

AN FTI CONSULTING REPORT - PUBLISHED DECEMBER 2020

COVID-19 Resilience Barometer South Africa



Introduction

FTI Consulting's Resilience Barometer™ data reveals how, for too many organisations in South Africa, the pandemic has exposed a lack of resilience across critical areas: from business models, to supply chains, and from crisis management, to regulatory changes in an increasingly fragmented world.

“Whatever the business, industry or geography, a collective understanding of resilience is now critical.”

Operational risks present before the pandemic have been amplified. COVID-19 has added complexities of its own to the picture. These include disturbances to the supply chain and general operational disruption stemming from social distancing and hygiene measures – not least the move to mass working from home.

FTI Consulting's Resilience Barometer seeks to guide companies on how best to navigate the continuing disruption and uncertainty, and increase their resilience: that is, to ensure they are prepared for whatever comes next.

Methodology

Drawing on insights of global C-suite professionals, FTI Consulting’s Resilience Agenda captures the experiences of business leaders facing major challenges – whether commercial, technological, reputational or legal. These learnings are encapsulated in eight resilience levers: key areas of focus that decision-makers must navigate in a fast-paced, disrupted environment.

Resilience Levers

1. Business model and workforce transformation
2. Operational and financial resilience
3. Remediation and dispute resolution
4. Government and stakeholder relations
5. Digital trust and ecosystems
6. Economic impact and sustainability
7. Escalation planning and response
8. Real-time data analytics

\$50m

Respondents manage companies with at least \$50 million turnover



Participants represent companies with balance sheets of >\$43 million



Respondents hail from across the G20 countries as well as South Africa, UAE, Spain, Chile, Colombia and Singapore



120 Top companies in South Africa participated in our survey

\$36t

The sum global turnover of companies participating was \$36 trillion

2-15 Oct

Research was conducted online from 2nd to 15th October 2020 by FTI Consulting’s Strategy and Research team

2,273

Leaders in large companies participated



These companies have >250 employees



In terms of employees, participants directly employ a global sum of 46 million people



Each country has been weighted, so that each country represents the same proportion in the G20



Measured out of a total score of 100, the FTI Consulting resilience score gauges how well companies are prepared to deal with both internal and external corporate risks linked to the COVID-19 outbreak, which are most likely to negatively impact their turnover, value and reputation

14

The score is based on the incidence and actual impact which the 14 scenarios have on turnover – as well as how pro-actively corporate leaders believe they are managing those risks

14 Risks to Resilience

- Inability to pro-actively plan for the future
- A corporate crisis
- Uncovered fraudulent practices
- Arbitration and contract disputes
- Activism or boycott by stakeholders
- Scrutiny of regulatory compliance
- Impacted by ESG and sustainability agenda
- Shift in investment strategies towards sustainable products
- Drop in productivity
- Outdated business model
- Disruption of cash flow
- Supplier disruption or dispute
- Cyberattacks and threats
- Leak of sensitive internal information

Key findings in South Africa

We analysed the top 12 issues that are keeping South African business executives up at night following the COVID-19 crisis.

1. Increasing corruption expected in 2021



Given this context, South Africa needs to take firm action to protect limited state resources and ensure good governance of public finances if it is to deliver to its people the basic rights enshrined in its constitution and to attract the necessary investment needed to fuel future economic growth.

“Despite the widespread negative economic impacts wrought by the pandemic, the current political climate provides a unique opportunity to reinvigorate the country’s fight against corruption.”

