

MEA

Executives that embrace risk, maximise the benefits of technology and empower their people can build agile businesses fit for the future.



BDO's Global Risk Landscape Report 2022 analyses the unprecedented disruption global supply chains have experienced since 2020, and what this means for business risk.

FOR MORE INFORMATION:

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This year we split the Middle East and Africa (MEA) into distinct regions, interviewing 100 C-suite executives in each. This revealed major differences in perceptions of and responses to risk, likely resulting from the characteristics of each region.

The Middle East is dominated by relatively rich oil and gas-exporting countries that rely heavily on global supply chains for access to manufactured goods. In this respect, the region resembles North America, with which it shares a surprising number of risk-related attitudes and approaches, according to our research.

African nations, on the other hand, tend to have supply chains more focused on the export of basic goods and materials rather than the import of manufactured products. This makes Africa comparable to Asia on a several measures covered in our survey.

One indication of the differences between these neighbouring regions comes from the list of threats business leaders feel least able to cope with. The main concern in Middle East is cyberattacks, likely because of the risk they pose to the region's complex supply chains, whereas in Africa the top worry is geopolitical tensions.

Geopolitical tensions are the second-largest concern in Middle East but beyond that there are marked differences in risk perception. Only one other risk—that of an economic slowdown or slow recovery—is shared across the top five concerns listed in each region, and with vastly different levels of priority.

Economic slowdown is a worry for 64% of African leaders, making it the second-largest concern, but just 41% of Middle Eastern peers, who ranked it fifth. Cybersecurity, listed as a risk by 79% of Middle East C-suite respondents, does not even make it into the top five threats in Africa.

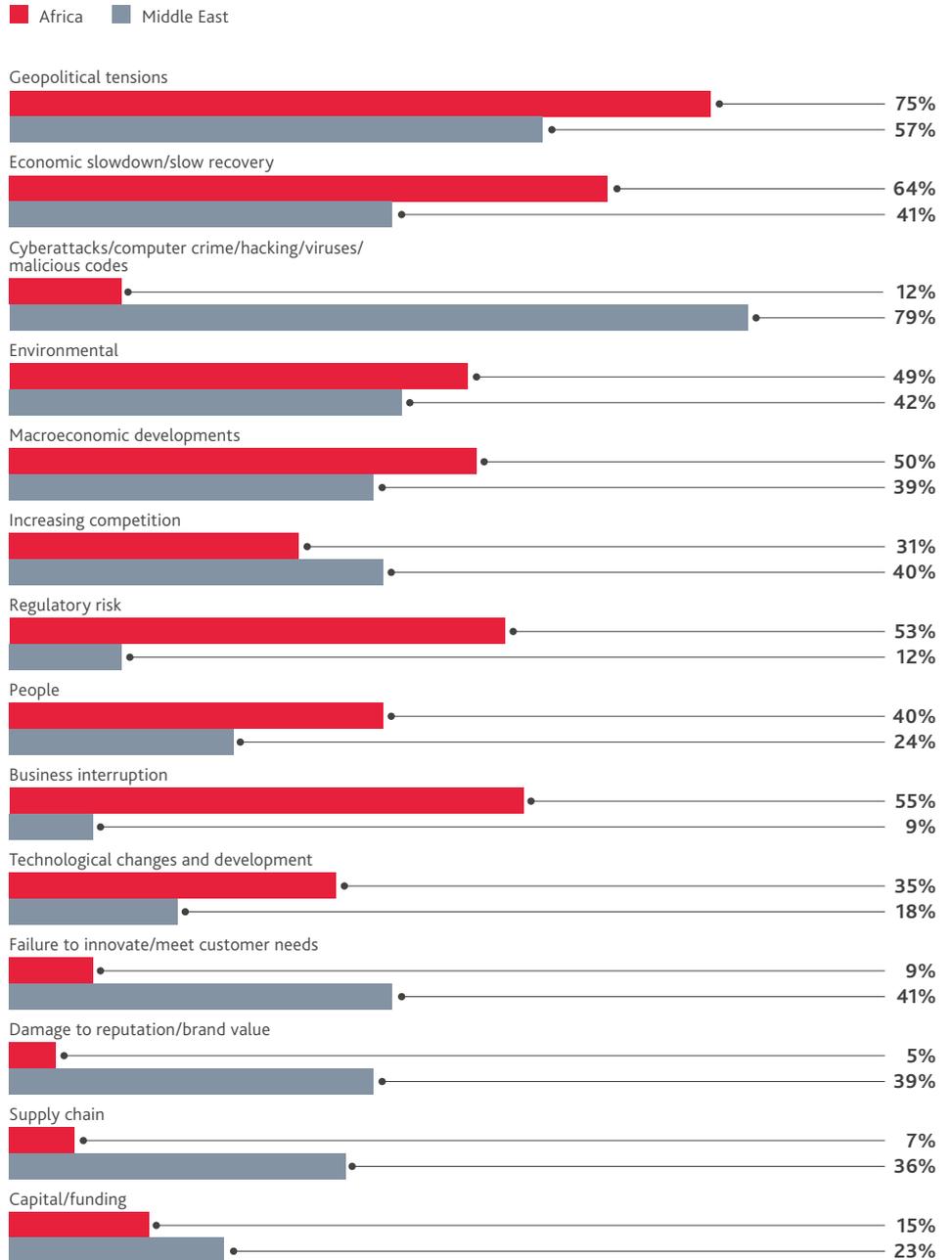
PRESSURE POINTS

Before the coronavirus pandemic, many global supply chains had been optimised for efficiency, cutting costs and delays to the bone to improve financial performance. But this strategy relies on supply chains that work efficiently almost all the time. The last two years have shown that does not always happen.

