Africa Business Agenda 2024

Navigating growth prospects with cautious optimism

PwC Kenya 2024 CEO Survey

March 2024

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Welcome

Welcome to PwC Kenya's 2024 CEO Survey

This report is an extract from the PwC East Africa CEO survey. CEOs in Kenya are aligned with their global counterparts on their optimism about the future of the global economy.

In spite of a level of concern about the local economy, CEOs in Kenya are optimistic about their company's prospects for revenue growth in the short and long term despite the challenging environment.

Our survey provides food for thought about how CEOs are navigating the future. I hope 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

- 86% of Kenyan CEOs consider their neighboring countries in East Africa as important territories for revenue growth in the next 12 months. At the time of the survey, Kenyan CEOs were optimistic about their company's future growth prospects, based on previous performance.
- 60% of Kenyan CEOs attribute 20% of their company's sales in 2023 to new products and services they have introduced in the last three years and an additional 40% of CEOs attribute new products and services to a more than 20% contribution.
- 48% of Kenyan CEOs are confident about their company's prospects for revenue growth in the next 12 months, whereas 56% are confident about their revenue growth in the next three years.
- Kenyan CEOs are cautiously optimistic about global economic growth in the next 12 months (56%), echoing the sentiments of their global counterparts (54%). However, 62% believe the local economy will decline in the next 12 months.
- A notable concern is that CEOs in Kenya are divided as to whether their companies will remain economically viable for 10 years or more, if they continue on their current path.
- Inflation continues to be a significant threat to Kenyan CEOs (58%), relatively higher than their global counterparts (24%). CEOs are also concerned about limited financial resources (50%)
- Generative artificial intelligence is a notable change driver to Kenyan CEOs that will contribute to their time efficiencies in the next 12 months. However, 78% are concerned about the potential cybersecurity risks that they may be exposed to.
- Climate change is particularly important for Kenya's economy. Majority of Kenyan CEOs are in the progress of implementing climate actions, however 46% of CEOs cited the lack of demand from external stakeholders as a barrier in decarbonising.

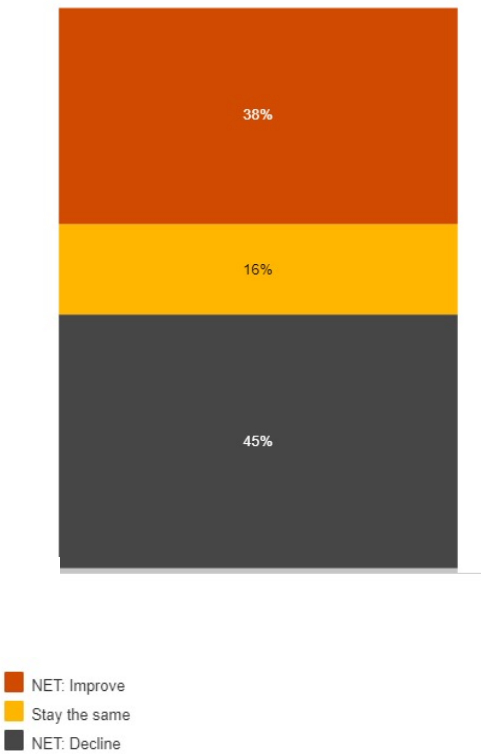
Global and territory economic growth

Kenyan CEOs are cautiously optimistic about the global economy, with 56% saying it will either improve or stay the same in the next 12 months. This echoes the sentiment of global CEOs, where 54% said the global economy will either improve or stay the same within the same period. However, when asked about the economic growth of their local economy, 62% of Kenyan CEOs believe that it will decline in the next 12 months.

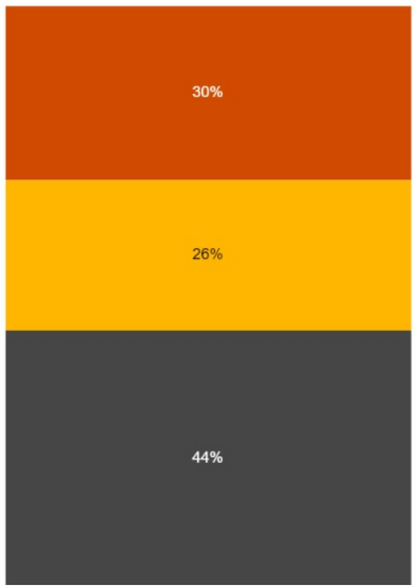
Data released by the World Bank in their Global Economic Prospects report for January 2024 lays bare the persisting macro challenges globally, driven by stringent monetary policies in advanced economies aiming to curb inflationary pressures. Consequently, investors are not incentivised from engaging in high-risk markets, leading to capital outflows in certain regions including Kenya. This environment is further compounded by weak global trade dynamics and sustained inflation rates surpassing pre-pandemic levels. This could contribute to Kenyan CEOs' outlook on their local economy over the short term.

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?