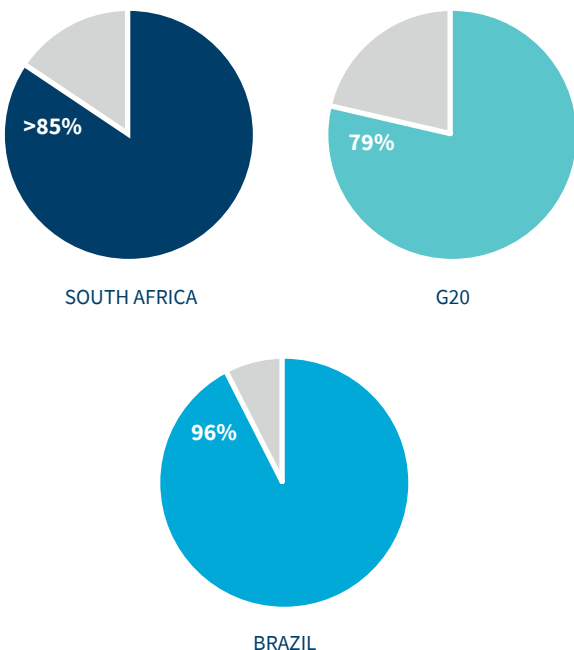
The COVID-19 pandemic has exposed a multitude of governance failures around the world and led to increased calls for fundamental changes to our global political, economic and social systems.

Against the backdrop of a looming global recession, addressing corruption and the misappropriation of state resources remains as important as ever.

More than 85% of South African respondents indicated that they expected an increase in corruption in 2021, compared to 79% for the G20.

Brazil was the highest scoring country of those surveyed, with 96% of respondents indicating that an increase in corruption in 2021 was likely.

EXPECTED AN INCREASE IN CORRUPTION



SUMMARY

To deal with corruption, cabinet and the governing party have proposed various measures ranging from: a focus on criminal prosecution, to requiring officials, to step down from public office if charged.

While it is encouraging to hear more robust anti-corruption rhetoric from the senior leadership in both government and the ANC, many initiatives and proposals remain statements of intent and it remains to be seen whether subsequent action will demonstrate whether “a line in the sand” has in fact been drawn.

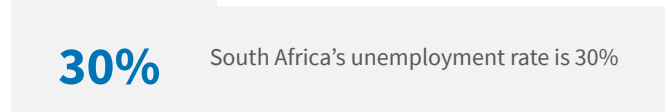
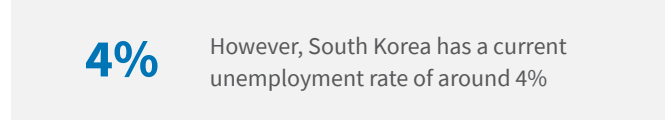
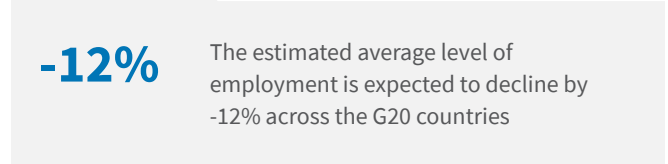
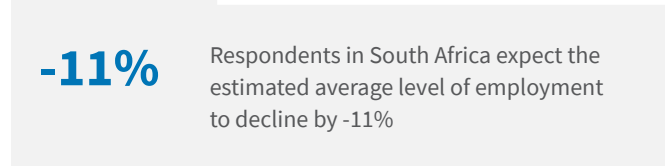
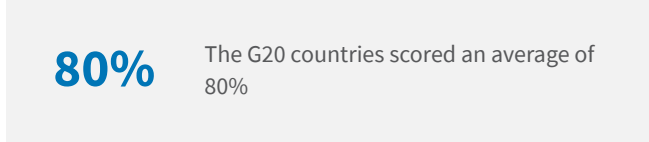
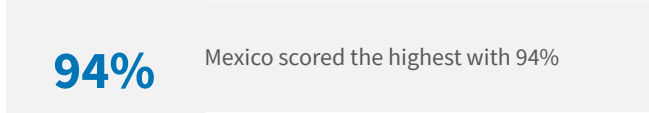
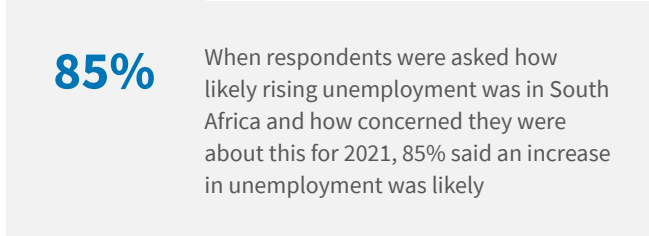
2. Rising unemployment



COVID-19 and the consequent economic effects have meant significant job losses for the people of South Africa. Many families have been affected and there are likely to be long-term impacts.

