Perspetives on current issues and trends in CIPS/Issue 02/April 2014

Spot On

CIPS: Consumer and Industrial Products and Services

Spot On is a bi-annual magazine focusing on current issues and trends for businesses in the manufacturing, agriculture, oil & gas, retail, entertainment, tourism and hospitality sectors.

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Industry issues & trends from our CEO Survey

In this publication, our industry and subject matter experts discuss the results of our 2013 Africa CEO Survey for the Consumer and Industrial Products and Services (CIPS) sector, which includes manufacturing, agriculture, oil & gas, retail, entertainment, tourism and services sectors in Kenya.

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Our 2013 Africa CEO Survey shows that CIPS companies in Africa and Kenya are focused on building up the leaders of tomorrow and managing some very specific talent challenges along the way.

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For some CIPS CEOs, growing their customer base is more of an investment priority than enhancing customer service—yet it is generally accepted that customer service is essential to retention and loyalty.

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Risk management may not feature among the top three boardroom priorities at every company in the CIPS sector. Nonetheless, an effective risk management approach requires organisations to think differently and the main challenge is good communication.

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For companies in Kenya's CIPS sector, appropriate tax planning can free up more resources for capital investment, research and development, hiring talented people, launching new products and rolling out advanced services.

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Our CEO Survey asks respondents whether they focus on a few, carefully-selected initiatives or many, allowing the best to succeed. Over two-thirds have a more selective approach, but I think it is important to evaluate the process involved before companies get to the point of having a few initiatives.

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On-going dialogue between government and companies in the CIPS and other sectors should inform not just incentives to businesses but also how to align the roles of the private and public sectors in the economic development of the country.

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Family-owned businesses are generally more agile in decision making and responding to risks or opportunities in the market. If the owners of a family-owned CIPS company are convinced about a new product or service, the decision-making process can be quite short.

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Kenya's Consumer and Industrial Products and Services (CIPS) sector is growing fast. Shifting consumer preferences, increasing competitive pressures, new ways of working and a complex operating environment create a well of opportunities for businesses in this sector—and cause for caution as well. In the following pages, our experts weigh in. We also want to know: What do you think?

Introduction

For the last four years, we have surveyed hundreds of CEOs in Africa to share insight about their growth strategies, the risks their companies face and the talent they seek. We analyse the survey results at a country level, at a regional level and also by industry.

Overall, our 2013 Africa CEO survey results show that the CIPS sector is experiencing tremendous growth, confidence and change. This is particularly true among services sector CEOs, whose growth prospects are less affected by risks related to infrastructure and supply chain limitations as compared to manufacturers.

In this publication, our industry and subject matter experts discuss the results of our 2013 Africa CEO Survey for the Consumer and Industrial Products and Services (CIPS) sector, which includes manufacturing, agriculture, oil & gas, retail, entertainment, tourism and services sectors.

From our survey population of 301 CEOs in 22 countries, a total of 55 were from the CIPS sector—31 from manufacturing and agribusiness and 24 from the consumer services sector (like export companies, hotels, security companies, supermarkets and entertainment and media organisations). We publish the full results of our survey on our *Africa Business Agenda* publication, which is available at www.pwc.com/theagenda

Our subject matter experts discuss the topical areas of the survey findings and then drill down to specific interpretation in relation to the CIPS sector in Kenya.

Overall, our 2013 Africa CEO survey results show that the CIPS sector is experiencing tremendous growth, confidence and change. The results are in line with our knowledge of the confidence of businesses in this sector based on our work. This is particularly true among services sector CEOs, whose growth prospects are less affected by risks related to infrastructure and supply chain limitations as compared to manufacturers. Confidence leads to investment in new products and services, a growth opportunity identified by over a third of services sector respondents.

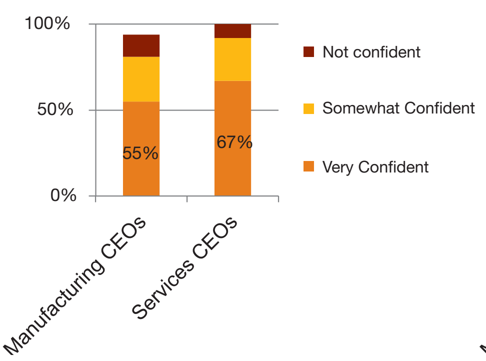
Manufacturers are somewhat conservative in their outlook for growth, citing markets where they currently operate (and reside) as the strongest opportunity for growth. Manufacturing CEOs tell us anecdotally that they want to maximise every opportunity at home before branching out. However, they are also experiencing increased competition from regional and global players.

In general, no business in the CIPS sector can afford not to respond to the fast changing competitive landscape, at home or in the region. This is why CIPS CEOs need to manage risk effectively and hire the right people. Our contributors discuss these issues in detail.

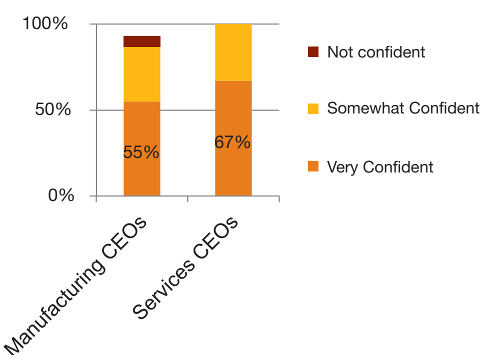
Michael Holtzmann, our people and change consulting expert, analyses how CIPS companies in Kenya are tapping into high-potential talent through preparation, training and support structures.

He believes that to create the jobs of tomorrow, countries like Kenya benefit from implementing a workforce strategy at a national level. Recruiting and retaining top talent is an investment with many returns, not least among them

How confident are you of your company's growth prospects over the next year?



How confident are you of your company's growth prospects over the next three years?



helping businesses to grow their customer base.

The survey shows a real discrepancy between the priorities of CEOs in the manufacturing and services sectors in relation to growing their customer base and investing in customer service. Peter Mahinda gives a compelling analysis of customer relationship management and engagement in competitive environments like Kenya's in his article.

Another issue that is very relevant to the CIPS industry is risk management. Nancy Onyango looks at the Africa CEO Survey results for the CIPS sector and notes that although risk management may not feature as a top-three item on the boardroom agenda, most companies take risk management seriously.

At the same time, the risks they face are not new. In her article, How can CIPS companies manage risk more effectively?, she advises that a more comprehensive risk management approach should evolve from frameworks and control environments that already exist.

Over two-thirds of CIPS CEOs in our Africa survey cite 'an increasing tax burden' as a top threat to growth prospects. Obed Nyambego discusses the benefits of tax planning in this context, such as freeing up more resources for growth activities and providing more control over company finances. His article, What is the value of tax planning for CIPS companies?, is a must-read for CIPS companies seeking to understand the value of tax planning in Kenya and within the East African Community overall.

The process of strategic decision making is informed by many factors, not least the areas discussed in Michael, Peter, Nancy and Obed's articles. Jeff Aludo gives a high-level overview of the process by which CIPS companies can solicit feedback from various stakeholder groups like employees and customers.

In his article, What influences strategic decision-,making in the CIPS sector?, he provides a persuasive framework for collecting, filtering and using feedback to inform strategy and implementation. The CIPS sector does not operate in a vacuum and must interact with the public sector at many junctures. One of our public sector experts, Simon Mutinda, discusses the alignment between public and private sector development priorities. The Government can do more to improve alignment by facilitating an operating environment conducive to growth, according to Simon in his article.

