post-pandemic growth, digital transformation strategy and the ability to retain talent with pressures of inflation/rising cost of living.

CEOs in South Africa as well as globally are better prepared to weather short-term challenges with resiliency measures in place to manage impacts while still anticipating long-term growth.

The top three steps include: focusing on boosting productivity (72%), diversify supply chain (45%) and considering downsizing employee base (42%),

Interesting to note that local CEOs are comparatively less worried, when it comes to concerns around recession and its various aspects that could impact their business. Transferring overseas operations locally/ in house is the lowest step taken (at 20%).

Top 3 risks posing the greatest threat to organisational growth over the next 3 years for CEOs in South Africa

1. Supply Chain risk (procurement process etc.)
2. Emerging/disruptive technology risk
3. Regulatory risk

Global CEOs noted the Top 3 risks as
1) Emerging/disruptive technology;
2) Operational and
3) Regulatory risks.

Source: KPMG 2022 CEO Outlook

86%

CEOs globally believe there will be a recession in the next 12 months

Global (August 2022)

28%

CEOs in South Africa believe there will be a recession in the next 12 months

South Africa (August 2022)

72%

CEOs in South Africa anticipate a recession-but they are prepared, having already taken active steps focusing on boosting productivity in preparation for this

Benefits of strategic alliances

6 out of 10 local executives believe the most important growth objectives over the next three years are organic growth and strategic alliances with third parties.

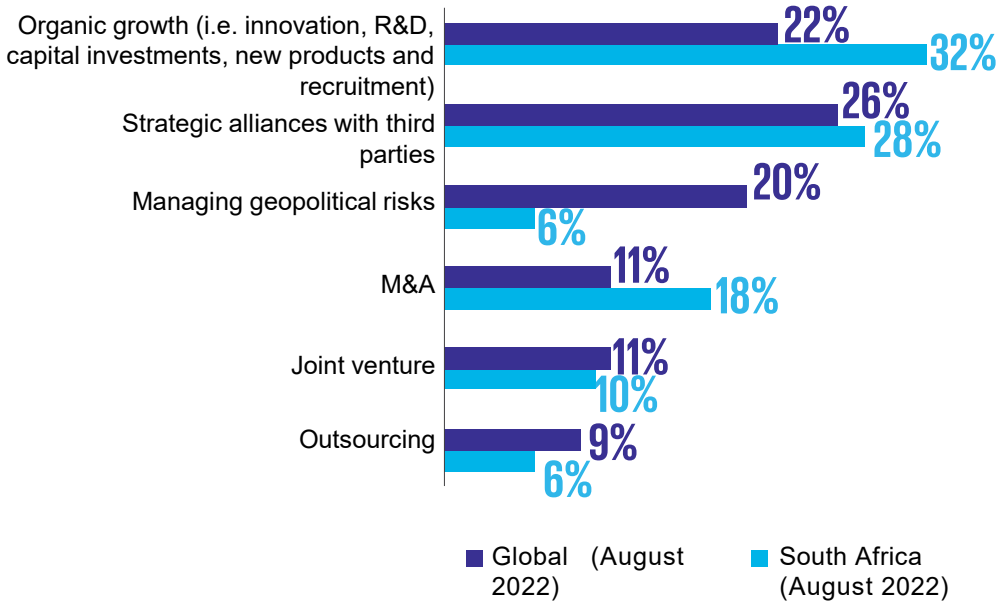
CEOs in South Africa indicate that strategic alliances with third parties support their innovation and R&D imperatives to maintain sustainable growth over the next three years.

Over the next 6 months, strategies are being amended in response to geopolitical challenges. 84% per cent CEOs in South Africa compared to 81% CEOs globally have adjusted or plan to adjust their risk management procedures considering geopolitical risk .

With geopolitics being a key agenda item in 2022, CEOs in South Africa are also navigating options to diversify their supply chain policies (78% locally, compared to 79% globally).

Geopolitical risk assessment needs to the part of any organisations overall strategy during uncertain times.

