



Insomnia Index.

What is keeping business leaders
awake at night?

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1. Introduction

Expanding into Africa. Growth and innovation afoot. Embracing new technologies.

Business leaders in a volatile economy are faced with some daunting challenges. Near the top of the list as business executives prepare for their companies' future, is the growing recognition of the importance of developing strategies to shape the next move companies and CEO's face to harness success.

The Insomnia Index strives to capture the views of a closed but diverse range of CEO's and business leaders from different companies and industries within South Africa. The aim is to gather impressions of opportunities and challenges that are perceived as the most pressing in business at this time. Two selective samples of South African CEOs and business leaders were approached to complete the Insomnia Index in November 2011. The following results signify the top themes defined by the two sets of Insomnia Index participants as the most likely to create opportunities or threats to their business and ultimately are top of mind for them as business leaders.

2. Methodology

Two independent Insomnia Index surveys were distributed and completed by two independent participant groups consisting of South African CEOs and business leaders.

Themes and wildcards

Each of the participant groups were given 13 market related themes so as to determine which they believed were a challenge or opportunity for their business. Themes are considered possible common areas of challenge and opportunity by the CEOs.

The respondents were also provided 11 wildcard themes, from which they could select one if they felt it was either a challenge or opportunity to their business. Wildcards are uncommon additional themes that might be a more relevant challenge or opportunity to the CEOs' business at that time.

The two surveys had some common themes and wildcards, but also included several different themes. Table A indicates the similarities and differences between the two surveys.

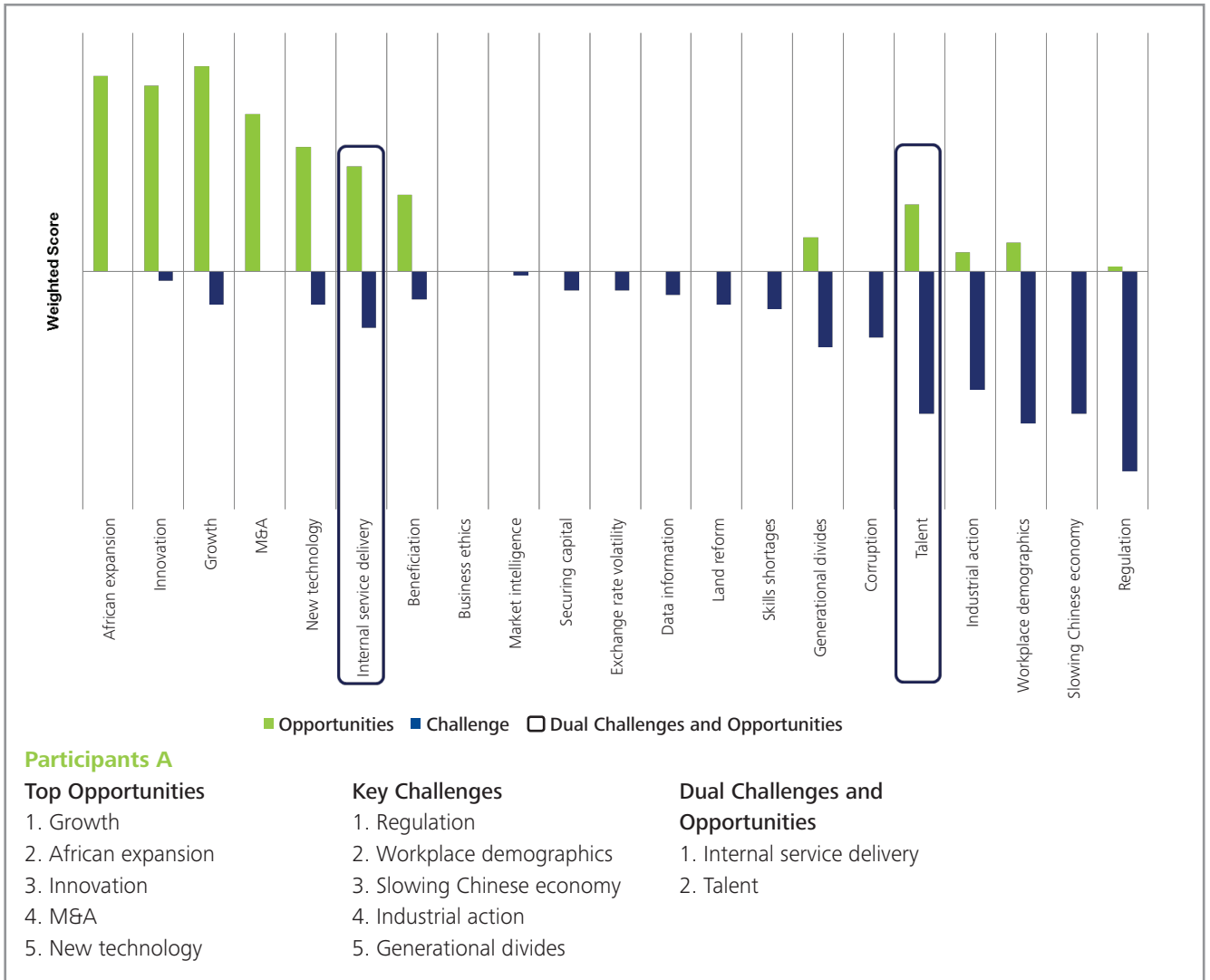
Scoring

The theme ranked as the greatest opportunity was given a positive score of 7. Lower ranked themes perceived as opportunities were given a score that decreased to 1. The leading theme ranked as a challenge was given a negative score of 7. Lower ranked challenges were given a score that decreased to negative 1. When compiling the graphs, scores per theme were totalled and displayed on a histogram. The difference between challenges and opportunities have been indicated (see page 5).

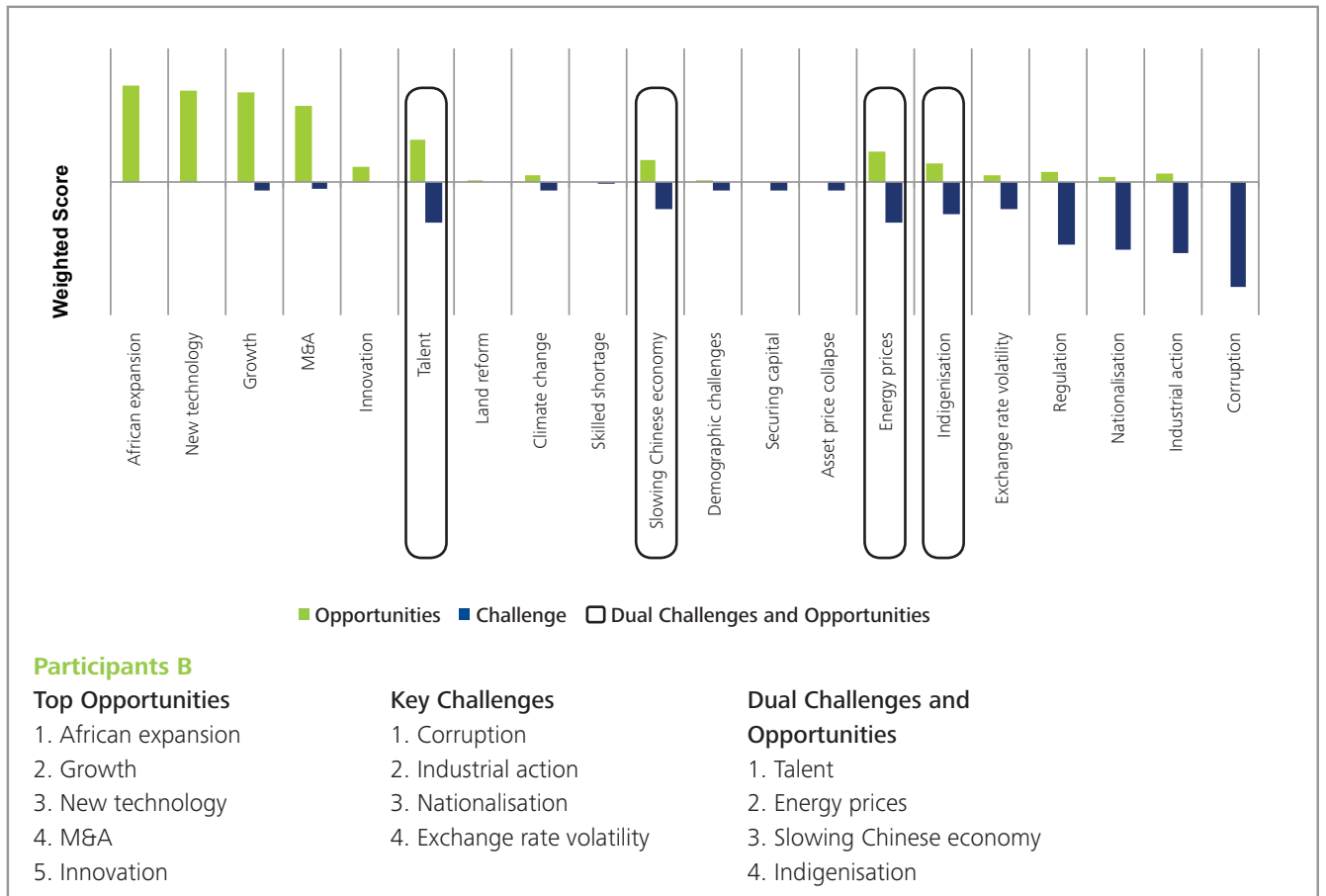
Sample A: Themes and Wildcards	Sample B: Themes and Wildcards	Common to both surveys
African expansion	African expansion	√
Growth	Growth	√
M&A	M&A	√
New technology	New technology	√
Innovation	Innovation	√
Talent	Talent	√
Exchange rate volatility	Exchange rate volatility	√
Internal service delivery	Transformation	X
Beneficiation	Nationalisation	X
Business ethics	Business ethics	√
Securing capital	Securing capital	√
Market intelligence	Global economic imbalances	X
Data information	Indigenisation	X
Land reform	Land reform	√
Skills shortages	Skills shortages	√
Generational divides	National Health Insurance	X
Corruption	Corruption	√
Industrial action	Industrial action	√
Workplace demographics	Workplace demographics	√
Slowing Chinese economy	Slowing Chinese economy	√
Regulation	Regulation	√
Sustainability	Climate change	X
Asset price collapse	Asset price collapse	√
Employee wellness	Energy prices	X

Table A

Insomnia Index results: Participants A



Insomnia Index results: Participants B



African expansion is identified as a key opportunity in terms of increasing South African companies' existing foothold in other African countries through either growing existing trade, business, range or product development in the area.