We know that many CIPS companies in Kenya are also family-owned and Anthony Murage interprets the results of our Africa CEO Survey for those companies, many of which may have unique perspectives, objectives and concerns due to the nature of their business ownership structures. In his article, How are family-owned companies in the CIPS sector managing growth and change?, Anthony discusses centralised decision making, good governance and talent management among Kenya's family-owned businesses.

I hope that you enjoy reading these articles and as always, we welcome your feedback. Please let me or any of our contributors know if you wish to discuss these issues in greater depth.

We welcome your suggestions for future articles and topics as well.

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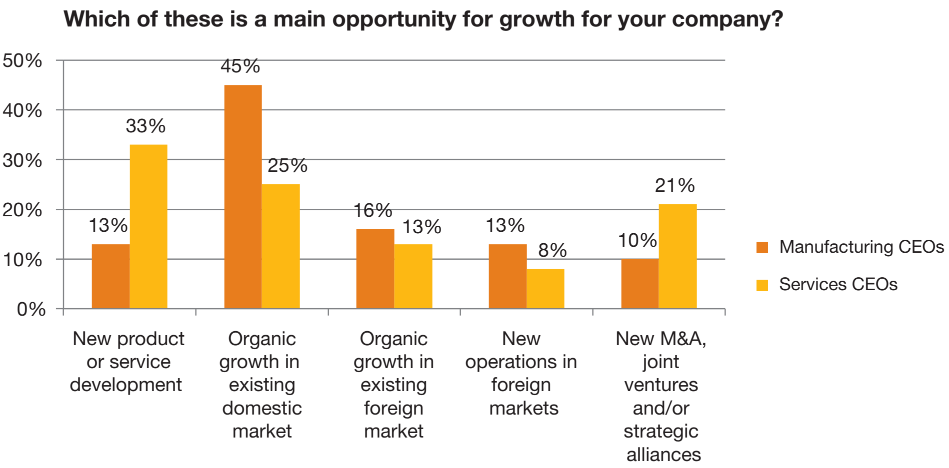


How are CIPS CEOs recruiting and retaining top talent?

High-potential talent is a scarce resource among organisations of all kinds, in Africa and elsewhere. Leadership development programmes help to attract and retain top talent. Our 2013 Africa CEO Survey shows that CIPS companies in Africa and Kenya are focused on building up the leaders of tomorrow and managing some very specific talent challenges along the way.

High potential in a high growth market

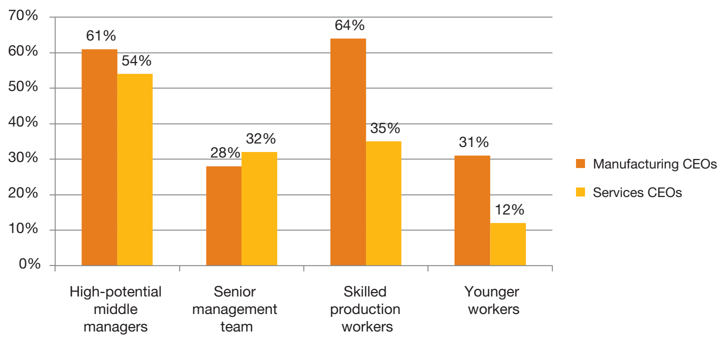
One of those challenges is the availability of high-potential middle managers and skilled production workers. In Kenya, many companies are creating jobs but not enough for the large number of people with university degrees. Graduates who do excel in the formal sector very quickly find themselves in high demand as they acquire skills and expertise.

CIPS companies may be tempted to rush high-potential candidates through to middle-management positions. This creates a number of risks, one of which is that potential is inherently latent: you don't know if someone will rise to the occasion until you try. Trying without preparation is a recipe for failure. Companies can give their high-potential talent platforms to grow into their roles and opportunities to try new things, helping to prepare them before they advance to managerial roles. Will someone who is technically savvy also make a good team leader? The answer to this question depends very much on preparation, training and support in the new role.

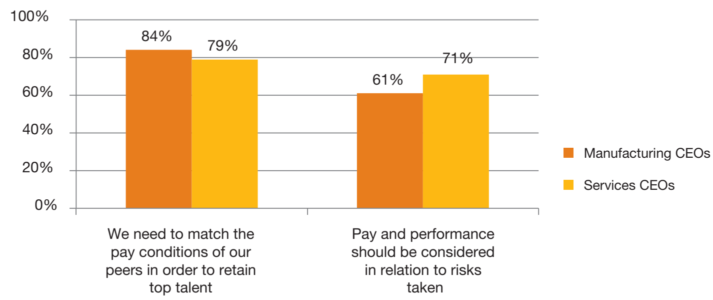
Identifying high-potential talent in the first place requires that companies pay attention to behavioural competencies. Managerial induction programmes must specifically address this aspect of talent development. The mix depends very much on the company and its talent needs, but generally a programme of 10% classroom learning, 20% applied learning and 70% on-the-job training makes sense. An effective talent management strategy will create the space for that 70% to occur and enforce accountability among the people who coach and mentor the inductee through it. Too often, we witness an ad hoc approach instead, largely driven by the need to accelerate talent development. Other times, companies fail to look beyond their embedded hierarchy or industry to find the right people.

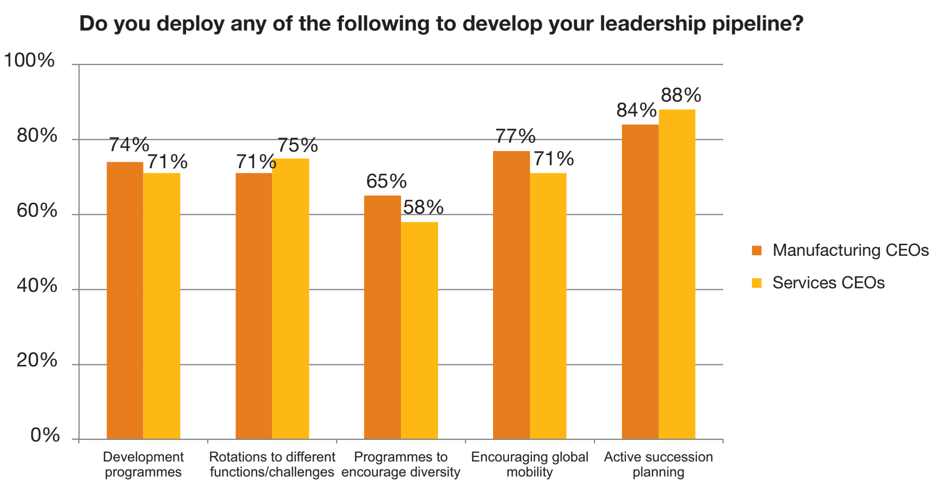
These challenges point to a need for workforce strategy at a country level. Relevant accreditation and training bodies can work together to create a plan to address Kenya's talent needs, for example. An effective workforce strategy will ensure that training is informed by technical content and behaviours contributing to the resilience and

Which of the following groups do you currently face the greatest challenges recruiting?



To what extent do you agree with the following statements about alignment of top executive performance with company and wider stakeholder needs?





effectiveness of tomorrow's leaders. This will help create the jobs of tomorrow.

Paying for performance

Our survey also shows that the competitive market for top talent influences compensation, with roughly 80% of CIPS CEOs indicating that they must match pay conditions among peer companies to retain top talent. One way to combat undue salary inflation is to evaluate the talent pool overall and implement clear career planning and succession policies internally. Experience globally shows that there can be significant return on investment from looking at the talent pool internally but this also entails challenges. Internal candidates—just like external candidates—must be supported in their journey.

Internationally, there is a wide variance between high-level and entry level or average compensation. The market for top talent and corresponding pay expectations are not uniform worldwide. Companies in Kenya can attract top talent from anywhere but their Boards will want to justify a return on investment. High levels of economic growth and correspondingly high expectations for company growth may justify higher compensation.