According to StatsSA:

“The South African economy has shed 2,2 million jobs in Q2 of 2020 compared to Q1 of 2020. This unprecedented change is the largest Q1 to Q2 decline since the survey began in 2008.”



SUMMARY

Of major concern, is the impact that COVID-19 has had on access to education since this has disproportionately affected learners in poorer households. This will have long-term consequences which, coupled with the direct unemployment effects of COVID-19, is likely to affect the job prospects of millions of young South Africans.

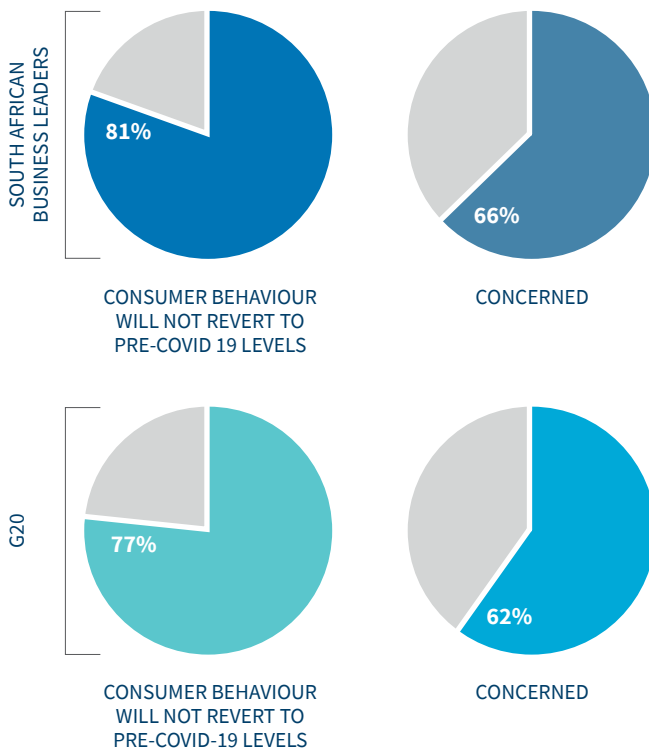
3. Permanent changes to consumer behaviour

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More than three quarters of South African business leaders believe consumer behaviour will be permanently changed by COVID-19

Around 81% South African business leaders indicated that it is likely that consumer behaviour will not revert to pre-COVID-19 era levels, while 66% are concerned about this. This compared to 77% of respondents across the G20 who indicated that this scenario is likely and 62% who indicated it is a concern to them.

CONSUMER BEHAVIOUR



According to StatsSA, household spending in Q2 slumped by 50% in line with the closure of hotels, restaurants, transport services, recreational facilities and many stores. Spending on restaurants and hotels grounded to an almost complete halt, plunging by 99,9%. The alcohol and cigarette bans had an impact too. Consumer spending on these items fell by 92%.

Communication, housing and education expenditure was up in Q2. Cut off from family and friends – and having to suddenly work and study from home – many consumers increased their spending on communication services (most notably on data).

“The crisis has forced companies to rethink their corporate habits”.

SUMMARY

78% of respondents agree that their business models will have to change.

Furthermore, 83% agree that COVID-19 has forced them to fundamentally re-imagine their client/customer service experience.

For more than 4 in 5 large companies globally, this has meant accelerating the digitisation of their business.

However, 61% admit to having been unable to ramp up from a digital perspective, raising concerns over whether these companies will manage to remain competitive.

Moreover, this is particularly the case in the healthcare sector (66%), one which is expected to play a crucial role in the recovery from the crisis.

