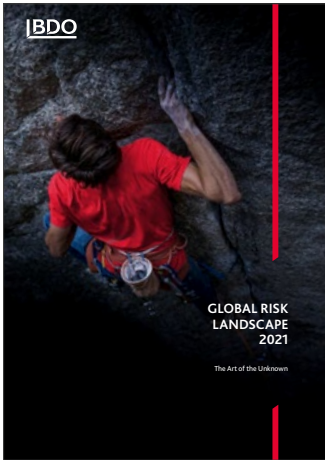


# MEA

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 2021** highlights the pressures companies have faced during the COVID-19 pandemic with the result that risk management frameworks are under scrutiny.

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The coronavirus outbreak was already causing concern about business interruption and supply chain security during last year's survey, but the longevity and severity of the pandemic had yet to be appreciated. This year's report looks at how effectively organisations make decisions under pressure in an environment characterised by sustained uncertainty and change.

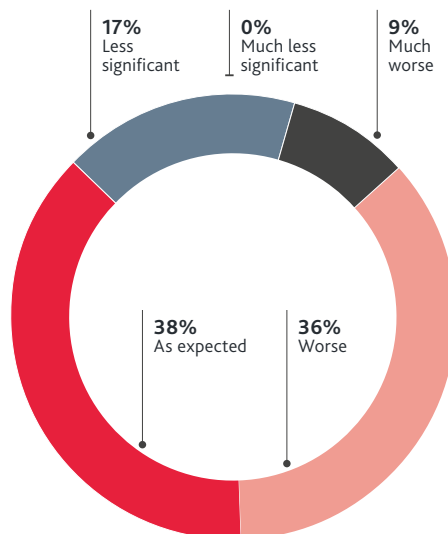
The COVID-19 pandemic demonstrates how crises can escalate rapidly and the need for businesses to be able to react and adapt fast. So how can organisations become more forward-looking in their risk management? What future risks are they particularly concerned about? To explore such issues, BDO surveyed 100 C-suite executives from leading companies across the Middle East and Africa (MEA).

Our research suggests there is scope for companies to enhance their risk management and decision-making mechanisms, increase organisational agility and ultimately improve their performance during times of uncertainty and fast-changing environments.

In our survey, 45% of executives say the impact of the coronavirus pandemic has been worse or much worse than initially expected in April 2020 – the lowest result of all regions surveyed. This may reflect the fact that

64% of MEA companies had a pandemic or international health crisis identified on their risk register for 2020 – the highest proportion of any region.

**Figure one: How has the reality of the pandemic impacted your business, compared to your initial expectations back in April 2020?**



## PRESSURE POINTS

Risks linked to the COVID-19 pandemic imposed numerous pressures on companies, particularly in relation to low employee satisfaction and wellbeing (ranked in the top three pressures by 50%). Internal cultural issues such as low productivity or flexibility were also highlighted by 34%. People and culture pressures reflect the need for many businesses to adopt mass remote working almost overnight and adjust their working practices and processes accordingly. Among companies surveyed, 28% reduced headcounts and streamlined resources and 17% proactively altered working culture to suit a new remote workforce.

Another significant pressure stemmed from the perceived inadequacy of technology or lack of digital transformation (45%). As a consequence, businesses stepped up their investment activity. In MEA, the most common change made by companies in response to the pandemic was to invest in new technology or accelerate digital transformation efforts (31%).

Many MEA companies made other changes in response to the pandemic, such as pivoting cost and business models (26%) – leading to new products being offered and new customers served – and shoring up supply chains (11%). However, MEA participants were less likely to increase data analysis capabilities (4%).

Although changes were made, 30% of MEA respondents admit their company did not adapt to the pandemic as quickly as it could have done. Of these, 57% blame uncertainty and the company making a deliberate choice to wait for more clarity.

A rapid response depends on an organisation's ability to take decisions quickly. In MEA, 31% of respondents say that ignoring or failing to acknowledge the situation is a key inhibitor to fast decision making in their company, while 22% cite focusing on cost rather than the bigger picture.

