

# How transformative CEOs lead in South Africa

By Alexis Bour and Dawie Scholtz



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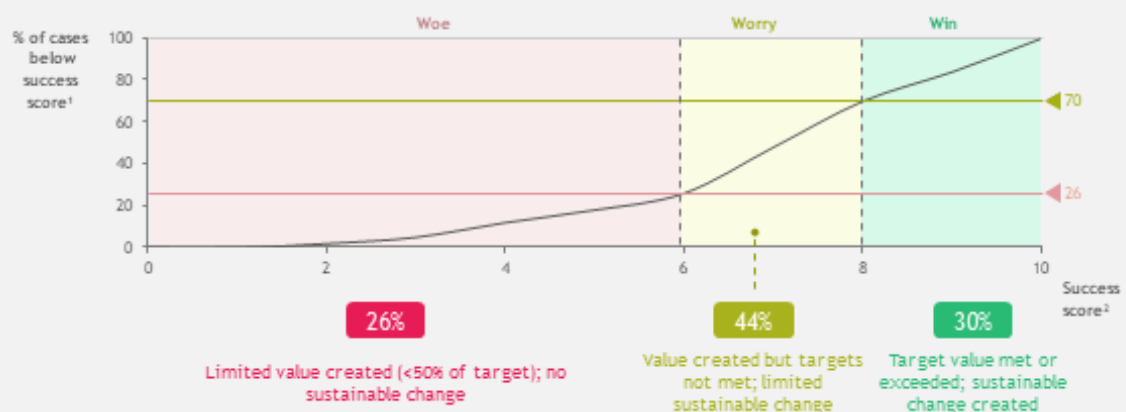


# Introduction

South African companies are navigating an unprecedented time of economic and social complexity. The ongoing economic recovery from the Covid-19 pandemic, with its far-reaching consequences for companies and the way they work, has layered on further adversity. Difficult economic conditions, including the return of higher inflation present significant challenges to CEOs aiming to grow companies and provide returns to shareholders whilst simultaneously acting as 'good corporate citizens' who tackle head-on environmental and social challenges. In South Africa, the combination of economic strain and changing expectations of the role of business in society creates an urgent need for companies to transform the way in which they do business. But business transformations are difficult—in a BCG survey of 750 global transformation journeys, only about 30% of large-scale transformation efforts succeeded.

Based on our experience, several considerations factor in to achieving a successful large-scale transformation including holistic management of the change journey, consistent leadership alignment and employee-centric change management. Among them, consistent leadership alignment taking the right action stands out as a critical enabler for large-scale change. Transformations are often associated with changes in the most senior personnel in companies, including CEOs, with many recent new CEOs appointed to carry out specific change mandates. To understand the leadership characteristics required to carry out significant change efforts, BCG engaged with numerous CEOs and corporate leaders from some of South Africa's largest companies.

## Less than a third of transformations succeed



1. Combined set of cases from both internal and external datasets (n=895) 2. Success score is calculated based on the % of targets and value met, whether targets were met on time, success compared with aspirations, and success compared relative to other transformations

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## Opportunity in Challenging Times

Many companies are using the current atmosphere to fundamentally rethink old assumptions on everything from existing business models to ways of working. There is a renewed focus on more holistic, longer-term change driven by other structural changes such as digitization and ESG (environmental, social and governance). Digital and AI projects, for example, are now essential for maintaining and building competitive advantage. Companies that use digital levers successfully can expect a [variety of improvements](#), including, on average, profit margin increases of 12% to 20%, speed to market that is 40% to 50% faster, workforce productivity that is 20% to 30% higher, and up to 60% fewer IT errors and rework. Programmes to address ESG, particularly the [environmental impact of operations](#), are increasingly required both by regulators and by shareholders.

Companies that are the top performers on ESG topics have been rewarded with valuation multipliers 3% to 19% higher than median performers and have been better able to attract and retain top talent.

The higher instability and complexity companies experience sets out an imperative for companies to transform their business models along a range of different dimensions, be it improved customer interaction models, more resilient supply chains or improved use of company and customer data. Companies who have viewed the challenging conditions as an [opportunity to outperform competitors](#), learn from the changing circumstances and double down on transformational efforts outperformed their peers by 64% in the second quarter of 2021 on year-on-year revenue growth.

Another example is companies that have [embraced advanced supply chains](#) which leverage new technologies with human capabilities to power efficiency and resilience. These companies have seen improved financial performance including 4% to 6% increases in revenue, reductions of between 10% and 20% in distributions and 15% to 30% reductions in working capital. These examples show that challenging conditions should not be seen as exercises in damage mitigation, but as powerful competitive opportunities.