Global economic sentiment - Global CEOs

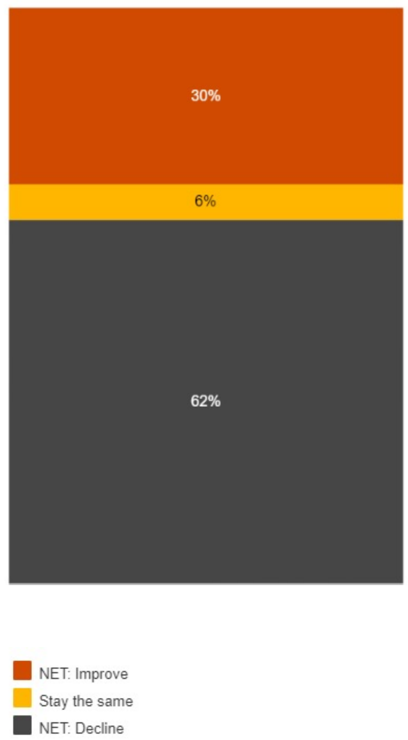


Global economic sentiment - CEOs in Kenya



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?

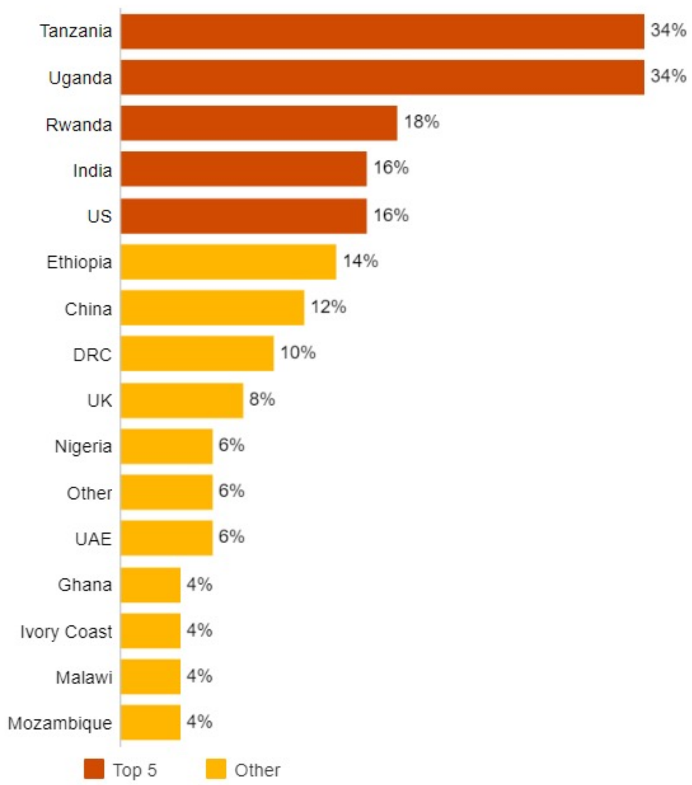
Kenya local economic sentiment



Revenue growth

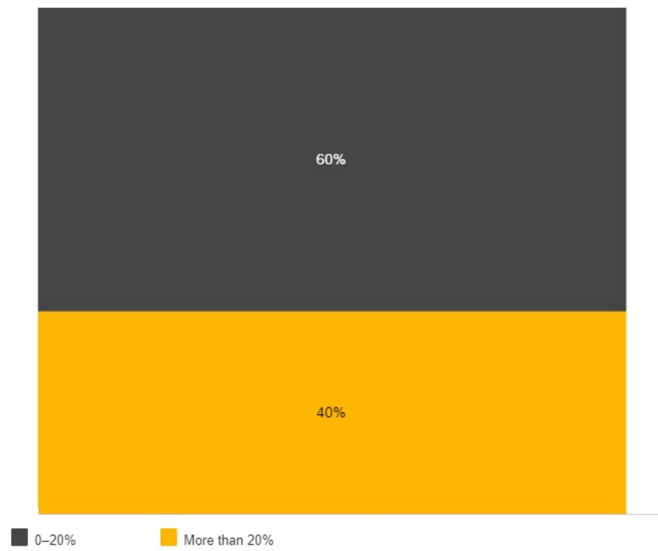
When asked about the countries they considered as important for revenue growth, 86% of Kenyan CEOs view the East Africa region (Tanzania: 34%; Uganda: 34%; Rwanda: 18%) as the most promising for their company's revenue growth in the next 12 months. The growth in Intra-EAC trade has fostered deeper regional integration between East African countries and boosted the common market among member states.

Territories for the company's prospects for revenue growth

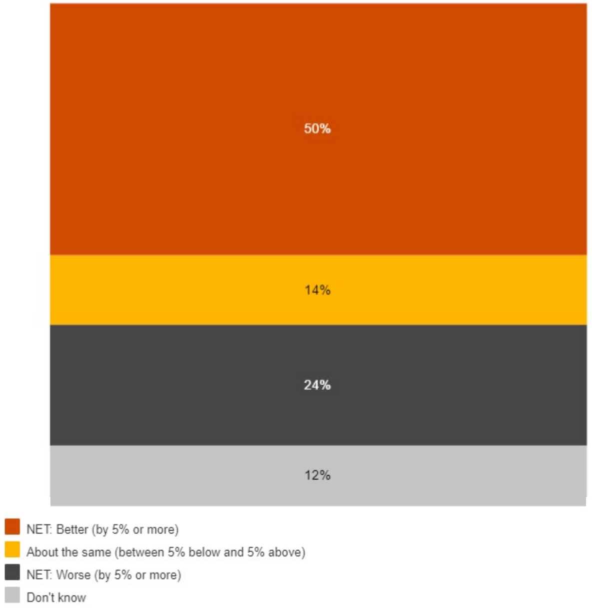


Kenyan CEOs are confident in their company's revenue growth, this sentiment could be linked to their companies' innovation. Sixty percent of Kenyan CEOs attribute 20% of their company's sales in 2023 to new products and services they have introduced in the last three years and an additional 40% of CEOs attribute new products and services to a more than 20% contribution. This trend has positively impacted their company's profitability, with 50% of Kenyan CEOs indicating their company performed 5% better than the industry average in 2023. As a result, 48% of Kenyan CEOs are confident about their company's prospects for revenue growth in the next 12 months, whereas 56% are confident about their revenue growth in the next three years.