Strategies important for achieving growth objectives over the next three years



Source: KPMG 2022 CEO Outlook

Top 4 operational priorities in order to achieve growth over the next 3 years for local CEOs

1. Advancing the digitisation and connectivity of all our functional areas
2. Employee value proposition to attract and retain the necessary talent
3. Increasing measures to adapt to geopolitical issues
4. Inflation proofing capital and input costs

Execution of ESG initiatives is only at 6% of an operational priority for local CEOs, compared to 10% globally.

Global CEOs note Employee Value Proposition as the Top priority.

Increasing M&A appetite

Over the next three years, M&A appetite of CEOs in South Africa is mainly moderate for 44% of executives, a significant improvement to global averages earlier this year (with only 23% saying they had a high appetite).

30% of local CEOs would likely undertake acquisitions which will have significant impact on their organisation (having a high M&A appetite), compared to 47% globally, despite economic concerns.

This figure of 44% of local CEOs compared to 38% executives globally having a moderate appetite for M&As is further linked to executives projecting M&A, partnerships and alliances as number 4 on the list of greatest impact over the next three years.

Global M&A trends in 2022 include high valuations, inflation, interest rates and borrowing costs. Both macroeconomic and microeconomic factors are affecting M&A patterns. Deal makers may be taking a much sharper pencil to the numbers and focus on value creation to unlock and track deal value, every step of the way.

In South Africa, strengthening employee engagement and employee value proposition is at number 1 (92% of local executives agree that this would have the greatest impact for them, compared to 69% globally).

Digital transformation in uncertainty

Emerging technology / disruptive technology lands as top growth risk

Emerging technology / disruptive technology has emerged as one of the top three risks and the greatest threat to organisational growth for CEOs in South Africa and globally over the next three years.

At the same time, economic factors such as interest rates, inflation and anticipated recession; political uncertainty and talent-are pressing concerns for organisations in South Africa today. Pandemic fatigue or continued uncertainty/ restrictions and economic factors are the most persistent concern for global executives.

In the face of these risks and concerns, CEOs in South Africa continue to prioritise digital investment- with 84% local executives compared to 71% globally.

CEOs globally noted the need to address burnout from accelerated digital transformation over the past 2 years before continuing on their transformation journey as the main pillar of their digital transformation strategy (73%).

Furthermore, 72% of local executives agree that new partnerships will be critical to continuing their pace of digital transformation and transformation driven talent and customer competition by equal measure.

The main reason that is holding back progress on local business transformation is having the people skills to manage the strategic and operational rollout.

Advancing the digitisation and connectivity of all functional areas has emerged as the top operational priority for CEOs in South Africa, followed closely by employee value proposition to attract and retain the necessary talent to achieve growth over the next three years. Increasing measures to adapt to geopolitical issue is third priority.

This focus on digital transformation may be driven by increasingly flexible working arrangements and heightened awareness of cyber security threats, exacerbated by geopolitical uncertainty.

84% CEOs in South Africa have an aggressive digital investment strategy. Intended to secure first-mover or fast-follower status

Keeping on the right track

The anticipated recession may be pushing businesses to reconsider their strategies.

34% CEOs in South Africa compared to 37% globally plan to pause or reduce their digital transformation strategy in the next six months to prepare for an anticipated recession.

38% of local CEOs compared to 40% global CEOs have already paused or reduced their digital transformation strategies.

64% CEOs in South Africa compared to 70% globally say they need to be quicker to shift investment to digital opportunities and divest in those areas where they face digital obsolescence.
New partnerships and burnout from accelerated digital transformation are second and third place respectively.

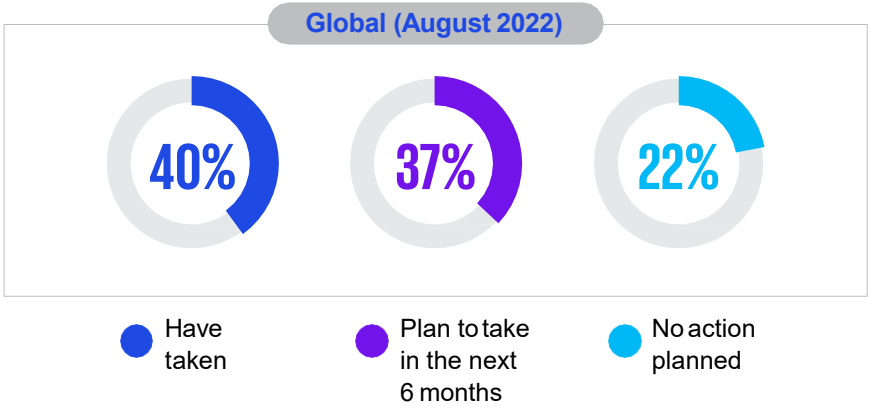
Bringing people and technology

Digital transformation has become more expensive in recent years, so more than ever, investment should be prioritised in those areas that help drive growth-and potentially slowed or reconsidered on efforts that may be considered non-critical.