A majority of CIPS CEOs share the view that pay and performance should be considered in relation to risks taken. Rather than a 'Wild West' attitude of results at any cost, companies can identify growth objectives and at the same time set the bar for an acceptable level of risk. Companies that bring in foreign talent must make this explicit, because cultural norms for risk tolerance will vary. They can address this through an open conversation about achievement at a cost that is agreeable to all parties, and write this into adapted performance contracts.

Leadership development insights

CIPS CEOs also shared their views on leadership development programmes, in terms of what works. Overall, there is broad recognition that if companies nurture and pay attention to human capital—and treat their people like an asset—they will earn a greater return on this investment. A portfolio of leadership development programmes will help to grow more diversity within the talent pool; no company knows for sure where its next CEO will come from, especially as regional and 'one-Africa' strategies cause workforces to become increasingly diverse.

Many CIPS CEOs cite functional rotations as an effective leadership development strategy, but this brings into question the trend towards deeper specialisation. In many industries, high-potential managers find that they must be deep experts and very specialised.

CEOs may reasonably ask whether there is a place for a generalist in this environment, or if cross-functional experience is a necessary aspect of growing the leaders of tomorrow. Many are finding that a policy of encouraging functional rotations requires serious thought around facilitation and support, so that those who rotate also deliver upon the level of expertise required.

The leaders of tomorrow view themselves as conduits between what is happening in the market (with clients, customers, markets, regulators and governments) and the kinds of products and services delivered. Leadership development is about influencing different actors to identify trends and shape outcomes.

Any leadership development programme must work to grow that capacity and agility among top talent. One of the most valuable tools for doing so is feedback. Companies can implement policies to facilitate feedback and an environment for acting upon it, as well as create the space for busy, talented people to trial different behaviours or take on something new. A culture that inspires fear of failure will have the opposite effect. Feedback must be seen as a valuable and necessary professional gift between the members of the organisation.

Overall, leadership development programmes are helping to change expectations. Leaders are not heroes but instead they are human and connected to their organisation, markets and other individuals. Our survey shows that connected leadership is very much on the minds of today's CIPS CEOs.

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What drives thought around customer relationships in the CIPS sector?

Our 2013 Africa CEO Survey shows that most CIPS CEOs are almost completely aligned on the importance of customer growth, retention and loyalty strategies to grow their companies. But for some CIPS CEOs, particularly manufacturers, growing their customer base is more of an investment priority than enhancing customer service—yet it is generally accepted that customer service is essential to retention and loyalty.

There are two views to this. First, we can look at a company that has a market-leading position, and whose competitive landscape is not very tight. Investment will be targeted at reaching as many customers as possible, in as many places as possible—combining both urban and rural sales push to maximise the company's footprint.

A market-leadership position lends a certain confidence in that dominant CIPS companies will focus more on growth and other areas like efficient supply chains and distribution networks. Such companies also invest heavily in product innovation to help retain specific customer groups, while redefining the brand. Customer service develops in response to customer demand, and may not be as proactive as would be the case for an enterprise that is not a market leader. Another way to look at this is from the perspective of companies in a more competitive environment. They must constantly develop and /or modify their product or service offerings to head off the competition.

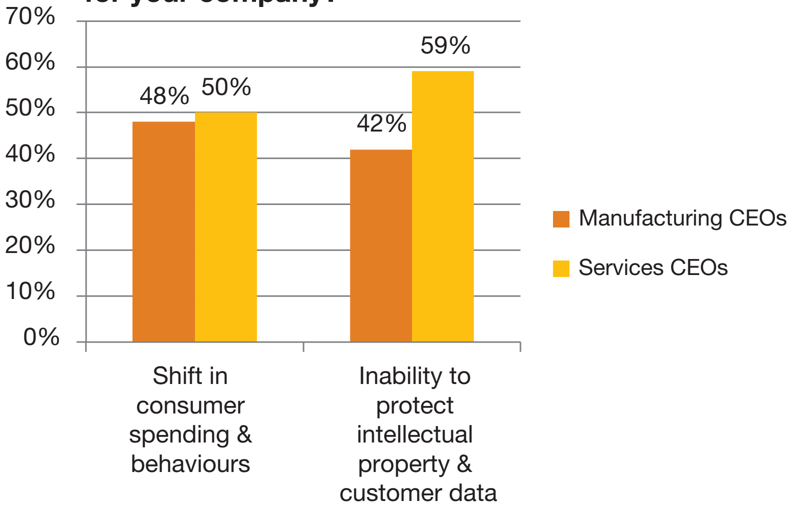
Growth initiatives assume a higher priority relative to customer service investments, when there is a lot of competition. Increasingly, however, customer service is a differentiating factor among companies in a competitive environment like Kenya's. It is therefore likely that we will see a shift towards priority investments in deeper customer service going forward.

The price of loyalty

All companies know that loyalty is not just price-driven, but not all companies know how to build loyalty among their customer base. A strategic view of customer loyalty helps companies to identify key customers and build relationships with them. In time, and if nurtured well, these relationships can evolve and become more like strategic partnerships.

For example, in Kenya, I have worked with a CIPS industry company that regularly conducts a survey of its customers and uses that information to inform strategic decision-making. The company's strategic review period begins and ends with customer insight; customer feedback drives strategy in terms of where executives see the company going. In response to customer

Are these risks a threat to growth for your company?



feedback, the company has become more flexible in terms of pricing—which contributes to customer loyalty.

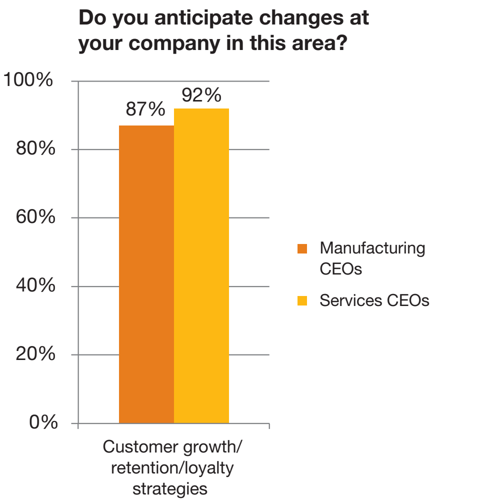
Customer loyalty requires deep understanding about what customers want. In an increasingly competitive environment, product innovation will continue to inform the kind of differentiation that can result in enhanced competitive advantage. Effective market research combines internal analysis of a company's strengths together with external research on market share, competitor activities and customer preferences. In Kenya, many CIPS companies and functions still lack the tools or resources to conduct sophisticated market research. The cost of conducting focus groups and product testing exercises is high. Multinationals may rely upon global market research functions or services, or high-level directives from headquarters, but there is no substitute for local know-how.

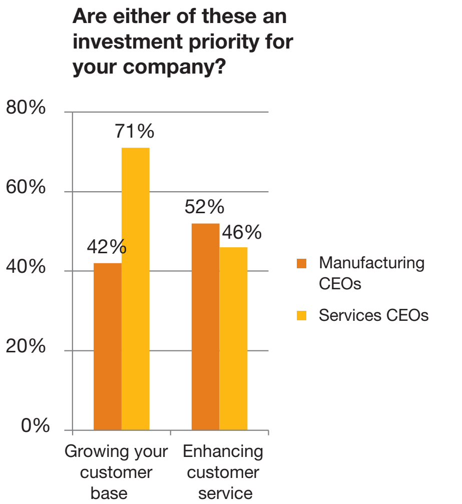
Loyalty is also about service. In the services sector, business success is largely dependent upon customer awareness. The greater the awareness of its services, the more likely a services-sector company is to succeed and achieve its objectives. Therefore, we find that services sector companies invest significantly in product differentiation, marketing and advertising to grow their customer base—less so, customer service.