Q: What percentage of your company's total sales from this year are attributable to new products or services introduced in the last three years?

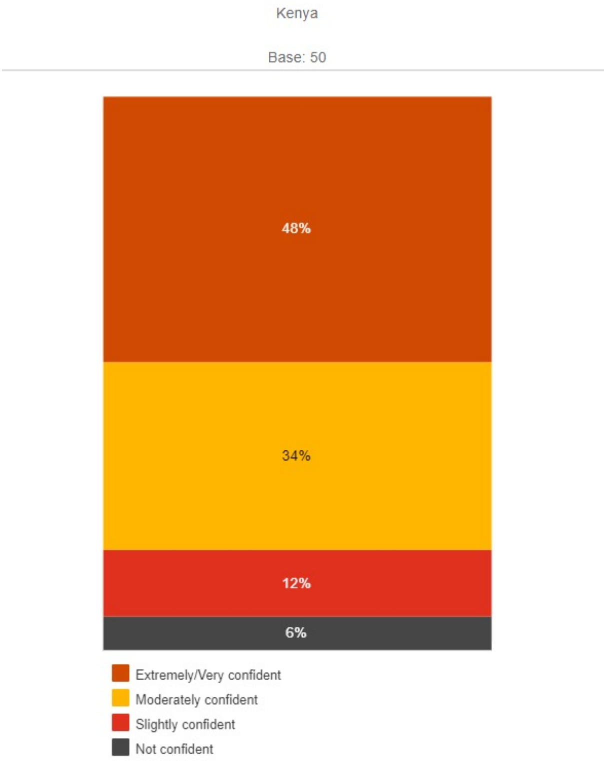


Q: During the most recently completed fiscal year, how did your company's profitability compare to your industry average?

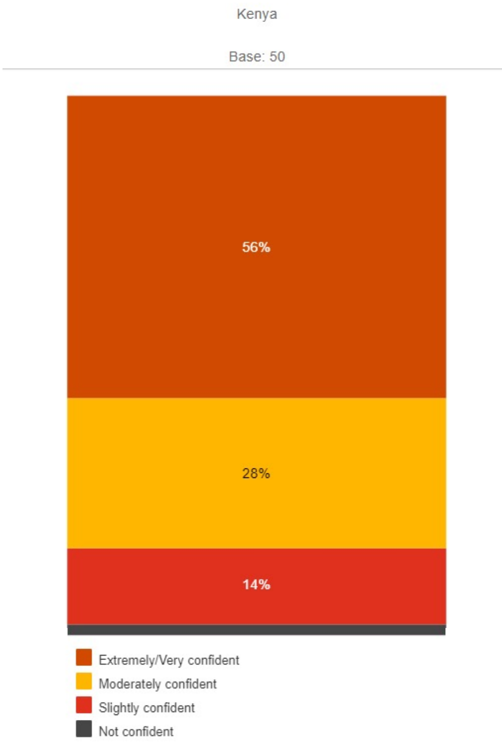


Q: How confident are you about your company's prospects for revenue growth over the next 12 months and the next three years?

Confidence in revenue growth in the next 12 months



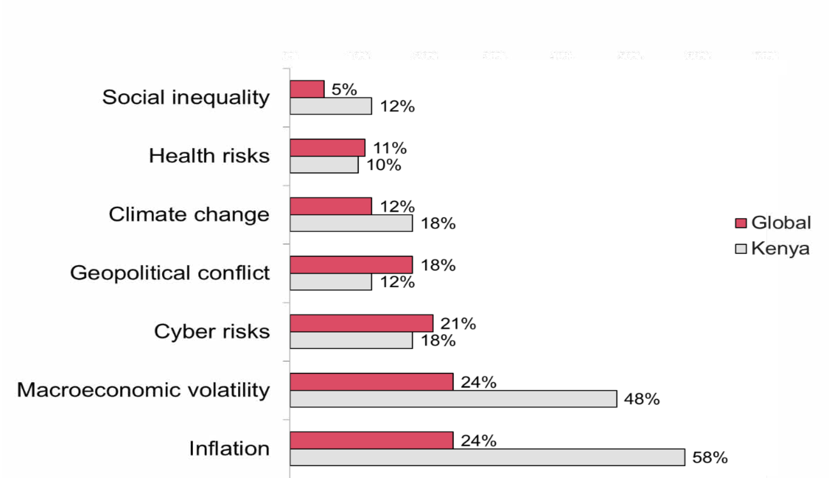
Confidence in revenue growth in the next three years