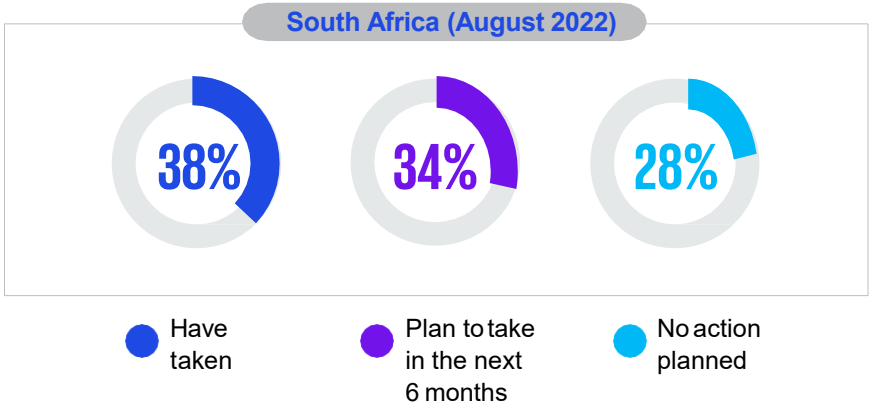
In uncertain times, it's imperative for businesses to focus their digital investments on impactful, and measurable, opportunities most able to support their strategic goals.

For example, 58% CEOs in South Africa compared to 56% CEOs globally are placing more capital investment in buying new technology. 42% of local executives are placing more capital investment in developing their workforce's skills and capabilities.

Have CEOs taken steps to pause or reduce digital transformation strategies to prepare for an anticipated recession?



Source: KPMG 2022 CEO Outlook



Source: KPMG 2022 CEO Outlook

Building successful partnerships

Few organisations can succeed on their own. Businesses rely on their ecosystems as building successful partnerships can help a company deliver a competitive edge.

Increasingly, CEOs in South Africa as well as globally view new partnerships as an important means to continue the pace of their digital transformation (72% local CEOs compared to 71% globally). CEOs in South Africa also see building strategic alliances with third parties as a key strategy to help them realise their growth objectives over the next three years. It has become more important for businesses to partner with companies (e.g. start-ups, fintech and more) that can help them, bringing agility and resilience to growth. To bring everything together, and drive a successful transformation, local CEOs need the right partners-and the ability to connect it all.

Cyber security as a strategic function

While other risks may now feature as top concerns for CEOs in South Africa as well as globally, the cyber environment is evolving quickly, and 84% local CEOs compared to 77% CEOs globally see information security as a strategic function and a potential competitive advantage.

Cyber security as a single most pressing concern for South Africa organisations is only at 8%, compared to 5% globally.

Geopolitical uncertainty is increasing worries over corporate cyber attacks for as many as 73% CEOs globally. In comparison 74% CEOs in South Africa view this as a concern. But that is not to say they are not taking precautions. In fact, 68% local CEOs compared to 76 % CEOs globally say that protecting their partner ecosystem and supply chain is just as important as building their own organisation's cyber defences.

In South Africa, 74% CEOs compared to 72% CEOs globally view cyber strategy as critical to engender trust with their key stakeholders.

Growing experience of the challenges of cyber security is also giving CEOs a clearer picture of how prepared-or underprepared they may be. Local CEOs are more prepared than their global counterparts, with only 6% admitting that they are underprepared for a cyber attack, compared with 23% globally in August 2022.

A combined 82% of CEOs in South Africa say they're either very well or well prepared, compared to slightly over half globally (56%).

And a similar 82% local CEOs say their organisation has a plan in place to deal with a ransomware attack, a massive improvement for the global average of 64% last in August 2021.