4. Dispute activity increasing

62%

More than 62 % of South African respondents have stepped up their dispute activity since the start of the pandemic to manage their cash flows



SUMMARY

Our data shows that the global business environment has become markedly more litigious with the onset of the pandemic.

65%

With company cash flows under significant strain, more than 65% of G20 companies have resorted to stepping up their dispute activity to maintain financial health

22%

In South Africa, 22% of consumers faced legal challenges

20%

Suppliers in South Africa also faced legal challenges, with 1 in 5 respondents agreeing with this statement

“Scrutiny of government aid is already playing a big role in investigations and disputes, with this trend likely to continue.”

“Crises like COVID-19 leave all businesses exposed to misconduct risks.”

It is no wonder that over two thirds of G20 firms have seen an increase in regulatory breaches and investigations as a result of the pandemic – or expect to see an increase in the next 12 months.

Traditional issues such as regulatory compliance are still very much at the forefront of business leaders’ minds.

More than 90% of respondents in the regulatory compliance sector and those in financial practice in South Africa, have already been investigated or expected to be investigated in the next 12 months.

5. Fundamental changes to business models

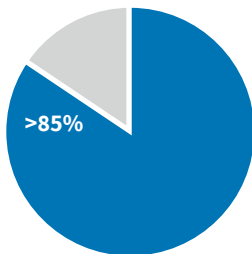
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Over three quarters of South African business leaders believe their business models must fundamentally change as a result of the pandemic

“The COVID-19 health crisis has prompted businesses to acknowledge that their business models must fundamentally change if their organisations are to survive the crisis.”

Around 85% of South African respondents agree that it has forced them to fundamentally re-imagine their client/customer experience service.

RE-IMAGINE CLIENT/CUSTOMER EXPERIENCE SERVICE



SOUTH AFRICA

SUMMARY

The disruption of supply chains, workforce transitions and changes in consumer behaviour brought about by the COVID-19 pandemic, has highlighted the role of technology in ensuring business continuity.

However, the situation also provides an opportunity for companies to go further - harnessing digital transformation and integrating it into their business models, to ensure future growth and sustainability.

While digitisation of business processes, data and analytics will provide competitive advantage going forward, companies must also respond to the spectre of increased cyber risks.

“The most successful organisations in coming years will be those that recognise cyber resilience as a vital source of competitive advantage – with cybersecurity as key to survival in a world disrupted by COVID-19.”

6. Restructuring balance sheets

>65%

Over 65% of South African respondents reporting that they faced challenges servicing their debt requirements since the start of the pandemic

“The pandemic has been a stern test of the operational and financial resilience of businesses across the globe.”

78%

Supply chains took a hit early on and 78% of firms believe the damage to their supply chains caused by COVID-19 is permanent

A truly successful restructuring solution often requires some form of business re-organisation including: site closures, profit enhancement (primarily through cost reduction opportunities) and the delivery of working capital initiatives to improve cash flow.



SUMMARY

An operational improvement plan can deliver significant tangible financial and operational benefit, especially in uncertain times.

When the South African economy is operating in positive territory and quarterly cash inflow exceeds outflows, most successful businesses believe they can weather an economic storm.

However, prolonged periods of deteriorating trading conditions lead to unanticipated cash depletion, weakening of the balance sheet and share price decline.

Balance sheets strength directly impacts the number of levers available for survival, whilst it also has a significant bearing on the cost associated with various turnaround initiatives.

Significant deterioration in balance sheet ratios typically contained in loan covenants, can lead to further liquidity pressures due to defaults allowing creditors to call for immediate payment of principle debt and interest.

Balance sheet resilience can be increased via operational and financial restructuring – the latter entailing a combination of refinancing, de-leveraging through disposal of non-core assets and tighter cash flow management.

