The importance of sharing success—and stress—metrics

By Jo-Anne Mitchell-Marais and Gregor Adrian Böttcher
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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
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.”

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.

**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, 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.

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

<table>
<thead>
<tr>
<th>Metric</th>
<th>Lender response</th>
<th>C-suite response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Declining operating/free cash flow</td>
<td>2.6</td>
<td>2.8</td>
</tr>
<tr>
<td>EBITDA margin</td>
<td>3.0</td>
<td>3.2</td>
</tr>
<tr>
<td>Adverse change in debt ratios</td>
<td>3.4</td>
<td>3.6</td>
</tr>
<tr>
<td>Change in revenue</td>
<td>3.8</td>
<td>4.0</td>
</tr>
<tr>
<td>Working capital movement</td>
<td>4.0</td>
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Note: Respondents represent all regions and stakeholders. Source: Deloitte Africa Restructuring Survey results, 2022.
Endnotes

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Where global execs stand on making health equity a business priority


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The potential impact of a broken DEI promise

1. Jennifer Tonti and Jill Mizell, “95% of Black Americans agree that it’s important for companies to promote racial equity; 80% believe they can do more,” JUST Capital, April 1, 2021.

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Addressing the link between financial, physical, and emotional health

4. According to the 2017 FDIC National Survey of Unbanked and Underbanked Households, “underbanked” are defined as those who have a checking or savings account and used one of the following products or services from an alternative financial services provider: money orders, check cashing, international remittances, payday loans, refund anticipation loans, rent-to-own services, pawn shop loans, or auto title loans.

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Data-protection tech that helps AI fulfill its potential

1. This article and Deloitte Insights Magazine are independent publications and have not been authorized, sponsored, or otherwise approved by Apple Inc.

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2. Ibid.
3. Ibid.

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Why reporting workplace well-being metrics is a good idea


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Employee health contributes to organizational health

5. Steve Hatfield, Jen Fisher, and Paul Silverglate, The C-suite’s role in well-being:
5. United Nations, “68% of the world population projected to live in urban areas by 2050, says UN,” May 16, 2018.
10. Ibid.
11. Ibid.
15. Antunes, Barroca, and de Oliveira, Urban future with a purpose.
16. Ibid.
17. Ibid.

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Thinking about investing in the metaverse? Let history be your guide

2. US Census Bureau, Quarterly retail e-commerce sales: 4th quarter 2021, February 18, 2022, pp. 1–3.

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3. Ibid.

P48-61
Incentives are key to breaking the cycle of cyberattacks on critical infrastructure

7. For a description of how increasing tech balkanization encourages nation-state cyberattacks, see Jesse Goldhammer et al., Leading the way with an adversary focus: Government’s role in deterring cyberattacks, Deloitte Insights, August 4, 2021. For more on how geopolitical tensions can drive cyberattacks, see CISA Insights, “Increased geopolitical tensions and threats,” January 6, 2020.
15. Our categorization of incentives comes from Stephen Levitt and Stephen Dubner’s book Freakonomics, in which they categorize “three basic flavors of incentive: economic, social, and moral.” Our categorization of the levers that can shape those incentives is a combination of Lawrence Lessig’s norms, markets, laws, and architecture, and Bruce Schneier’s moral, reputational, institutional, and security.
16. Catalin Cimpanu, “Netherlands can use intelligence or armed forces to respond to ransomware attacks,” Record, October 7, 2021; Sean Gallagher, “Candid camera: Dutch hacked Russians hacking DNC, including security cameras,” ARS Technica, January 26, 2018.
21. Ibid.
23. The inherent tension between wanting more/better services and where funding for those services should come from can be seen in research by the Pew Research Center. Pew Research Center, “Little public support for reductions in federal spending,” April 11, 2019; Pew Research Center, “In a politically polarized era, sharp divides in both partisan coalitions,” December 17, 2019.
Investing in creative potential

1. An ecological approach is one that is focused on the relationship between the individual and the systems in which they act, a relationship that is seen as interdependent. Ecological psychology is an embedded, situated, and nonrepresentational approach pioneered by J. J. Gibson and E. J. Gibson.

2. The Four P’s framework—where creativity is framed as an emergent property of person, process, place (in the original), and product—was first discussed in M. Rhodes, “An analysis of creativity,” *The Phi Delta Kappan* 42, no. 7 (1961): pp. 305–10.

3. Rhodes’s original article calls this setting “press” rather than “place,” the idea being that there are pressures (or influences) on our behaviors. While it’s true that the social and physical context we find ourselves in influences our creative behavior, it is also true that some of these influences are not necessarily environmental. Consequently, it is common for press to be replaced by place, as we have throughout this essay, as place is a more intuitive term; ibid.

4. A useful, and short, definition for innovation is “the economic exploitation of creativity.”


7. Problem-posing is a technique where an issue is framed and reframed to try and identify and define the core challenge. It is commonly used in both education pedagogy and design.