Threat exposure

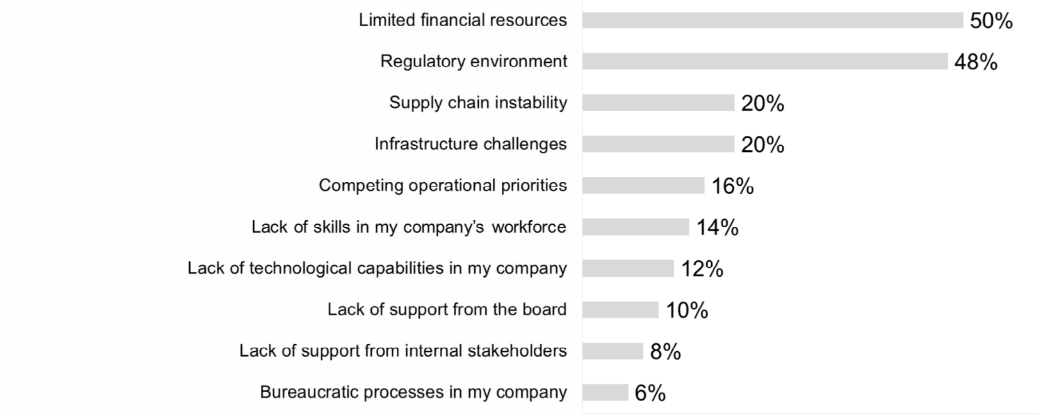
Kenyan CEOs believe they are highly exposed to threats of inflation (58%) and macroeconomic volatility (48%) in the next 12 months. These concerns weigh more heavily on Kenyan CEOs compared to their global counterparts (inflation: 24%; macroeconomic volatility: 24%). Inflationary pressure remains a significant barrier in Africa's economic recovery post-COVID 19. According to Africa's Macroeconomic Performance and Outlook - January 2024, inflation has led to sharper increases in domestic prices and the rising debt burden in Kenya has dampened business conditions.

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



Kenyan CEOs are concerned about their exposure to territory threats. A total of 50% of CEOs indicated that limited financial resources and the regulatory environment (48%) in Kenya inhibited the way their companies can create, deliver and capture value. This directly speaks into their threat exposure to inflation and macroeconomic volatility.

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.

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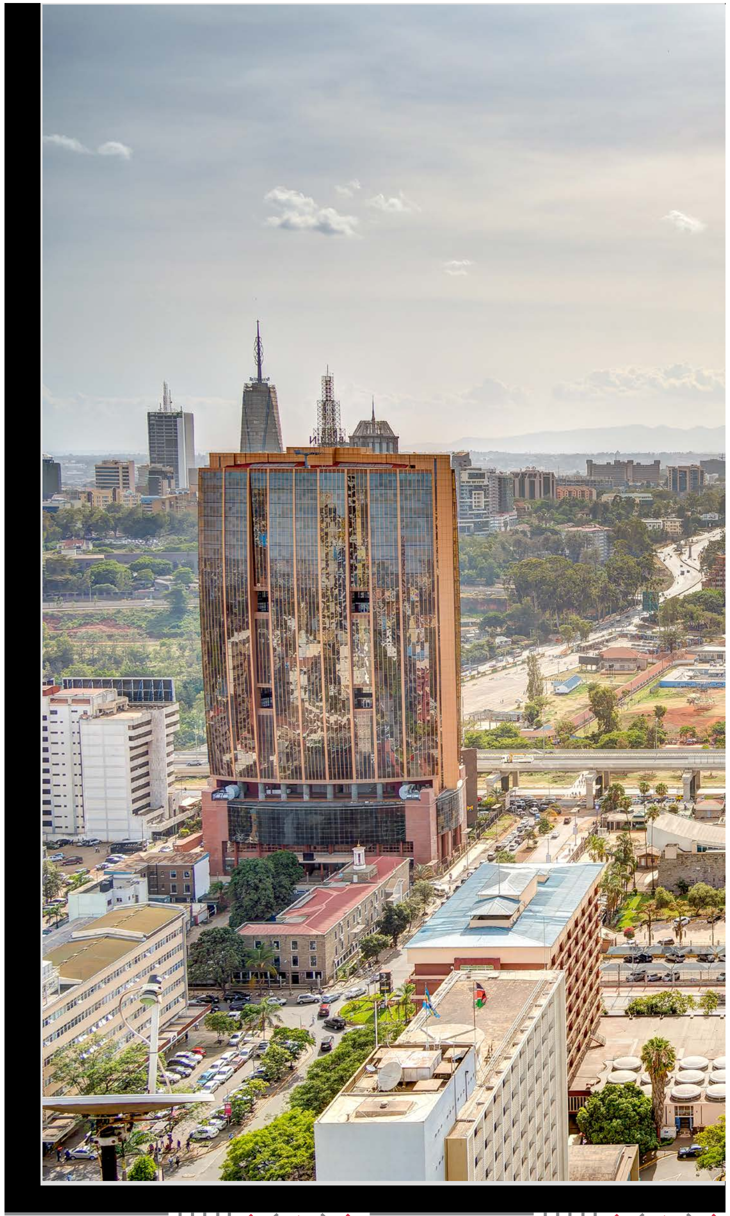
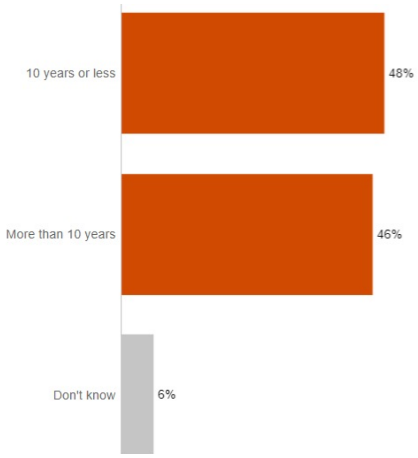