In some organisations, cultural issues may impede rapid and effective action. One in five MEA executives (20%) perceives a blame culture to be inhibiting their company's ability to respond effectively to disruption. Employees do not feel empowered to address issues themselves.

## BUSINESS OUTCOMES

A crisis can drive organizational change and new business outcomes with potentially long-lasting impacts, and the COVID-19 pandemic is no exception. Half (50%) of respondents consider the acceleration of digital programmes to be an important positive change stimulated by the pandemic.

Some also see impacts in relation to environmental, social and governance (ESG) issues. MEA participants were more likely to implement more rigorous ESG policies (22%) than those in any other region. This is encouraging, although more progress needs to be made as companies often focus on one or two of the ESG areas, rather than all three.

In our survey, 40% of MEA respondents highlight that they have improved their environmental credits (for example, by reducing their carbon footprint) as a result of the pandemic. Half (50%) have refocused on the social purpose of the business and becoming more socially responsible. Many governments are keen to link economic recovery with green and sustainable activities, creating opportunities for businesses that position align themselves with these and broader societal interests.

## RISK MANAGEMENT IN FOCUS

Over half (56%) of the companies with a pandemic or international health crisis on their risk register think this helped them manage the coronavirus risk as it emerged.

Despite this, the vast majority (91%) of all MEA respondents say the events of 2020 have triggered their organisation to re-evaluate its risk framework entirely. This does not mean their current frameworks are unfit for purpose, but suggests a widespread realisation that lessons can be learned from the pandemic – an event that emerged rapidly and had a high impact on every geography at once. Risk frameworks in many organisations could potentially be used more effectively to support decision making and to help identify the most important future threats.

Technology can play a key role by enabling predictive analysis. Only 2% of companies use technology in a predictive way to forecast future, potential risk. This reflects the fact that digital transformation is at an early stage in many companies. As a result, most organisations are missing an opportunity to model scenarios and understand the impact of potential future events. Some are way behind the curve in their use of risk management technology, with 9% relying on manual, human methods.

Figure two: Do you agree that blame culture inhibits your company's ability to respond effectively to disruption?

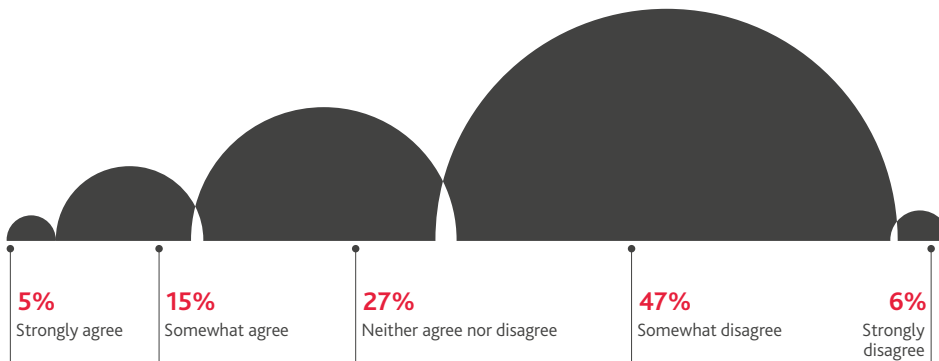


Figure two: How would you categorise your company's use of risk management technology?

9%

**LIMITED** – we rely on manual, human methods of risk management

31%

**PROACTIVE** – we use technology to address perceived risk before it actually occurs

58%

**REACTIVE** – we use technology to crunch numbers and speed up our existing processes

2%

**PREDICTIVE** – we use technology to forecast future, potential risk

Our global research suggests that chief risk officers (CROs) are playing key roles in driving digital transformation and seeing the potential of predictive technology. This is important as businesses try to understand the changing nature of the risks they face, and often increasing risks. There is also a growing recognition of the importance of CRO's role. This year, the risk officer is a C-suite position in only 30% of MEA companies, although 59% of respondents say their organisations are considering this for the future. The greater the influence and profile of CROs, the better they can keep driving digital enhancements that support effective risk management.

