Africa Business Agenda

Thriving in an age of continuous reinvention

PwC's East Africa CEO Survey

February 2024

pwc

Welcome

Welcome to PwC's East Africa CEO Survey

As existential threats converge, many companies in Africa are taking steps to reinvent themselves. However, is it enough and what will it take to succeed?

There is a great deal of uncertainty in the world right now. The long-term effects of COVID-19, geopolitical tensions and conflicts, climate change and a slowdown in the global economy have somehow made CEOs in Africa accustomed to uncertainty and their organisations are more resilient as a result.

This year's survey shows that East Africa CEOs are optimistic about their local territory's growth prospects, and cautiously optimistic about global economic growth. Although CEOs in East Africa show optimism, they are not oblivious to the medium term challenges before them. Notably, respondents identified the regulatory environment as a significant obstacle against growth, indicating the potential impact of compliance requirements on operational flexibility. Limited financial resources also posed a constraint.

Continuous business model reinvention is therefore how we have oriented this report, which is based on 231 CEO survey interviews in Eastern Africa. In our report we examine business model reinvention through the lens of: Technology, climate and business transformation.

I hope that you will find our report valuable, practical and applicable to your business. As always, if you have any questions about this report or would like to discuss any of the findings, please reach out to me or any of the PwC subject matter professionals profiled in this report.

Peter Ngahu
Country and Regional Senior Partner, Eastern Africa

Highlights

- CEOs in East Africa are cautious about global economic growth, with 42% saying growth will improve in the next 12 months.
- Concerns around inflation, macroeconomic volatility, cyber risk and geopolitical conflict are top of mind for East African CEOs.
- Despite acknowledging the existing challenges, CEOs are optimistic about their local territories' GDP growth prospects and their companies' future revenue growth.
- Neighbouring East African countries feature highly among external markets CEOs believe to have the highest future revenue growth prospects.
- The regulatory environment was cited as a factor inhibiting value creation and delivery. Other factors include limited financial resources and the shortage of skills.
- In positioning themselves for the future, CEOs recognise technology's role in unlocking value. While the implementation of generative AI has been slow, CEOs acknowledge that this technology will enhance their companies' ability to establish trust with stakeholders (54%) and improve the quality of their products and services (59%).
- Two-thirds (67%) of CEOs are also working to improve their energy efficiency and taking action to protect their companies' physical assets from the impacts of climate risk.

The reconfiguration imperative

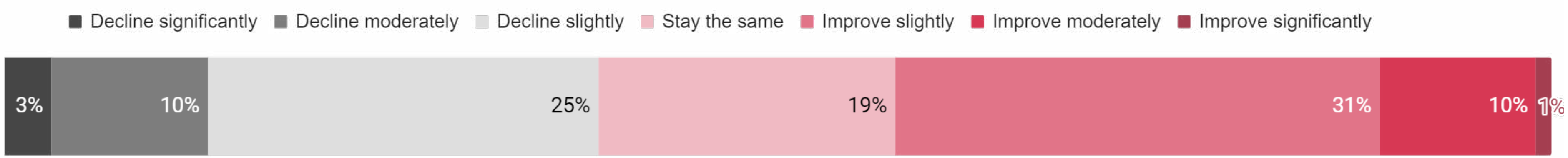
Following an intense period of uncertainty due to COVID-19 and Russia's invasion of Ukraine, CEOs globally are grappling with how to manage the impact of these and other megatrends while safeguarding the future viability of their businesses.

In East Africa, CEOs are cautious about global economic growth prospects. Forty-two per cent said they believe the global economic growth will improve over the next 12 months. This sentiment is shared by 38% of their global counterparts. The cautious stance taken by East African CEOs is also reflected in the economic growth forecasts produced by global institutions. The OECD (Organisation for Economic Co-operation and Development) forecasts global economic growth to slow to 2.7% in 2024.

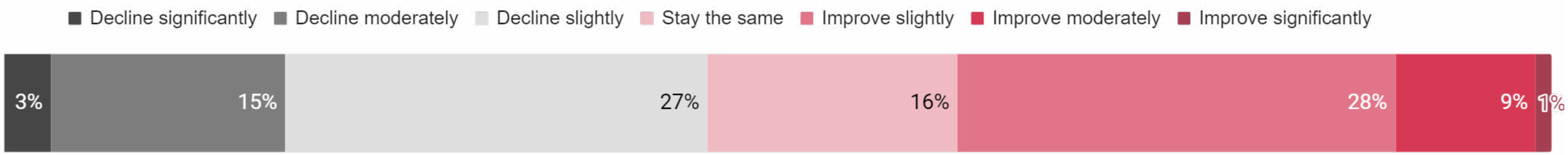
In its World Economic Outlook update for January 2024, the International Monetary Fund (IMF) forecasts global economic growth to reach a modest 3.1% in 2024 and 3.2% in 2025. Minimal growth is expected in advanced economies (2024:1.5%, 2025: 1.8%), but more robust growth is expected in emerging markets and developing economies (2024: 4.1%, 2025: 4.2%).

Q: How do you believe economic growth (i.e., gross domestic product) will change, if at all, over the next 12 months in the global economy?

