MEA

BDO's Global Risk Landscape Report 2023 examines the 'risk multiplier' effect and how global businesses should be moving toward a more risk-welcoming approach.

The BDO Global Risk survey revealed very different concerns for executives in the Middle East and Africa. Middle East respondents cited cyber attacks, economic slowdown and damage to reputation and brand value as the top three risks their organisations are unprepared for. Meanwhile, in Africa, the top three were environmental, economic slowdown and supply chain risks.

However, in the Middle East, concern about cyber attacks has fallen sharply from 47% in 2022 to 25% in 2023. Economic slowdown concerns increased from 7% in 2022 to 14% in 2023, while reputational and brand value damage had dropped by 11 percentage points from 22% to 11% in the past year.

FIGURE ONE: TOP 3 RISKS YOUR ORGANISATION IS UNPREPARED FOR

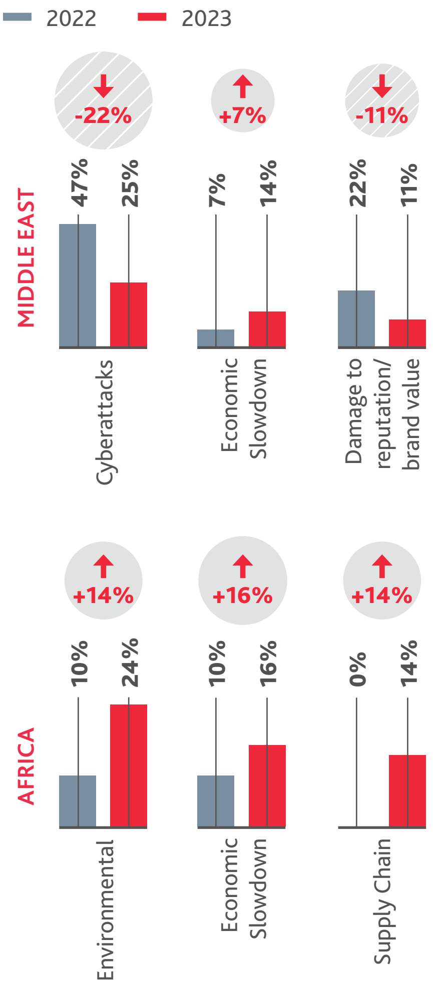

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FIGURE TWO:

78%

of business leaders from the Middle East

90%

of business leaders from Africa

...agreed the Global Risk Landscape is better characterised by the relationships between risks rather than individual risks themselves

89%

of respondents from the Middle East

76%

of respondents from Africa

...believe risks are becoming more interconnected and complex

Richard Walker, Head of Risk Advisory Services, BDO South Africa, says his office "has been talking about risk multipliers for years", citing the example of supply chain risks "from a strategy point of view."

"If you want to achieve your revenue target, if you want to achieve good customer service and have goods sent within 30 days, that's obviously interrelated to strategic risk," Walker explains. "Who will be supplying what? How quickly can you get it? Then you can start picking on global risk and financial risk—what's happening in Ukraine and how has that impacted the supply you have on the ground? How do you achieve your revenue targets?".

In the Middle East, Charles Tungwarara, Head of Business Processes and Sustainability, BDO UAE, says the risk multiplier effect is gaining recognition in the region, and more conversations about intersecting risks are starting to happen in organisations: "It usually starts from the top, and only then can it cascade to individual departments, who are the process owners, but it's certainly getting traction."

"Some [businesses] that are mature in their understanding of risks are on that journey where we expect to witness a greater percentage of management appreciating the risk multiplier effect," Tungwarara says.

REGULATION & TALENT: THE DUAL RISKS SHAPING THE MIDDLE EAST'S BUSINESS LANDSCAPE

In the Middle East, regulatory and compliance risks operate differently to Europe or the Americas, largely because of different governing structures. Without the lengthy state processes required to pass laws, new regulations can come into force quickly. This can pose a high velocity regulatory risk for businesses if they do not keep up to date with government priorities or they are given limited time to adapt and prepare for new compliance requirements.

"In the GCC, regulations change at a much faster pace compared to other countries within the region, so it attracts a high regulatory risk," says Tungwarara.

The BDO Global Risk survey found that 34% of business leaders in the Middle East see regulatory risk as an existential challenge for their organisation, while 33% agreed that the velocity at which risks were affecting their business was increasing.

FIGURE THREE:

34%

of business leaders in the Middle East said regulatory risk was an existential challenge for their company

33%

said the velocity at which risks were impacting their business was increasing

Regulatory risks need to be managed in conjunction with workforce-related risks. Countries across the Middle East rely heavily on foreign workers and businesses need to offer competitive packages to retain talent. A regional brain drain has emerged since COVID-19, when workers, unskilled and skilled, started leaving the Middle East and North Africa (MENA) region en masse. It is difficult to get exact figures on this exodus, but the International Labor Organisation estimates that 2.4 million expatriates left the MENA region in 2020, mostly low-skilled workers. According to the World Bank, this figure is even higher at 3.5 million people.