Business model viability

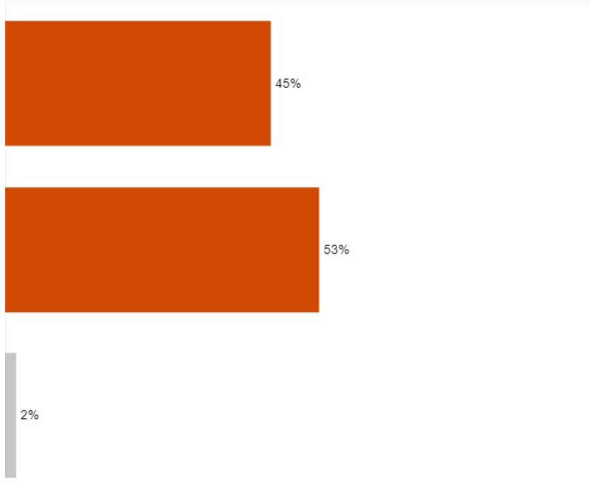
Kenyan CEOs have a divided view about their business model viability. If their companies continue in their current path, 48% of CEOs stated their business will be economically viable for 10 years or less (global: 45%), and 46% stated that their business will be economically viable for more than 10 years (global: 53%). The effects of macroeconomic environment and local territory threats could be a contributing factor to this conflicted view.

Q: If your company continues running on its current path, for how long do you think your business will be economically viable?

Business model viability - Kenya

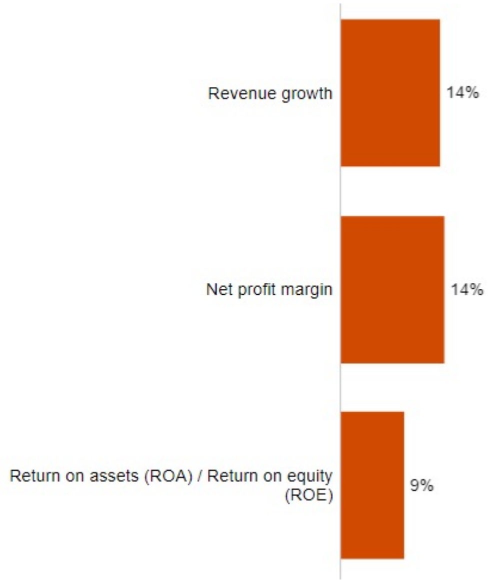


Business model viability - Global

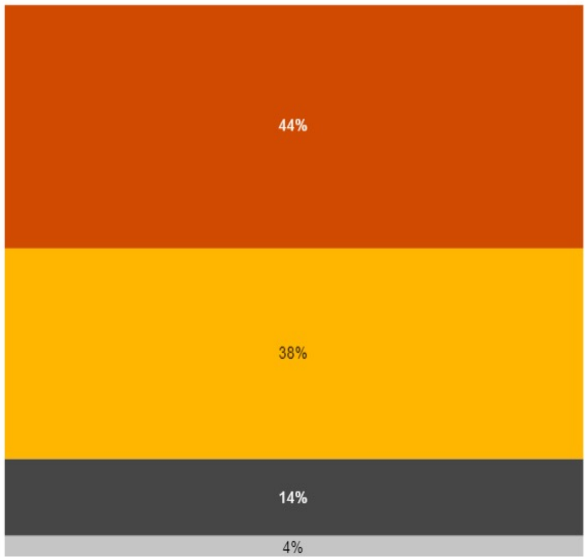


At the time of the survey, Kenyan CEOs had a positive outlook that may have been influenced by several key growth indicators they observed in their recent fiscal year. They reported a notable increase in both revenue growth and profit margins, with a 14% rise in each category. Market share also saw significant growth, with 44% of CEOs reporting a 5% or more increase.

Q: What was your company's revenue growth, profit margin and return on assets (ROA)/ return on equity (ROE) for the most recently completed fiscal year?

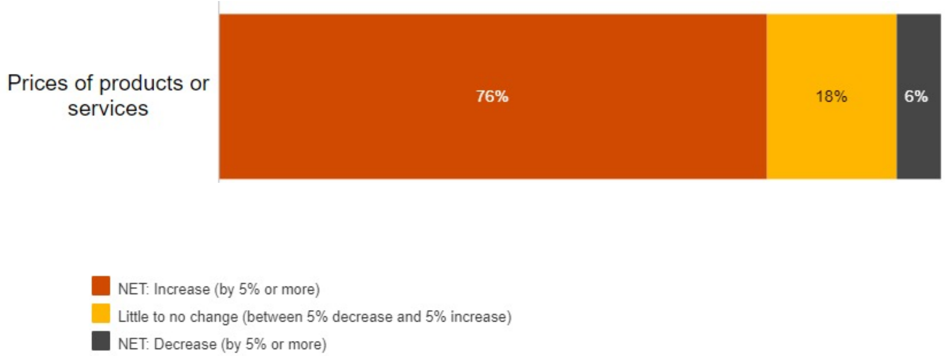


Q: How has your company's market share changed in the last three years?



Seventy-six percent of Kenyan CEOs believe that their ability to exist and be profitable in the next 12 months depends on the increase of prices of products and services.

