

# EMEA: GEOPOLITICAL RISK THREATENS BUSINESS PERFORMANCE



BDO's Global Risk Report 2018 reveals that executives across EMEA believe **geopolitical and macroeconomic turmoil has the greatest potential to derail their future business success.**

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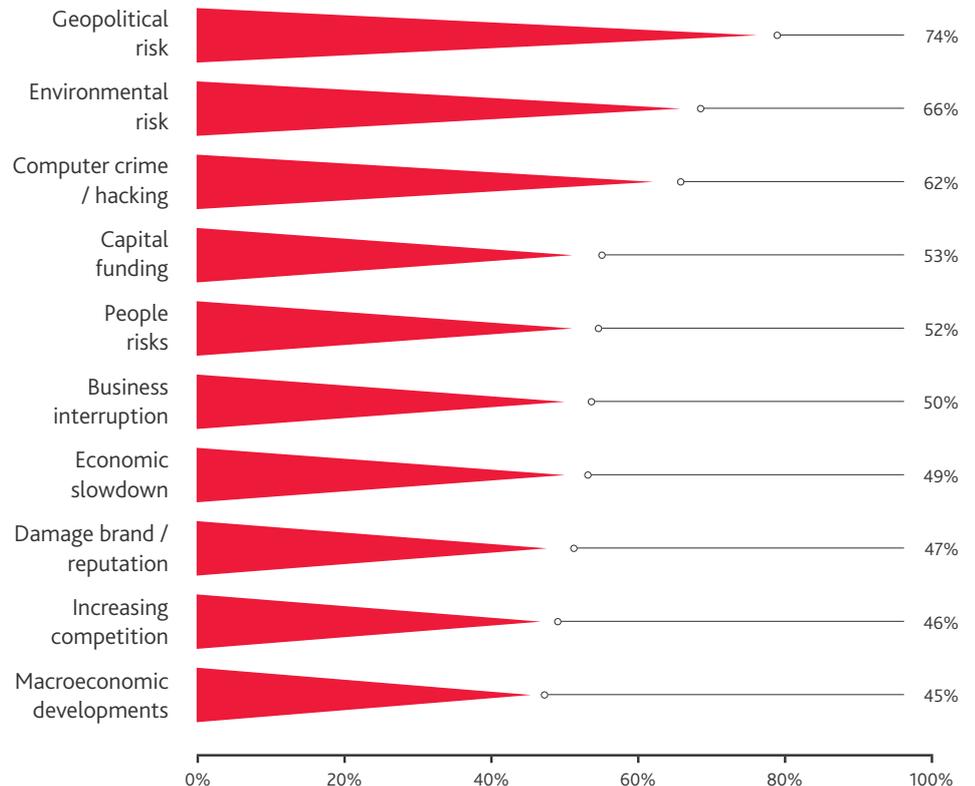
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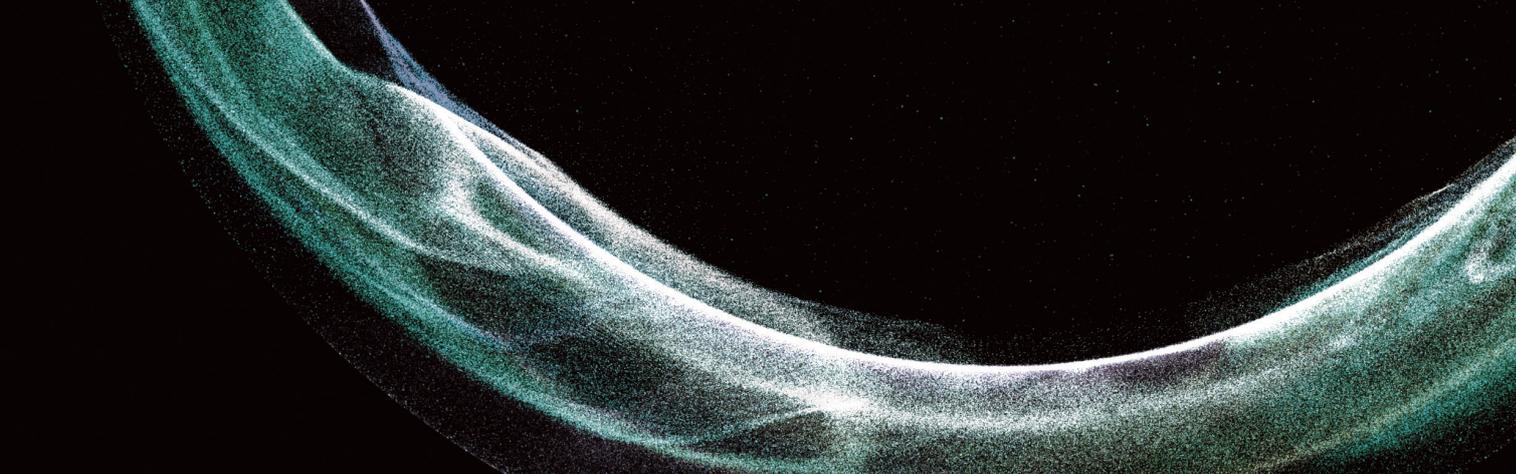
Nearly one in five (19%) of the EMEA business leaders in our survey identify their company as being at major risk of significant business model disruption, with no future-proofing strategy in place. Although executives in Europe are more confident in their ability to weather disruption – only 10% identify themselves as being most at risk – these figures rise sharply for businesses in the Middle East (36%) and Africa (44%).