7. Increased spectre of cyber threats

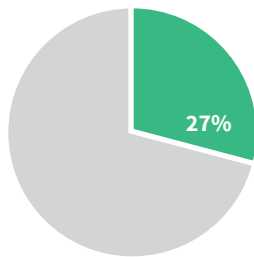
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Approximately 3 in 5 large South African companies have experienced external and internal cyber threats as a result of COVID-19

Ongoing digitisation of business means cyberattacks can inflict damage right across commercial ecosystems.

Of companies experiencing cyberattacks, 27% lose revenue and similar proportions lose assets or customer information.

BUSINESS CYBERATTACKS



LOSS IN REVENUE, ASSETS & CUSTOMER INFORMATION

Reputational harm is another danger.

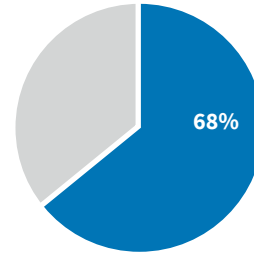
FTI Consulting research indicates that on average, a company receives five times more media coverage and eight times more social media coverage in the month after a cyber breach, than in normal conditions.

5x
MEDIA COVERAGE

8x
SOCIAL MEDIA

More than 68% of respondents in South Africa indicated that cybersecurity has moved up the boards agenda as a result of COVID-19.

CYBERSECURITY



MORE A PRIORITY

But while company boards are demonstrating heightened concern about cybersecurity, the perceived increased risk of adverse cyber events is accompanied by potentially weakened defences and ability to mitigate this risk due to COVID-19-related financial pressures.

Additionally, 92% of companies point to extreme or significant pressure to integrate technology/innovation over the next 12 months, while approximately half as many companies express concern about post-COVID-19 cybersecurity risks such as: external threats (47%) and securing new and emerging technologies (35%).

Despite these risks, only 32% of South African companies are reactively managing cyberattacks and threats, while 19% are not managing them at all (jointly more than 50%).

However, when it comes to managing the leak of sensitive internal information, 52% of South African respondents indicated that they manage this risk pro-actively, compared to the 44% of those from the G20.

SUMMARY

Now, more than ever, it's vital to address these gaps in organisations' cyber defences and mitigate risks in a dynamic, increasingly vulnerable world.

8. Rethinking corporate habits

97%

97% of South African respondents agreed that the COVID-19 outbreak has forced South African companies to be more agile in using predictive analytics to respond in real-time to change

The COVID-19 crisis has forced companies to rethink their corporate habits.

50%

Remote working has increased close to 50% compared to the prior to the COVID-19 outbreak, from 31% before the crisis to 44% now

87%

The impact of this rapid change is far-ranging. It has made companies more vulnerable to cybersecurity risks, with 87% of respondents concerned about this

9/10

It has also impacted productivity and mental health, with 9 out of 10 respondents concerned about the mental health of their workforce

In FTI’s Resilience Barometer™ published in January 2020, we reported that only 24% of respondents were driving cultural change in their organisation to mitigate risk from crises – even though 94% of respondents felt under pressure to improve their corporate cultures.



SUMMARY

Following the pandemic, the one certainty is that change can happen fast and unpredictably.

To become more resilient, organisations must be more proactive and introspective, having the courage to overhaul business models, technology and culture to navigate a new and volatile landscape.

Unless a company remains relevant to its customers and its employees, both groups will look elsewhere.

“A flexible organisation, culture and workforce are vital to resilience in an unpredictable post-COVID world.”

To recruit and retain key talent, companies will have to offer the right working conditions and be more cognisant of personal circumstances.

COVID-19 has dramatically changed assumptions and norms about how organisations manage their workforces, along with the way they service customers.

Unfortunately, many organisations were ill-prepared for upheaval on this scale.

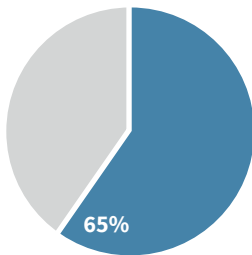
9. Strengthening stakeholder relationships

85%

85% of South African respondents pointed to extreme or significant pressure to strengthen external stakeholder relationships over the next 12 months

COVID-19 appears to have positively impacted companies' commitment to communications and public policy, with 65% of companies reporting greater commitment.