East Africa

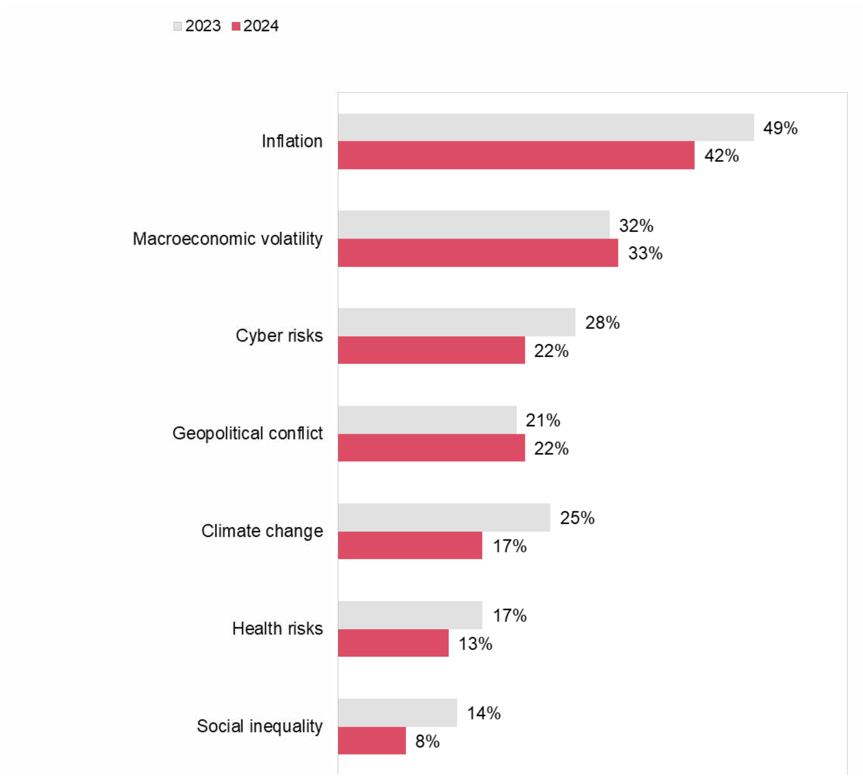


Global



Underpinning concerns about global economic growth prospects are short-term crises that have significantly impacted how businesses operate and their profitability. East African CEOs' worries primarily revolve around inflation, macroeconomic volatility, cyber risk, and geopolitical conflict. According to Africa's Macroeconomic Performance and Outlook - January 2024, published by the African Development Bank, stubbornly high inflation continued to constrain performance in African economies in 2023 (global inflation: 6.9%; Africa: 17.8%; East Africa: 13.8%, excluding Sudan). This is attributed mainly to the lagging effects of high food and energy prices, domestic factors such as strong fiscal dominance, agricultural supply shocks, low industrialisation, and imported inflation due to weakening local currencies. Most CEOs surveyed in the region remain apprehensive about rising inflation (2023: 49%; 2024: 42%).

Q: How exposed do you believe your company will be to the following key threats in the next 12 months?



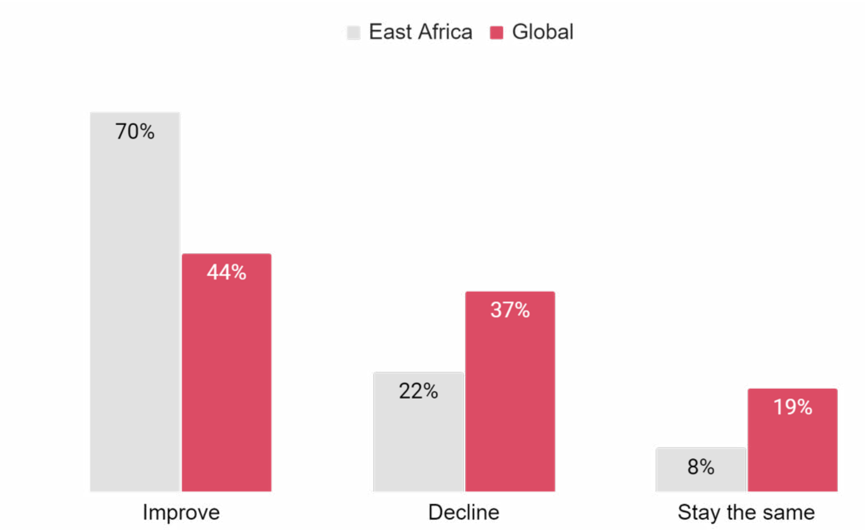
More generally, macroeconomic volatility remains a top concern for both East African and Global CEOs — but even more so for East African CEOs.

Seventy per cent of East Africa's CEOs indicated they are optimistic about their local territory's growth prospects over the next 12 months. This can be attributed to the uptick in infrastructure investment in the region, tourism recovery and economic diversification. Despite ongoing challenges, their companies' positive financial performance may also increase confidence in local economies.

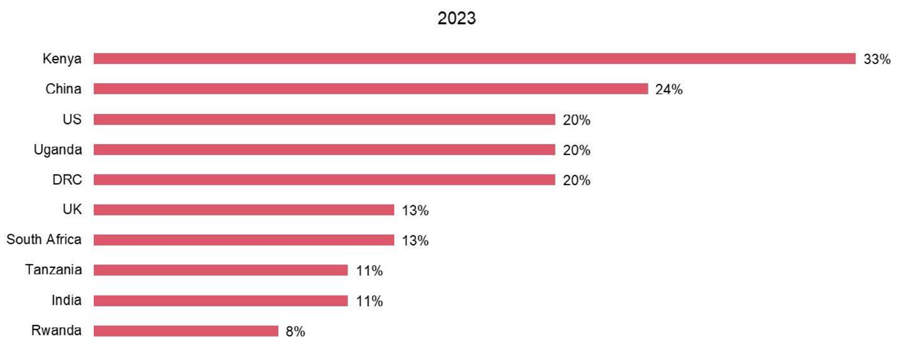
East African CEOs indicated that their revenues increased by 19%, along with an 18% boost in profit margins. They also said their return on assets (ROA) or return on equity (ROE) rose by a notable 14%. Furthermore, over half (53%) of CEOs reported a significant market share increase of 5% or more over the past three years.

As a result, 55% of East Africa's CEOs are confident that their business models will remain viable for more than ten years if they continue to operate on their current path.

Q: How do you believe economic growth (i.e., gross domestic product) will change, if at all, over the next 12 months in your territory?