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

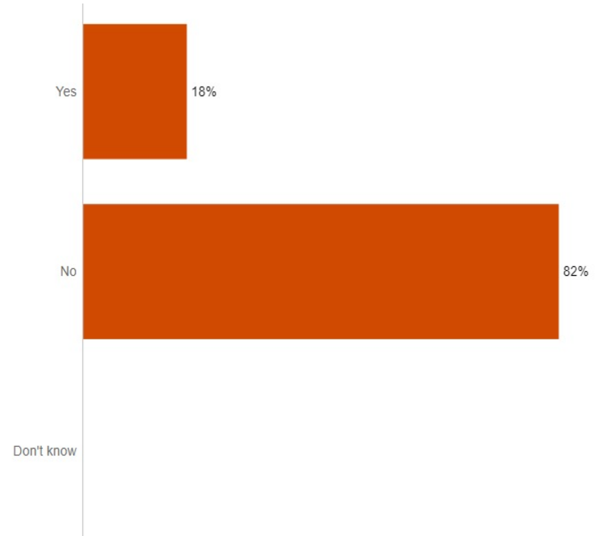


Change drivers

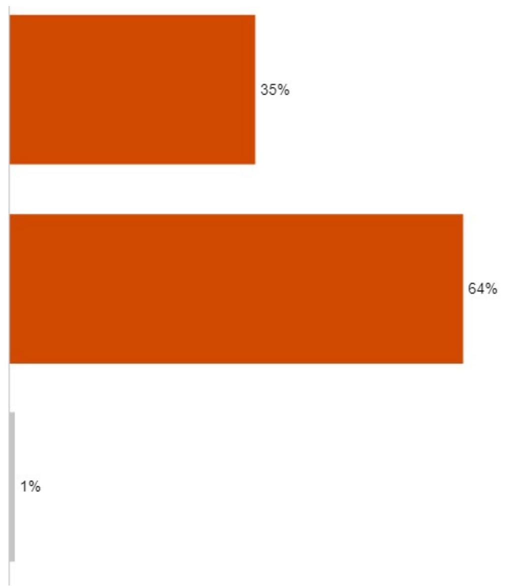
With a cautious stance on their business model viability, Kenyan CEOs are gearing up for the future. A substantial 56% of CEOs expressed their companies' plans to make one or more acquisitions in the next three years. This marks a notable shift from the 82% of CEOs who reported no major acquisitions in the preceding three years. This trend reflects global sentiments towards acquisitions.

Q: Has your company made a major acquisition (more than 10% of assets) in the last three years?

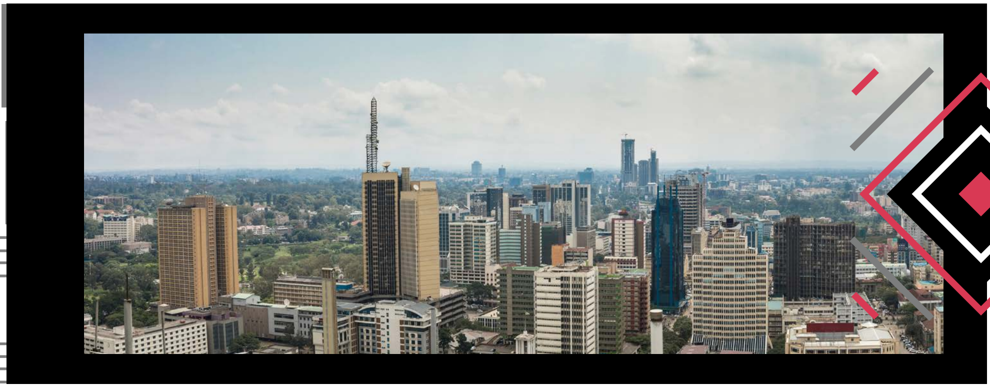
Acquisitions in the past three years - Kenyan CEOs



Acquisitions in the past three years - Global CEOs



> 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.



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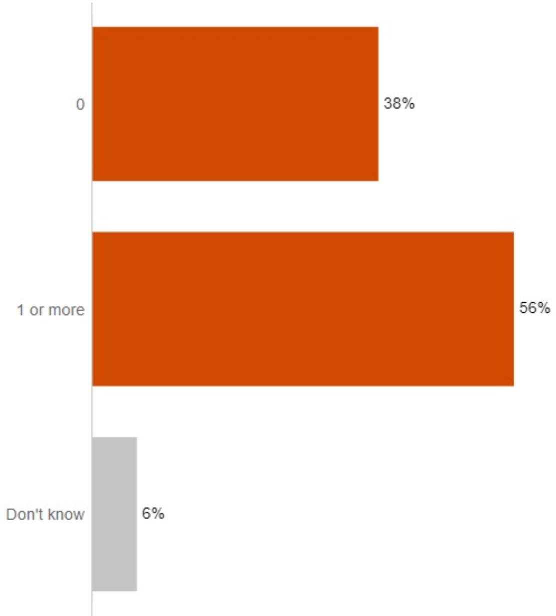
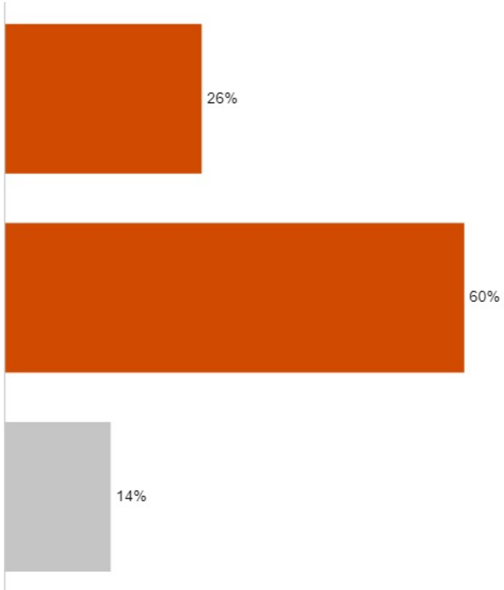
Q: How many acquisitions is your company planning to make in the next three years?