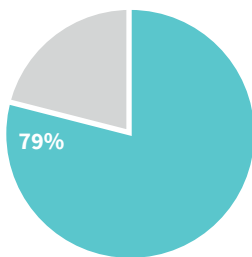
COVID-19 POSITIVE IMPACT



COMMITMENT TO COMMUNICATIONS & PUBLIC POLICY

Encouragingly, only a minority of companies (between 3% and 7%) reported poor communication with stakeholder groups. Nonetheless, the vast majority recognised the importance of bolstering stakeholder communication, with 79% of companies pointing to extreme or significant pressure to strengthen stakeholder relationships over the next 12 months.

STAKEHOLDER RELATIONSHIPS

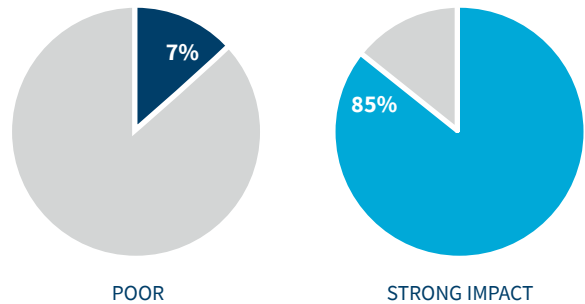


EXTREME OR SIGNIFICANT PRESSURE TO STRENGTHEN

Further, between 64% and 85% of respondents considered the potential for stakeholder impact on organisational performance or strategic direction, as strong or very strong (depending on the stakeholder group).

Specifically, while only 7% of companies rated their communication with the government and politicians as poor, the vast majority (85%) considered government and politicians as potentially having a strong or very strong impact on organisational performance or strategic direction.

GOVERNMENT / POLITICIANS COMMUNICATION



Evidence-based advocacy and strong leadership can enable a positive response to mounting stakeholder scrutiny in the wake of the pandemic. Even before the pandemic, organisations faced intensifying scrutiny. FTI's 2020 Resilience Barometer™ shows that global executives already believed that customers, governments, regulators and investors are the stakeholders with the most impact on their businesses' performance and strategic direction.

The pandemic has accelerated this trend, with government scrutiny particularly likely to increase. In a heavily politicised environment, any form of state investment in the private sector, from relief funding to equity holdings, comes with high expectations, strict conditions and risks.

Businesses also face the "court of public opinion". Active engagement by employees and the broader public is generally on the rise: FTI's Anatomy of a Crisis report found 62% of workers calling for the media to scrutinise business more closely if a second COVID-19 spike occurs.

SUMMARY

Stakeholders, governments and civil society will expect companies to demonstrate strong governance and contribute meaningfully and effectively to ESG goals, which will illustrate the growing importance of performance measured against ESG metrics.

10. Improving crisis response plans

1/2

Nearly half of large South African companies found that the crisis response plans they had in place were insufficient to deal with the scale, extent and complexity of COVID-19

“The COVID-19 outbreak has brought about unexpected risks which companies were unprepared to deal with - despite already having crisis response plans in place.”

This shows companies need to be quicker in their crisis response planning, as evidenced by the fact that 9 in 10 businesses across the G20 agree that they now have a greater focus on planning for unknown risks.


Looking ahead, 7 in 10 large organisations globally are now undertaking contingency planning in anticipation of a prolonged downside, as the crisis is likely to continue, causing negative consequences for the global business community.



SUMMARY

An integrated, cohesive strategy is key, implemented across existing mission-critical functions. This encompasses addressing the various phases of an emerging crisis, reviewing options and making consequential decisions at each juncture.

11. Focusing on the social aspects of performance

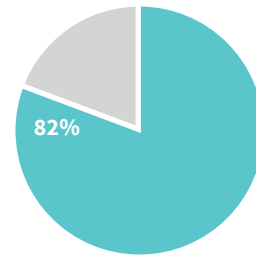


Since the COVID-19 outbreak, South African companies are more focused on the 'social' pillar of Environmental Social Governance (ESG) of their performance

In addition, the COVID-19 outbreak and societal movements like 'Black Lives Matter' has resulted in a shift in focus to the 'social' element in particular.