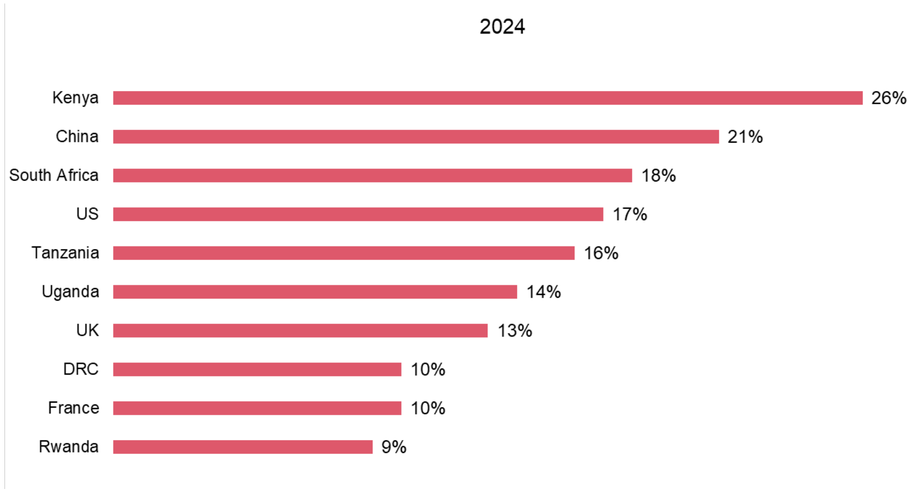
Q: How do you believe economic growth (i.e., gross domestic product) will change, if at all, over the next 12 months in your territory?



When asked about prospects for growth in external markets, Kenya (26%) and China (21%) continue to top the list as the most favourable countries for CEOs' companies' revenue growth prospects over the next 12 months. East African CEOs also identified neighbouring countries that are members of the East African Community (EAC) as territories for future revenue growth. Intra-EAC trade reached US$10 billion in September 2022, up from US$7.1 billion in 2019. The regional block aims to increase intra-EAC trade from 20% to 40% over the next five years, which could unlock future revenue growth opportunities. According to Africa's Macroeconomic Performance and Outlook - January 2024, growth in East Africa (2024: 5.1%; 2025: 5.7%) will be aided by deeper regional integration alongside strategic public spending to improve infrastructure investment, ongoing efforts to modernise agricultural production systems and boost productivity in the services sector.

However, CEOs in East Africa are not oblivious to the medium-term challenges before them. CEOs highlighted several key challenges when asked about the factors hindering their companies' ability to create and deliver value. Notably, 45% of respondents identified the regulatory environment as a significant obstacle, indicating the potential impact of compliance requirements on operational flexibility. Limited financial resources also pose a constraint, with 35% of CEOs citing financial constraints as inhibiting factors.

Additionally, concerns were raised about the lack of skills within the company's workforce (29%) and competing operational priorities (26%). Infrastructure challenges (24%) and a shortage of technological capabilities (23%) added further pressure on operations. Supply chain instability (22%) and bureaucratic processes within the company (14%) were also cited as barriers to value creation.



Additionally, concerns were raised about the lack of skills within the company's workforce (29%) and competing operational priorities (26%). Infrastructure challenges (24%) and a shortage of technological capabilities (23%) added further pressure on operations. Supply chain instability (22%) and bureaucratic processes within the company (14%) were also cited as barriers to value creation.

Q: To what extent, if at all, are the following factors inhibiting your company from changing the way it creates, delivers and captures value?

In an era of continuous reinvention, CEOs must spearhead the transformation journey to reshape both their organisations and themselves to flourish amid disruption. CEOs must lead the quest for strategic discovery and evolve sustainable approaches to value creation. CEOs committed to reinvention must foster environments that embrace and acknowledge innovation, prioritise curiosity and a willingness to learn, and empower managers to assist individuals in adapting to change.

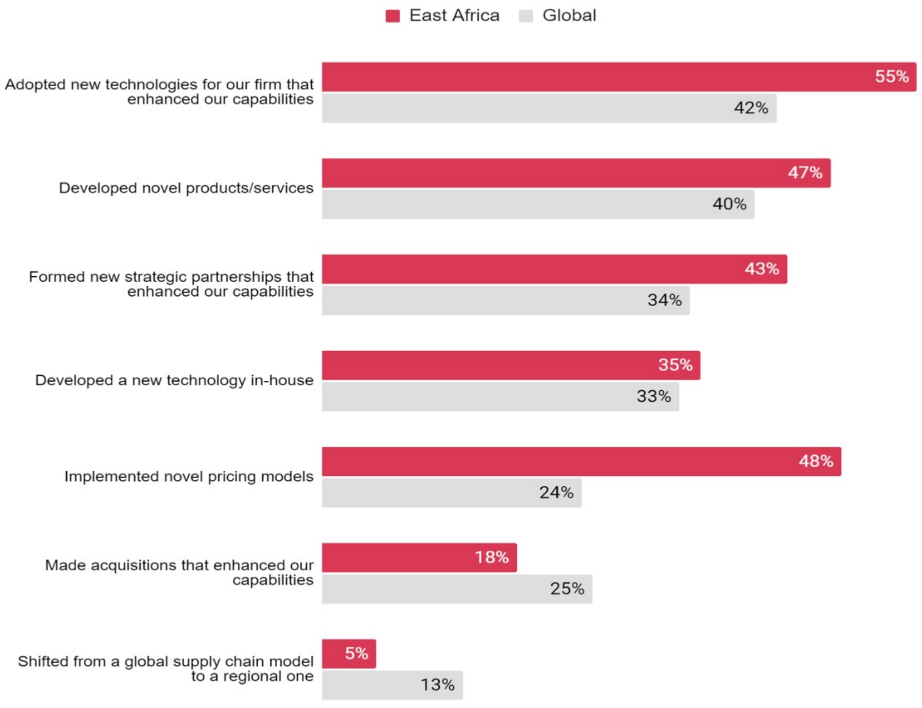
Muniu Thoithi
Advisory Leader
PwC East Africa

Reconfiguration has never been more important than it is now. To take advantage of the growth opportunities that exist while safeguarding their businesses' future viability, CEOs must tackle both existential and operational challenges — some of which are within their sphere of influence.