Middle East and African companies sit at almost opposite ends of the spectrum in terms of supply chain strategies, with the former largely optimised for efficiency and the latter heavily skewed towards resilience. This has significant implications for how supply chains in each region will need to adapt in future.



Figure one: Which risks are your company most unprepared for? (Ranked 1, 2, 3, 4 or 5)



Another example of the differing nature of Middle East and African businesses is the extent to which they have been affected by Russia's War in Ukraine.

Middle Eastern leaders are more likely to have seen supply chains disrupted by sanctions (86%, compared to just 33% in Africa) or to have experienced disruption to logistics and shipping networks (73% versus 17%). The only area in which the oil-rich Middle East has come off better during the conflict is in avoiding energy cost increases.

Only 17% of Middle East respondents say energy costs have increased, compared to 43% in Africa. The Middle East's comparatively more service-based economies and high reliance on imports translates into a higher sensitivity to risk.

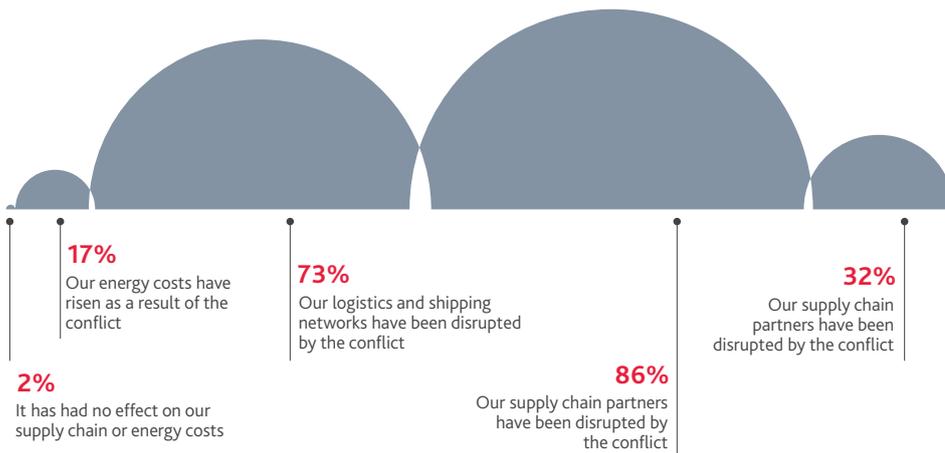
Thus, 72% of Middle East companies have appointed a risk officer, compared to 50% in Africa, and only 6% are not considering one, versus 22%. Similarly, 81% of Middle Eastern leaders consider their companies are very or somewhat proactive when dealing with risk. Among African leaders, the level is 46%.

Figure two: How has Russia's War in Ukraine affected your business?

Africa



Middle East



As well as imports, Middle Eastern companies are more reliant than their African counterparts on global supply chains for exports. In our survey, 93% of Middle Eastern respondents said their company's biggest market is in Asia, while 65% of African companies ship to markets in Africa.

Reflecting this global-versus-regional split, 98% of Middle Eastern leaders say supply chain risks pose threats to their business, with 54% labelling the threat level as 'significant' or 'existential'. In contrast, only 5% of African companies see supply chain risk as significant or existential, and for 28% the risks are deemed negligible.

This high reliance on global trade may explain why cybersecurity is such an important agenda item for Middle Eastern leaders. Cyber was ranked as the top risk that companies are most unprepared for by 47% of executives in the Middle East, compared to just 1% in Africa.

And 79% of Middle East respondents include cyber threats in their top five risks, compared to 12% in Africa. African leaders, meanwhile, are much more worried about drags on the economy, with 64% listing it among the top risks for business.

More widely, Middle Eastern leaders are more likely to admit that the last 18 months have revealed weaknesses in the supply chain, with 88% seeing impacts on production (versus 21% in Africa) and 64% experiencing challenges in procurement (versus 30%).

BUSINESS OUTCOMES

Companies across the whole of MEA expect to optimise their supply chains for resilience in the next five years, but the scale of the shift will be much greater for Middle Eastern businesses. At present, 40% of Middle Eastern companies are categorised as having supply chains optimised for efficiency, and 3% for resilience.

That picture looks set to change drastically in the coming half decade, with 89% of Middle East executives expecting to optimise for resilience and only 10% continuing to focus on efficiency. African leaders, while pushing for greater resilience too, have much less to do.

