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The importance of sharing success—and stress—metrics

By **Jo-Anne Mitchell-Marais** *and* **Gregor Adrian Böttcher**

The importance of sharing success—and stress—metrics

Research from Deloitte Africa highlights how, to survive and thrive through future disruptions, C-suites and their key stakeholders need a shared view of the threat and how their organizations are positioned to manage it

By **Jo-Anne Mitchell-Marais** *and* **Gregor Adrian Böttcher**

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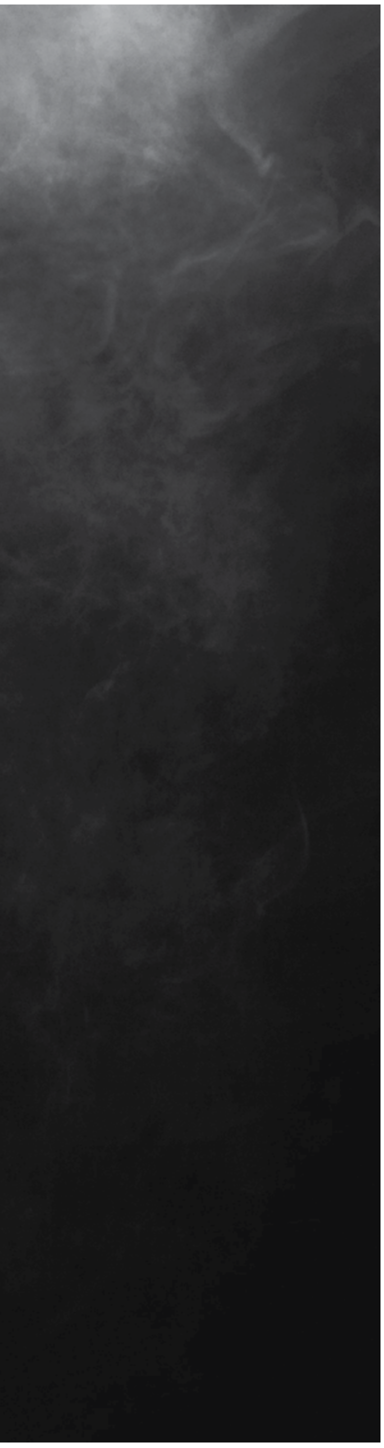

Author, commentator, and policy analyst Michele Wucker coined the term “gray rhinos” for high-impact risks people should see coming but invariably ignore until it’s too late, like reacting to a rhino aiming its horn in their direction and preparing to charge. In her 2016 book *The Gray Rhino: How to Recognize and Act on the Obvious Dangers We Ignore*, she cautioned that “the frequency of pandemics warns of a much bigger global health threat to come: It’s not a matter of if but when.”[1]

As the world recovers from the last crisis, and with the next one already happening, it’s apparent that more gray rhinos will come. These risks will become more frequent and arrive simultaneously—a “crash” of gray rhinos. For companies, this means operating in a highly uncertain environment, which requires resilience and an honest assessment of where their risks lie.

There’s seemingly endless information out there about how companies can ready themselves for the next crisis or disruption, but our 2022 Deloitte Africa Restructuring Survey revealed one particularly important insight that we think is worth adding to the mix: While preparing for the next gray rhino, C-suite leaders should ensure that they’re looking through the same pair of binoculars as their key stakeholders and collaborators, including their lenders.[2]

Track the indicators that matter

In a world of frequent disruptions and consistent uncertainty, new winners and losers will emerge across regions, countries, and sectors. Inflation and the threats of recession are altering consumer behavior yet again, as the global economy experiences the reverberating impact of Russia’s invasion of Ukraine. Companies that were reaping the rewards of pent-up demand just months ago may show signs of stress later this year. In this environment, where winners can become losers alarmingly quickly, the proactive tracking of indicators of financial stress is critically important for boards, management teams, lenders, and other financial stakeholders.