Positioning for change

In East Africa, most CEOs acknowledge the crucial role of technology in driving value creation over the past five years, with more than half (55%) prioritising adopting new technologies. This reflects the region's ongoing efforts to embrace innovation across various sectors. Reports from the Kenya ICT Action Network (KICTANet) highlight the emergence of tech-driven solutions addressing critical challenges and opportunities on the continent, spanning areas such as mobile money, fintech, e-learning, agritech, healthtech, and clean energy.

Q: To what extent have the following actions impacted the way your company creates, delivers and captures value over the last five years?



CEOs are actively diversifying their value creation strategies, with 47% emphasising the importance of developing novel products and services. Additionally, 43% of CEOs have leveraged new strategic partnerships to enhance their capabilities, further underscoring the region's commitment to fostering collaboration and innovation. These findings reflect a forward-thinking approach among East African CEOs as they navigate evolving market dynamics and leverage emerging opportunities for growth and value creation.

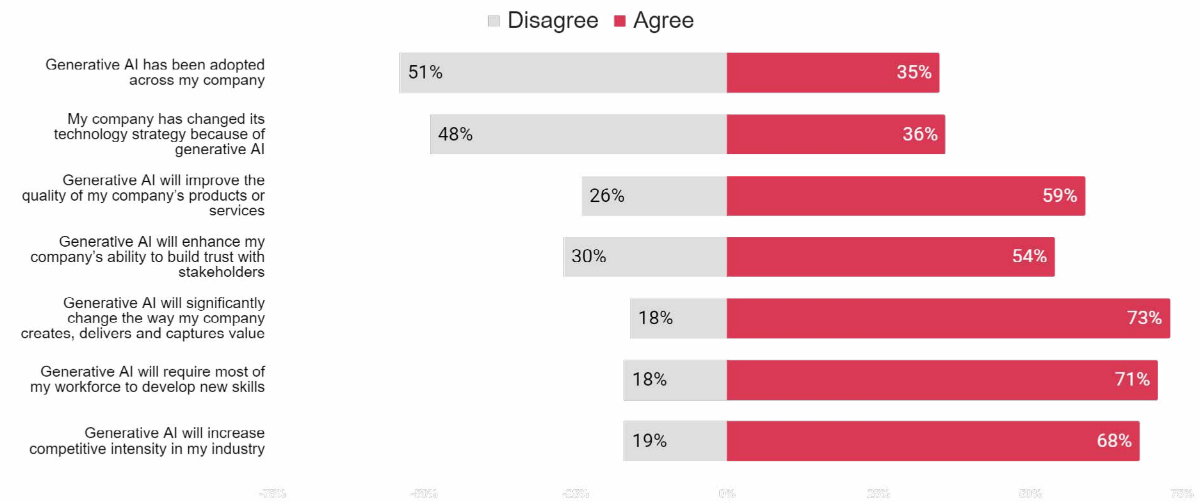
> CEOs and their leadership teams ultimately need to have a clear sense of how deals, projects or other investments create, maintain and grow value, and should be willing to make tough calls, which may include the reallocation of resources from legacy businesses or redefining a company's industry boundaries and ecosystem partners. There is significant merit in looking beyond the confines of a company and embracing broader business ecosystems. Collaborating across industry boundaries through joint ventures or alliances enables companies to create greater value than they could achieve alone. PwC's analysis suggests that, in the automotive industry alone, as the industry electrifies and encompasses more technology and data, its ecosystem revenues could more than double by 2030.

Isaac Otolo
Deals Partner
PwC Kenya

Generative AI

Even with CEOs prioritising the adoption of new technologies in the last five years, generative AI has not been widely implemented as yet. In the past year, most East African CEOs (54%) refrained from integrating generative AI into their companies. Additionally, 49% of these CEOs indicated that their companies have maintained their technological strategies without alteration due to generative AI. Despite this cautious approach in the last 12 months, East African CEOs exhibit a more optimistic outlook for the coming year. Over half (54%) of the CEOs believe that generative AI will enhance their companies' ability to establish trust with stakeholders, while a majority (59%) anticipate improvements in the quality of their products and services.

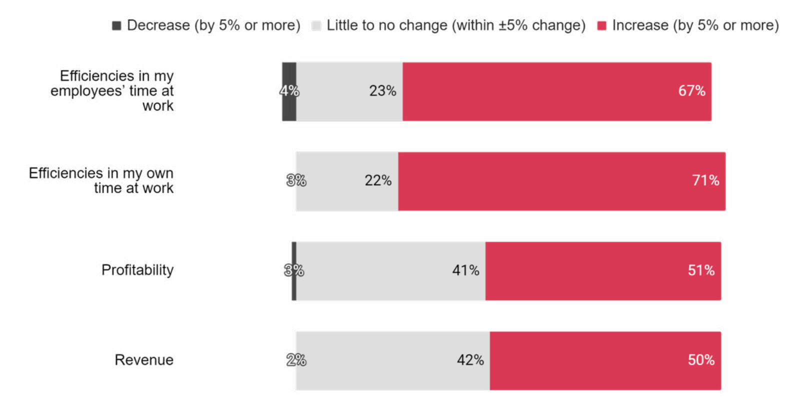
Q: Generative AI sentiment: To what extent do you agree or disagree with the following statements about generative AI?