The difficulty of detecting attacks on time and the increasing cyber security risk we could witness in the coming years, calls for automation and innovation in dealing with cyber incidents.

Evolving focus towards reputational and technology risks

CEOs are keeping technology risk front of mind in the short and long term. In fact, disruptive technology has emerged as the top risk and greatest threat to organisational growth over the next 3 years with four times as many CEOs than KPMG's CEO Outlook Pulse Survey earlier this year (12% in August 2022 vs 3% in January/February 2022) citing this as a priority.

However, locally, supply chain risk is now highlighted as top risk, which is a change from the 2021, where cyber security, was identified as the top risk.

> **"As organisations undergo digital transformation, it is crucial that they envision data protection and privacy as a key strategic component and we are starting to see a massive shift across the African continent."**
>
> **Marcelo Vieira**
> Partner and Head of Cyber Security, KPMG in South Africa
> Source: KPMG's Africa Cyber Security Outlook 2022 Survey, September 2022

Fostering workforce resilience

Talent is one of the top 3 single most pressing concern for organisations

How CEOs support and attract talent is changing because of the challenging economic situation and CEOs' growth goals.

CEOs in South Africa recognise employee-driven business transformation.

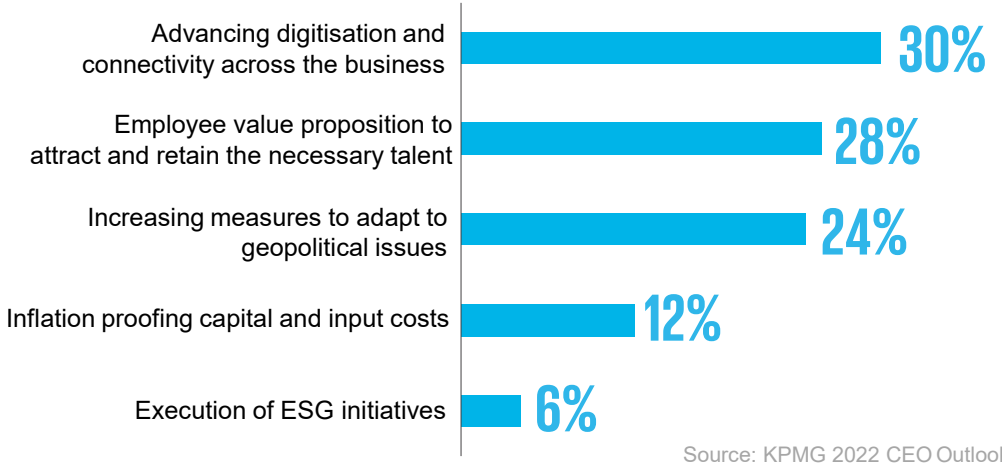
In addition, 78% CEOs in South Africa compared to 71% CEOs globally agree that the ability to retain talent with the pressures of inflation/ rising cost of living are top of mind, as are the long-term impacts to organisations from the pandemic and geopolitical tensions.

A business's (ESG) approach is increasingly seen as a differentiator when it comes to attracting and retaining talent.

Of the CEOs that mentioned they were seeing significant demand for greater ESG transparency and reporting, 25% CEOs in South Africa, a percentage point less that global noted the second largest demand was coming from employees and new hires.

CEOs in South Africa also note that one of the primary downsides to not meeting ESG expectations were competitors gaining an edge (20% CEOs in South Africa), right behind higher cost of and/or difficulty in raising finances (34% CEOs in South Africa). Recruitment challenges were only at 16% local CEOs, compared to 22% global CEOs.

Top operational priorities for CEOs in South Africa to achieve growth objectives over the next three years



Source: KPMG 2022 CEO Outlook

Talent as an operational priority

The employee value proposition to attract and retain the necessary talent is tied as the top operational priority to achieving their 3-year growth objectives

Two-thirds of global CEOs (71%) agree the ability to retain talent with the pressures of inflation/rising cost of living are top of mind

A business's ESG approach is increasingly seen as a differentiator many mentioned they were seeing significant demand for greater ESG transparency and reporting as the biggest demand was coming from employees and new hires

Anticipated recession driving talent freezes

With an anticipated recession looming, there is a significant short-term emphasis on hiring freezes and headcount reductions: 36% CEOs in South Africa; 39% globally have already implemented a hiring freeze, and 42% CEOs in South Africa compared to 34% CEOs globally are considering downsizing their workforce over the next six months.