Due to the nature of their companies, manufacturers are constantly looking to use the information they have about customer preferences to enhance production processes, manufacturing capacity, routes to market and supply chains. Collecting and deploying this information is a time- and cost-intensive process and requires deep investment. If they get these aspects right, they can reasonably expect their customer bases to expand, and so we see a more even distribution between manufacturing CEOs who prioritise investments in customer base and those who prioritise customer service.

Competition for customers

In Kenya, CIPS companies of all kinds know that it's not just about getting customers through the door. Companies prioritise customer retention, in many cases above and beyond all else. In a





competitive environment like Kenya's, the cost for consumers of switching providers or brands may not be very high. Companies will then invest more significantly in customer relationship management to define other ways of attracting and retaining customers. Service is one way of retaining customers, but not the only way.

There have been a few tough lessons in the last few years, as CIPS industry clients have learned that social media can have a viral impact. Public relations is becoming more important as information sharing becomes ubiquitous. Many factors drive shifts in customer spending and behaviours, like an increasing awareness of value-for-money. Many customers take this very seriously and increasing competition within Kenya's CIPS sector is likely to make value even more of a differentiating factor. To communicate value, companies need to map their customer segmentation carefully and deliver to these segments, such as by offering premium and low-end versions or different portion sizes and bundles. Customer loyalty is a real concern for Kenya's CIPS industry, as consumers demonstrate more openness to switching brands due to wider choice in the marketplace. CIPS companies could leverage social media more effectively to engage with consumers and solicit their views, but companies need to engender more trust at the same time. Many people are hesitant to share information online or with companies; personal interaction can help build trust.

By taking customer preferences seriously and safeguarding the information that they are willing to share, Kenya's CIPS industry can grow their companies and serve them better at the same time.

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How can CIPS companies manage risk more effectively?

In our 2013 Africa CEO Survey, CEOs in the consumer and industrial products and services (CIPS) industry are aligned on three main boardroom priorities: customers, talent and technology. Risk management ranks a somewhat more distant fourth place among boardroom priorities.

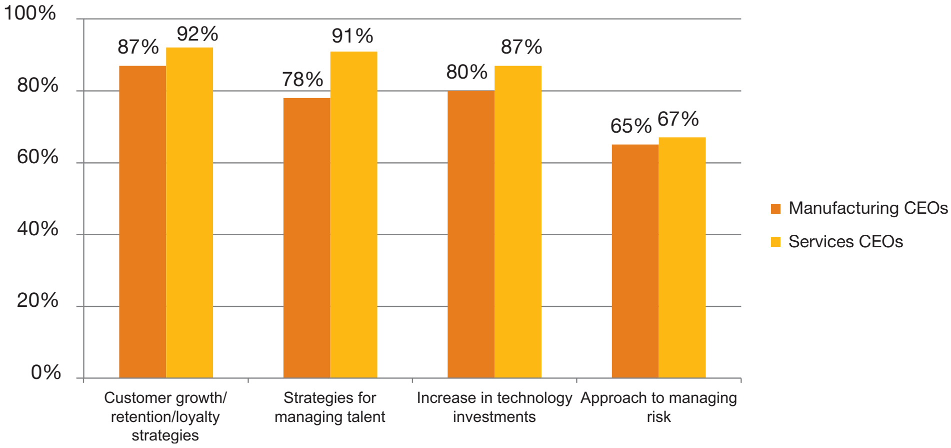
Our survey also shows that risk management may be centralised or decentralised among CIPS companies and that CIPS CEOs may prefer predictive or reactive approaches to risk management resource allocation.

Looking at these trends in the context of Kenya, we know that CIPS companies here often have some modicum of risk management in place. They may view risk management as something that they have been doing for a long time! Growth opportunities in Kenya may make other boardroom priorities like customers, talent and technology much more prominent on the boardroom agenda. This is not to say that risk management is less important.

In Kenya, certain risks like weather, the price of inputs, price volatility and exchange rate fluctuations will impact the agriculture sector, for example. These are not new risks for the sector, and even companies without a formal enterprise risk management framework will still have a long history of managing them. In Kenya's relatively nascent services sector, we are seeing many organisations that started out small now getting more organised about risk management.

Listed CIPS companies tend to focus more on corporate governance. They prioritise regulatory compliance and may just 'tick the box' when it comes to other areas of risk management. Even so, the rise of counterfeit goods poses a direct threat to many CIPS companies which brings their risk management approaches into question. Family-owned and private companies in the CIPS sector often view risk management enhancements as part of an overall effort to improve professional management and gain corporate world credibility.

To what extent do you anticipate changes at your company this year in any of these areas?



People and systems, working together

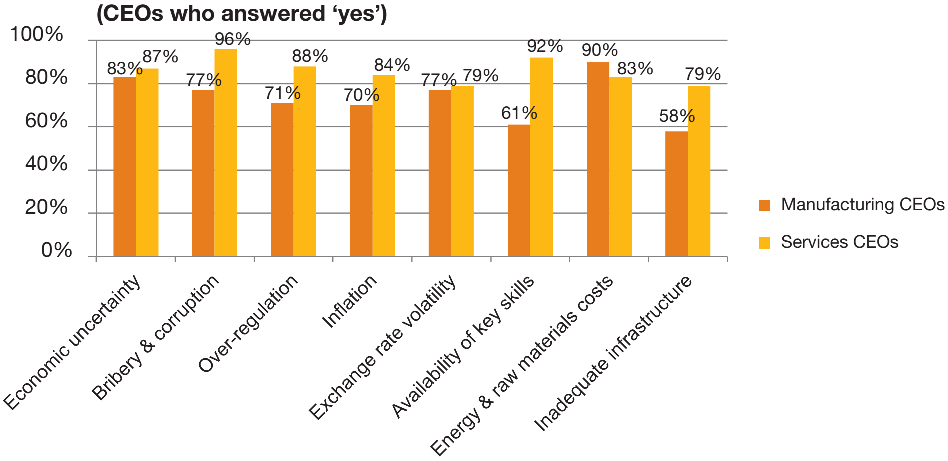
Whatever a CIPS company's starting point, it's important to remember that people manage risks. A CEO may not document his approach to risk management, but if there is a problem then he must deal with it. There may not be a formal process *per se* or risk management may be very silo-driven. Rather than making it an onerous task of total overhaul, a more comprehensive and value-driven risk management approach should evolve out of frameworks and control environments that already exist. In our experience, that's the only way that risk management will ever become part of an organisation's DNA.

Generally, whether you look at CIPS companies or governments or banks, formal risk management should begin with the systems that are already in place. At PwC, our approach is to start at the Board level, working with the audit committee and extending to the risk committee, and agree upon a mandate. That mandate then drives what happens at the management and operational levels.

Boardroom priorities set the tone from the top and influence company culture. We often find that CIPS companies will have a clear cultural mandate to grow their customer base, improve customer retention, recruit top talent and invest in technology. We see this clearly in the CEO agenda for CIPS respondents. If risk management ranks fourth by a significant measure, it might indicate a certain attitude of complacency.

How would you characterise your company's approach to managing risk?

Do these threats pose a risk to your company's growth? (CEOs who answered 'yes')



Setting the tone from the top

One of the risks to company growth identified by 96% of services CEOs and 77% of manufacturing CEOs is bribery and corruption. In my view, bribery and corruption are persistent because there is the perception that those at the top are benefiting from chaos. Whereas if the tone from the top is zero tolerance and that tone is consistently conveyed across all areas of the business, then you start to build a company culture resistant to that risk.