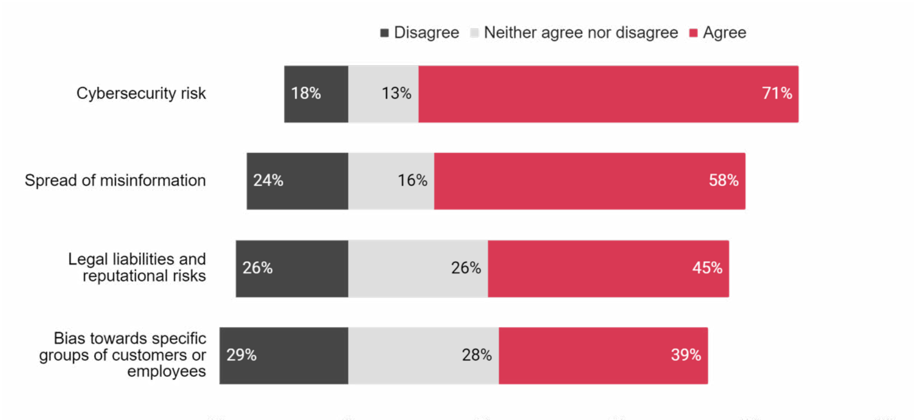
Looking ahead to the next three years, East African CEOs say they are ready to embrace new and innovative technologies. A significant proportion (73%) acknowledge that generative AI will substantially change how their companies create, deliver, and capture value. Moreover, 71% of CEOs agree that generative AI will necessitate the attainment of new skills by most of their workforce, indicating a proactive approach to talent development. Additionally, 68% of CEOs foresee generative AI intensifying competition within their industries, highlighting the anticipated transformative impact of this technology on market dynamics.

In the next 12 months, the majority (71%) of East African CEOs expect generative AI to boost efficiencies within their own work schedules, with 68% foreseeing similar benefits for their employees. Moreover, half (51%) of these CEOs anticipate that adopting generative AI will drive an increase in their company's revenue, leading to a corresponding improvement in profitability.

Q: To what extent will generative AI increase or decrease the following in your company in the next 12 months?



Q: To what extent do you agree or disagree that generative AI is likely to increase the following in your company in the next 12 months?



As generative AI becomes more prevalent in East Africa, CEOs are increasingly aware of its potential downsides. Over the next 12 months, 71% of East African CEOs believe that generative AI could heighten their cybersecurity risks, potentially hindering their company's growth. Additionally, 58% of CEOs acknowledge the possibility that generative AI will contribute to the spread of misinformation, presenting additional challenges.

The pace of technological change is happening faster than the institutional capacity to adapt to it. With the rise of generative AI, and its potential and attendant risks, CEOs must create a culture in which companies move fast but with a commitment to managing risk. East African CEOs are cautious about integrating AI into their operations, and many believe that generative AI could heighten their cybersecurity risks, potentially hindering their company's growth. CEOs should weave cybersecurity objectives into their business priorities to promote strategic dialogue between the board, CEO and the rest of the C-suite. Creating long-term value will require investment in skills and culture, risk and governance, as well as cloud and data infrastructure. Used responsibly, AI has the potential to enhance productivity and drive growth.