3. Key Opportunities

Opportunities represent a favourable chance or action that CEOs and business leaders have identified in the Insomnia Index as a means to improve and advance their organisations. The results of the Insomnia Index indicate that business leaders are kept awake at night by the opportunities of what could, should and will be done to ensure business growth and expansion. Growth through mergers and acquisitions, be it locally or through neighbouring African countries, is seen as key to business growth. New technologies and innovation play a role in ensuring business readiness and a blueprint for action both now and in the future.

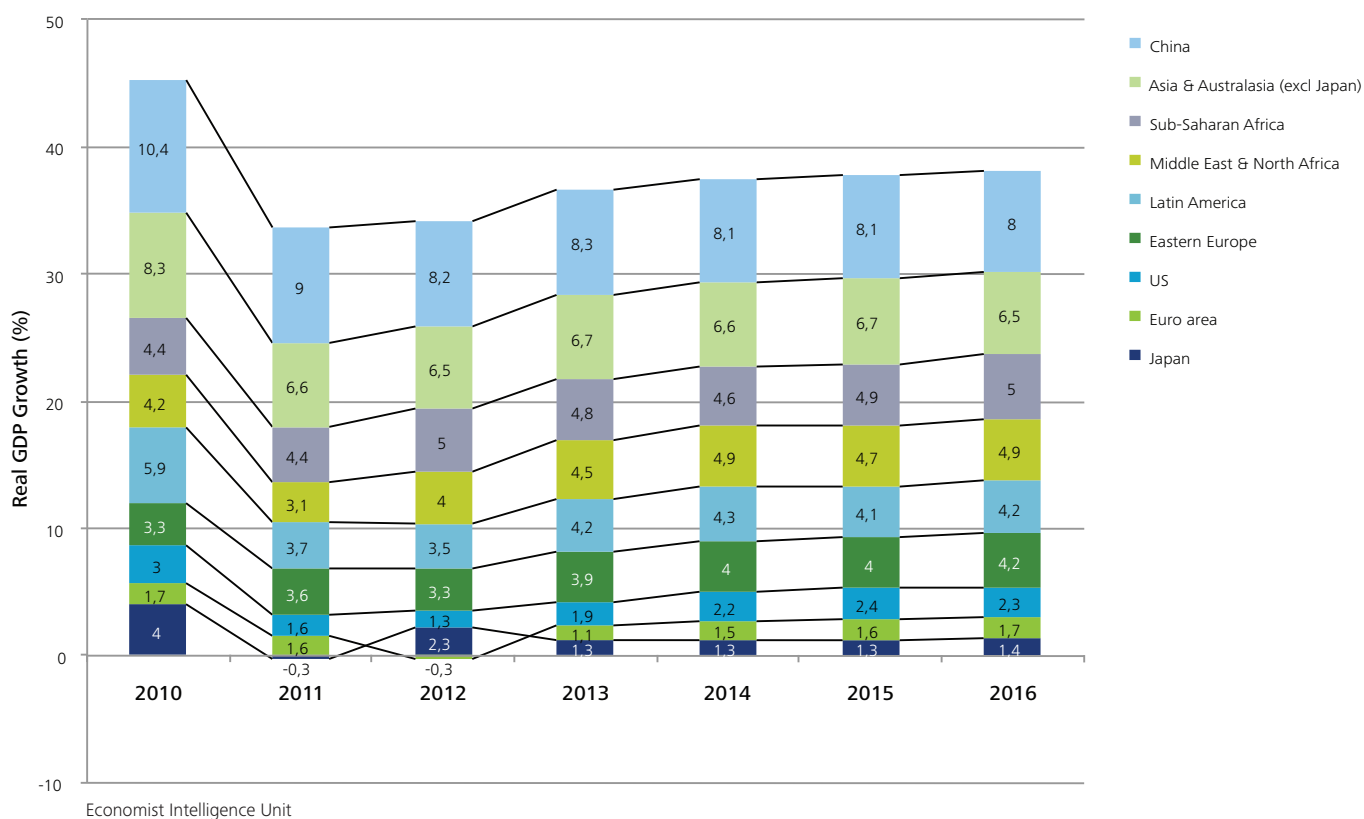
The opportunities listed are ranked according to priority from the findings of the Insomnia Index.

African expansion

African expansion is identified as a key opportunity in terms of increasing South African companies' existing foothold in other African countries through either growing existing trade, business, range or product development in the area. While the global economy continues to weaken, higher growth is expected in developing markets and Africa than in the remainder of the world, with Sub-Saharan Africa expected to have real GDP growth of 5% over 2012¹. This is due to continued strong domestic demand from the large and growing consumer markets, the large commodities market and one-off boosts to production in some African countries.

¹ Economist Intelligence Unit (2011)

Sub-Sahara Africa is expected to have one of the highest levels of growth over the next 5 years



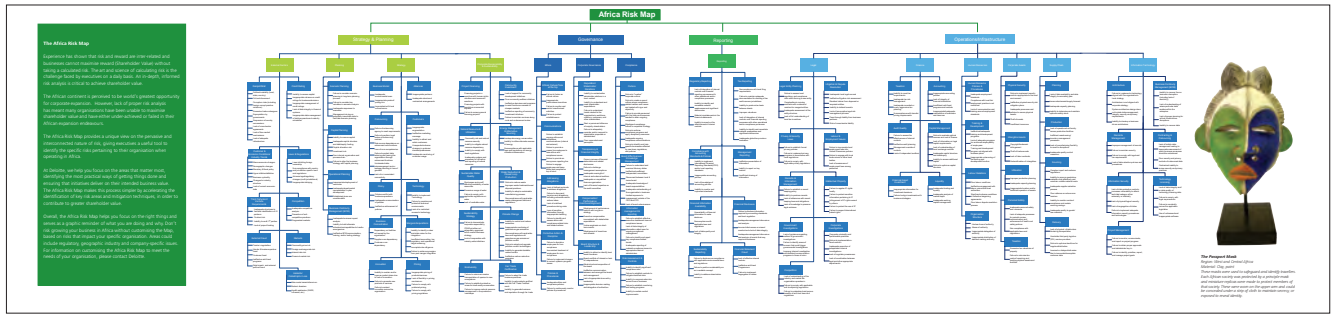


Diagram 1 - Africa Risk Map™

China and India show increasing interest in Africa for its commodities and a growing consumer base of close to a billion people. It was also recently reported that Chinese investors have shown an interest in Africa's Free Trade Zones (FTZs). China seeks to bring infrastructural growth into Africa and with this will come the increased ease of conducting business on the continent, for both China, South Africa and other countries on the continent. Businesses in South Africa are realising the benefits of growing into other African markets and are swiftly mobilising into economies where they can establish a first mover advantage. Some of the benefits include improved economies of scale, increased growth and shareholder returns and the ability to diversify into other markets that are not too far out of reach from "home" operations. This has been particularly evident over 2011, as many South African business' across industries have been reported in the press as having begun or may be considering divesting out of both foreign and more developed markets.

Just as Africa offers great opportunity to business leaders, significant risk is also associated with an expansion strategy in Africa. Deloitte have engineered an Africa Risk Map™ to assist business leaders in understanding the possible risks faced when doing business in Africa (Diagram 1). The degree and nature of these risks vary significantly from one African country to another and a well crafted strategy is required in order to ensure these risks are calculated in nature.

Tax and regulatory issues always abound and, in a recently published paper² common themes are identified which need to be taken account of. With regards to tax, business leaders need to consider their strategy in dealing with possible double tax agreements (DTAs), withholding taxes and transfer pricing rules, while on the regulatory front, careful consideration needs to be taken regarding the nature and extent of local restrictions.

Growth

Given the current business landscape and the potential for growth posed by expanding into Africa, it comes as no surprise that according to the Insomnia Index, this is a key focus for many CEOs and business leaders. Top line growth, in the form of company revenues in a particular market, industry, business or geographic area, and bottom line growth in terms of a company's net earnings, net income or earnings per share, are perceived as key opportunities for South African business leaders. This is regardless of difficult operating conditions for some. South African business is not out of the woods yet with regards to global economic conditions and therefore organic growth, though encouraged, may simply not be perceived as enough by many business leaders. This is particularly the case with consumer consumption levels remaining low and forecasted to reduce further in 2012³.