Acquisitions in the next three years - Kenyan CEOs

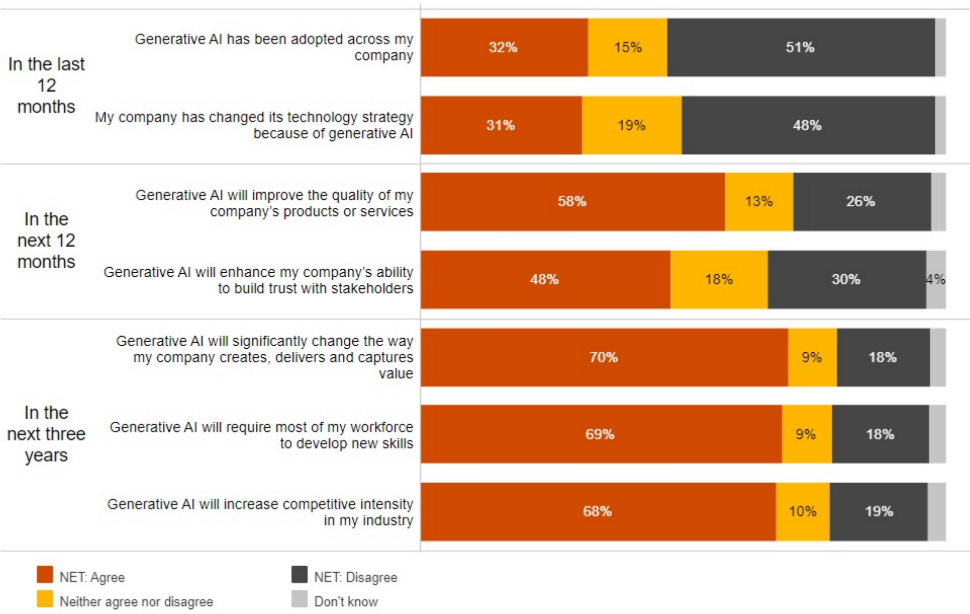


Acquisitions in the next three years - Global CEOs



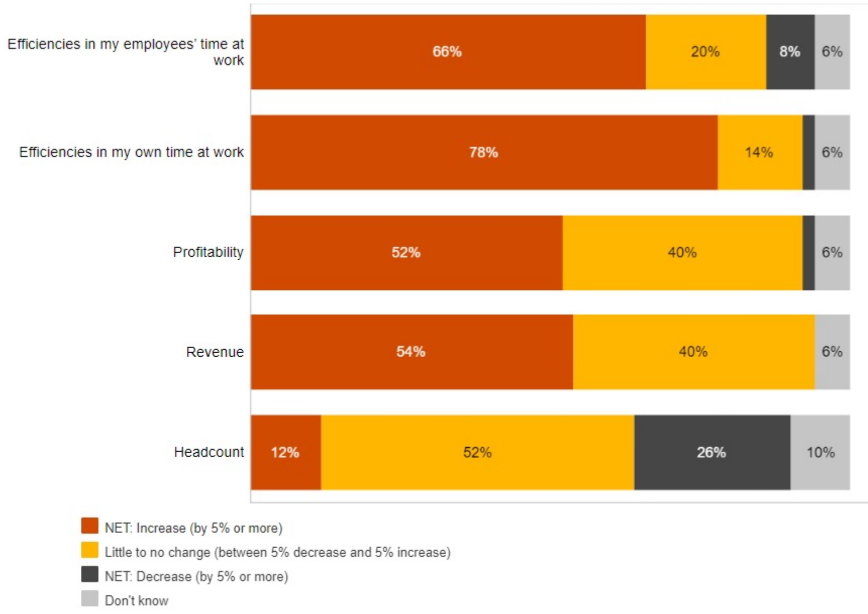
To unlock future growth prospects, generative artificial intelligence (AI) in business has become an important tool in the way businesses have positioned themselves for change. Although there seems to have been a gradual uptake of generative AI, in the short term (next 12 months), 58% of Kenyan CEOs agree that AI will improve the quality of their company's products or services. Echoing global sentiments regarding AI, in the medium term (three years), 70% of CEOs agree that AI can significantly change the way their company creates, delivers and captures value.