Laolu Akindele
Technology Partner
PwC Kenya

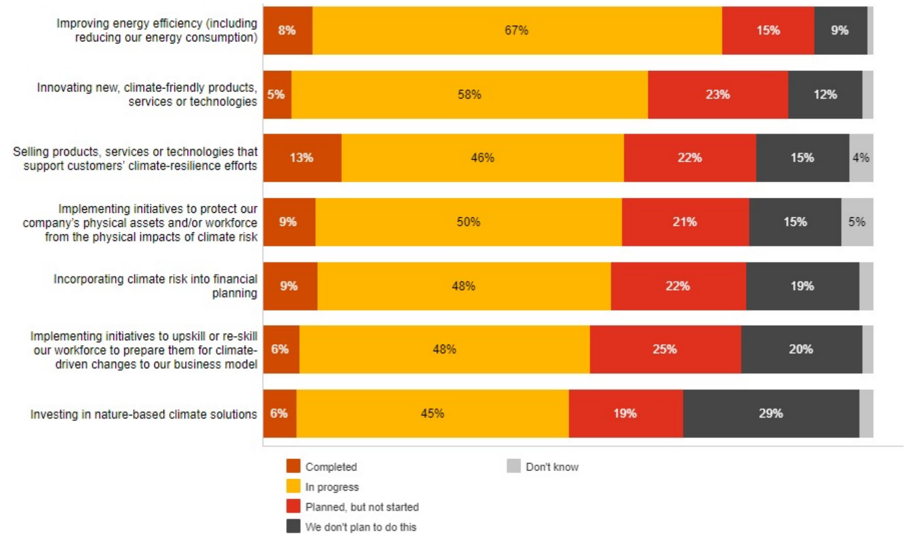
Climate action

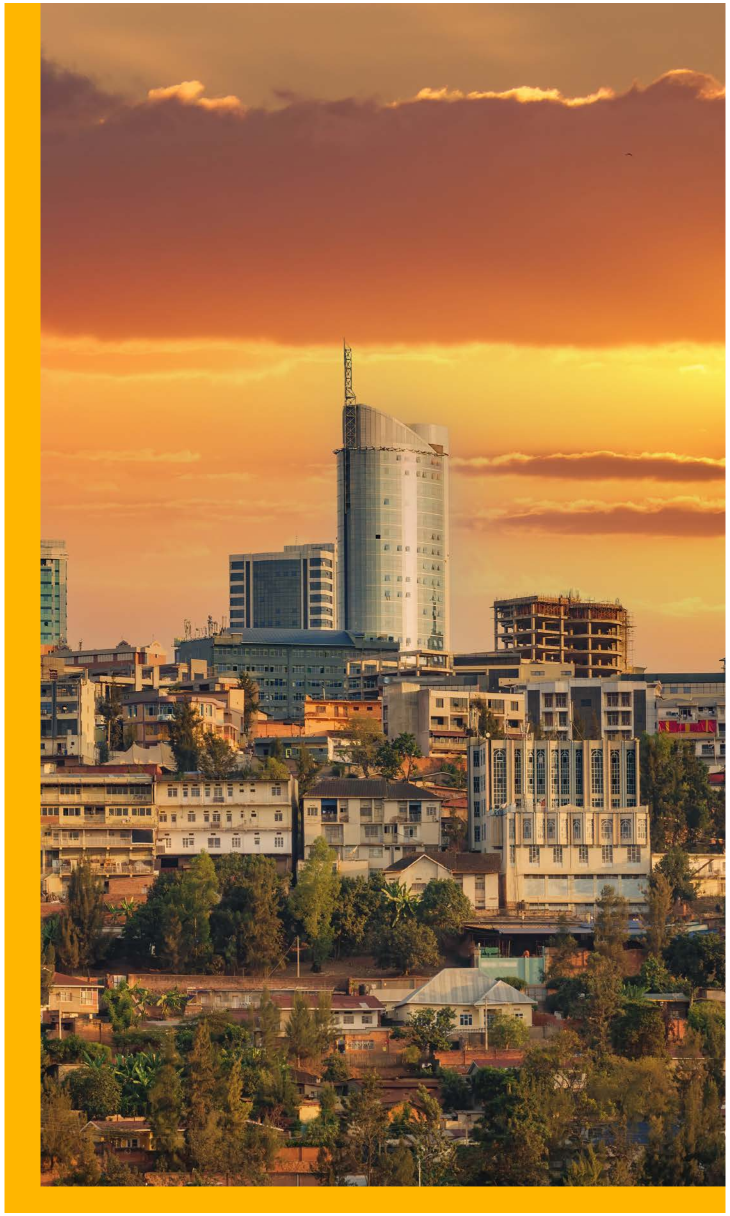
As African countries continue to prioritise taking action to ease the impact of climate change, East African CEOs and the businesses they lead are making good progress in taking actions related to climate change as they see the significance of doing so. The majority (67%) are improving their energy efficiency (including reducing their energy consumption), but only 8% report completing such initiatives. More CEOs (58%) are ensuring their companies are innovating new, climate-friendly products, services or technologies. Half are implementing initiatives to protect their companies' physical assets and/or workforce from the physical impacts of climate risk. Two significant climate actions appear to be less of a priority to East African CEOs. The first, upskilling or reskilling the workforce, is essential to ensuring a just transition to a net-zero economy. The second, investing in nature-based climate solutions, will be vital if companies are to account for their surprisingly high dependence on nature.

> "Climate-friendly investments often require significant upfront expenditure for renewable energy infrastructure, energy-efficient technologies or sustainable practices. In addition, the transition to a low-carbon economy will involve regulatory changes and shifting consumer preferences. This uncertainty can create volatility in the market for climate-friendly investments and a higher perceived risk for investors. Despite these challenges, there is growing recognition of the long-term value of climate-friendly investments. As technology improves, costs decline, and market preferences shift, the financial performance of climate-friendly investments is likely to improve over time."

Edward Kerich
Partner and Environmental Social & Governance Leader, PwC Kenya

Q: Which of the following best describes your company's level of progress on each of these actions?

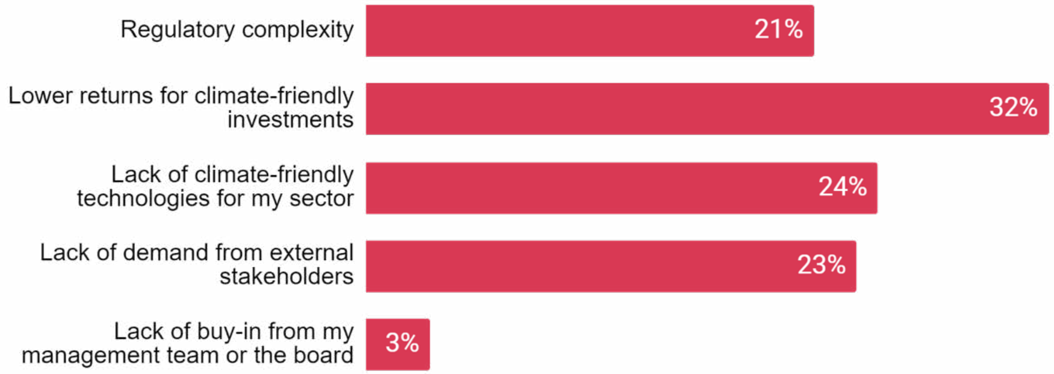




Decarbonisation

When asked about challenges in adopting decarbonisation measures, around a third (32%) of East African CEOs mentioned concerns about potentially lower returns associated with climate-friendly products. However, it's reassuring that only a small percentage (3%) cited a lack of buy-in from management or the board as an obstacle, indicating a strong commitment among executives to pursue decarbonisation initiatives.

Q: To what extent, if at all, are the following factors inhibiting your company's ability to decarbonise its business model?



East Africa transformation playbook

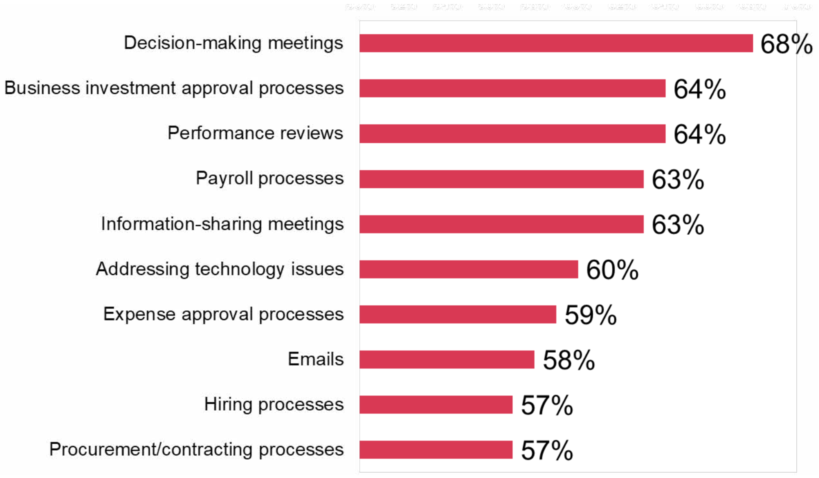
CEOs were asked about the barriers they often confront when making large-scale business changes. Their responses indicate that they are concerned about the challenges they face within their sector and the operational challenges they must contend with within their business. A total of 45% of East African CEOs believe the regulatory framework impacts the way their enterprises incorporate changes to a large extent. Whereas operationally, the challenges of limited financial resources (35%) and lack of skills in the company's workforce (29%) are significant. Interestingly, CEOs with a business model viability of more than ten years were more concerned about the lack of skills in their workforce than they were about their limited financial resources.