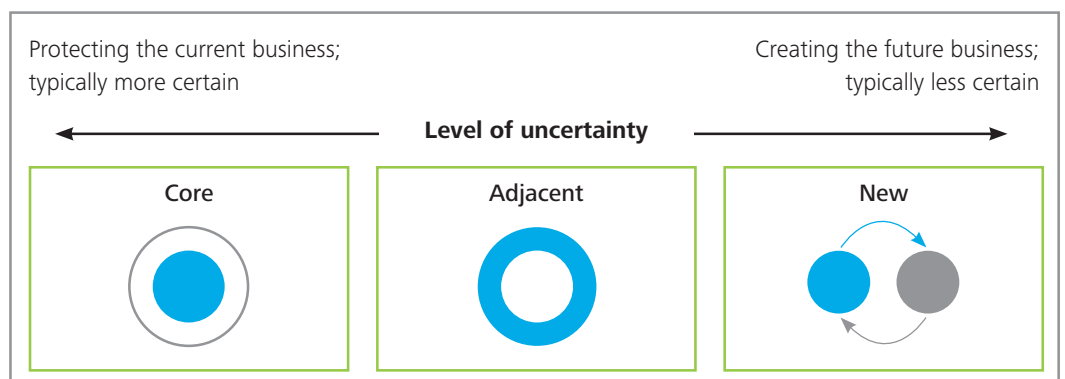
Achieving growth in current conditions may be one strategy, but growing beyond current operations is another strategy altogether. This will require leaders to actively and aggressively seek out pockets of growth both locally and internationally, and means that the time has come to make bold plays. One of the key decisions under consideration for many is where to find growth. This may be in the comfort of familiar areas that offer quick returns, or in products, technologies, services or markets that represent a departure and may take time to cultivate and nurture. The answer will determine not only South African business leaders' next move, but the legacy that they will leave behind.

² Deloitte, "Investments into Africa, tackling tax and regulatory challenges". (2011)

³ International Monetary Fund, "Regional Economic Outlook, Sub-Saharan Africa". (October 2011)

The road to growth

A recent article by Deloitte⁴ emphasises the concept of innovation as highly relevant for business leaders that seek to not only improve the business of today, but to build the business of tomorrow. With current economic conditions being an ongoing consideration for leaders, it is pivotal to manage both increased operational efficiencies that are critical to the incremental improvement of margins, while also pursuing the “big fish” in order to deliver on the insatiable appetite of shareholders. In Deloitte’s experience, the adoption of a portfolio approach to growth is key. Fundamentally, there are three sources of growth: core, adjacent and new opportunities.



- **Core:** Maximise profitable growth from the existing set of products, customers, channels and geographic markets.
- **Adjacent:** Utilise existing assets and capabilities to stretch the boundaries of the existing business outward.
- **New:** Develop new assets and capabilities to create new markets, shift the basis of competition or address non-consumption.

CEOs and business leaders need to consider all three of these strategies when constructing a sustainable growth portfolio.

⁴ Deloitte, “Adjacent Growth Plays: An unexploited gold mine or a distraction from core business?”. (2011)



New technology

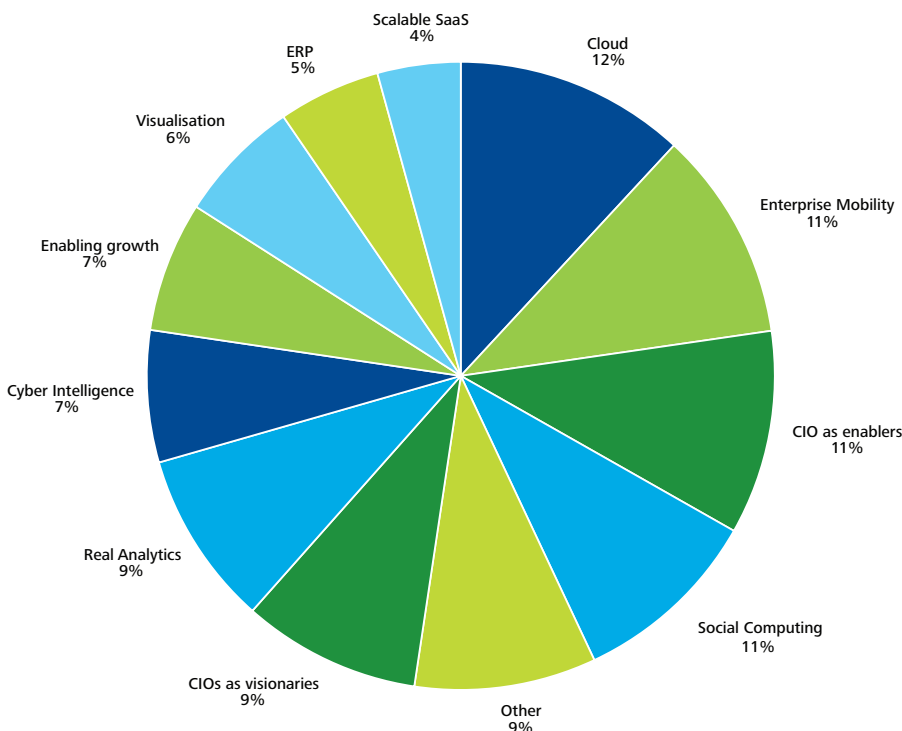
New technology in business is viewed as a key opportunity by both survey participant groups. The advancement of new technology through; keeping up-to-date with technological changes in software, platforms and processes such as data analytic abilities, as well as the innovation of new technological products by organisations, is seen as important areas of opportunity for South African business leaders.

Based on the results of a recent Insomnia Index conducted at a Deloitte Chief Information Officer (CIO) Forum in South Africa (September 2011), it is likely that these opportunities lie in IT operations such as cloud (viewed as the top opportunity by 12% of CIOs) and social computing (11%). Enterprise mobility (11%) could be perceived as the catalyst for increased interest in cloud computing, due to cloud computing’s ability to mitigate the risk associated with application change and configuration management.

Through placing selected applications onto a private cloud, businesses can make standard functionality available to all users – without having to deal with multiple platforms or data fragmentation challenges. Indeed, enterprise mobility is a key consideration for business leaders as they seek to connect the previously unconnected in Africa and other developing countries.

Workforces and consumers are increasingly demanding more convenience and mobility and it is becoming increasingly clear that CIOs are becoming key strategic enablers within businesses across South Africa. There is no doubt that the mobile revolution has arrived and business leaders need to respond or at least plan a response in the immediate term. Mobile technologies and the maturing device market present real opportunities to improve business processes, innovate on new products or just simply improve business efficiencies.

Top Opportunities - Deloitte CIO Forum Insomnia Index 2011



Innovation

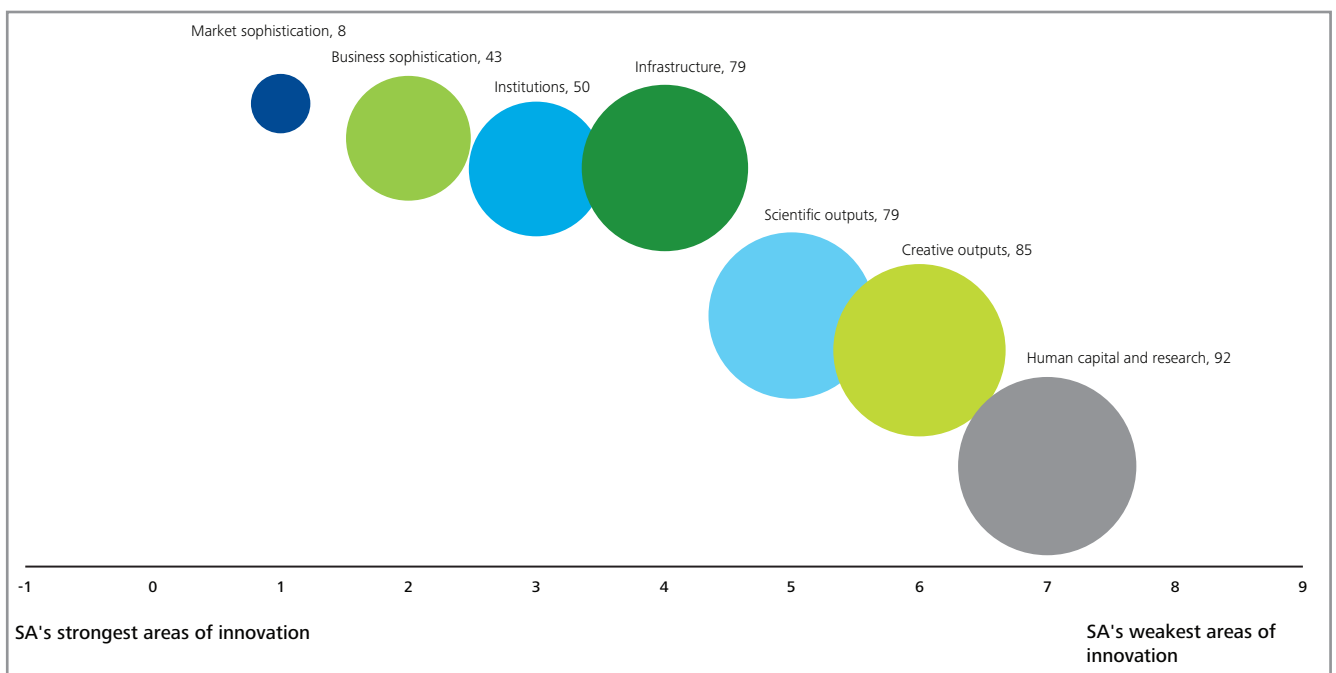
Organisational and process innovations, and the management of these within service organisations, as well as new or improved ways of designing and producing services or products is highlighted as important by participants. Both groups of participants find innovation to be a key opportunity for South African firms, but find that actual innovation taking place is not at a high level. In terms of South Africa's global competitiveness, South Africa ranks 59 out of 125 countries on the innovation scale. This is second only to Mauritius (ranking 53) from an Africa perspective. South Africa may be slightly ahead of India (62) in terms of innovation, but still has some distance to go in being perceived as innovative as other emerging BRIC economies such as China (29), Brazil (47) and Russia (56)⁴.