Effective risk management requires information but the methods of information collection can vary. We see this in our survey, with some companies utilising a decentralised approach and others a centralised approach. One of our clients was a hospital with a great many disjointed units and it would have been difficult—if not impossible, and certainly inadvisable—to impose a centralised methodology. A decentralised approach made more sense; the point is to collect the information needed and use it effectively. A centralised approach could have opened up the organisation to more risk if a unit issue became enterprise-wide. However it is collected, good information can identify risk areas but effective risk management will also drive the imperative to act. Again, this comes down to the tone from the top. Leadership must be seen to do something about it, once a problem has been identified.

In our survey, CIPS respondents are divided between whether risk management resources should be directed more towards predicting high-impact risk events or responding to them once they have occurred. On balance, we recommend a more predictive focus because it may be possible to turn a risk into an opportunity. A reactive approach makes that less likely.

The fire at Jomo Kenyatta International Airport illustrates the catastrophic impact of poor information stuck in silos and a total lack of tone from the top. However, the reaction to this significant risk event has led to improvements in terms of expediting the international terminal and parking facility projects and improving accountability among people and departments. We hope that a more comprehensive approach to risk management is now in place, including resources dedicated to predicting—and forestalling—risk events like fires.

Risk management may not feature among the top three boardroom priorities at every company in the CIPS sector. Nonetheless, an effective risk management approach requires organisations to think differently and the main challenge is good communication. By setting the tone from the top, boards and management can prioritise risk management and grow stronger, more resilient organisations.

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What is the value of tax planning for CIPS companies?

Our 2013 Africa CEO Survey shows that over three-quarters of CEOs in the CIPS sector believe that an increasing tax burden is a threat to the growth of their businesses. They can mitigate this threat in a number of ways, such as by evaluating their tax planning strategy. An effective strategy will ensure that there are no surprises and that they are doing the right thing, not over-paying taxes yet fully compliant with the laws.

Tax planning is the systematic evaluation of an organisation's finances and investments in order to reduce its tax burden in a legitimate way. Tax planning involves the use of available allowances and exemptions so as to reduce income and/or capital gains that are subject to taxation and therefore minimise a business's tax obligation. The main benefit of tax planning is reduced tax liabilities, which by extension means that individuals or companies can retain more money for their own needs.

Benefits of tax planning

For companies in Kenya's CIPS sector, appropriate tax planning can free up more resources for capital investment, research and development, hiring talented people, launching new products and rolling out advanced services. Reduced tax liability also allows companies to deliver improved returns to investors and higher wages to employees.

Tax compliance will always require time and resources to get right. But an improved approach to tax planning contributes to a company's ability to exert more control over its finances and implement an optimal road map for financial planning. Other benefits include an increased ability to streamline cash outflows, make planned expenditures and commit to an informed investment decision.

Companies that have a more piecemeal approach to tax planning may feel more threatened by an increased tax burden. There is no question that taxes are going up and getting more complicated in Kenya. But an appropriate tax planning strategy can build trust, reduce the stress of compliance and deliver value to the organisation.

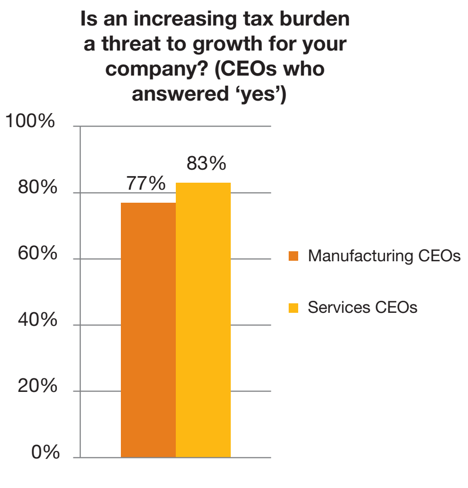
The tax planning process

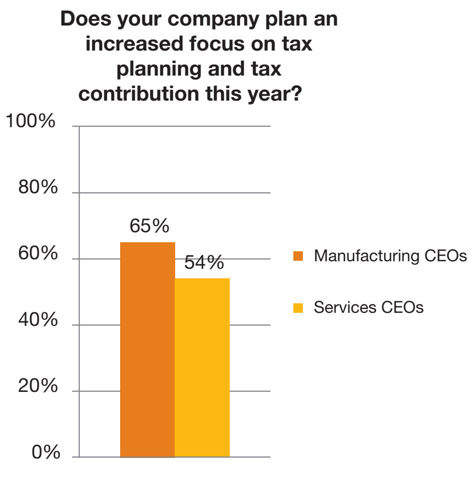
Tax planning entails a detailed understanding of the tax implications of various cash inflows and outflows. In the CIPS industry, these could include investments, the sale or purchase of assets, income streams and remuneration structures. A complete view of these activities allows an organisation to draw up an appropriate investment strategy allowing it to realise financial goals while reducing tax liability to a minimum. For companies in Kenya's CIPS sector, this is a competitive strategy to help realise growth ambitions.

Good tax planning should be integrated into the wider financial goals of the organisation. In addition to looking at reducing the tax liability, the exercise should consider other factors such as the liquidity of the investment, returns from the investment and risk appetite.

The basic process of tax planning involves:

1. Preparing the financial goals of a business;
2. Estimating tax liabilities on existing income and investments, and possible liabilities on additional investments or expenditures in order to realise the desired financial goals;





3. Obtaining a good understanding of all available tax allowances, deductions, exemptions, rebates and credits; and
4. Selecting the best investment or expenditure route that provides the most tax breaks but still fulfils the stated financial goals and fits in with the business's investment profile.

This process requires planning for various taxes such as individual income tax, corporate tax, capital gains tax, offshore tax and consumption taxes such as Value Added Tax and customs and excise duties.

The main questions for management are whether a tax planning strategy provides valuable information for decision making and if it helps the company to manage an increasing tax burden. It is also worthwhile to consider whether the tax planning strategy builds trust and confidence in the business. If the answers are affirmative, then the tax strategy makes sense.

Regional considerations

Many CIPS companies in Kenya operate regionally, in East Africa and beyond. Effective tax planning strategies for these companies must therefore consider the impact of regional tax regimes. Several trade federations operate in Africa including the East African Community, the Southern African Development Community, the Economic Community of West African States, and the Common Market for Eastern and Southern Africa.

One of the most effective and advanced of these is the East African Community (EAC), which is comprised of partner states Kenya, Tanzania, Uganda, Burundi and Rwanda. The EAC aims primarily to widen and deepen the economic cooperation between its partner states. The Treaty which establishes the EAC obliges partner states to harmonise their tax policies with a view towards removing tax distortions. This policy will bring about a more efficient allocation of resources within the EAC.

Towards that end, an EAC Customs Union was established in 2005. The Customs Union Protocol emphasises policies like:

- Removal of internal taxes and non-tariff barriers on intra-EAC trade;
- Introduction of a common external trade policy through the common external tariff; and
- Introduction of a list of sensitive products that are provided additional protection.

The implementation of the EAC Common Market protocol from 1 July 2010 is a strong commitment to deepen and widen EAC integration. The move is expected to boost trade and the movement of factors of production across the EAC region. The Common Market protocol obliges the Partner States to undertake progressive harmonisation of their tax policies and laws on domestic taxes with a view to removing tax distortions in order to facilitate the free movement of goods, services, and capital and the promotion of investments within the EAC.