In Africa, only 17% of companies are optimised for efficiency while 39% are engineered for resilience. In the next five years, 52% of African business leaders expect their supply chains to be further optimised for resilience, while 33% will focus more on efficiency.

Tellingly, 15% of African leaders say there will be no change in focus, while in the Middle East the level is just 1%. Middle Eastern leaders are also more likely to have initiated changes such as creating full alternative supply changes and dual procurement of raw materials in the last 18 months.



RISK MANAGEMENT IN FOCUS

Building supply chain resilience costs money and—if challenges relent in the short term—may end up not delivering a return on investment. Supply chain resilience also requires a risk-aware culture that can help organisations establish and maintain strong defences against new risks, as well as responding more quickly to operational threats.

When looking to improve resilience, leaders should be aware that previous supply chain risk assessments may not accurately reflect today's broad range of disruption factors, which ranges from availability of raw materials and commodities to shortages in port and logistics personnel.

The new full-scope, medium-to-long-term supply chain risk landscape requires strategies based on alternatives rather than availability and accessibility. In this environment, the role of risk leaders is growing in importance.

Risk leaders not only need exceptional analytical skills but increasingly also highly developed commercial, strategic, leadership and communication abilities. Our research revealed these roles bring a new appreciation of the risk landscape to the business. For example, they are more confident than CEOs in the robustness of company plans around supply chain disruption.

CLIMATE RISK

One issue in which Middle East and African leaders are alike is in de-prioritising climate and natural disaster risks. This is perhaps understandable given recent shocks to the global economy but ignores growing evidence of climate impacts across the region.

In June 2021, for example, a heatwave sent thermometers soaring beyond 50C in parts of the Middle East, while this year has seen historic flooding in the South African port city of Durban.

The Middle East and Africa are among the regions least likely to withstand worsening climate effects, yet for most business leaders in both regions, beset by seemingly more pressing matters, this is an issue that has medium priority at best.

Figure three: In general, how long do you predict global supply chain disruption will continue?

Africa

1%

It is **ALREADY OVER**

3%

Up to another **6 MONTHS**

36%

Between **6 MONTHS AND 1 YEAR**

56%

From **1 TO 2 YEARS**

4%

From **2 TO 4 YEARS**

Middle East

1%

It is **ALREADY OVER**

8%

Up to another **6 MONTHS**

39%

Between **6 MONTHS AND 1 YEAR**

45%

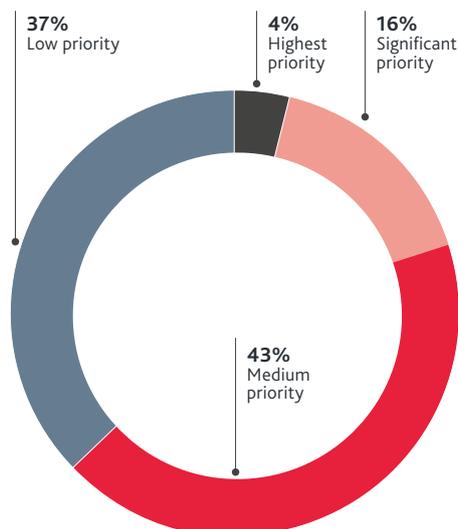
From **1 TO 2 YEARS**

7%

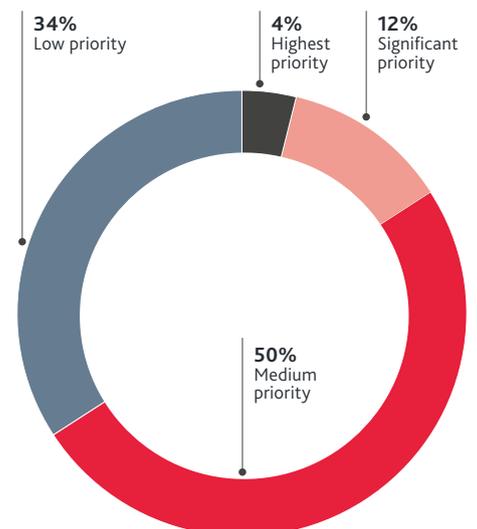
From **2 TO 4 YEARS**

Figure four: How much of a priority are climate change and natural disasters for your supply chain?

Africa



Middle East



FACING THE FUTURE

The supply chain crisis has posed many challenges for companies, but many have responded effectively – pivoting business models, increasing investment in digital technology and putting effort into understanding supplier dynamics. Our global research also shows that companies that embrace and welcome risk tended to cope better, often experiencing a less significant impact from the coronavirus. However, only 6% of Middle East and 22% of Africa leaders see their company as risk welcoming.

Companies must learn to live with uncertainty and unexpected risks such as the supply chain crisis. Changing business culture is a long-term project, but all businesses can benefit from effective risk management frameworks supported by technology and predictive data analysis. Risk awareness should be strengthened within companies, and more attention given to early warning systems. Risks are not static. Existing risks evolve, new ones emerge. The more that businesses can improve their understanding of risks through use of new technology and accurate data, the more they can improve their ability to adapt when the next crisis occurs.

Figure five: Please categorise your company's level of risk appetite.