⁴INSEAD. 2011. "The Global Innovation Index". (2011)

According to INSEAD, South Africa has one of the most sophisticated markets in the world, yet business has been slow in adopting new technologies and strategies to cater for this market. Lack of infrastructure is clearly a key limitation to innovation in South Africa.

South Africa also ranks weak in terms of scientific outputs (79 out of 125 countries), creative outputs (85 out of 125 countries) and human capital and research (92 out of 125 countries)⁴. These issues could be related to the challenges in the education system. South Africa has the ability to be innovative, however it will require leaders to be transformational in their approach. Leaders are increasingly faced with talent related issues regarding recruiting and retaining select talent.

Areas of innovation concern



INSEAD Global Innovation Index 2011

This issue is particularly relevant to highly creative and scientifically minded individuals who command a premium. In the face of such challenges, business leaders increasingly find novel ways of getting tasks done, be it through the adoption of new technologies and business information or through collaborative innovation techniques.

In a recent Deloitte Innovation study⁵, collaborative innovation is seen as an approach for co-developing products and services. Companies work with one or more partners (customers, suppliers, external individual innovators, university researchers etc.) to share development and marketing responsibilities, as well as benefits and risks. This type of innovation can counter many of the difficulties of traditional research and development models and give companies access to vital technologies and the know-how without having to build it in-house. Embracing collaborative innovation will require leaders to seek out collaboration tools, be they contractual, cultural or technological in nature. Regardless of the tool, business leaders will need to embark on a new journey off the beaten track in order to capitalise on innovative processes, products and services.

Mergers and acquisitions

Given South African leaders' need for expansion and growth, mergers and acquisitions (M&A) is viewed as a significant area of opportunity for business leaders within South Africa. According to a recent global Deloitte M&A study⁶ the trends driving M&A activity in 2011 are largely around gaining access to geographic markets, supporting new growth platforms and acquisitions to gain access to resources and capabilities.

As a continent rich in natural resources, it is not surprising that the majority of M&A transactions over the past 12 months have been in the resources sector. The value of natural resource transactions during 2010 in sub-Saharan Africa rose from US\$4.7 billion in 2009 to US\$11.3 billion⁷.

There is significant appetite for African natural resources, particularly from companies in the East. China and India account for 36% of the total value of all transactions. What has been interesting and pertinent to M&A growth in Africa has been the diversification into industries other than resources. Telecommunications, financial services and consumer businesses are just some of the sectors that have experienced a surge in M&A activity. Financial services' penetration is still quite low across Africa, but mobile penetration on the continent is high. Africa has strong mobile phone penetration (over 500 million mobile phone subscriptions⁸) and given current technology trends this may play a factor in increased M&A activity on the continent as companies make an effort to access new consumer markets and provide for financial inclusion.

When seeking deals in Africa, leaders must take care of key risks and challenges that require some form of mitigation. Deloitte experience shows that key risks in gaining market access can include:

- **Valuation gaps** caused by equity market valuations and different valuation methodologies
- **Due diligence complexity** caused by the role of government and regulatory differences in different African countries
- **The continuity and integration of post closing** in terms of poor relationships with certain regulatory bodies in some countries and the post-merger shifts in business strategy such as changing brands to fit in with local consumer preferences.

In the drive for continued growth, business leaders are ultimately looking for M&A deals to deliver greater value and synergies, mitigate risks before, during and post an acquisition which is critical in achieving the value many leaders seek.

⁵ Deloitte. "Innovation by collaboration: A blueprint for action". (2011)

⁶ Deloitte, "M&A Trends and Strategies: Capitalizing on a Rebounding Market". (September 2011)

⁷ Thomson Reuters Sub-Saharan Africa IB Analysis. (2011)

⁸ Informa Telecoms and Media. (2011)

4. Key Challenges

If opportunities represent the chance for business advancement then challenges represent the hurdles that CEOs and business leaders would need to jump, remove and conquer in order to ensure business growth and survival. Challenges keep business leaders awake at night because they generally require large amounts of skill, knowledge, resources, energy and commitment to overcome, manage and lead. Key challenges that emerge from the Insomnia Index are largely around macro and socioeconomic conditions within South Africa including regulation, corruption, nationalisation and exchange rate volatility. Industrial action, workforce demographics and generational divides are viewed as key areas of concern within companies.

The following challenges are once again listed according to priority by Insomnia Index findings.

Regulation

Regulation, including all government-imposed restrictions on, and requirements of, people, firms, and companies in South Africa, is identified as the top concern by business leaders in participant group A. Regulation of firms and companies, especially, can constitute non tariff barriers to trade in goods and services.

The introduction of the King III Code on Corporate Governance has placed business sustainability as the responsibility of the CEO's of South African businesses. With the proposed implementation of integrated reporting, the code will essentially force sustainability issues to the forefront and these issues will need to be integrated into the very fabric of the business in order to be handled in a transparent manner.

	Business Impact	Challenges
Legislative and regulatory risks	Non-compliance can result in hefty penalties, or the closure of a business	Given the volume, companies are not always aware of the impending legislative and regulatory risks and could miss the opportunity to provide inputs in the engagement phase of future legislation and regulation, which can directly affect future operations
Resource	Physical impact on resource intensive companies (e.g. sourcing or types of raw materials)	Finding alternatives for energy intensive process, as well as for depleting natural resources
Talent	Sustainability is becoming increasingly important to talent, within or those considering joining companies	The ongoing shortage of talent
Market	Increased barriers to trade in local and export markets	Diminishing market share / creating access points to competitors

Government is setting both incentives and harsh penalties for business from a regulatory perspective, in order to encourage business to operate more sustainably in South Africa. It is key for CEOs and business leaders to understand the compelling reasons why they need to pay attention to sustainability and "Green Growth". Investor confidence will be boosted if business and government demonstrate clear policies for addressing environmental concerns as well as future plans for energy sources and generation capacity. Key here is that South African business understands and focuses on what the world is going to demand in 10 to 15 years' time, and gears up for it now.

10 reasons why CEOs need to pay attention to “Green Growth”

- 1 | Government is serious about Green Growth and is actively driving it
- 2 | Further carbon taxes will become a reality
- 3 | Non energy-efficient businesses will see negative bottom line impact
- 4 | Consumers demand green products
- 5 | Act now and benefit from first mover advantage in Africa
- 6 | High carbon content products may be banned by developed countries
- 7 | Green Growth will reduce energy prices and their volatility
- 8 | Climate change is a fact and is already posing a risk to bottom lines
- 9 | Green Growth creates huge business opportunities
- 10 | Global demand trends means SA business has to change

⁹Kay Walshe, Deloitte blog, 10 compelling reasons for CEOs to pay attention to “Green Growth” (November 2011)

The New Companies Act

The reworked Companies Act 71 of 2008 (the Act) became effective on 1 May 2011. There have been many questions relating the implementation of the Act and how it affects the day-to-day operations of companies. According to a Deloitte Technically Speaking article (November 2011)¹⁰, Table B highlights questions that should provide guidance around some of these issues.

As a general rule all documents must be kept for a period of seven years.



What is the impact on the Memorandum of Incorporation?

In terms of the transitional provisions, companies will have two years within which to amend their Memoranda of Incorporation to ensure it is consistent with the provisions of the Act. Should there be any conflict between a provision of the Act and a provision of the Memorandum of Incorporation during this transitional period, the latter will prevail.

However, certain provisions of the Act will be effective immediately (despite any contradictory provisions in the company's Memorandum). These include provisions with respect to:

- The duties, conduct and liability of directors apply to every director of a pre-existing company.
- Rights in terms of this Act of shareholders to receive any notice or have access to any information.
- Meetings of shareholders or directors, and adoption of resolutions.
- Chapter 5 (dealing with fundamental transactions such as mergers, amalgamations, etc.).

What registers, documents and records need to be kept?

The Act requires the following records to be kept:

- Copy of its Memorandum of Incorporation.
- Record of its directors.
- Copies of all:
 - Reports presented at an annual general meeting of the company.
 - Annual financial statements.
 - Accounting records for the current financial year and for the previous seven completed financial years of the company.
- Notices and minutes of all shareholders meetings, including:
 - All resolutions adopted.
 - Any document that was made available by the company to the holders of securities in relation to each such resolution.
- Copies of any written communications sent generally by the company to all holders of any class of the company's securities.
- Minutes of all meetings.
- Resolutions of directors, or directors' committees, or the audit committee.

In addition, companies are also required to keep the following registers:

- Register of directors
- Securities register
- Register of company secretary and auditors.

When are special resolutions required?