# Challenges to Business Transformation in the South African Context

**W**e identified four key elements in the South African context that affect any change effort and must be addressed at the outset of any transformation. These are culture, skills shortages, data limitations and labour relations

**Culture** – CEOs with experience outside of South Africa noted that South African corporate culture was more diplomatic, less direct, and less transparent, making traditional accountability mechanisms less effective than they had seen in other places. Additionally, CEOs reported difficulty in generating buy-in and follow-through on change efforts. Change efforts are perceived as overwhelming, superfluous, or unsustainable. Certain CEOs experienced strong pushback from members of their teams that had discomfort with ambiguity. ExCo members or middle managers were not comfortable to execute on ‘directionally accurate’ estimations and plans; but rather wanted detailed, ‘perfect’ plans before proceeding to execution.

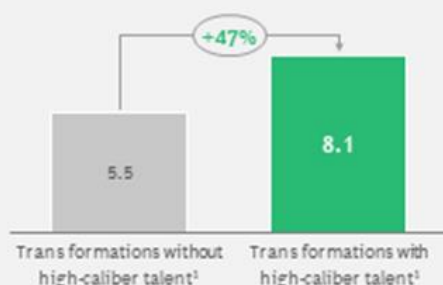
**Skills shortages** – finding the right talent to drive transformations can be challenging. Digital skills, for example, are scarce in the region and, 80% of respondents believed a lack of digital skills is likely to hamper Sub-Saharan Africa’s expected economic growth.

**Data limitations** – CEOs reported a consistent frustration with ‘dark’ or weak data, where internal reporting is imperfect, incomplete, incorrect, or not fully able to account for business activity in a manner that enables logical, transparent analysis of the business. Successful transformations have required a significant period of work to ensure accurate and usable internal reporting that enables deep transparency on business activities.

**Labour relations** – relations between labour and business leadership can be an obstacle to the implementation of business transformation plans. According to the Department of Employment and Labour’s [latest strike monitoring report](#), workers lost ~R266 million in wages because of strike activities in 2020, with more than a million working days lost in 2021. The threat of labour action thus may hamper business transformation efforts that are not supported by employees.

## Transformations deploying High-caliber talent are 47% more successful

Average success score for transformations (scale 1-10)



A strong program manager assembles and mobilizes a stronger team; boosts quality of talent and by 70%²



Quality of talent also correlates strongly with attrition rates; so stronger individuals are less inclined to leave midway through the transformation

1. Respondents asked about the strength of the talent excluding leadership, who worked on the digital transformation. 2. Respondents asked about the strength of their program manager. If the case has a strong program manager (scores of 4 or 5 out of 5), the quality of talent increases by 71%, compared with a weak program manager (scores of 1 or 2 out of 5). Source: Digital Transformation Study with DSR n=825 (Market Research), n=70 (BCG Case Experience)

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## How South African leaders can drive business transformations effectively

**G**iven these obstacles how can businesses transform themselves to be better performing, be more resilient and be a force for good in the development of South Africa? Our conversations with CEOs revealed two core levers that can be implemented. Businesses can firstly ensure they have a clear and comprehensive strategy and credible plan to set-up and deliver the needed change. Secondly, the leadership driving the change needs to exhibit certain key traits that lend themselves to successful business transformations in South Africa.

### **Build a clear and comprehensive strategy and credible plan for change**

CEOs need a bold vision that they both believe in and can provide the change needed to grow the company and address the issues that led to need for change. Engaging in detailed scenario thinking before setting up change efforts to avoid consequential decisions with ‘blind spots’ based on old and potentially invalid assumptions is key. Additionally, buy-in across the leadership team is needed with one South African company employing a tactic of taking portions of the organisation off-site to receive training, induction and inspiration for an ongoing and long-term digital transformation that would have far-reaching implications for the company’s business model.

Culture challenges must be addressed with mindset change towards increased agility. Several CEOs also noted that ‘emotional attachment’ to old ways of thinking and working was a challenge. This required deep engagement, and listening, from CEOs to ensure members of the team were brought along on the transformation journey

### **Engage in pro-active change management and engagement**

Successful transformations require a core team to manage the transformation, its progress, and any stumbling blocks. CEOs need to empower their leadership teams and create the forums for leaders to be confident to report back on progress made against targeted activities and targets in transparent and truthful manner.

Ensuring there is significant capacity to provide transparency on progress is critical, as it allows effective leadership decision-making. For larger transformations this may involve

appointing a Chief Transformation Officer. Importantly, the bulk of the executional work of the transformation should remain within the business itself, with the Transformation Management team playing a supporting and reporting role.

Additionally employing a cascading change management approach where the CEO directly aligns their leadership team with the expectation that each leader cascade the message and content relevant to their area down the organisation, with their own teams following suit to cascade the message throughout the organisation can be successfully tool to manage engagement.