When asked to rank their top three human capital risks, 42% of Middle East respondents selected staff turnover and retention challenges. 45% selected staff morale and 31% selected recruitment challenges.

FIGURE FOUR: TOP 3 HUMAN CAPITAL RISKS FOR BUSINESS LEADERS IN THE MIDDLE EAST

42%

elected turnover & retention challenges employee

45%

selected staff morale

31%

selected recruitment challenges

Tax changes create new risks to businesses. In the UAE, a 9% corporation tax came into effect from 1 June 2023, and in 2020, Saudi Arabia raised VAT from 5% to 15%. As oil revenues decline, governments across the region are expected to consider further taxes, such as income tax. As well as the financial pressure on businesses, new taxes can affect human capital risks, as VAT pushes up the cost of living, adding pressure to increase salaries. The introduction of income tax would potentially compound the challenge of attracting high quality employees to the region.

"When VAT was introduced, the next question people had was whether corporate tax was going to be introduced in future or not. Now we have it. The next question is: Will there be employee tax in future?" says Tungwarara.

Mitigating these intersecting risks is easier for state-owned and large companies where "the risk management culture is generally mature and there is a person in charge of risks, possibly at C-suite level", according to Tungwarara. "In terms of communicating the risk multiplier effect, it's generally easy, because most of their policies are driven by the government."

However, he says communicating the benefits of a risk-welcoming approach can be challenging among family-owned companies. Tungwarara says most family-owned companies tend to view most risks, from a fraud and compliance perspective.

"It's a difficult conversation with family-owned groups—some of them are a bit mature, but for those that are still growing, it's a much more challenging conversation, because they are generally looking at compliance and fraud—that's where they see their biggest risks," explains Tungwarara. "They want to ensure they're complying with every government regulation and preventing fraud, so anything outside that is probably a nice-to-have."

AFRICA'S DIGITAL TRANSFORMATION ENIGMA

The survey revealed some interesting data points from African respondents, which raised a series of questions. Most notably, when asked 'How far along is your business in its digital transformation process?' and asked to rank their business on a scale of one to five, five being "my organisation has fully transitioned to digital systems and ways of working", African respondents scored their company a four or five 90% of the time, far outstripping all other regions. This figure was 78% for Middle East respondents, 65% for APAC, 50% for Europe and just 22% for the Americas.

FIGURE FIVE:

90%

of African respondents told us "my organisation has fully transitioned to digital system and ways of working"

This surprising figure led to questions about the definition of digital transformation in the region, what the real extent of digital transformation was among African businesses, and whether the 90% figure reflects the so-called leapfrogging trend among new and emerging enterprises, whereby many legacy technologies and processes are simply skipped over, making businesses digital-first from the outset.

Against a backdrop of innovation in Africa, survey respondents from the region cited protecting increasingly digital systems from cyber attack as the main challenge for digital transformation at 40%, while in second place at 22%, business leaders named ensuring new digital systems are compliant with regulations around privacy laws and data protection.

FIGURE SIX: WHAT ARE THE BIGGEST CHALLENGES YOUR ORGANISATION HAS FACED WHILE UNDERGOING DIGITAL TRANSFORMATION?

0%
Lack of digital transformation talent

4%
The slow pace of digital transformation and roll out

22%
Ensuring new digital systems are compliant with regulations around privacy laws and data protection

40%
Protecting increasingly digital systems from cyberattacks

20%
Finding the resources to fund digital transformation

8%
Integrating new digital and old legacy systems

6%
An internal culture resistant to digital transformation

Walker says that while many organisations that he works with are "still at a very immature level" when it comes to digital transformation, he adds that African banks are excellent at using tech for customer service, which could help explain the 90% figure.

"Maybe that reach we have [with banks] in Africa to the rest of the world has made us more digital," he says.

In addition, Walker says that African telecommunications companies are moving quickly in terms of digital development: "Mobile banking is now old—our telcos are actually becoming tech companies."

Leapfrogging is another explanation, according to Walker: "Maybe some people have skipped the legacy technology and just gone straight to the point, [especially] the younger companies."

In contrast to the high figure for digital transformation progress, African survey respondents were the least positive about the use of AI for business—56% were optimistic and 22% were pessimistic. Walker says this reflects concerns with the technology.

"I believe the definition of AI hasn't been fully understood—some of our clients are saying they have to get an AI system to predict cash flow [or] environmentalists say they know where we're going to sit from a CO_2 perspective over the next three years [using AI predictions], but nobody really knows where the data comes from," he cautions. "Everybody believes AI is going to help them solve problems, but it's only going to solve problems based on historical data."

With this year's survey results from Africa raising a series of interesting questions, the 2024 research could help identify patterns and give a stronger indication of the real progress being made across the continent in the digital transformation space.