



Board strategies for addressing geopolitical risks

Various companies in the Middle East are facing a wide range of geopolitical risks arising from political conflicts and polarization, wars in Ukraine, Gaza, Syria, Yemen, and Sudan, tension between Israel and Iran, blockades and sanctions on local political regimes, and the trade war between the United States and China. Last year, geopolitical risk was elevated from being the 7th biggest risk to the 3rd due to the increasingly interconnected world. Geopolitical risk related to interstate armed conflict has emerged as a new concern over the next two years, ranking 5th in the World Economic Forum Global Risks Report 2024. This clearly underscores rising tensions and significant policy shifts in key markets.

The global political environment is expected to remain volatile and unstable, significantly impacting geopolitical developments in the Middle East. The region is strategically important for superpower countries due to its richness in natural resources, its politically challenged regimes, and its dependence on global economies. In the midst of challenging times in the Middle East, which demand careful consideration from companies within the region, boards play a crucial role in managing geopolitical risks and economic uncertainties.

Key geopolitical developments that might impact the Middle East include:

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A growing number of political alliances and rivalries that are seeking to change the status quo, especially in the Middle East, to protect their governments' interests and access to oil and gas. The 2024 US presidential election, coupled with the rivalry between Democrats and Republicans, challenged government governance, and slow decision-making processes, will negatively impact the US agenda in the Middle East. Technological advances in AI, which will create
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national security threats to political local regimes, and accordingly, regulating AI will accelerate political tensions.



Governments introducing economic security policies to reduce dependence on global economies and nationalizing key industries to protect the local economy and ensure social stability.



Tensions among key governments and the introduction of economic protective policies will drive diversification of investments in infrastructure and supply chain locations to near and more stable markets.



Protection of vessels, increasing sea transport security, and control of access to key Middle Eastern seaports and waterways will intensify with implications for supply chains, data flows, food supplies, and energy security.

Challenges and approaches to geopolitical risks

The aforementioned developments are catching markets and stakeholders by surprise, creating panic, disrupting global supply chains, and impacting companies' financial and operational performance, regardless of the industry. When geopolitical risks materialize, they will negatively impact businesses through increased operational costs, loss of capital, loss of personnel, and limitations on trade and market access. These risks should not be left unmanaged. Boards should address geopolitical risks and establish a robust risk management process to effectively identify, assess, and mitigate these risks.

Developing and implementing an effective risk management strategy requires collaboration between boards, executive management, and relevant stakeholders. Managing geopolitical risks also demands a proactive and multidisciplinary approach that integrates geopolitical analysis into

strategic decision-making processes, fostering a culture of risk awareness, compliance, and resiliency throughout organizations.

Geopolitical events, as mentioned above, may lead to changes in regulatory and compliance requirements, posing challenges for businesses operating across multiple jurisdictions within the Middle East or globally. Accordingly, boards must have a proper risk culture and ensure that their organizations remain compliant with relevant laws and regulations, while adapting to evolving geopolitical dynamics.

Geopolitical risks are inherently unpredictable, making it essential for boards to build resilience and flexibility into their organization's operations and strategic planning processes. While these risks can pose significant threats to business continuity, they can also create opportunities for growth and expansion. Boards must therefore strike a balance between mitigating risks and capitalizing on opportunities in a volatile geopolitical environment.

Managing geopolitical risks at the board level presents several challenges due to the potential lack of understanding of global politics and how political decisions made by world leaders and regulators can impact businesses. It is crucial for boards to navigate these complexities effectively, despite the varying backgrounds of board members in areas such as finance, digital, and ESG.

Board members need to stay informed about geopolitical developments in the Middle East and related global events to anticipate any potential strategic, operational, and financial impacts. Accordingly, boards must have access to accurate and timely information, as well as the ability to interpret and analyze geopolitical trends.

Boards have a responsibility to communicate effectively with shareholders, employees, customers, and other stakeholders about the potential impact of geopolitical risks on the organization. Transparent communication can help build trust and confidence in the organization's ability to navigate geopolitical challenges and maintain its competitive advantage.

Boards can take several actions to enhance their understanding of geopolitical risks. The following is a list according to priority:

Board members should be provided with training and resources to enhance their knowledge of geopolitical issues and their potential impact on the organization to independently challenge the executive management. The board should request benchmarking against industry peers to identify leading practices, emerging trends, and innovative approaches to managing geopolitical risks.

Boards should engage with external experts or advisors with specialized knowledge of geopolitical risk analysis to support board discussions and decision-making. Additionally, they should ensure that board discussions consider geopolitical factors when evaluating business opportunities, assessing risks, and setting strategic priorities.

Boards should define the governance structure, roles, and responsibilities for managing geopolitical risk. They should also establish mechanisms for ongoing monitoring and evaluation of geopolitical developments to ensure that the board remains informed and proactive in addressing emerging risks, while setting clear accountability for managing geopolitical risks.

Priority 4:

Boards should incorporate geopolitical risk analysis into the organization's governance processes, such as long-term strategic planning, risk management, and compliance oversight. They should be agile and prepared to adjust strategies, policies, and priorities based on information and developments in the geopolitical landscape.

Priority 5:

Boards should invest in resources and tools to improve the collection and analysis of geopolitical intelligence. This can include leveraging data analytics technologies, subscribing to geopolitical risk analysis services, or establishing partnerships with research institutions or government agencies.

Priority 6:

Boards should develop a stakeholders' engagement plan with management, shareholders, regulators, and external experts who can provide valuable input and perspectives on geopolitical risks. Boards should foster open communication channels and collaboration to ensure that stakeholders are informed and involved in risk management efforts.

Priority 7:

Boards should develop and regularly update scenario plans and stress tests to assess the potential impact of various geopolitical events on the organization. This process will help identify vulnerabilities, test response strategies, and build resilience to geopolitical shocks.

Boards of companies in the Middle East often avoid discussions on geopolitics or neglect to prioritize geopolitical risks in their agendas, viewing them as challenging to mitigate and more appropriately

managed at the state level. However, there is a compelling case for boards to take a proactive stance towards geopolitical risk, beginning with encouraging a culture that acknowledges their significance. By allocating adequate resources and enhancing their capabilities in this area, boards can effectively protect their organizations' interests and ensure long-term resilience in an increasingly complex global environment.

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- Endnotes
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 - World Economic Forum Global Risks Perception Survey 2023-2024.
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