As the COVID-19 pandemic demonstrated, in the face of a crisis, organizations need a liquidity buffer—sufficient cash runway to implement the operational and financial rightsizing required to survive and thrive. According to our study—which included a survey of 111 restructuring professionals and C-suite executives fielded in January and February 2022 in Kenya, Nigeria, and South Africa—declining operational or free cash flow is the top-ranked indicator of an organization’s financial stress. Eighty-five percent of respondents across Africa included this in their top five, and the remaining top metrics were trading- or cash-flow–related.

Many professionals won’t be surprised by this finding. Cash is the lifeblood of business, and close cash flow tracking and management are critically important as signs of stress appear. However, while survey respondents across geographies and roles broadly agree on which are the most important indicators of financial stress, views diverge on how often these are tracked by management teams.

C-suite respondents to our survey believe that they regularly track revenue, profitability, cash flow, and working capital but acknowledge that debt ratios are less of a priority. Lenders’ perception, however, is almost diametrically opposed: They believe that companies track cash flow and balance sheet metrics less often than headline-making revenue and share price indicators (see figure).

Our survey data indicates a misalignment between the information that lenders and other restructuring professionals would like to see measured and the actual information tracked and provided to stakeholders. This could affect companies' ability to secure emergency funding: Lenders across Africa rank the availability of reliable information as one of the highest barriers to decision-making, second only to the banks' reputational risks.

Adopt a herd—or crash—mentality

So how can management teams better prepare their companies for future crises and disruptions? Don't lose sight of your stakeholders' priorities and perspectives. While C-suite respondents in our survey ranked actions within their control—diversification, establishing crisis committees, and appointing advisors—the highest,[3] lenders recommend that clients engage with their bankers first and as early as possible to ensure emergency funding lines are available.

Halting a crash of gray rhinos may well seem impossible, but by communicating early and encouraging proactive steps to manage risk, the worst of the charge may be avoided.

To access the research report, visit www2.deloitte.com/2022DeloitteRestructuringSurvey.html

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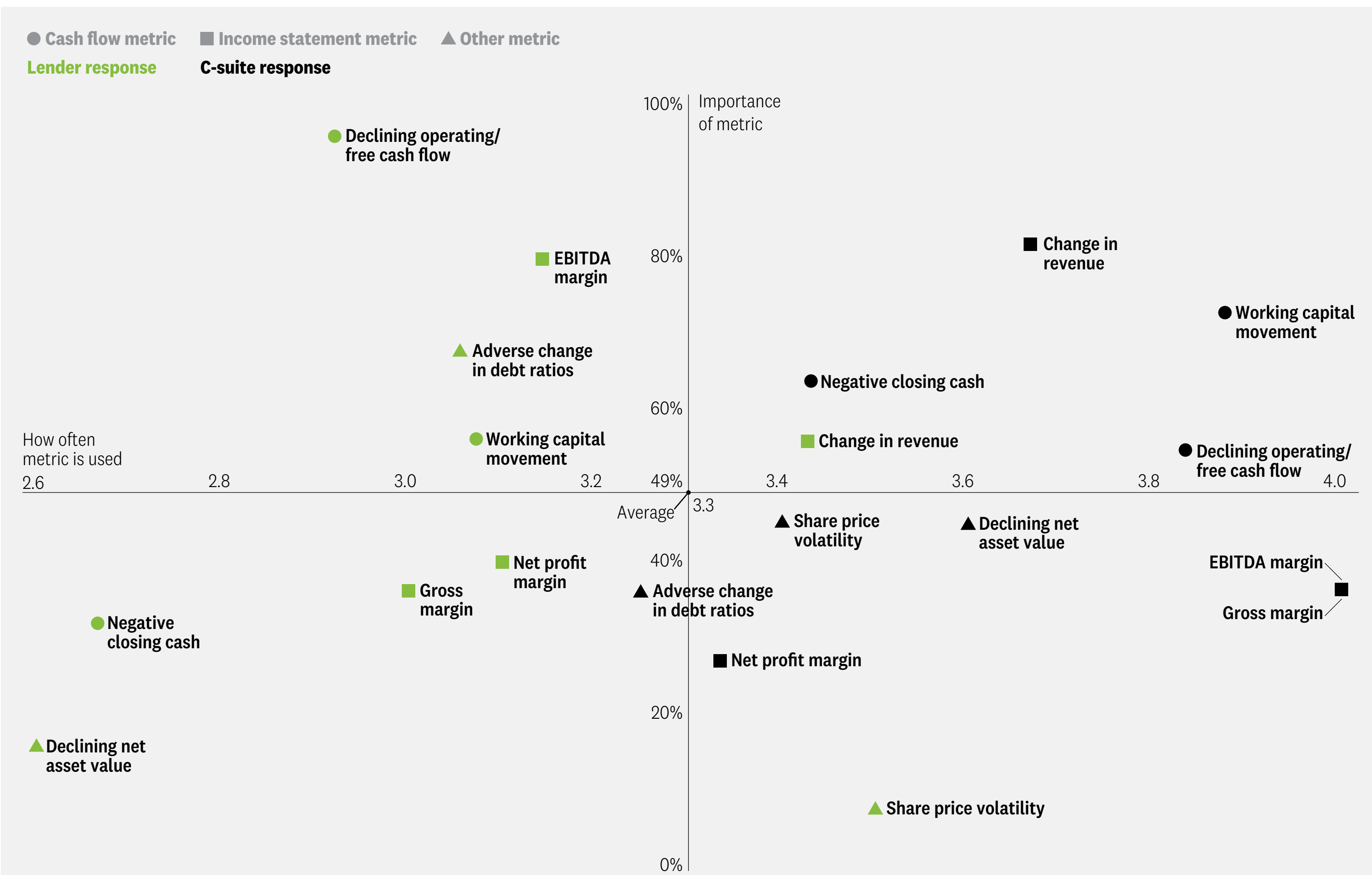
Q: "What are the most effective measures of financial stress and how often are these tracked by companies?"