Discriminatory tax systems hamper the free movement of persons, free movement of workers, free movement of services and free movement of capital—the four freedoms granted by the EAC's Common Market. Companies in Kenya's CIPS sector will benefit significantly from a full realisation of these freedoms.

Another tool facilitating regional harmonisation is the establishment of a Double Tax Avoidance (DTA) treaty between EAC partner states. DTAs help to alleviate double taxation when business is conducted in different tax jurisdictions. They also assist tax administrators to prevent fiscal evasion. So far, only Rwanda has ratified the EAC agreement on double tax avoidance signed in September 2010. The treaty will be implemented once every partner state in the EAC has ratified it. The EAC countries have a very limited treaty network. Rwanda has double taxation avoidance treaties with South Africa and Mauritius; Uganda with ten other countries; Tanzania with nine countries and Kenya with nine countries. Burundi does not have a tax treaty with any country.

This limited treaty network and some of the outstanding challenges with the EAC Common Market implementation, as well as the limits within other trade federations in Africa, could contribute to the low percentage of CEOs in our Africa survey (28%) who agree that governments are driving the convergence of tax and regulatory frameworks. Among CIPS sector CEOs in our survey, just 22% agree that governments are driving convergence. Clearly, there is still some way to go.

Tax planning must take into account the regional regimes where companies operate as well as the company's own business objectives. Engaging more effectively with government can help to communicate a common understanding of ideal tax regimes that serve both growth and revenue objectives. Communication also helps to build trust, so that organisations working to minimise their tax exposure are also understood to be good corporate citizens.

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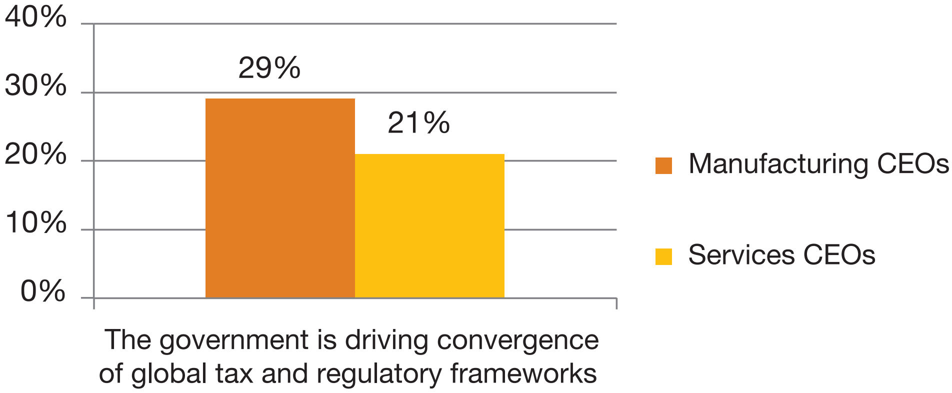
Thinking about the role of Government in the country in which you operate, do you agree with the following statement?



What influences strategic decision-making in the CIPS sector?

I recently read Good Strategy Bad Strategy: The Difference and Why It Matters by Richard Rumelt. The book provides thought-provoking examples of the time and effort strategic architects applied to the planning process prior to execution of a strategy. The examples raise some relevant questions such as: 'Did the environment shape some of the action that the organisations and their leaders took? Was success based on good strategy planning or sheer adaptation together with some luck?'

In my experience with the strategic process, the most common question is: 'Why do so many good strategies fail?'

The answers often draw us back to the planning and execution stages, even when the strategy development process is sound.

In our 2013 Africa CEO Survey, we asked CEOs in the manufacturing and services industries what strategic decision making means for their industry and companies. The study was motivated by our attempt to examine what these organisations can do to improve strategy planning and execution. While the research provided examples of good strategy it also provided valuable insight on the 'bad' variety of strategies—the ones that have failed.

The survey results show that CEOs identify 'employees' as a stakeholder group influencing strategy formulation and execution, and yet a third or less say that they involve all staff in strategic decision-making. If employees are so crucial to successful deployment, shouldn't these companies do a better job of soliciting employee input and making them feel involved and heard? We work with a lot of companies to help address this question and related ones about customer and community feedback.

We know that the more opinions a business leader asks for, the more noise they must filter out to make decisions. And yet there is no question that engaging with employees (and customers and communities) makes good business sense.

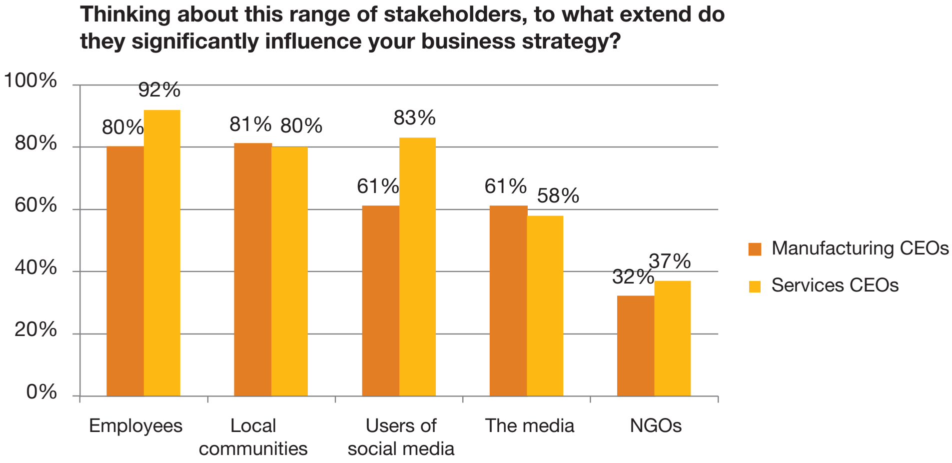
The 'how' is always a tough question: How can business leaders solicit a wide array of feedback? How can they filter this feedback? How can they then incorporate this filtered feedback into decisions and the planning, implementation and execution stages?

Step 1: Ask for ideas and feedback

Strategy is not just about planning and a framework of implementation. Strategy is about actions that leaders are willing to take to be successful. Traditionally, the emphasis with strategy has been on planning—less so on execution. While strategy development is key, to execute effectively, it is important to get everyone involved who has a stake in the game, specifically at the planning stages.

The first step is to create an ecosystem conducive to idea generation and to communication. Our CEO Survey asks respondents whether they focus on a few,

How would you characterise your company's approach to strategic decision making?



carefully-selected initiatives or many, allowing the best to succeed. Over two-thirds have a more selective approach, but I think it is important to evaluate the process involved before companies get to the point of having a few initiatives. What comes before that point and how does it influence selection?

We advise companies to solicit feedback from a wide variety of stakeholders, both internal and external, and then filter those ideas down to the very best initiatives. I'm very interested in the process of idea gathering and vetting the best ideas into strategic initiatives, because I think that this is how companies can distinguish themselves and stay ahead of the competition and market trends.

Internal channels for soliciting feedback can include creating a suggestion box (preferably virtual) or an intranet chat room or simply asking for ideas by email. External channels like social media generate a lot of feedback but they can expose an organisation to reputational and brand risks if not properly managed. However a company solicits feedback, whether external or internal, it must ensure that these channels and others like team 'war room' meetings are available and are monitored closely.

Step 2: Listen and respond

Incorporating ideas into the change management process helps stakeholders to feel like they are part of the strategy. Consulting and incorporating feedback from multiple channels creates a tacit expectation on the part of contributors which decision-makers can acknowledge by effectively cascading and communicating strategy.

This is a key step in the strategic journey. Clear communication facilitates the planning process leading to good execution.