### **Ensure execution mechanisms are focused and nimble**

As the bulk of the execution of the transformation sits within the business, it can be useful to employ ‘hit squads’, of small teams of high performers put together to attack specific problems. These teams are usually given a tight timeline, with a clear mandate, occasionally with external support, to address the most challenging aspects of the transformation programme.

To ensure attention is consistently focused on the most important, value-adding activities, implementing exercises with the leadership teams to decide whether existing activities should be stopped, continued as-is or amplified should be implemented. Additionally, these exercises allow the leadership teams to reassess and evaluate the progress being made on the transformation and determine whether any activities needed to be added.



## Characteristics of the SA business transformation leader

**T**here are traits that are [recognised globally as key for CEOs](#) to embody to enact a successful transformation. Our conversations revealed additional traits particular to South African CEOs to meet the nuances of operating under the complex socio-economic backdrop the country faces. The heterogeneous makeup of the average South African company's employee base and the demands of transformation and social investment requires that the CEO be understanding of the obstacles employees face in their lives and at work. We noted the following characteristics as key in the South African context:

**Storytelling:** We found that successful transformations in South Africa had a strong overarching narrative that established the need for change in terms that connected the day-to-day work of the organisation with the need for change. Constructing and communicating a convincing, hopeful, exciting narrative is a critical ingredient for success.

**Listening:** Several new CEOs had success using time upfront to simply listen and learn from the organisation. This creates a strong connection to the organisation and ensures that people are heard in the design of a change programme. It has been successful in fostering acceptance to change.

**Bravery:** Most of the more experienced CEOs that have shared experiences from previous transformations shared a consistent regret in thinking back: They often wish they had been more ambitious and stuck to their ambitions more resolutely. Many relate stories of having paired down expectations in the face of challenges which in hindsight could have been (and were) overcome without compromising the original ambition-level. It seems to require a strong-willed CEO willing to set ambitious targets and to hold the line on those ambitions, despite early challenges and failures.

**Truth-Telling:** All interviewed CEOs relayed a persistent frustration in lack of transparency of data, and lack of clarity on the true nature of business performance, especially where performance was challenging. Telling harsh truths, creating total clarity and transparency, and creating an environment of total openness appears to have been a critical success factor on previous transformation journeys in South Africa.

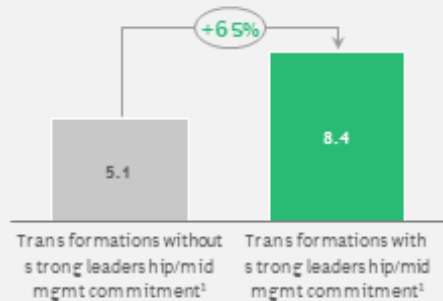
**Comfort with Ambiguity:** CEOs had relayed challenges in dealing with 'false certainty'. They had consistently felt the pressure to provide clear leadership, and clarity, in situations that were highly ambiguous. Successful transformations appear to have required CEOs to at some point acknowledge ambiguity, acknowledge uncertainty and lead through it, as opposed to projecting false certainty.

**Teaching:** Many CEOs had relayed challenges regarding capacity and capabilities in their teams. In the most successful transformations, the CEO took an active role in shaping or even participating in a capacity-building programme that would enable the leaders in the organisation to drive and execute the transformation.



## Transformations with leadership commitment from CEO to middle management are 65% more successful

Average success score for transformations (scale 1-10)



Vast majority of successful transformations have **CEO engagement** with reviews at least every quarter²



Transformations with **strong buy-in from middle management** are >50% better in making quick decisions and pivoting rapidly to keep plans on track³

1. Respondents asked about the degree of buy-in and commitment from middle management, as well as the commitment from the CEO. 2. Vast majority is >80%; respondents asked if digital transformation was on the agenda of the CEO/ExCo leadership throughout its life cycle & how closely the digital transformation was monitored. 3. Respondents asked about the problem-solving effectiveness of the transformation (e.g., abilities to make quick decisions and adaptive planning to pivot directions as needed). If strong middle management buy-in exists, the problem-solving effectiveness increases by >50%. Source: Digital Transformation Study with DSR n=825 (Market Research), n=70 (BCG Case Experience)

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## Conclusion

There is a significant opportunity now for businesses to capitalise on the uncertainty and adversity in the market by undergoing a holistic transformation. However, particularly in the South African context, there are challenges that must be acknowledged and addressed. But by ensuring a comprehensive strategy and set-up are in place at the outset of the transformation and by ensuring leadership embodies certain traits, a transformation's success is more likely.

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To learn more about our work on business transformations please visit our dedicated business transformations site at <https://www.bcg.com/capabilities/business-transformation/overview>

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