In an increasingly complex business environment, the possible external shocks to a company's business model are wide-ranging. Within a relatively short space of time factors such as changing customer behaviour, the emergence of new competitors or regulatory change can disrupt revenue streams of businesses that are not sufficiently agile to anticipate and respond to change.

To uncover what risk business leaders consider to be most disruptive, and how confidently companies in the region feel they can respond to these challenges, BDO captured the views of 167 C-suite executives from leading companies across Europe, Middle East and Africa.

**CHART 1: TOP 10 RISKS REPORTED BY EXECUTIVES IN EMEA**





Our survey results show that executives' concerns are dominated by geopolitical and macroeconomic issues; 74% and 66% of survey respondents respectively cite these as risks that their company is unprepared to address. This is closely followed by more than six in ten (62%) who cite increasing competition. Damage to brand reputation (53%) and economic slowdown (52%) complete the list of the top five concerns, see Chart 1.

The last 18 months have witnessed a marked rise in geopolitical volatility. Electoral surprises in established democracies such as USA, Italy, UK, France, and Germany have been accompanied by a resurgence of populist or nationalist politics. In Europe, policy makers are hastily working through the implications of the UK's decision to leave the European Union.

Political uncertainty shortens business decision-making cycles and so executives need to be better prepared to reassess their plans in light of new political or economic developments. 89% of EMEA executives responding to our survey say that greater agility will help them respond to changing market conditions more effectively.

The recent elevation of two new leaders – President Cyril Ramaphosa in South Africa, and Crown Prince Mohammad bin Salman in Saudi Arabia – have been welcomed as potential reforming influences within their respective regions.

Saudi Arabia has extended foreign direct investment licences in a continued bid to diversify its economy away from natural resources<sup>1</sup>. President Ramaphosa has announced an ambitious plan to attract USD\$8 billion of foreign direct investment into South Africa over the next five years<sup>2</sup>.

These political changes occur against a backdrop of improving economic conditions. According to World Bank forecasts, GDP growth in the Middle East and North Africa is expected to hit 3.0% in 2018, up from 1.8% in 2017. In Sub-Saharan Africa, growth is predicted at 3.2%, up from 2.4%. In Europe, however, GDP growth is expected to slow to 2.9%, down from 3.7% in 2017<sup>3</sup>.

In spite of these relatively benign conditions, the risk of economic slowdown and its direct impact on consumer confidence weighs heavily on the minds of executives across the EMEA region. They feel the tide could turn at any moment.

Damage to brand and reputational risk also ranks highly as a concern for senior EMEA executives. In today's interconnected world social media technologies give the public, the media and investors a greater platform to scrutinise and vocalise concerns about business operations and ethics.

Hard-won corporate reputations can be undone overnight by the actions of rogue employees if businesses are not seen to respond quickly or with sufficient gravity.