Many organisations pay lip-service to the importance of ideas and innovation but they may not actualise innovation as a strategy. PwC's recent Global Innovation Survey of innovation executives at more than 1,700 companies worldwide finds that disciplined innovation leads to breakthroughs that generate revenue and higher margins. Companies that successfully leverage innovation treat it like any other business or management process that can be disciplined and successfully scaled—on par with operational effectiveness.

Step 3: Pick and choose—and drive action

Companies can put structures in place to understand needs and trends, collect ideas, challenge and vet these ideas. Structures should begin with collaborative meetings but can be competitive, pitting ideas against each other. Committees or pods made up of selected representatives from different departments can champion efforts, vet ideas and narrow the list down to the best and most viable.

Identifying a few, well-selected initiatives from a large number of ideas (whether innovative or not) requires a deep understanding of the marketplace—including the competition. I advise sense-checking each potential initiative against the environment and space that a company is in. Each initiative should be well-aligned to the company's reason for being. I always say, 'Know what you're going for and what you're not!'

Companies do that by having good idea-generating ecosystems along with market and proof of concept tested intelligence. In East Africa, market intelligence is still something of a rarefied science, and many companies do not use the big data at their disposal effectively at all.

Companies investing in research and development will want to produce proof of concept through studies to test ideas and understand the trends and changes on the horizon—to anticipate the 'next big thing'. Investing in research and development is essential to understanding whether an idea is implementable or not. R&D also allows a company to sense check an idea against what is known and where a company wants to go.

Creating an environment conducive to innovation is a start. Understanding innovation as strategy is not enough. An organisation that creates innovative ecosystems will have great strategies. The question then is what to do with all of the ideas that emerge from these ecosystems—some great, some maybe not so great. The answer to that question should be informed by market research, but the answer itself must come from leadership and it must be aligned to business purpose.

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How can CIPS companies and the public sector build deeper alignment?

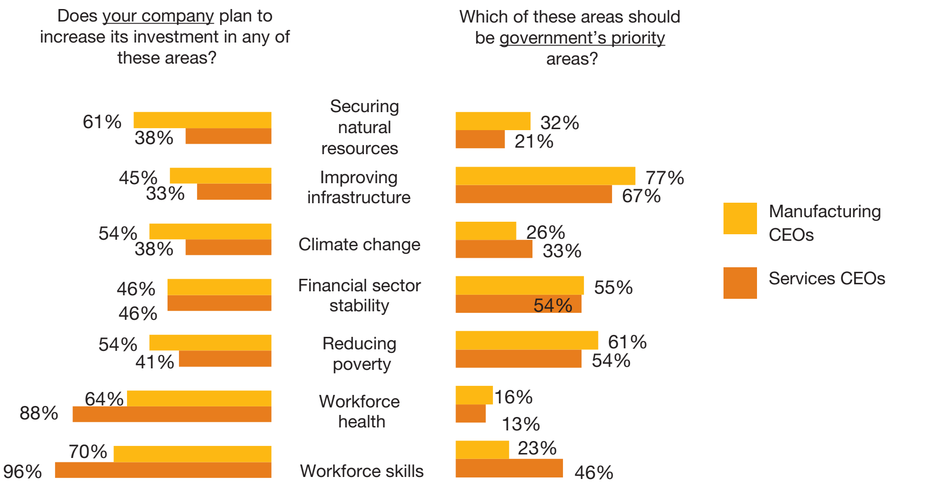
In our 2013 Africa CEO Survey, we asked CEOs if they plan to increase their company's investment in certain development areas: securing natural resources, improving infrastructure, climate change, financial sector stability, reducing poverty, workforce health and workforce skills.

We also asked them to identify which among these development areas should be government priorities. Comparing the results of these two questions helps us to gauge whether the public and private sectors are aligned; do private sector investments in development correspond to government priorities?

Overall, our survey shows that private sector investment in development areas is not strongly aligned to government priorities. For the CIPS sector, companies are increasing their investment in workforce skills, health and reducing poverty. They would like the government to prioritise investment in infrastructure, reducing poverty and financial sector stability.

This raises the question of whether the country would achieve accelerated growth from deeper alignment of private and public sector investments. Perhaps, for too long, the public and private sectors have had a silo-driven approach to development investments. Although there are separate, yet inter-dependent roles among the public and private sectors, they could work much more closely together to address development challenges affecting society.

In my view, there are a number of areas that require focus to achieve improved alignment between private and public sector investments.



Operating environments conducive to growth

Manufacturers and services companies need customers to grow their businesses. Government can facilitate an environment that enhances the purchasing power of citizens and stimulate aggregate demand for goods and services. We can also ask if there are blockages that stop consumers from buying goods and services. Are customers in survival mode – just spending enough on basics like education, health and shelter? As much as companies might want to grow their customer base, they may find that some consumers simply cannot afford their goods and services.

Another blockage could be the high cost of goods due to poor transport networks, the cost of energy and/or weak enforcement of anti-counterfeit policies. We can look at what the government is doing to address these issues and evaluate its actions on the basis of whether consumers are benefiting. For example, the impact of the on-going and planned infrastructure projects in Kenya will take some time to be felt but they are a step in the right direction.

The survey also shows that 85% of CIPS sector CEOs plan to increase their investment in technology this year, realising technology's significance in the growth of their businesses. We believe that the government could align its priorities to foster deeper penetration of broadband internet access, for example in rural areas, by providing tax incentives to investments in the telecommunication sector.

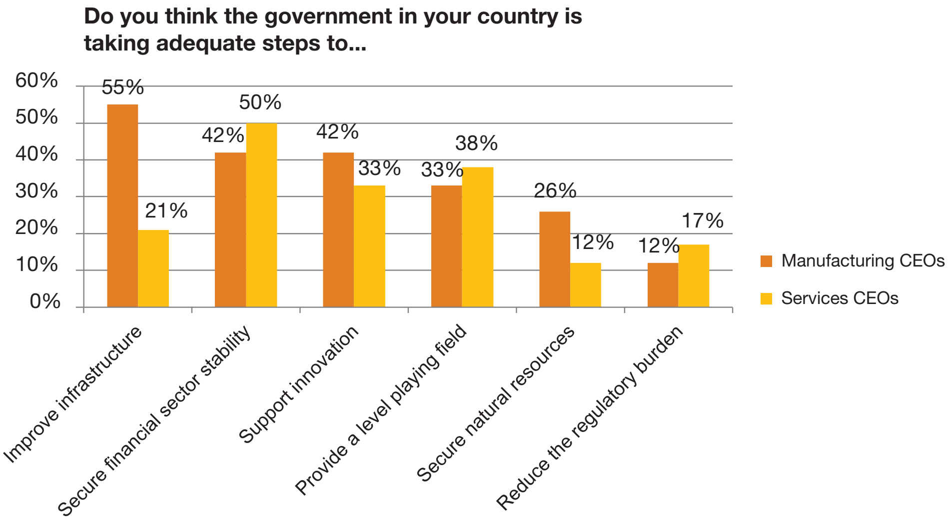
Attracting deeper investment

A shared understanding of investment priorities can also improve alignment between the public and private sectors, and foster greater appreciation for development priorities. A cheap labour force is no longer enough of an incentive for investors. In Kenya, the Counties can differentiate themselves more effectively by investing in training programmes to build a skilled workforce that is attractive to manufacturers or technology companies, for example.

County governments can offer incentives by developing economic zones with the necessary infrastructure to attract targeted investors, both for new projects and value addition processing of local primary products. This will boost the economic productivity of the Counties and creation of employment.