Q: To what extent, if at all, are the following factors inhibiting your company from changing the way it creates, delivers and captures value?

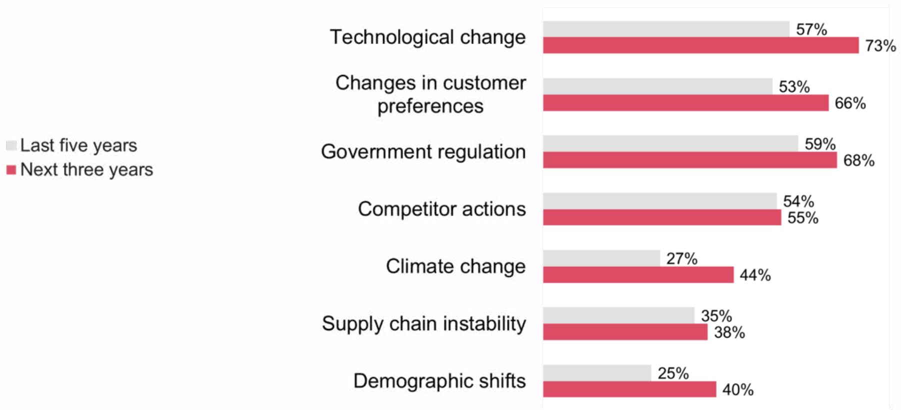
Change and transformation of the business are perceived to be the responsibility of the CEO. Although factors such as the regulatory environment may not be within their sphere of influence, their company's financial resources and workforce are within reach. Additionally, East African CEOs face the challenge of time inefficiency. Similar to the operational challenges they face, these are within their realm of influence.

Topping the list of activities that CEOs felt are inefficiently carried out are decision-making (68%), business investment approval processes (64%) and performance reviews (64%). These activities tie into the operational barriers they face when it comes to creating, delivering and capturing value. However, the workforce does seem to be an ongoing concern when it comes to the transformation of the business.

Q: What percentage of time spent in your company on the following activities/processes is inefficient?



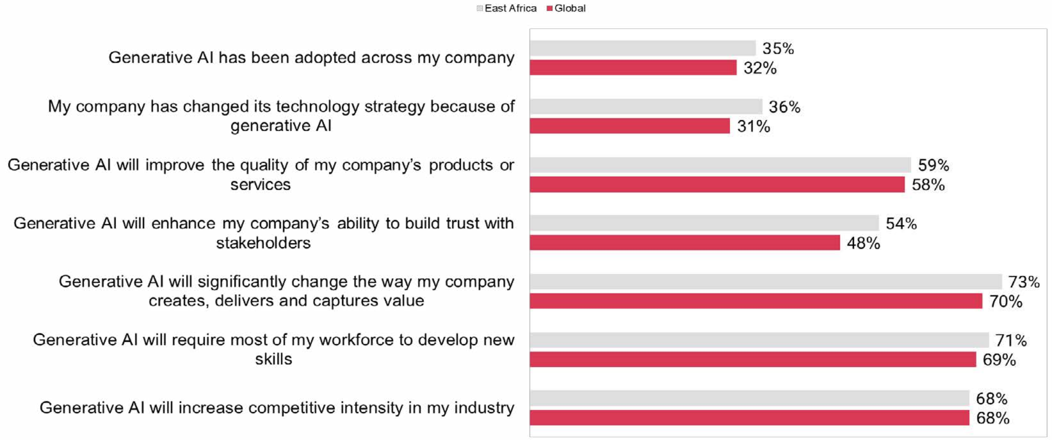
Q. Please indicate the extent to which the following factors [have driven / will drive] changes to the way your company creates, delivers and captures value



With a better understanding of the barriers to change East African CEOs face, they have indicated actions their businesses are taking to ensure transformation. Compared to the last five years, East African CEOs are more mindful of how technological changes (73%), government regulations (68%), and changes in customer preferences (66%) can drive meaningful activities that will evolve the way they create, deliver and capture value in the next three years.

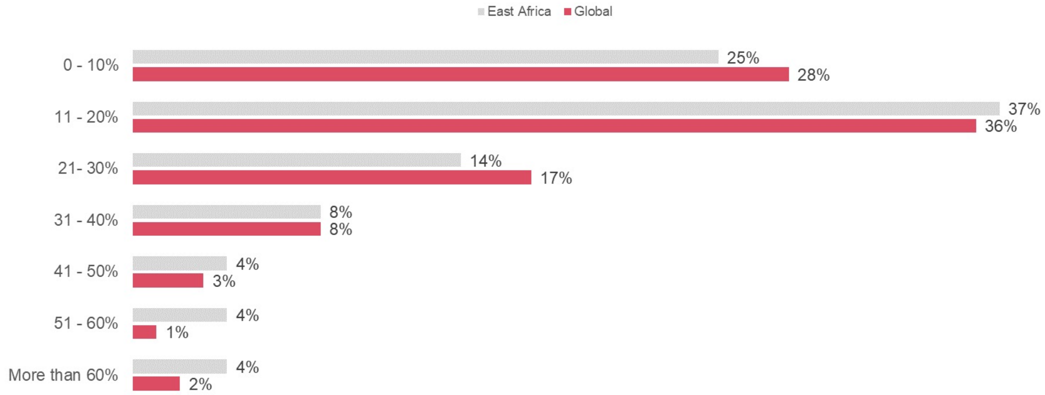
Two factors stand out regarding transformation in East Africa: generative AI and resource allocation. Regarding generative AI, East African CEOs (73%) and global CEOs (70%) view this technology as essential to how their companies create, deliver and capture value. This outlook underscores the importance of transforming and adapting to the changing business environment. Technology can also address their time-efficiency challenges by enabling digital workflows, streamlining operations, enhancing customer experience and contributing to a sustainable business model.