A special resolution is required to:

- Amend the company's Memorandum of Incorporation.
- Ratify actions by the company or directors in excess of their authority.
- Approve:
 - An issue of shares
 - Securities convertible into shares
 - A grant of options for the subscription of securities or a grant of any other rights exercisable for securities, if the shares, securities, options or rights are issued to a director, future director, prescribed officer, or future prescribed officer of the company, or any person related or inter-related to the company, or to a director or prescribed officer of the company.

- Approval of an issue of shares, securities convertible into shares, or rights exercisable for shares in a transaction, or a series of integrated transactions, if the voting power of the class of shares that are issued or issuable as a result of the transaction or series of integrated transactions will be equal to or exceed 30% of the voting power of all the shares of that class held by shareholders immediately before the transaction or series of transactions.
- Authorise the board to grant direct or indirect financial assistance to a director or prescribed officer of the company or of a related or inter-related company, or to a related or inter-related company or corporation, or to a member of a related or interrelated corporation, or to a person related to any such company, corporation, director, prescribed officer or member.
- Approve a decision of the board for re-acquisition of shares if any shares are to be acquired by the company from a director or prescribed officer of the company, or a person related to a director or prescribed officer of the company.
- Approve remuneration paid to directors for their services as directors (the special resolution must have been passed within the previous two years).
- Approve the voluntary winding up of the company.
- Approve an application to transfer the registration of the company to a foreign jurisdiction.
- Approve any proposed fundamental transaction.

Who are prescribed officers?

Prescribed officers include every person, by whatever title the office is designated, that:

- Exercises general executive control over and management of the whole, or a significant portion, of the business and activities of the company.
- Regularly participates to a material degree in the exercise of general executive control over and management of the whole, or a significant portion, of the business and activities of the company.

It is important for companies to identify the prescribed officers. They need to ensure that these persons meet the requirements of the Companies Act, and ensure that they understand the implications and potential consequences of accepting the appointment to the particular office.

How should financial statements for a year end before 1 May 2011 be treated under the new Act?

Companies with a financial year ending on a date prior to 1 May 2011 must comply with the provisions of the old Act with respect to the publication, audit and approval of its annual financial statements.

The Act determines that if, immediately before 1 May 2011, a particular pre-existing company has passed its financial year end but has not completed the requirements in terms of the previous Act for the publication, audit and approval of its annual financial statements for that financial year the provisions of the previous Act continue to apply with respect to the publishing, audit and approval of those statements, and the provisions of the new Act will apply to each subsequent financial year end and annual financial statements of that company.

All companies with a financial year ending after 30 April 2011 should apply the new Companies Act with respect to the requirements regarding the audit or review and approval of the annual financial statements.

IAS 19 Employee Benefits

The adoption of IAS 19 Employee Benefits Revised (IAS 19R) in the South African economy will reduce volatility in some areas but introduce volatility in others. Risks relating to defined benefit plans are generally borne by the employer. Over one year many entities have closed their plans to new entrants and are in effect rolling down their defined benefit obligations (DBO); however their obligations under these plans are still significant.

Regulations issued in 2001 define the mechanism for the apportionment of surpluses in defined benefit pension funds. Many entities have not been assessed by the regulator on the application of the regulations; resulting in some uncertainties around the availability and recognition of defined benefit assets.

The most significant changes in IAS 19R are as follows:

- Elimination of unrecognised items in the statement of financial position. All actuarial gains and losses should be recognised in other comprehensive income (OCI) and all past service costs should be recognised in profit and loss within service costs.
- Introduction of net interest on the net defined benefit liability (asset). Net interest is derived from the net defined benefit liability (asset) and the risk free rate. The remeasurement to reflect the actual return on plan assets, which in a South African context is generally higher than the risk free rate, will be reflected in OCI. This is likely to result in a lower net profit than currently reflected by entities with DBOs.
- Introduction of more extensive disclosure requirements in the financial statements. The characteristics, risks and amounts in the financial statements, as well as the effect of defined benefit plans on the amount, timing and uncertainty of the entity's future cash flows shall be disclosed. This may be onerous for entities with unfunded DBOs.

Issue	IAS 19	IAS 19 (R)
Asset ceiling changes	OCI or Profit or Loss	OCI
Past service cost	Profit or loss	Profit or loss limited to risk free rate. Excess reflected in OCI
Actuarial gains and losses	OCI Profit or loss or Corridor	OCI
Settlement and curtailments	Profit or loss includes unrecognised past service costs and actuarial gains and losses	Profit or loss based on balance sheet position as past service costs and actuarial gains and losses are fully recognised

¹⁰ Deloitte, "Technically Speaking: Managing the impact" (November 2011)



Corruption

Corruption is identified as a large concern for business leaders in participant group B.

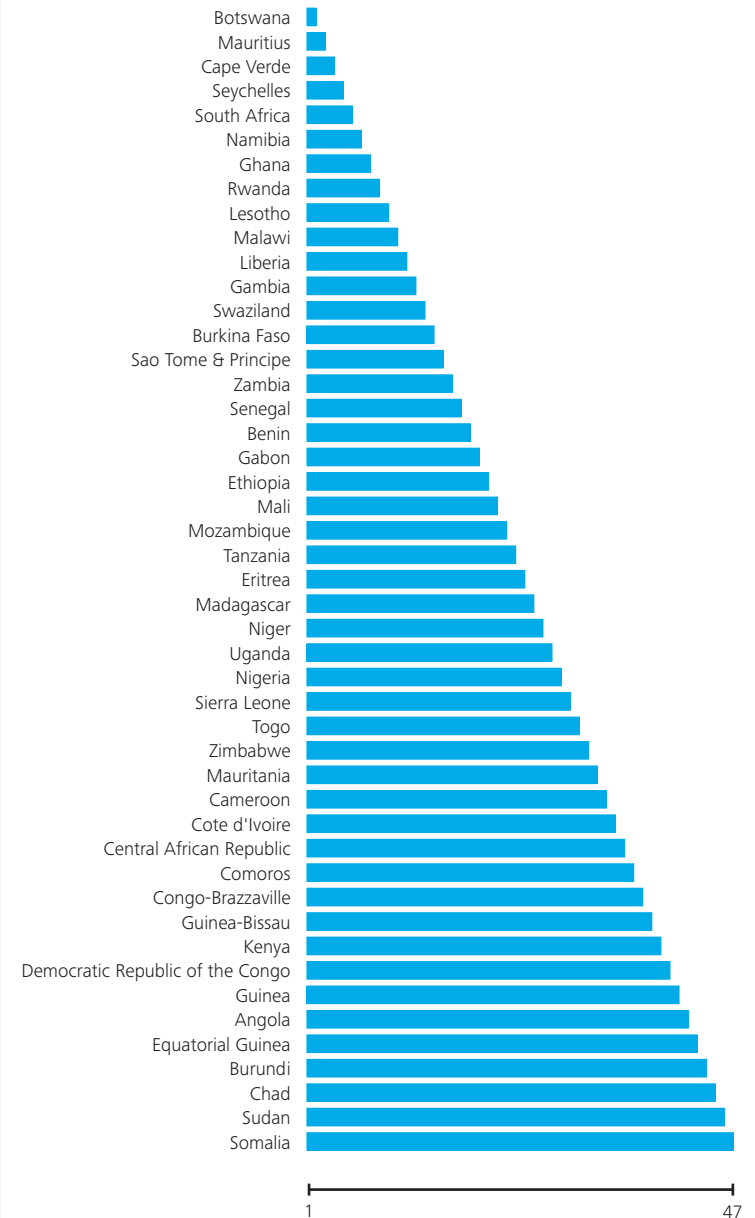
Corruption is typically a demonstration of institutional weaknesses, poor ethical standards, skewed incentives and insufficient enforcement of policies. South Africa fairs better than other African countries when it comes to corruption, ranking 5th out of 47 countries¹¹.

Even though South Africa fairs better than most countries on the continent, care still needs to be exercised, as leaders are well aware that global media and the social networks allow news to travel faster and reach more people than ever before. The international nature of business and growing collaboration among regulators worldwide can expose entities to a greater number of regulatory regimes. These factors may increase both the likelihood and the potential impact of alleged wrongdoing on an entity's reputation and value. Executives may want to consider how their business manages its risks of fraud and corruption and whether today's risk environment merits a more proactive approach.

¹¹ Transparency International, "Corruption Perceptions Index 2010".



Sub-Saharan corruption rankings 2010



Deloitte experience shows that there are ten areas that CEO and business leaders need to evaluate that may mitigate the reputational risks of fraud and corruption¹².