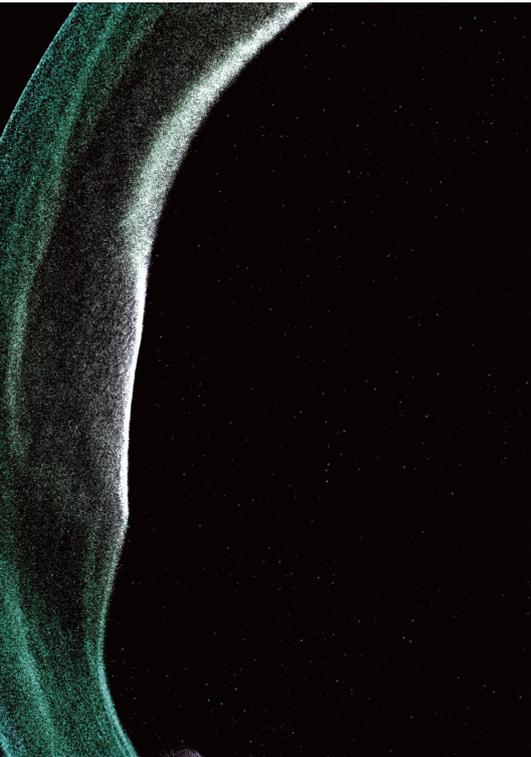
88%

*of C-suite executives in EMEA say greater agility would help them respond to changing market conditions more effectively*

1. Bloomberg, 'Saudi Arabia extends foreign investment licenses to 5 years' (February 2018): <https://www.bloomberg.com/news/articles/2018-02-26/saudi-arabia-extends-foreign-investment-licenses-to-5-years>

2. Reuters, 'Ramaphosa team to see \$8 billion investment for South Africa' (April 2018): <https://www.reuters.com/article/us-safrica-ramaphosa/ramaphosa-team-to-see-8-billion-investment-for-south-africa-idUSKBN1HN2JR>

3. World Bank, 'Global economy to edge up to 3.1% in 2018 but future potential growth a concern' (January 2018): <http://www.worldbank.org/en/news/press-release/2018/01/09/global-economy-to-edge-up-to-3-1-percent-in-2018-but-future-potential-growth-a-concern>

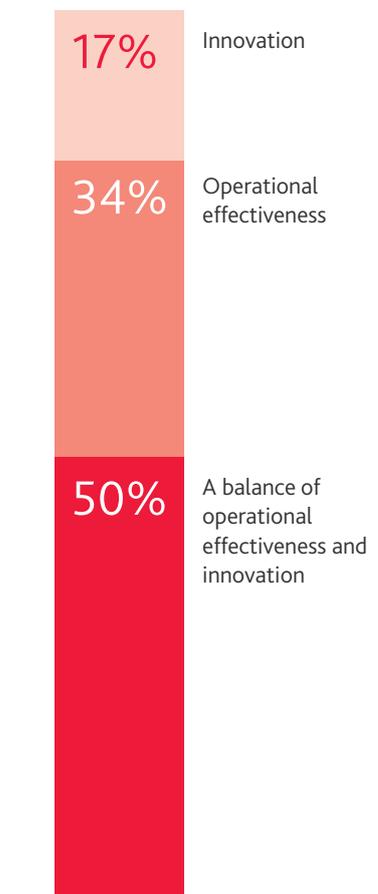


In 2018 so far, misuse of customer data has been a source of reputation damage. The European Union, for example, has said improper sharing of personal data by social networking site Facebook may have affected 2.7 million of its citizens<sup>4</sup>. In the immediate aftermath of the revelations USD\$80 billion was wiped off Facebook's value, and an unquantifiable damage done to its brand reputation<sup>5</sup>.

With more disruption ahead, EMEA business leaders are right to be concerned about risks to their business model. Innovation and agility are therefore essential. Yet when they are asked about what they think will drive business success, our survey respondents are more likely to cite operational effectiveness than innovation by a factor of two to one, see Chart 2.

The big risks on the agenda identified in our survey call for big thinking in response. To ensure their businesses are sufficiently future-proofed against the factors disrupting their business model, leaders will need to balance operational effectiveness with radical change and an increased appetite for innovation.

**CHART 2: WHICH OF THE FOLLOWING IS MOST IMPORTANT TO THE SUCCESS OF YOUR COMPANY?**



4. New York Times, 'Facebook Says Up to 2.7 Million EU Users Affected by Leak' (April 2018): <https://www.nytimes.com/aponline/2018/04/06/world/europe/ap-eu-europe-facebook.html>

5. CNN Money, 'Facebook has lost \$80 billion in market value since its data scandal' (March 2018): <http://money.cnn.com/2018/03/27/news/companies/facebook-stock-zuckerberg/index.html>