**VARIED RISK CONCERNS**

COVID-19 has dominated boardroom discussions, but companies face a wide range of risks. Increasing competition is the risk MEA executives think their company is most unprepared for (seen as a top three risk by 47%). Damage to reputation or brand value is also a major concern (40%).

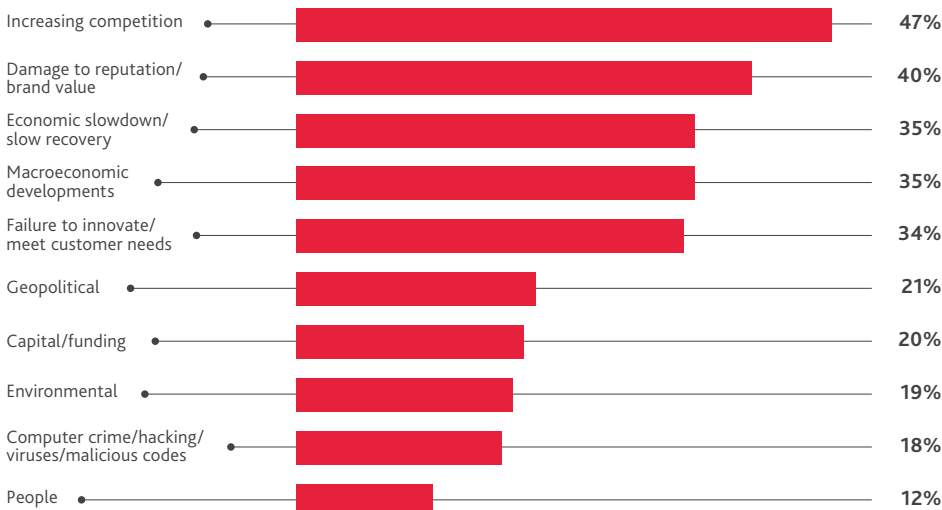
Economic slowdown or a slow recovery is another risk that many executives feel unprepared for (identified in the top three by 35%), as are risks related to macroeconomic developments (35%). These results clearly reflect fears about the ongoing challenges to economies emerging from lockdown.

Linked to the risk posed by increasing competition, 34% of respondents highlight their concerns about the risk of failing to innovate or to meet customer needs.

Other risks making the top 10 'most unprepared for' rankings relate to geopolitical factors, capital or funding, environmental issues, computer crime and people. The recognition of people risks reflects the multiple challenges businesses face around maintaining employee wellbeing and motivation and ongoing uncertainties around, for example, future remote working or hybrid operating models.

Business interruption does not feature in the top 10 risks this year – businesses have had to cope with that risk crystallising already.

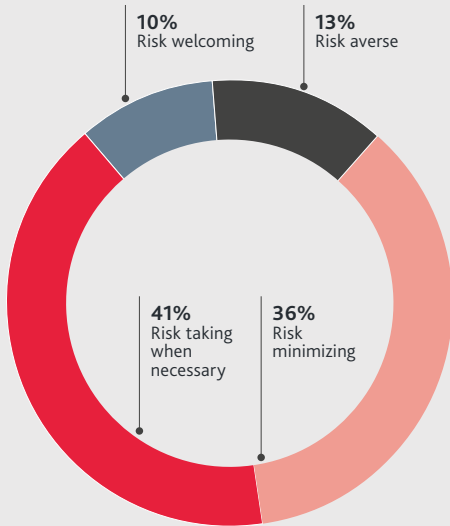
Figure three: Which of the following risks is your company most unprepared for? (Ranked 1, 2 or 3)



## FACING THE FUTURE

The COVID-19 pandemic has posed many challenges for companies, but many have responded effectively – pivoting business models, increasing investment in digital technology and putting effort into supporting staff wellbeing. 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, among MEA participants, only 10% see their company as risk welcoming.

**Figure five: How would you categorize your company's level of risk appetite?**



Companies must learn to live with uncertainty and unexpected crises such as the COVID-19 pandemic. 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.



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