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



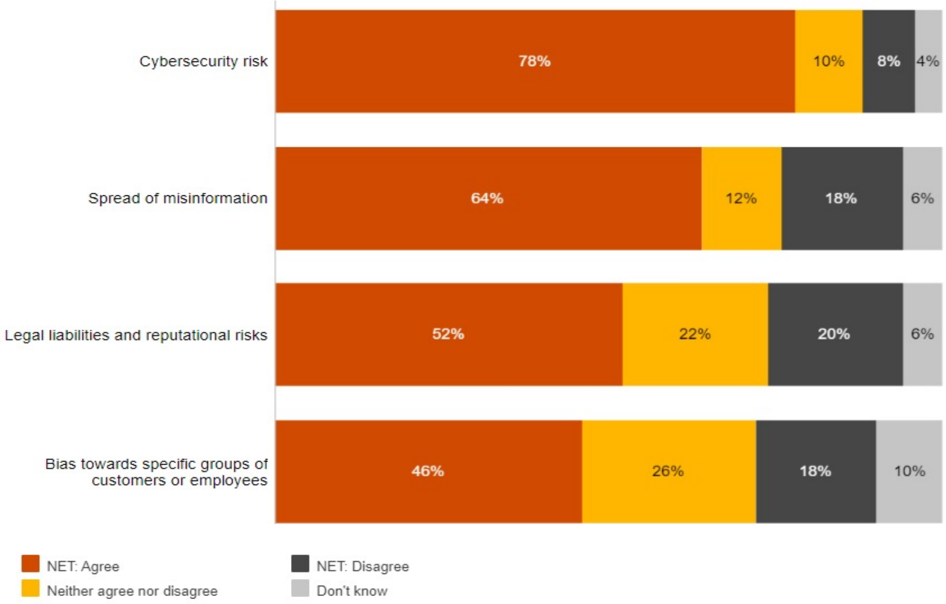
Kenyan CEOs also view generative AI as a tool to improve business efficiencies. As a result, a total of 78% of CEOs believe that in the next 12 months, generative AI will increase their own work efficiencies by 5% or more; and 66% believe that it will increase their employees' work efficiencies.

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



Although CEOs see generative AI as a tool that will increase their work efficiency and how they deliver and create value, they also expressed their concerns about its unintended consequences. A total of 78% of CEOs believe that in the next 12 months, the unintended consequences of AI will increase their exposure to cyber attacks. The increased exposure to the spread of misinformation is also a concern to 64% of the CEOs.

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?



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.

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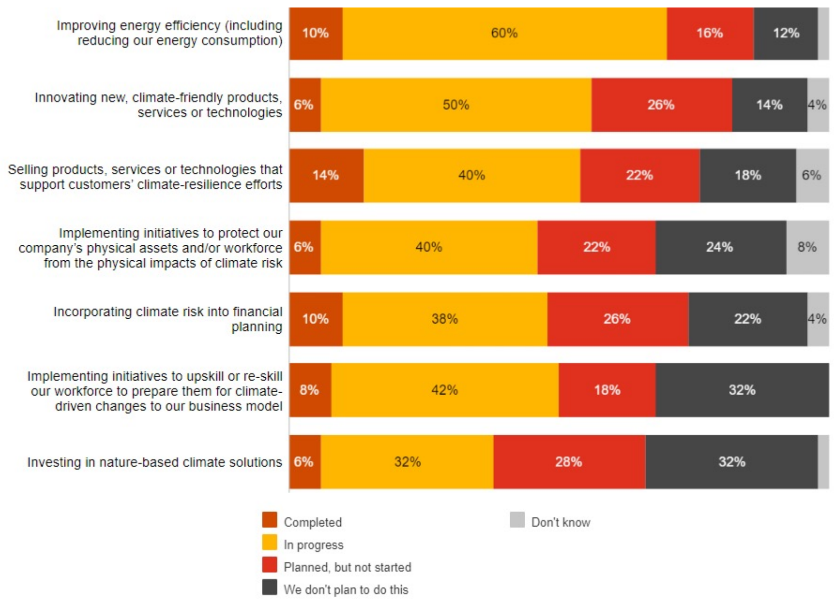
Climate actions

According to the 2023 Kenya Country Climate and Development Report (CCRD) by the World Bank, 90% of Kenya's electricity generation comes from renewable resources. Climate change actions are imperative to Kenya's economic growth. According to the CCRD report, inaction could dampen real GDP by 1.25% to 2.4% by 2030 and 3.61% to 7.25% by 2050.

When it comes to climate actions, the majority of Kenyan CEOs are in progress with some of the climate actions suggested such as improving energy efficiency (60%), improving climate-friendly products,services and technology (50%), and upskilling or re-skilling their workforce to prepare them for climate driven changes in their business model (42%). Whereas 14% of CEOs indicated that they are currently selling products, services or technologies that support their customers' climate-resilience efforts.

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



However CEOs in Kenya face some barriers when it comes to decarbonising their business model, echoing global sentiments. These barriers include, lack of demand from external stakeholders (46%) and regulatory complexity (44%). Although climate action may not be a top priority in the short or medium term to Kenyan CEOs, it is an important component to their business model and to the economy.

> 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

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

PwC’s 27th Annual Global CEO Survey methodology and demographics

PwC surveyed 4,702 CEOs in 105 countries and territories from 2 October through 10 November 2023. The industry- and country-level figures are based on unweighted data from the full sample of 4,702 CEOs, including 4,088 men, 521 women, and 93 who identified with another gender or preferred not to say. All quantitative interviews were conducted on a confidential basis.

Kenya Demographics

- 58% of Kenyan CEOs lead single or multi-entity parent company
- 78% are CEOs of privately owned entities
- 6% lead a company with a revenue of less than US $10 billion
- 16% lead a company with a revenue of less than US $1 billion
- 76% lead a company with a revenue of less than US $100 million
- 74% oversee less than 500 employees in their company

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