8. It’s for this reason that the 1978 *Superman* film has a long section at the start showing the challenges Clark Kent faces when trying to fit into society while having superpowers.


10. What we have referred to as “cognitive diversity” is often called “functional diversity” in the literature; ibid.

11. Thanks to Peter Williams—a charted accountant—for the analogy.

12. Traditionally, this has been approached through office-space design, from inspirational decor to collaborative tools such as stages, small auditoriums, and floor-to-ceiling whiteboards. But increasingly, place can be just as much virtual as physical as organizations invent new ways to collaborate digitally, perhaps even in the imagined metaverse of coming years.

13. The first report in this series, *Unshackling the creative business*, discussed how creativity in business is contingent, in that the creativity of one team depends on the creativity of others; see Peter Evans-Greenwood et al., *Unshackling the creative business: Breaking the tradeoff between creativity and efficiency*, Deloitte Insights, April 9, 2021.


15. The authors developed on “investment opportunity” in the previous essay in the series *Setting the stage for creative performance*. The intention with “investment opportunity” is to put creativity on an equal footing with efficiency in an organization’s operating model by creating a metric for creativity to balance cost-benefit; see Peter Evans-Greenwood et al., *Setting the stage for creative performance: Improving creativity in business by measuring creativity*, Deloitte Insights, October 29, 2021.


20. We might compare this to the Four-C Developmental Trajectory for creativity, which breaks the development of creativity into a journey from Mini-C (personal creativity) through Little-C (everyday creativity) and Pro-C (professional creativity) to Big-C (legendary creativity). See Ronald A. Beghetto, James C. Kaufman, and John Baer, *Teaching for Creativity in the Common Core Classroom* (New York: Teachers College, Columbia University, 2014), pp. 21 and 27.

21. Such as a pandemic. Indeed, this series was triggered by the observation (toward the end of the first year of the pandemic) that many otherwise “creative” organizations struggled to respond creatively, while some organizations not particularly known for their creativity provided creative and innovative responses.

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Renewable transition: Separating perception from reality


2. Deloitte analysis of data from Table 1.1 from EIA, “Electric power monthly,” accessed May 10, 2022.


8. Digitalization refers to applying information and communications technology to the electric grid. This may involve connecting smart meters, sensors, and other devices to monitor grid activity, analyzing the data collected, applying AI, and using software to manage, control, and automate operations.


16. Electric power systems in regions with high wind-power contributions have operated reliably without added storage and with...
little or no increase in generation reserves (see American Clean Power Association, AWEA US wind industry annual market report, year ending 2013, 2013). MISO has been able to integrate huge amounts of wind without adding power plants to back up its renewable energy production, partly because MISO is a large balancing area with many different energy resources available (see Glen Anderson, “Integrating renewable energy,” National Conference of State Legislatures, June 20, 2016). The IEA could not be any clearer: No additional dispatchable capacity ever needs to be built because VRE is in the system. On the contrary, to the extent of the capacity credit of VRE, its addition to the system reduces the need for other capacity (see American Clean Power Association, “News roundup: A carbon-free Iowa energy boom, renewable integration is easy, wind and solar work together,” March 5, 2014).

17. Variable renewable energy (VRE) refers to utility-scale wind and solar resources as well as distributed solar PV. Distributed wind is also a VRE, but volumes are low, and data was not available for this analysis.


19. Ibid.


30. MISO, “Corporate fact sheet.”


32. Ibid.


35. California ISO, Root cause analysis: Mid-August 2020 extreme heat wave, January 13, 2021. While some have attributed California’s electricity supply shortages to VRE, the causes appear more related to demand surgences from unprecedented multistate heat waves coinciding with wildfires that constrained transmission and triggered systemwide failures (for more details, see Ken Silverstein, “Green energy is not among the culprits behind California’s energy crisis,” Forbes, September 8, 2020). Nevertheless, California’s plans to prevent future shortages include accounting for the state’s changing generation mix.


41. Jeff St. John, “Biden admin aims to make the US a world leader in lithium-ion batteries,” Canany Media, June 9, 2021.


48. Ibid.

49. Ibid.

50. IEA, The role of critical minerals in clean energy transitions, May 2021.


65. Anmar Frangoul, “Renewable electric generation is growing—but it’s not enough to meet rising demand, IEA says,” CNBC, July 15, 2021.


68. Edison Electric Institute, “The clean energy transformation: Electric companies are leading the way,” accessed May 10, 2022.


70. Deloitte analysis of data from S&P Global Market Intelligence.

71. Joseph Rand et al., Queued up: Characteristics of power plants seeking transmission interconnection as of the end of 2020, Lawrence Berkeley National Laboratory, May 2021, p. 3.


P88 The end note: The shifting balance between health, safety, and financial concerns


2. Ibid.

3. Ibid.
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.●