But when CEOs take a longer-term view, 70% CEOs in South Africa and compared to 76% globally expect their organisation's headcount to increase at to 10% over the next three years, and CEOs are still investing in their existing workforce, with 72% local CEOs compared to 50% CEOs globally focused on boosting productivity.

Preparing for an anticipated recession

Steps taken, or plan to take, to adjust strategy to prepare for the anticipated recession	Global (August 2022)	South Africa (August 2022)
Implemented or plan to implement a hiring freeze in the next six months	75%	82%
Considered or will downsize their employee base in the next six months	80%	88%

Source: KPMG 2022 CEO Outlook

Fostering a spirit of experimentation

Hybrid working has had a positive impact on hiring, collaboration and productivity over the past two years. However, many organisations in South Africa are launching return-to-office plans to usher in a 'return to normal', and 76% local CEOs envision in-office as the go-to-office environment in three years' time, compared to 65% globally. The below chart shows how CEOs in South Africa envision their working environment over the next three years.

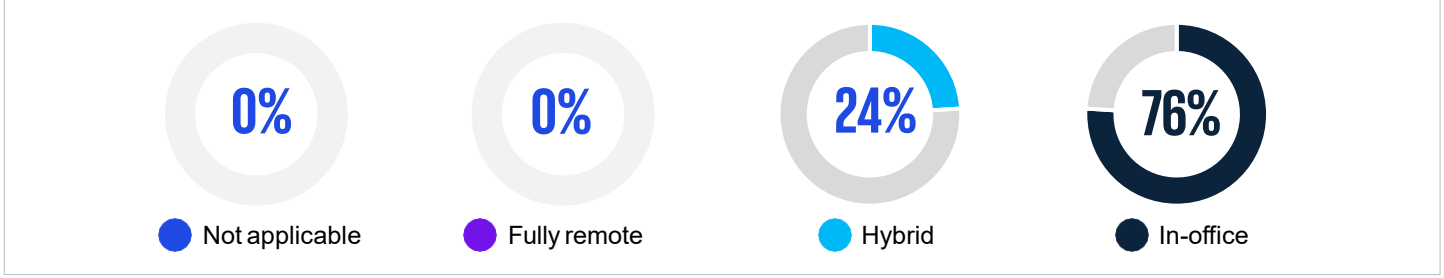
Employee expectations, when it comes to hybrid work are evolving, so it's important for CEOs in South Africa or globally to develop better working structures that suit their people in what is still an emerging area.

Even if the supply-demand side of labour shifts in favour of businesses (giving managers more scope to insist on being in office), CEOs across the spectrum in South Africa or globally need to make sure their people have purposeful interactions.

How do CEOs define what an optimal structure looks like? Now is the time to experiment and see what works best. Active listening, empathetic communications and a commitment to finding the right balance over the long term will be key.

> **A hybrid strategy needs to be an organisational strategy and not owned by HR. It starts with a tone from the top: the strategy needs to be driven by the leadership of the company.**
>
> **Makgotso Letsitsi**
> Executive Director and Head of People, Citizenship and Transformation, KPMG in South Africa
>
> Source: CHRO South Africa: HR Indaba panel discussion on hybrid work model, October 2022

Ideal working environment CEOs in South Africa envision over the next three years



Source: KPMG 2022 CEO Outlook

ESG expectations

Accelerating ESG expectations

The biggest challenge in delivering ESG strategy over the next 3 year will be on identifying and measuring agreed metrics.

CEOs locally and globally view the importance of ESG initiatives on their businesses, especially when questioned about ESG's impact on improving financial performance, driving growth and meeting stakeholder expectations.

80% of CEOs in South Africa see a highly significant extent of stakeholders (such as investors, regulators and customers) demand for increased reporting and transparency on ESG issues, in comparison to only 69% globally.

When asked where local CEOs see corporate purpose having the greatest impact over the next three years, strengthening employee engagement and employee value proposition was in the top spot with **92%**.