- 1. Integrating risk and strategy.** Holding senior and operating management responsible for considering risks and balancing them with potential rewards can foster wise risk-taking.
- 2. Crisis management planning.** These plans can be valuable in implementing a robust response to allegations under severe time pressure and intense scrutiny from the media, regulators, investors, and law enforcement.
- 3. Comprehensive risk assessment.** Risk assessment is the foundation on which effective antifraud and anticorruption processes are built. Leaders need to be aware of their management's conduct and document and update an assessment of fraud and corruption risks periodically (typically annually).
- 4. Risk tolerance and mitigation planning.** The board needs to understand management's level of overall risk tolerance and its level of risk tolerance for fraud and corruption specifically. Incidents of major fraud and corruption may indicate a gap between the risk tolerance level of the board and that of management, or between that of executive management and line personnel.
- 5. Managing performance and compensation.** Holding senior executives and line management accountable for managing ethics, compliance, and the fraud and corruption risks within their area of responsibility is likely to be more effective when it influences their compensation. This can be evaluated using objective measures, such as the results of an assessment by the internal audit function.
- 6. Evaluating the tone at the top.** A professionally designed and independently administered survey may serve as an early warning system, alerting the audit committee to a tone that falls short of its expectations.
- 7. Whistleblower system benchmarking.** In our experience, below-average use of whistleblowing tools typically arises in hotlines that are not effectively communicated to employees and other potential users, or where users lack confidence that reports will be addressed appropriately without retribution.
- 8. Leveraging transaction monitoring and data mining.** Leaders need to ensure management has implemented computer-assisted transaction monitoring and data mining targeted at the company's key fraud and corruption risks. These tools are especially valuable in entities with numerous transactions and they have potentially high-impact fraud and corruption risks. Today's technology, combined with skilled evaluation of anomalies, can enhance deterrence and detection capabilities in this area significantly.
- 9. Regulatory relationships.** Entities of all sizes are vulnerable to additional costs, restrictions on operations, or potential shutdown if regulators decide they cannot be trusted to investigate themselves. A cooperative relationship and a strong record with regulators can help avert turning a serious allegation into a regulatory crisis.
- 10. Investigative resources and protocols.** Predetermining investigative resources and protocols can speed an investigation and also help reduce the risk of ineffective investigations. Leaders need to ensure management and the audit committee have identified the legal, computer forensics, and forensic accounting resources needed to conduct internal investigations into serious allegations that may arise wherever the entity operates.

¹² Deloitte Forensic Centre, "Fraud, bribery and corruption: Protecting reputation and value" (2011)

Executives can provide value by probing decisions regarding the appropriate level of sophistication of the processes to help mitigate the reputational and financial risks of any alleged fraud, bribery, and corruption. Management, the audit committee and the board may have different views on the cost/benefit tradeoffs involved and the appropriate balance given the risk environment.

Nationalisation

Participant group B identified nationalisation as an area of concern. The concept of nationalisation is viewed as a concern not allayed by the continued public debate around it and the effect it is having on foreign direct investment into the country. Offshore investors are increasingly concerned about investing in a country said to be considering nationalisation. The resultant implications could be in the form of weakening economic activity and ultimately the slowing of job creation and social development.

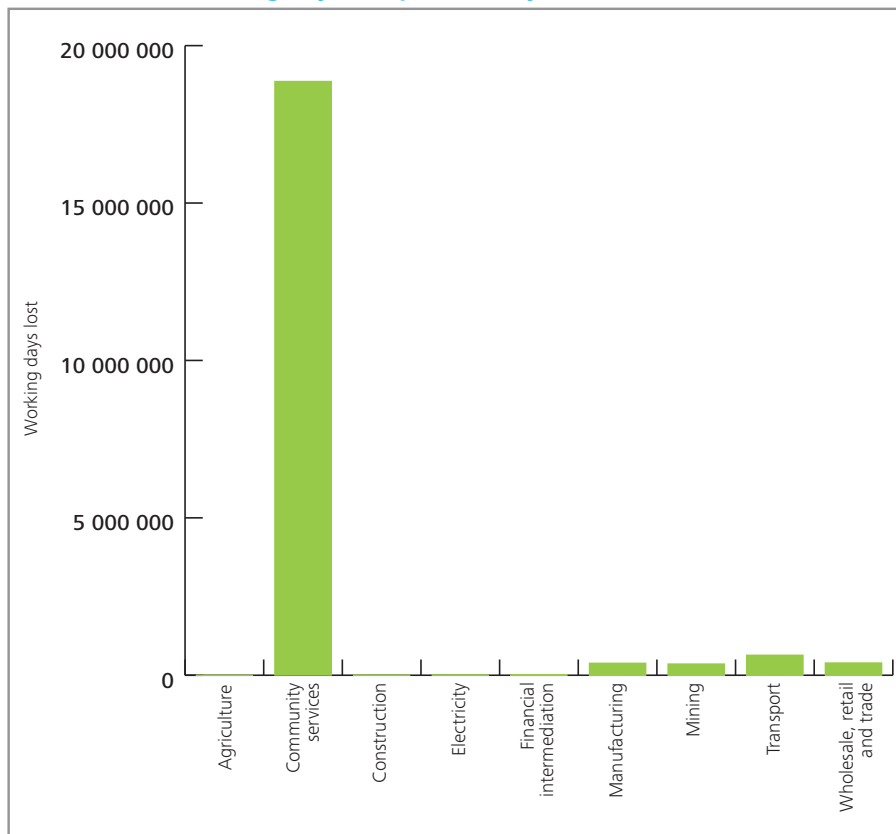




Industrial action, workforce demographics and generational divides

Industrial action, workforce demographics and generational divides are identified as challenges for participant group A. While industrial action was perceived as a challenge for both participant groups. Leaders are concerned with the increasing levels of industrial action by unions and the public sector in an economy experiencing limited growth. The loss in productivity and labour market efficiency (South Africa ranked 95 out of 140 countries on the efficiency of its labour in 2010)¹² caused by this does not bode well for the economic growth of the country and the ultimate prosperity of its people. The above inflation increases are perceived negatively by business as it means less jobs for other employees and the younger demographic seeking to enter the market.

Distribution of working days lost per industry 2010

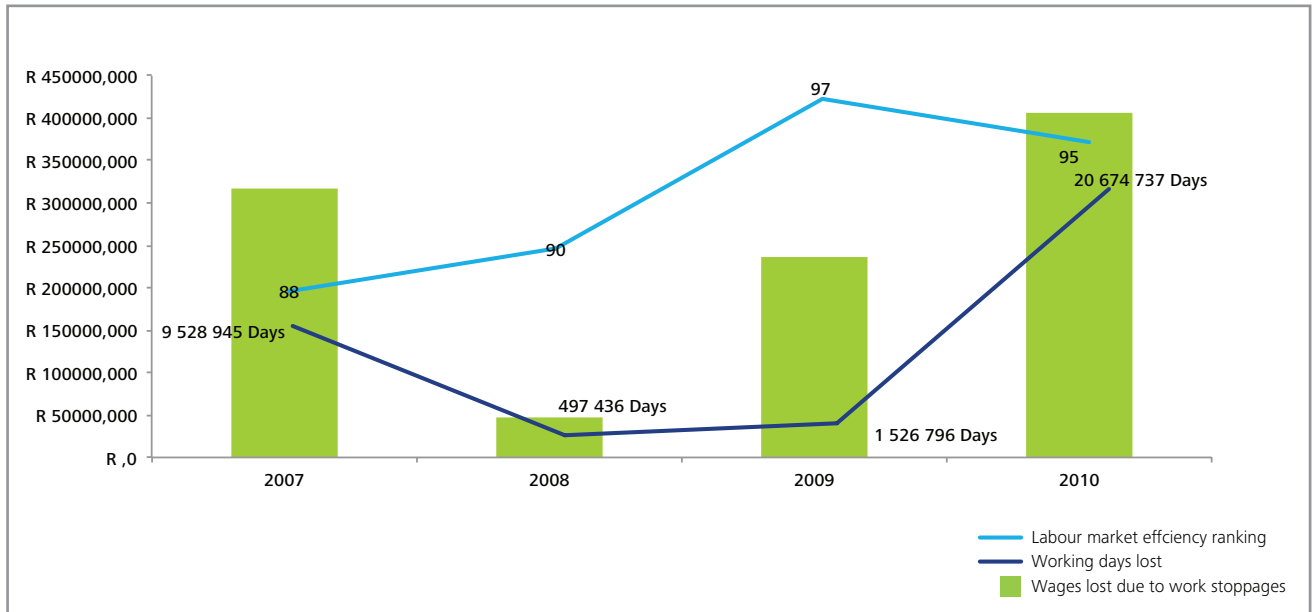


Department of Labour, Strikes Statistics 2010

¹³ World Economic Forum, "Global Competitiveness Report 2011-2012"

¹⁴ South African Department of Labour, "Strike Statistics" 2010

Wages and workdays lost from industrial action and labour market efficiency in South Africa



Department of Labour, Strike Statistics 2010; World Economic Forum Global Competitiveness Reports 2007-2011; Deloitte

Both on a local and global level youth unemployment continues to be a concern and is likely to get worse with the continued weakness of the global economy. Sub-Saharan Africa is predicted to have one of the fastest population growth rates in the world and this factor far outstrips the employment opportunities available in the market. Business leaders will need to consider up-skilling youth in an effort to prepare for the future of the country, as ultimately the youth are the future talent pool that will contribute to the competitiveness of business.

Business leaders will further need to cater for highly skilled youths that are employed, and the new generation leaders, who have different expectations, values, and work preferences from those of their boomer predecessors. While external factors certainly play a big part in driving those differences, companies have the opportunity to shape expectations. Whether focused on career options, global mobility, total rewards, or all of the above, new leaders need new ways to navigate the Corporate Lattice surrounding them.

