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72% of local executives prepared for a recession, survey shows

The second edition of *KPMG CEO Outlook: South Africa* has been released.

Source: Supplied. Ignatius Sehoole, chief executive officer at KPMG SA.

This edition - a collaboration with Business Leadership South Africa (BLSA) - was conducted with 50 chief executive officers across various sectors between July and August 2022, and provides unique insight into the mindset, strategies and planning tactics of chief executive officers over the past 18 months.

The survey examined the global pandemic, inflationary pressures, and geopolitical tensions, and reveals that top of mind is the anticipated recession which will disrupt growth.

Nevertheless, 72% of local executives have already taken steps to boost productivity in preparation for the disruption, it shows.

The biggest challenge facing local chief executive officers, they say, is in delivering their Environment, Social, and Governance (ESG) strategy over the next three years.

The *KPMG CEO Outlook Survey* notes that while chief executive officers recognise the importance of ESG initiatives globally, as demand for more robust ESG reporting and transparency grows among investors and customers, ESG has still fallen down the boardroom agenda as a top operational priority for nearly 70% of global executives (58% in 2021).

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

To mitigate risks, they say, their focus will be to focus on technology, talent, and identifying and measuring agreed ESG metrics to shape progress over the next three years.

Delivering ESG strategies a challenge

According to Ignatius Sehoole, chief executive officer at KPMG SA, “When examining the challenges in delivering ESG strategies we have seen that local chief executive officers list "identifying and measuring agreed metrics" as the biggest challenge compared to "pressing business/economic matters redirecting focus from ESG" for global chief executive officers.”

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

Source: Supplied. Business Leadership South Africa (BLSA) chief executive officer, Busisiwe Mavuso.

"While we know there is a lack of an accepted global framework for measuring and disclosing ESG performance, the KPMG survey revealed that 65% of stakeholders (institutional investors and employees) are demanding greater ESG transparency and reporting, and 60% of chief executive officers noted that 10% of their revenue would be allocated to invest in programs to enable organisations to be more sustainable.”

“However, what is encouraging to see is that confidence in the resiliency of the global economy over the next 6 months is optimistic with 64% of local chief executive officers - compared to the 73% of global executives - indicating that they are still cautiously focused on future opportunities during the current uncertainty.”

Business Leadership South Africa (BLSA) chief exeutive officer Busisiwe Mavuso added to this sentiment, stating, “there is a myriad of new investment opportunities available in South Africa, such as renewable energy generation and the transmission sector, and of course, the electric-vehicle manufacturing sector as well as the generation of green hydrogen which is seeing increased interest and growth locally.”

Anticipated changes in headcount over the next three years

The KPMG CEO Outlook Survey has also pointed to the fact that the employee value proposition in attracting and retaining necessary talent is one of the top operational priorities for achieving their three-year growth objectives. In fact, 70% of chief executive officers indicated that they are expected to increase their headcount over the period by a maximum of 10%, with most chief executive officers focusing on talent and technology in preparedness for forecasted recession.

Some questions remain regarding the rush to a ‘return to normal’ given that nearly half of global chief executive officers say remote or hybrid work has had a positive impact on collaboration and innovation.

However, 76% of local chief executive officers still envision workers working in the office full-time within the next three years (compared to 65% globally), and 24% have stated that hybrid working - with no fully remote workers – is expected.

Based on these outcomes local chief executive officers prefer their workforce back full-time in the office.

Evolving focus toward reputational and technology risks

Chief executive officers are keeping technology risk front of mind in the short and long term. In fact, disruptive technology has emerged as the top risk and greatest threat to organisational growth over the next three years with four times as many chief executive officers than *KPMG’s CEO Outlook Pulse Survey* earlier this year (12% in August 2022 versus 3% in

January and February 2022) citing this as a priority.

However, locally, supply-chain risk is now highlighted as the top risk, which is a change from 2021, where cyber security, was identified as the top risk. Even so, 82% of the local chief executive officers have noted that they are prepared for cyber-attacks, compared to 56% globally.

Furthermore, the survey revealed that current uncertainty is driving chief executive officers to continue to prioritise corporate digital transformation with 84% stating that they have an aggressive digital investment strategy designed to help them secure a first-mover or fast-follower status (compared to 72% globally).

However, despite a clear willingness and reasoning to advance digitalisation, 72% of businesses highlighted the need to address burnout from accelerated digital transformation over the past two years.

“When it comes to digitalisation and the Fourth Industrial Revolution (4IR) most of South Africa’s counterparts are well ahead of us. However, it is encouraging to note that 84% of local chief executive officers are investing in aggressive digital investment strategies.

"Innovation and new technologies do not only have the potential to create employment but also increase economic growth, especially during these uncertain times,” adds Mavuso.

M&A appetite expected to improve

The *KPMG CEO Outlook Survey* also revealed that mergers and acquisitions' (M&A) appetite, is moderate, but that 44% of local chief executive officers still see significant improvement to global averages noted earlier this year (where 23% said they had high appetite) and therefore some increase is expected in the coming years.

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

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

“However, what is encouraging is that there is confidence in the resiliency of the global economy from global leaders, over the next six months, with 73% stating they believe there is buoyancy.

"I am also very hopeful by the fact that progress on diversity and inclusion has moved up in relevance in the business sector, with 68% of global respondents indicating that this is important to them.”

“There are myriad new investment opportunities available in South Africa such as those in the renewable energy generation and transmission sectors as well as in the electric-vehicle manufacturing sector and the generation of green hydrogen,” says Mavuso who further concludes that, as several organisations focus on digitisation, there are possible challenges of some workers suffering from burnout, and others being displaced due to automation.

“Organisations need to focus on wellness programmes that will support their talent acquisition but reskill employees who are likely to be displaced by these new technologies.

"Any chief executive officer or leader will tell you that employees are an organisation’s greatest asset and attracting and retaining necessary talent is rightly one of the top operational priorities to achieving any growth objective.”