Note: Respondents represent all regions and stakeholders.
Source: Deloitte Africa Restructuring Survey results, 2022.

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Investing in creative potential

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The end note: The shifting balance between health, safety, and financial concerns

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The shifting balance between health, safety, and financial concerns

Some research and insights have a short shelf life, while others continue to gain color and context. In each issue of Deloitte Insights Magazine*, we look back on research we published and ideas we pitched, and evaluate whether they've stood the test of time.*

By **Stephen Rogers**
Managing director of Deloitte's Consumer Industry Center

What we said then

"In the span of a few months, what started as a global health crisis morphed into an economic one as well. It's been more than a century since the world has seen these two forces so intertwined. We do not expect to see a return to normal, or even a new normal, until total concern descends from its elevated level and financial concerns overtake those of immediate health and safety."

In the throes of a dual-front crisis: Establishing the road to a global consumer recovery, Deloitte Insights, April 2020.

What we say now

We're still in a dual-front crisis, according to the Deloitte Global State of the Consumer Tracker. However, after lagging behind for the better part of two years, financial stress is now overpowering health and safety concerns as the primary determinant of consumers' decision-making by quite a strong margin.

Following omicron, global pandemic anxiety subsided dramatically among the 23,000 respondents across 23 countries who participated in our monthly consumer survey. Consumers' perceived safety of doing everyday things like going to the store quickly reached two-year highs, and it continues to improve with each passing month.[1]

At the same time, record inflation continued unabated, exacerbated by geopolitical conflict. And with government stimulus programs no longer around to help consumers make ends meet, financial sentiment metrics have begun flashing warning signals. Globally, financial anxiety is high—as is concern around inflation, and consumers' level of savings and credit card debt.[2] In some countries, including the United States, China, and England, discretionary spending intentions are weakening.[3]

In many ways, consumer businesses face similar challenges compared to early pandemic days. They still need the agility to respond to rapidly changing consumer behavior. And few can predict the extent of the financial headwinds that lie ahead.

Even as the pandemic gradually fades, many companies are finding that prepandemic financial and forecasting models no longer work. The "new normal" remains elusive.

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