Business leaders will need to consider up-skilling youth in an effort to prepare for the future

More effective retention initiative by generation: Executives vs. employees

Ranking	Millennials (ages 31 and under)		Generation X (ages 32 - 47)		Baby Boomers (ages 48 - 65)	
	Executives	Employees	Executives	Employees	Executives	Employees
1	Company culture (21%)	Promotion / job advancement (41%)	Additional bonuses or financial incentives (21%)	Promotion / job advancement (64%)	Additional benefits (26%)	Promotion / job advancement (50%)
2	Flexible work arrangements (20%)	Additional compensation (40%)	Additional compensation (19%)	Additional bonuses or financial incentives (41%)	Additional bonuses or financial incentives (23%)	Support and recognition from managers (43%)
3	New training programmes or support and recognition from managers (19% tie)	Additional bonuses or financial incentives (33%)	Strong leadership (19%)	Additional compensation (33%)	Additional compensation or strong leadership / organisational support (21% tie)	Additional compensation (42%)

Source: Deloitte, "Talent Edge 2020 - Building the recovery together" (April 2011)

In terms of gender equality, South Africa ranks 58 out of 135 countries¹⁵ with regards to economic participation and opportunity for women. While this ranking fares better than many developing areas in the world, including the Middle East, North Africa, Latin America, Asia and the Pacific, work still needs to be done to bring South Africa's economic environment in line with more developed economies such as North America and Europe.

Embracing the power of diversity for innovation and growth takes more than just changes in hiring patterns. The roles people play in a company, and the expectations they can have for influence and advancement, are just as important in unlocking their potential contributions.

¹⁵ World Economic Forum, "Global Gender Gap Report 2011". (2011)

Exchange rate volatility

Exchange rate volatility is considered a challenge for participant group B. The fragility in the global economy has sizably affected key global exchange rates. In a developing market such as South Africa, the choice of exchange rate regime remains a debatable aspect of the country's macroeconomic policy. Business is concerned about the continuous fluctuations in the South African Rand. It creates uncertainty for many importers and exporters regarding payments and receipts, which often has a direct effect on profitability.

“Diversity needs to be intentional.”

5. Dual Challenges and Opportunities

The themes and wildcards that are identified as dual challenges and opportunities represent a difference of opinions between CEOs and business leaders with regards to how they view certain themes and wildcards. While some view talent and internal service delivery as an opportunity for business, others view it as a challenge. Similar sentiments were experienced with regards to energy prices, the slowing Chinese economy and indigenisation.

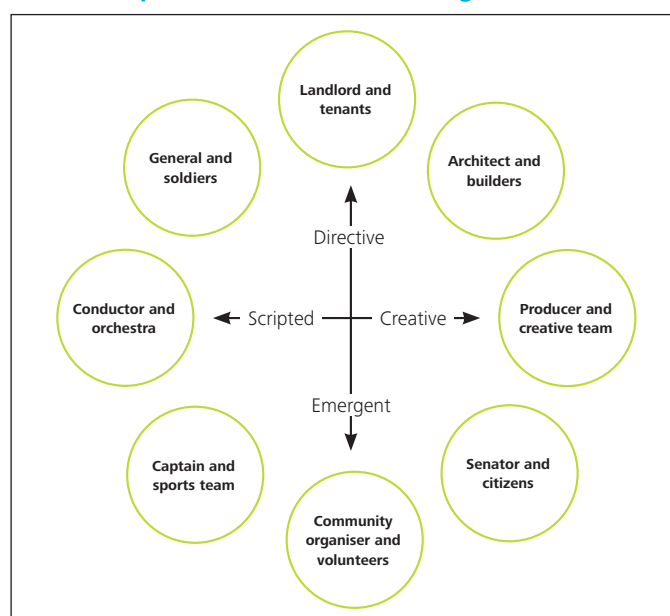
Talent and Internal Service Delivery

Business leaders in participant group A identified internal service delivery as both an opportunity and challenge for business, while both participant groups perceive talent as a dual opportunity and challenge for business. We are entering an economic era that presents special challenges to talent leaders: while unemployment remains generally high, an increasing number of CEOs are nevertheless having difficulty recruiting and retaining people with critical industry, technical, and leadership skills. In short, the recovery is showing signs of talent shortages, as well as an upward move in voluntary turnover.

Business leaders across industries are experiencing workforce change that is constant, fundamental, and accelerating. Rapid CEO turnover, technological change, greater regulatory scrutiny, and an increasingly global marketplace make leadership and talent management more challenging than ever.

Both groups of respondents found talent to be both a challenge and an opportunity for their companies. Participant group A furthermore found internal service delivery to be both a challenge and an opportunity. CEOs understand these challenges better than most. They know that a one-size-fits-all approach to leadership is inadequate for getting work done in the 21st century. Indeed, Deloitte research has shown that there are multiple ways of leading. While it's tempting to divide leadership approaches into two categories: command and control and "everything else," Deloitte has identified eight leadership models that companies can use to foster more effective performance, referred to as Collective Leadership (refer to page 24).

8 leadership models of the As One diagnostic



Source: Mehrdad Baghai, James Quigly, Ainar Aijala, Sabri Challah, and Gerhard Vorster. As One: Individual Action, Collective Power (Portfolio Penguin, February 2011)



Collective Leadership defines the choice of individuals, leaders and companies to interact to achieve common goals and is the process by which individuals and leaders come together in the pursuit of a common purpose. The Deloitte concept of collective leadership reflects several of these new ways of leading. It builds on a foundation of understanding how employees feel about their companies — and provides new insights on how to move people into effective action. Collective leadership is what happens when a large group of people come together and commit to making big things happen.

In Deloitte's experience¹⁶ CEOs should step back and reassess their current capabilities in light of the shifting economic environment. Here are six points that we recommend:

1. Change how change gets managed.

Adapting to new realities begins with a careful assessment of the current state of compliance and organisational readiness. Businesses operating in several countries often experience conflicting governmental requirements. It takes skill to realign an organisation to a new environment and get transformation under way. Desired employee behaviours can be fostered via training and incentives. Suitable metrics must be established to track and drive performance improvement. All these tasks play to the core strengths of HR leaders.

2. Start with the pain points. Our research indicates that regulatory pain points are generally consistent within industry sectors. Create a cross-functional team to assess the marketplace, organisational operations, and reactions of competitors. The regulatory change team must have the authority and experience to "bake in" organisational and operational changes dictated by the regulatory environment.

3. Establish a baseline in how risk is

managed. Many organisations don't have a good handle on how they are currently dealing with risk. Determine your baseline by asking crunchy questions: What types of risks are you currently handling well that you can learn from? Where do you see (or have you seen) the biggest gaps or greatest exposure to risk? What do you see that is impacting your ability to deal with risk effectively?

4. Go for low-hanging fruit. A current-state assessment will likely highlight some opportunities for quick wins. Create a clear action plan, measure and monitor results, and then make any successes known. Nothing helps an initiative like early wins.

5. Lead the process. Many of the challenges uncovered in this process of assessing regulatory risks require the experience that the HR function brings to the table. This is an opportunity for HR to step up and lead.

6. Use workforce data to drive talent decisions. Given the importance of talent and people, it's time to move beyond instinct, gut, and tribal wisdom in making workforce decisions. If you're not using workforce data and analytics to drive your talent decisions, you may be behind the curve — and at risk of losing your competitive edge. As HR works with business leaders on the front lines, analytics are becoming critical in making more effective decisions related to workforce planning and recruitment, compensation, development programs, and deploying critical talent.

¹⁶ Deloitte, "Talent Edge 2020 – Building the recovery together". (April 2011)

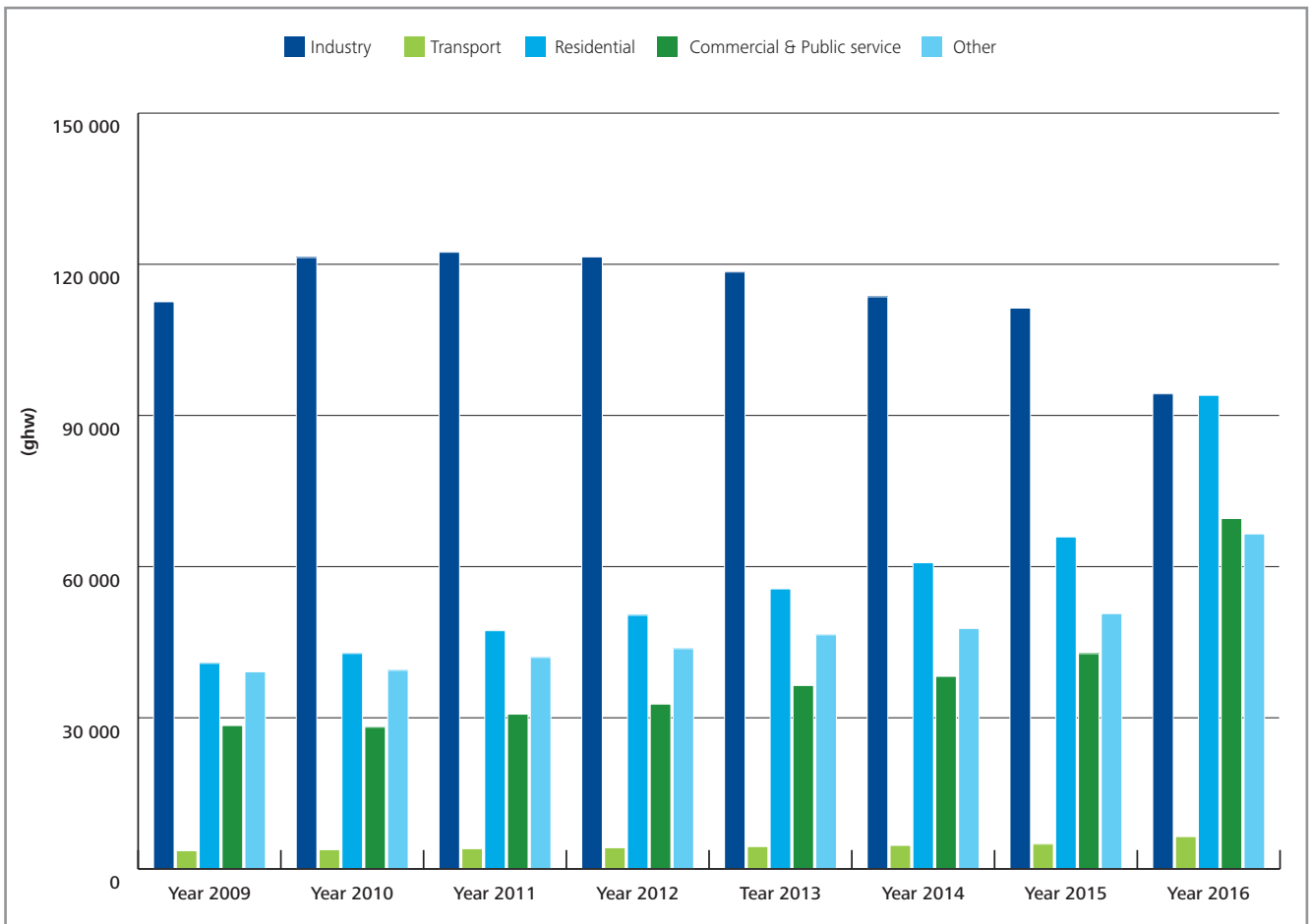
¹⁷ Merdad Baghai, James Quigley, Ainar Aijala, Sabri Challah and Gerhard Vorster. *As One: Individual Action, Collective Power* (Portfolio Penguin, February 2011).