In fact, 4 in 5 South African businesses (82%) agree that since the COVID-19 outbreak, their companies have focused more on the 'social' pillar of ESG.

MORE FOCUS



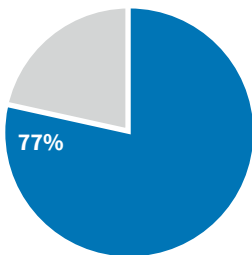
SOCIAL PILLAR OF ESG

“COVID-19 has had a notable impact in how large businesses allocate their resources towards Environmental Social and Governance (ESG) initiatives.”

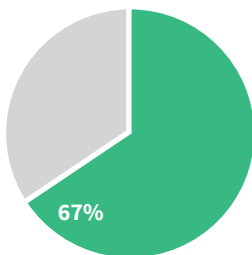
Stakeholder demands for higher ESG standards will only increase in the wake of COVID-19 as organisations come under growing scrutiny from governments, shareholders, customers and public.

More than 77% of global businesses say their companies are now more committed towards climate change than it was a year ago and 67% are now more committed towards their 'workforce and human capital'.

GLOBAL BUSINESSES



MORE COMMITTED TO CLIMATE CHANGE



COMMITTED TO WORKFORCE & HUMAN CAPITAL

12. Responding to an increasingly contentious business environment



SUMMARY

Our data shows that the global business environment has become markedly more contentious with the onset of the pandemic.

With company cashflows under strain as a result of the COVID-19 pandemic, South African respondents say they experienced increased levels of financial misconduct, in some cases resulting in regulatory breaches.

This has specific application in South Africa where companies should of their own volition pro-actively review their government contracts, particularly where emergency procurement has been applicable.

“Our data shows that the global business environment has become markedly more contentious with the onset of the pandemic.”



With numerous sectors experiencing financial distress, companies and individuals facing the increased likelihood of insolvency -as a result of the economic disruption caused by COVID-19, forensic practitioners will play a key role in supporting South Africa’s economic recovery

72%



More than 72% of South African respondents have had to significantly increase their budget allocations for investigations

“Both public and private institutions should view the specialist skills of forensic practitioners, not only as a tool to investigate once a financial crime has been uncovered, but as an essential part of the country’s recovery plan, preventing unnecessary leakage from an already stressed financial system and improving efficiencies in a post COVID-19 reality.”

Conclusion

During 2020, the COVID-19 pandemic escalated into a crisis of unprecedented scale and complexity, for which few organisations were prepared. Although the pandemic may have ushered in a new world, the basic crisis management principles are as relevant as ever.

As our FTI Resilience data shows, the pandemic has been a catalyst for businesses to transform their business models: accelerating their digitisation since the crisis began.

This drive has been enormously challenging for businesses, but the transition to a post-pandemic world presents opportunities for firms to leverage their data to drive innovation.

Data-driven businesses will also be well equipped to face future crisis scenarios.

In an unstable, constantly changing business landscape, the ability to analyse threats in real-time will be the hallmark of resilient companies – over 90% of G20 businesses have felt forced to implement such measures as a direct result of the pandemic.

In preparing for a post-COVID world, South African organisations must balance short-term imperatives against longer-term focus to rebuild resilience and protect value.

Most businesses' focus is currently on protecting short-term viability, but equal attention should go towards building long-term strength, by adapting the operating model for this new business environment.

Surviving a post-pandemic downturn is not enough.

Businesses should be building robust new models to ensure long-term resilience.

FTI Consulting Resilience Agenda provides fact-based and timely insights to enable decisions in a volatile and changing environment.

“To compete in a transformed ecosystem, South African businesses must challenge old assumptions around financial and operational best practice. Those that do, will emerge leaner, smarter and with renewed purpose.”

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