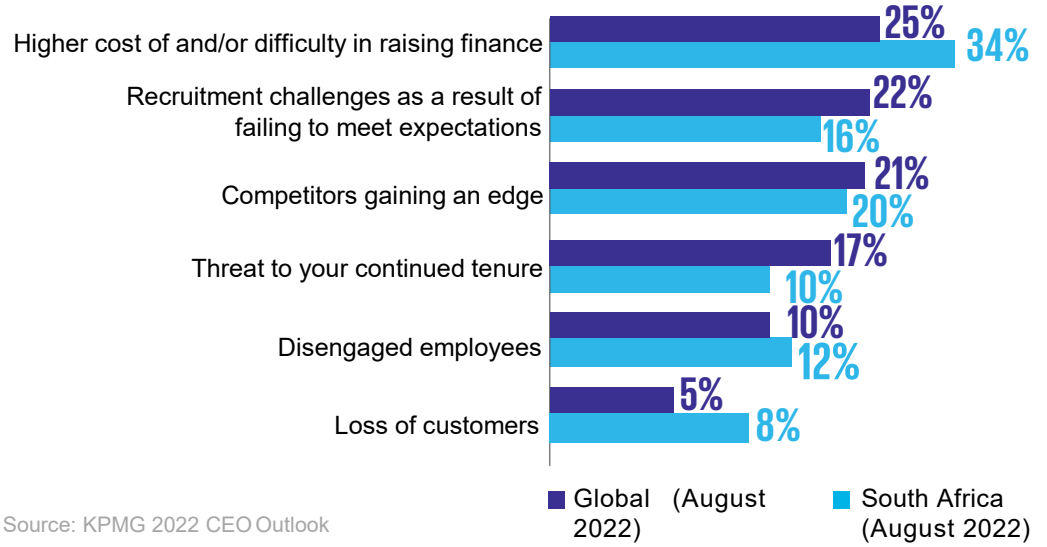
Driving total shareholder value and building brand reputation were in number 2 and 3 respectively.

The top 3 corporate purpose globally are driving financial performance, driving total shareholder value and shaping capital allocations, partnerships, alliances and M&A strategies

- **65%** of local CEOs see stakeholder (institutional investors and employees, new hires) demand for increased reporting and transparency on ESG issues.
- **72%** CEOs in South Africa believe stakeholder scrutiny on ESG will continue to accelerate (compared to 73% globally)
- **68%** local CEOs compared to 72% CEOs globally believe the public is looking to businesses to fill the void on societal challenges, such as inclusion, diversity, equity, climate change or social justice.
- **68%** CEOs in South Africa agree that in the next 3 years, fulfilling their ESG strategy and commitments would be crucial.

- **Investments are forthcoming:** 60% CEOs in South Africa say they will be looking to invest up to 10% of revenue in programmes that enable their organisation to become more sustainable.
- **Key drivers:** CEOs in South Africa have a clear distinction on the one driver when it comes to accelerating their companies' ESG strategies: proactivity on social issues (48 percent). Other drivers are inclusion, diversity, and equity (IDE) strategy (24%), net-zero strategy (20%) and more transparency (only 8 percent, compared to 28% globally). Local businesses (80%) indicate that their digital and ESG strategic investments are inextricably linked. The ESG conversation matters.
- **Articulating their story:** The biggest challenge for CEOs in South Africa in communicating their ESG performance to stakeholders, is that ESG reporting does not yet have the same rigor of financial reporting (38%). Globally, the biggest challenge is in the struggle to articulate a compelling ESG story.

The downside of failing to meet ESG expectations for CEOs in South Africa



Source: KPMG 2022 CEO Outlook

> **South African companies need to demonstrate their commitment to stakeholders by embedding ESG more holistically into the business strategy.**

Ron Stuart
Partner, Head of Markets and ESG Lead Southern Africa, KPMG in South Africa