Developing agriculture and social sectors

Government institutions can play an important role in facilitating deeper alignment in agribusiness development. So much of our population in Kenya is reliant on agriculture and we need to ask what the government can do to streamline our agriculture industry, improve efficiency and create linkages to markets. If a farmer wants to export tomatoes, the government should facilitate access to the best extension services, seeds and inputs. Enhanced extension services and technology platforms can contribute to this effort by providing analysis and information about the best seed varieties for different environments, which inputs are required, where farmers will earn the best market prices and the best routes to market—



improving the whole value chain of activities contributing to a more productive agriculture sector.

The government and the private sector can work better together on investing in social sectors like healthcare and education. Oftentimes, the cost of employer-sponsored healthcare is passed on to employees in the form of reduced cash compensation. If the governments invested more substantially in healthcare, consumers would have more expendable income to buy goods.

Managing information and technology

Another area where government can improve alignment on development priorities is information management. The high rate of unemployment is a real problem in Kenya. There is also a great deal of subtlety with regard to unemployment: informal sector employment is growing much faster than formal sector employment, but informal sector employment is difficult to measure. We do know that very often, income among the informally employed may only cover their basic needs and this has a knock-on effect on the manufacturing sector and financial services; if the informally employed had more disposable income, we would see more demand for goods and services beyond those fulfilling basic subsistence needs.

With more money in their pockets, consumers can move beyond subsistence-level consumption. Infrastructure projects and fostering entrepreneurial skills development will serve to boost employment and disposable incomes. Improving the ease of doing business also creates employment opportunities, investments in growth and innovation—and more choices for consumers. On-going dialogue between government and companies in the CIPS and other sectors should inform not just incentives to businesses but also how to align the roles of the private and public sectors in the economic development of the country.

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How are family-owned companies in the CIPS sector managing growth and change?

Youthful demographics, increasing urbanisation and a rising middle class are some of the trends that are rapidly shaping consumer preferences and the competitive landscape. The smartest companies prepare for change by managing growth through strategic decision making, risk management and good governance, as well as investing in talent.

In our 2013 Africa CEO Survey, we asked CEOs in the manufacturing and services sector how they manage business growth and change in their companies. The survey results show that more than two-thirds of respondents have a centralised approach to strategic decision making and prefer to focus on a few, carefully chosen, strategic initiatives. When it comes to risk management, they lean more towards a decentralised approach. Additionally, over half face challenges recruiting and retaining high potential talent because the market for top people is so competitive. In this article, I will discuss some of these trends in the context of family-owned businesses.

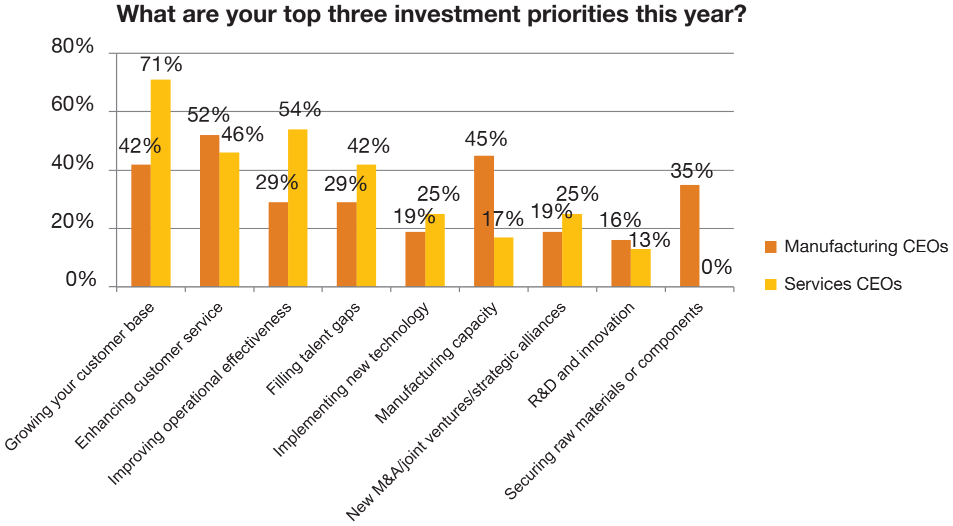
Centralised decision making

Family-owned businesses often have a centralised approach to decision making and focus on a few, carefully selected, strategic initiatives to grow their businesses. The centralised approach may be a source of strength to managing growth and change in these businesses. Experienced, family-oriented leaders can convey a compelling vision, articulating clearly what the business stands for and evaluating new products, services and/or markets in relation to that vision. In more established family-owned businesses, the owners tend to make the final decisions but may also employ professional managers to help shape ideas and execution of the chosen strategies.

These experienced managers may come from within the family, having worked with the business through several cycles or acquired skills and experience from outside the family business. In some cases, owners will assimilate non-family members with relevant expertise and experience in the decision-making process. These non-family members may be trusted third parties or experienced non-family employees (or a combination).

Family-owned businesses are generally more agile in decision making and responding to risks or opportunities in the market. If the owners of a family-owned CIPS company are convinced about a new product or service, the decision-making process can be quite short compared to large public corporations. Family owners are also likely to make decisions that are closely aligned to the company's brand and product line, based on their deep emotional and financial connection to the business.

What are your top three investment priorities this year?



However, centralised decision making in family businesses can also be a potential liability. One or two family scions may make all of the decisions, regardless of whether outside counsel has been solicited or not. The risk with this approach is that the scions may not prepare the right people next in line, or effectively prepare the organisation for their eventual departure. An insular approach to decision making can improve a company's responsiveness, but does not necessarily guarantee the right response.

Good governance

The establishment of appropriate governance structures within a family-owned business fosters effective management of risks and potential liabilities. Lenders or potential capital financiers are keen to see proper governance structures within the business—not just policies on paper. Larger family-owned companies are likely to have governance structures that closely resemble those of any other large corporation. The risk for family-owned companies is that a core group of family members make most of the decisions and they may not have a full view of the risks and opportunities impacting the company. In this environment, risk management can become more reactive. Effective governance structures will ensure proactive management of potential risks to the business and judicious exploitation of opportunities.

In our experience most family-owned companies begin the implementation of formal governance and risk management structures mid-stream, when the businesses are well along the growth path. It becomes harder to enforce new structures due to established behaviours and culture, and it could indeed cause disruption to the business.

Managing talent

Talent management is a specific area of focus for CEOs in Kenya. Our CEO Survey shows that over 75% of CIPS CEOs intend to make changes to their talent management strategies this year and one of their top investment priorities is filling talent gaps. They say that high-potential middle managers are the most difficult to recruit and retain, followed by skilled production workers.

For family-owned businesses, cultivating the next generation of leaders—whether family members or otherwise—must be part of a company's talent management strategy. Succession planning is particularly important. Good policies and clear communication can offset the potential for conflict between family members and non-family members. Family businesses benefit from clarity on performance benchmarks, just like other companies. Investments must generate a return and people held to account for their decisions and execution.

A family-owned business can align performance benchmarks to the founders' original vision. Business units or individuals then have clarity with regard to whether their actions support that vision. As companies mature, they tend to take a more careful look at operational effectiveness.

Family companies must have the courage to evaluate what is working within the organisation and what isn't, who is contributing and who isn't. Identifying bottlenecks and performance issues can be sensitive within a family business. It helps to have policies in place so that performance benchmarks and expectations are clear.

Kenya's competitive market for top talent leads to competitive pay packages, among family-owned businesses. Whether they are family members or not, skilled and productive people will gravitate to positions where they are challenged and compensated for their productivity. Retaining high-potential family members in the business may be influenced more strongly by loyalty to the family and the founders' vision, but a compelling value proposition will influence retention among non-family members as well.

Kenya's CIPS sector and its family-owned businesses are experiencing strong growth. Their challenges and opportunities are similar, but family businesses may have different issues to consider as they grow and manage change.

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