PwC's contribution to the Top 100 Companies

Sustaining the COVID-era attitudes for the long run

Businesses should keep the productive elements of fast decision-making developed during the pandemic.

The COVID-19 pandemic led to an economic shutdown and to an unprecedented rise in companies in difficulties. The country’s GDP contracted by some 15% in 2020, with some sectors such as tourism and hospitality experiencing zero revenue for significant periods. This major exogenous shock caused major disruptions in the level of economic activities, altered the competitive landscape and induced business failures.

Many companies entered the pandemic with limited cash buffers and, without the financial support from government, business failures would have been worse. The current business failure rate remains relatively low due to the support policies which the government has put in place, including wage assistance schemes, loan repayment deferral, the launch of the **Mauritius Investment Corporation (MIC**) as well as other temporary insolvency relief.

The number of business closures will depend on a range of factors such as the size of companies’ cash buffers prior to the pandemic, the extent of decline in revenues, capacity to reduce operating expenses, ability to adapt to new market conditions and the extent of support from both the government and lenders.

However, a world post COVID-19 has become more complex, and the reality has radically shifted, with profound changes in the business environment. Leaders made courageous decisions despite limited visibility, executed quickly and kept adjusting in the heat of the moment. The pandemic has accelerated the use of technology, altered customer behaviour, reshaped business operations, and changed the way we work. Business problems have become more interlinked and new business practices have become common, and will continue long after the crisis subsides.

Given this changing landscape, there is a need to look at businesses in new ways, search deeper for solutions in a holistic manner to deliver more sustainable outcomes. Businesses need to deal with more complex problems, solve them faster and realise value. The pandemic pushed many companies over the cliff, but it has also rewarded those which had focused on long-term sustainability and were agile to adapt to suit customer needs and invest in the future.

With working practices significantly disrupted, businesses have had to act fast: pivoting operations and processes, to manage through the post-pandemic challenges and build resilience for the years ahead.

The erstwhile ‘good to have’ digital capabilities are now a ‘must have’.

The shift of commerce, education and entertainment to online channels is forcing businesses to change processes and workflows as a way to increase digital interactions. Many companies would have been paralysed without the digital means of doing business and it is not surprising that they intend to invest more in technologies such as cloud, the internet of things or e-payments.

Many local companies are looking to accelerate their digital initiatives in the coming years and adapt their traditional bricks and mortar businesses models across industries to new digital enabled ones. In doing so, businesses will  remain relevant and sustainable in the new world.

The future of work is hybrid

The trend in remote working will become permanent. This will lead to new challenges and opportunities to undertake organisational change in terms of workforce upskilling, to leverage on the power of digital platforms in the hands of their consumers and employees. The blend   between physical and digital will require employee training on digital skills, and greater virtual collaboration would mean less business travel. Greater emphasis on employee health and well-being may be required in this remote working environment.

Mergers and acquisitions – synergy for efficiency

Other than digitisation, upskilling of staff, and investing in technologies to improve resilience, companies can make strategic or opportunistic acquisitions or dispose of non-core businesses to accelerate their recovery process. CEOs are being forced to act and think more like private equity, squeezing as much value out of their assets as they can, via cost take-outs, revenue synergies, etc. In addition, leaders are under pressure to reassess their operating / business models, including supply chain disruptions, workforce restructure, product demand mix changes, etc.

Businesses face major uncertainties and need to act decisively to mitigate issues. The pandemic has had a severe impact on liquidity and a turnaround is often required to avoid insolvency. As profits get eroded, it is important for leaders to develop restructuring / turnaround plans rapidly to not only respond and recover from the crisis, but also to offer a long-term perspective.

##  Focusing on the issues that matter the most

In many instances, the pandemic is likely to produce distressed situations and management will be tested. Today’s decisions will shape the future cycle of the businesses. It will be important to understand the needs of stakeholders and assess the impact and risks of various options to identify a path to maximize value.

**Rather than focusing on multiple strategies, it is better to focus on a few strategic actions that will ensure the business survives and returns to profitability (with limited resources) whilst ensuring that it lays the foundations for continued success in the post COVID-19 environment.**

Sustainable financing practices

Businesses will also be challenged to manage medium-term cash pressure, covenants and debt maturity, re-financings / capital raises to deliver more predictable forecast dividends and long-term shareholder value. Many listed companies on the Stock Exchange of Mauritius have had to rebalance their capital structure and restructure their debt arrangements to streamline their funding costs and to give them the ability to pounce on opportunistic deals.

The crisis has questioned the debt-driven growth model and highlighted financial fragilities in some local companies, with debt vulnerabilities increasing along with the sharp decline in revenue inflows. However, beyond the need to reduce debt levels, COVID-19 has also shone more light on the need for sustainable finance and we are now at a turning point. The crisis has hammered the push for more sustainable financing practices as investors, rating agencies, as well as regulators demand more. In the coming years, sustainable investment needs are likely to transform from a niche to a mass market that fully integrates with business models and culture.

ESG: from theory to action

The past decade has also seen a huge change in how the success of companies is being measured. There is no longer a focus solely on profitability but a review of a broader set of performance indicators such as environmental, sustainability and employee engagement.

A major factor for this has been investors, lenders, and the society at large expecting greater visibility on non-financial metrics. It would be reckless for companies to see this only as merely a change in reporting as businesses are being challenged to find more opportunities to solve bigger societal problems. Businesses need to create value in new ways and turn societal issues into new business opportunities!

As a result, a strategic shift and reinvention is required to allow businesses to transform and force them to refocus towards developing sustainable value creation ecosystems. Businesses need to take a fresh look at their strategic objectives in response to these growing external pressures, such as carbon emissions, social issues, health, race, gender, and diversity. Whilst such approaches are still at its infancy in Mauritius, there is evidence globally that companies (with top Environmental, Social and Governance ratings) such as Microsoft and Procter & Gamble, generate better returns for their investors.

Local companies are lagging, and the task should not be underestimated. Bold and uncomfortable decisions are required and, regardless of a company’s motivations (reducing emissions, closing an unsustainable business or diversity priorities), it will encompass deep strategic and business transformation initiatives. Even major companies will fail at it and go under, while others which embrace this shift, will find opportunities they never had before. These opportunities will continue to grow; ignited by investors, policymakers, employees, suppliers, and citizens more broadly. How agile a company will be at responding to these external pressures, is likely to define its long-term success!

Globally, big players have been bold and come out with zero carbon pledges, but the commitments remain timid! Locally, the expectation is that the SEM-10 should lead the way and show the example as ESG gets into our fabric. On the opposite side of the scale, SMEs are already struggling with the impact of COVID-19 and do not have the resources for ESG initiatives! However, some hotel groups have launched, in the middle of the most difficult time, a carbon neutral holiday for tourists! This is a great example of innovation in the darkest hours and a reminder that innovation is necessary when your very existence is being challenged. This innovation mindset (to reimagine the present, productivity and collaboration) will need to continue to keep developing more sustainable business models.