Source: 2022 KPMG Survey of Sustainability, October 2022

A likely recession's impact on ESG

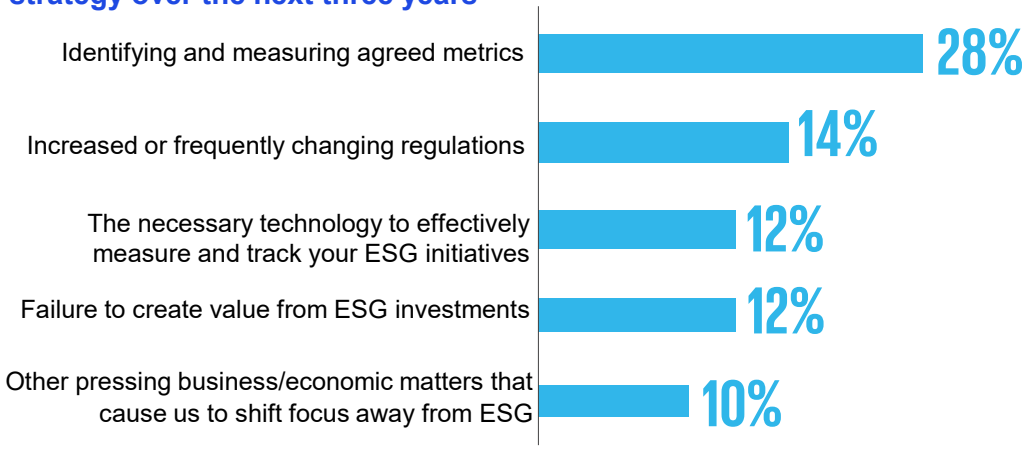
As CEOs strive to maintain optimism and take steps to insulate their businesses from a likely upcoming recession, indicators point to ESG progress suffering slightly as a result, following a trend of both CEOs in South Africa and globally reassessing initiatives in many areas of the business (e.g. transformation and staffing).

ESG has become an intrinsic business imperative. Delaying key ESG efforts could make businesses more reactive in the future rather than help them lead the way with greater transparency, resilience and sustainability.

While CEOs recognise the importance of ESG initiatives globally, as demand for more robust ESG reporting and transparency grows amongst investors and customers, ESG has still fallen down the boardroom agenda as a top operational priority for nearly 70 percent of global executives (58 percent in 2021).

However, 10% of local CEO's have stated that stakeholder skepticism around greenwashing is their top challenge in communicating ESG performance to stakeholders (compared to 17% globally and up 11% since 2021) and more than one-third of CEOs say ESG performance reporting within their organisation doesn't yet have the rigor of financial reporting.

Top five challenges for CEOs in South Africa in delivering their ESG strategy over the next three years



Source: KPMG 2022 CEO Outlook

70% CEOs in South Africa agree achieving gender equality in their C-suite will help them meet their growth ambitions, compared to 79% globally.
The top aspect that local executives agree on is that they have a responsibility to drive greater social mobility (82%).

80% CEOs in South Africa agree their organisation's digital and ESG strategic investments are inextricably linked to growth, compared to 74% globally.
Local executives equally agree that increased worldwide geopolitics have affected their ESG plans/strategies.

The ESG shadow cast by the supply chain

It is critical for CEOs to understand how sustainable their entire business really is. CEOs in South Africa increasingly see reporting and transparency as important to their ESG goals-and this includes insight into their broader supply chain.

Our survey shows that a third of the local CEOs

(30%) and CEOs globally (47%) plan to diversify their supply chains in the next six months in response to geopolitical challenges. 84% local CEOs, compared to 76% globally have also noted supply chain diversification as their adjusted strategy to prepare for anticipated recession in the short term.

What's more, the number one strategy CEOs in South Africa as well as CEOs globally are considering to mitigate supply chain issues is to monitor deeper into their supply chain (i.e. 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.

Among the many challenges, 8% CEOs in South Africa compared to 28% globally see decarbonising the supply chain as a significant challenge for companies looking to achieve net zero.

Supply chain leaders globally as well as in South Africa are starting to double down on investing in technology-including real-time, end-to-end analytics-to improve visibility across the entire value chain. This will help them have a more accurate understanding of how products and materials flow through the network and where issues are in the supply chain, so they can move from mere strategic intent to real tangible outcomes.

CEOs in South Africa are also making the link to digital transformation: 80% local CEOs say their organisations' digital and ESG strategic investments are inextricably linked, compared to 74% globally.