Energy prices

Energy prices are perceived as both a key opportunity and concern by participant group B. Looking at a recent Economist Intelligence Unit energy forecast, industry will continue to be the largest consumer of energy for at least the next five years. Energy prices are therefore a key concern and affect many companies' ability to operate under increasingly costly conditions.

South African Energy Consumption (ghw)



Economist Intelligence Unit

South Africa's power consumption is set to rise substantially in the next couples of years, and prices will continue to increase in an effort to align South Africa's currently inexpensive price of power (relative to the rest of the world) to more comparative levels to other world economies. Business leaders are increasingly concerned with the rapid rate at which energy prices are increasing. Leaders also lack confidence in having sufficient energy to serve the country's needs, particularly where these concerns impact sectors of business, jobs and economic growth. The energy pricing policy and the National Regulator Act are currently under revision in order to seek a more manageable plan.

Energy prices will continue to rise regardless. Business leaders will need to start considering and adopting new forms of energy in order to remain both viable and competitive in the long-term. Africa is endowed with natural resources. A migration to a cleaner energy mix will therefore be relatively easier than in other parts of the world. Leaders may need to consider different forms of energy such as renewables and natural gas. Natural gas for instance comes at a far lower cost than its coal based counterpart. Careful consideration and planning needs to take place in terms of investment by the private sector in infrastructure, by assessing the potential effects on water resources in one of the world's most water scarce countries. The design of a 30-year plan and a long-term framework will need to be considered and renewable energy sources will also require consideration.

In order to build sustainable business now and in the future, business leaders need to place emphasis on understanding the Renewable Energy sector and the risks and opportunities associated on both operations and products within the supply chain. In Deloitte's experience business often view Renewable Energy as a challenge to adopt, however if adopted there exist numerous capital incentives and subsidies designed to support cleaner development which businesses can certainly benefit from.

Energy prices will continue to rise regardless. Business leaders will need to start considering and adopting new forms of energy in order to remain both viable and competitive in the long-term





Slowing Chinese economy

Participant group B identified the slowing Chinese economy as both an opportunity and challenge for business. In the past couple of years several African economies have altered their focus toward Chinese demand for their raw materials of which demand could negatively be affected by a slowing of the Chinese economy. In Deloitte's recent Global Economic Outlook (November 2011)¹⁸ evidence suggests that the economic slowdown in China is largely being experienced by small - to medium-sized private businesses (especially those that export) and not by the large, state-run enterprises that retain favorable access to credit. After all, imports of oil and iron ore rose significantly in August 2011.

The biggest source of recent growth has been fixed asset investment, especially construction. The importation of iron ore, used to make steel, indicates ongoing strength in construction. Meanwhile, a deceleration in exports is the prime cause of the economic slowdown. While the strength of construction is good in the short term, it means that China continues to over-build. The \$1.7 trillion in debts issued by the Chinese government to fund infrastructure building has been a concern for some time, but officials have downplayed the danger until now. The fear is that multiple defaults could damage the health of China's banks without a bailout from the central government.

With a rising currency, slower growth overseas, and rising wages at Chinese factories, it seems likely that export growth will be slow in the next few years. In this scenario, China will likely look toward a boost in consumer spending to offset a decline in investment, but it would have to grow rapidly to make a difference and avoid a significant slowdown, given that consumer spending is now only 35 percent of GDP. It is safe to say that China is slowing down.

In addition, it is probably safe to say that the excessive debt-financed investment of recent years will likely lead to challenges somewhere down the road. In that situation, economic growth will decelerate. How much it slows will depend on a variety of factors, including how the government responds to such an event. In any event, an economic slowdown in China will have global ramifications. A Chinese slowdown will remove pressure on global commodity prices and reduce export growth for China's major trading partners. Domestically, slower growth could remove some of the upward pressure on wages and prices in China but could also potentially lead to social unrest.

¹⁸ Deloitte, "Global Economic Outlook". (November, 2011)

Indigenisation

Participant group B perceived indigenisation to be an opportunity for business where it relates to the creation of more locally produced products and services rather than outsourcing these functions to foreign businesses and suppliers. This form of indigenisation is seen to be productive for a country and ultimately creates growth and job opportunities.

Alternatively, participant group B also perceived indigenisation to be a challenge when it concerns the transformation of businesses to be more aligned with local culture. This is typically through foreign businesses including more local people from the country in which they are operating and this is perceived as a challenge where it is conducted in an aggressive manner. On the 25 March 2011, the Zimbabwean government officially presented its indigenisation and Economic Empowerment Regulations for the mining industry. These regulations specified that all mining companies that were not already majority-owned by indigenous Zimbabweans were required to submit an indigenisation operational plan by the 9 May 2011, and that the disposal of shares needed to be complete by 25 September 2011¹⁹.

The key area of concern with this form of empowerment is the lack of clarity on how the process is implemented fairly and its overall effect on investor sentiment towards the country. There is a general concern that foreign direct investment will weaken based on such policies, as foreign business becomes disincentivised to enter into a business landscape that provides potential uncertainty and risk.

¹⁹ Economist Intelligence Unit, ViewsWire Africa. (2011)



6. Conclusion

The Deloitte Insomnia Index survey harnesses the breadth of our capabilities to deliver forward-thinking perspectives and fresh insights to help CEOs manage the complexities of their role, drive more value in their organisation, and adapt to the changing strategic shifts in the market.

For more information about the Deloitte Insomnia Index, please contact us at insomniaindex@deloitte.co.za





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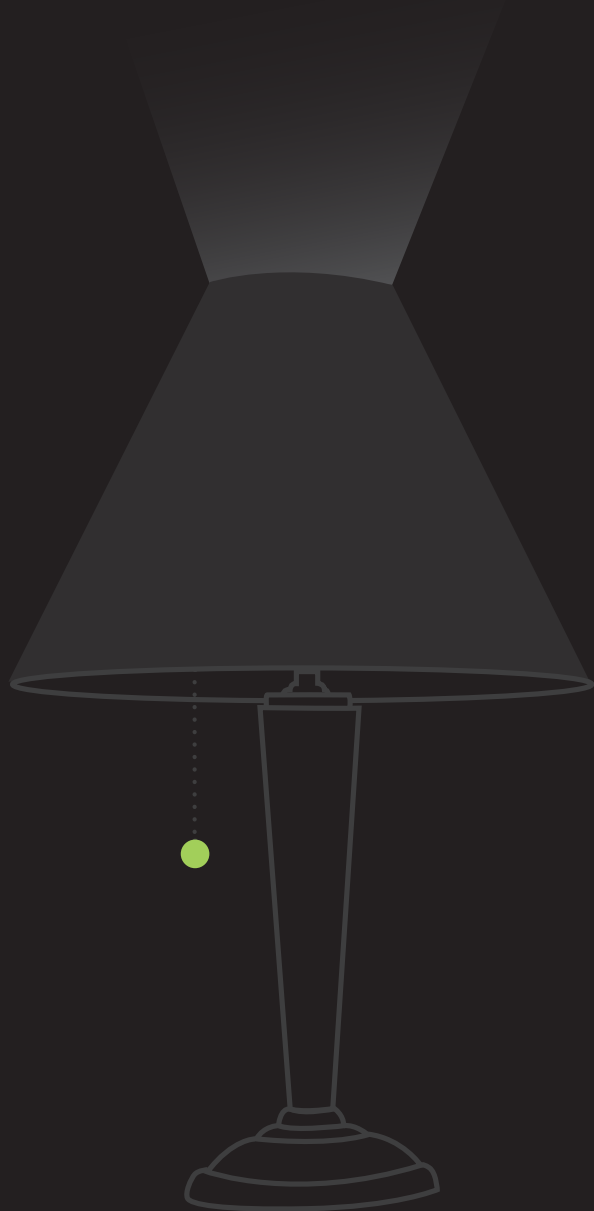


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Only the solution should keep you up at night

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