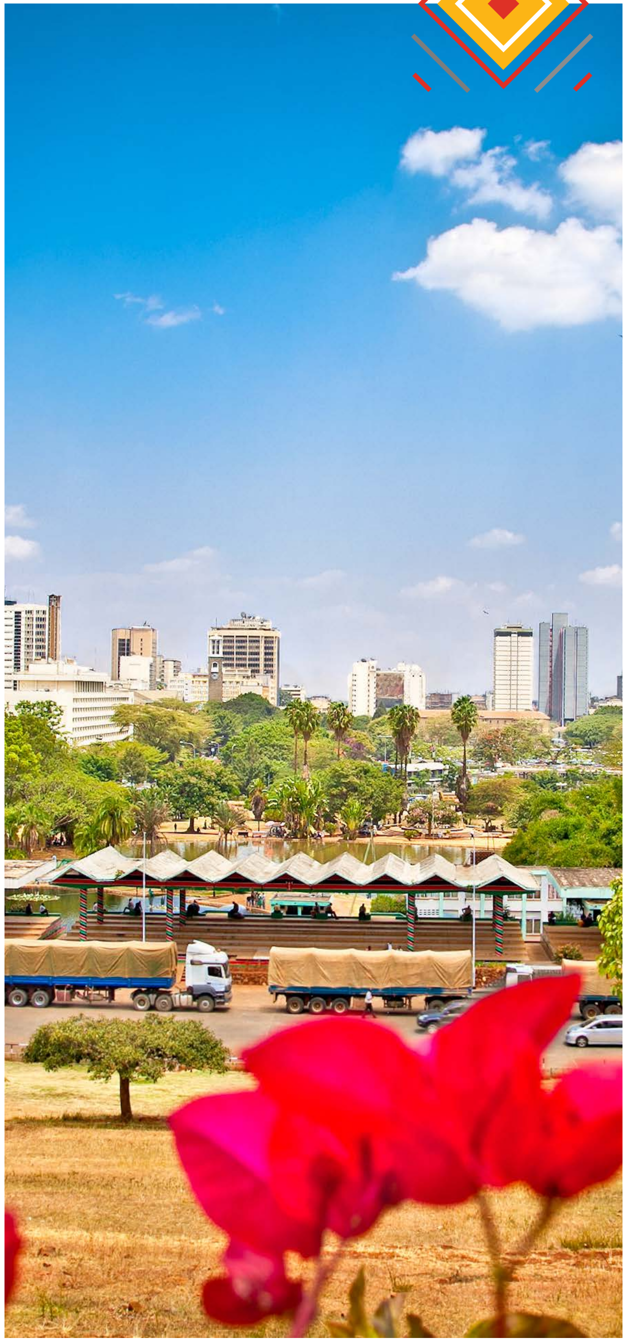
Q: To what extent do you agree with the following statements about generative AI?



Effective resource allocation is an acknowledged attribute of high-performing companies and is a crucial area for the CEO's attention. More than two-thirds (71%) of East African CEOs indicated they reallocate more than 10% of human and financial resources from year to year. This is higher than the proportion of global CEOs (67%) who stated the same. Almost 30% of CEOs reported resource reallocation of 10% or less. Nimble resource reallocation can mean shifting money, workforce and management attention. It can also deliver the most value to businesses by contributing to their transformation and addressing the barriers they face with their workforce.

Q: What share of your company's resources (financial and human) do you and your management team reallocate across your businesses from year to year?





Keep your antenna up

East African CEOs must grapple with challenges within the macroeconomic and microeconomic economic environments. Change is inevitable in business, but whether or not CEOs have control over these changes is questionable. To minimise the disruptive impact on their companies, CEOs need to be custodians of change within their organisations. East African Subject Matter Experts believe that technology, climate-friendly investments, and cross-industry collaborations are essential to successful transformation. These enablers should be the focus of East African CEOs in the short-to-medium term.

Methodology

PwC surveyed 4,702 CEOs in 105 countries and territories from 2 October through 10 November 2023, with a total of 380 in Sub-Saharan Africa. The global and Sub-Saharan figures in this report are weighted proportionally to the country nominal GDP to ensure that CEOs' views are representative across all major regions. All quantitative interviews were conducted on a confidential basis.

Among the CEOs who participated in the global survey:

- 3% lead organisations with revenues of US$25 billion or more
- 4% lead organisations with revenues between US$10 billion and US$25 billion
- 20% lead organisations with revenues between US$1 billion and US$10 billion
- 38% lead organisations with revenues between US$100 million and US$1 billion
- 31% lead organisations with revenues of up to US$100 million
- 68% lead organisations that are privately owned.

Notes: Not all percentages in charts add up to 100% - a result of rounding percentages; multi-selection answer options; and the decision in certain cases to exclude the display of certain responses, including other, none of the above and don't know.

The research was undertaken by PwC research, our global centre of excellence for primary research and evidence-based consulting services.

More information about PwC's 27th Annual CEO Survey is available here.

Contacts

Peter Ngahu
Regional Senior Partner
PwC Eastern Africa
Email: peter.ngahu@pwc.com

Olivier Rey
Partner/Clients and Markets Leader
PwC Eastern Africa
Email: olivier.rey@pwc.com

Acknowledgement

Insights prepared by the Clients and Markets Development (CMD) Africa team.

Siphelele Vilakazi
Research and Analytics
PwC Africa
Email: siphelele.vilakazi@pwc.com

Sinothando Adonisi
Research and Analytics
PwC Africa
Email: sino.adonisi@pwc.com

Angela Wanjeri
Clients and Markets Development
PwC Kenya
Email: angela.w.wanjeri@pwc.com

Mpho Kotsi
Clients and Markets Development
PwC Africa
Email: mpho.kotsi@pwc.com

Delia Asuzu
Clients and Markets Development
Regional Lead
East and West Africa
Email: delia.asuzu@pwc.com

www.pwc.com

(24-30917)