With CEOs, both local and global being increasingly accountable to 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? These questions mean there is an increasing need to focus more broadly on ESG- and into all the shadows cast by the organisation.

> **When examining the challenges in delivering ESG strategies we have seen that local CEOs list "identifying and measuring agreed metrics" as the biggest challenge compared to "pressing business/economic matters redirecting focus from ESG" for global CEOs.**
>
> **Ignatius Sehoole**
> Chief Executive Officer, KPMG in South Africa

Diversity ramping up progress

Businesses in South Africa are seeing a major focus put on the social aspect of ESG. While there's broad alignment on IDE, there is growing concern around the pace of progress. Only half of CEOs in South Africa believe that progress on IDE has moved too slowly in the business world (compared to 68% of global CEOs) and 72% local CEOs believe scrutiny of IDE performance will continue to increase over the next three years.

Continuous awareness is key, and CEOs in South Africa can play a powerful role in helping lead and drive the IDE agenda in the years ahead. Moving forward, it is important to normalise IDE within companies to avoid fatigue. Any plans need to be intentional and focused on what is possible within their market and business.

Diverse teams are also higher performing but often only in environments of psychological safety. 82% CEOs in South Africa, in comparison to 77% say they have a responsibility to drive greater social mobility in their organisations, which involves how you invite everyone into, and structure your organisation. It requires that businesses invest in their people in a new way.

Exploring opportunities for growth

Technology

- **Bring your people and technology together:** CEOs in South Africa and their organisations 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 in South Africa keen on building 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.
- **Make customers your focus:** Orchestrating productive 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 CEOs in South Africa to maintain their high levels focus on innovations in dealing with cyber incidents.

Talent

- **Experiment with ways of working:** As organisations launch return-to-office plans, its important for local CEOs to develop working structures that suit their people. Active listening, empathetic communications and a commitment to finding the right balance over the long term will be key.
- **Tell your ESG story:** A business' ESG approach is increasingly seen as a differentiator when it comes to attracting and retaining talent. And with 38% CEOs in South Africa saying their key challenge is communicating the ESG performance reporting within their organisation with the same rigor of their financial reporting, it is important for them to articulate for stakeholders the steps they are taking to address ESG in their organisations.
- **Build, don't follow:** Organisations and their employees are changing and leaders need to reinvent the enterprise workforce. 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.

ESG

- **Recognise ESG's impact on financial performance:** ESG has become integral to long-term financial success. CEOs in South Africa increasingly agree that ESG programmes improve financial performance, which includes being able to secure talent, strengthen employee value proposition, attract loyal customers and raise capital.
- **Invest in real-time technologies:** CEOs in South Africa should monitor deeper into their supply chain (i.e. at the third and fourth levels). Local supply chain leaders as well as globally 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.
- **Take the lead on IDE:** CEOs in South Africa can play a powerful role in helping lead and drive the IDE agenda in the years ahead. It is important to normalise IDE within companies and create a culture of inclusion and diversity across the organisation to attract and retain new employees.
- **Build strong connections among functions:** Resilient organisations have well-connected internal teams, so for example, the finance function is aware of what the ESG teams are doing.

Methodology and acknowledgements

About KPMG's CEO Outlook Survey 2022

The 2nd edition of KPMG CEO Outlook: South Africa edition is in collaboration with Business Leadership South Africa (BLSA), conducted with 50 CEOs across various sectors between July and August 2022, provides unique insight into the mindset, strategies and planning tactics of CEOs over the past 18months.

KPMG's CEO Pulse Survey conducted in January and February of 2022 with 500 CEOs prior Russia's invasion of Ukraine and annual Global CEO Outlook with around 1,300 CEOs launched in October ensures proper benchmarking and comparison on key focus areas and challenges for captains of industry.

All respondents have annual revenues over US$500M and a third of the companies surveyed have more than US$10B in annual revenue. Benchmarked global data included leader insights from 11 key markets (Australia, Canada, China, France, Germany, India, Italy, Japan, Spain, UK and US) and 11 key industry sectors (asset management, automotive, banking, consumer and retail, energy, infrastructure, insurance, life sciences, manufacturing, technology, and telecommunications).

NOTE: some figures may not add up to 100 per cent due to rounding.

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