

Middle East

Point of View

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Fusion center focus

Uniting against financial
crime

**The innovation
imperative**

Thrive or fall behind

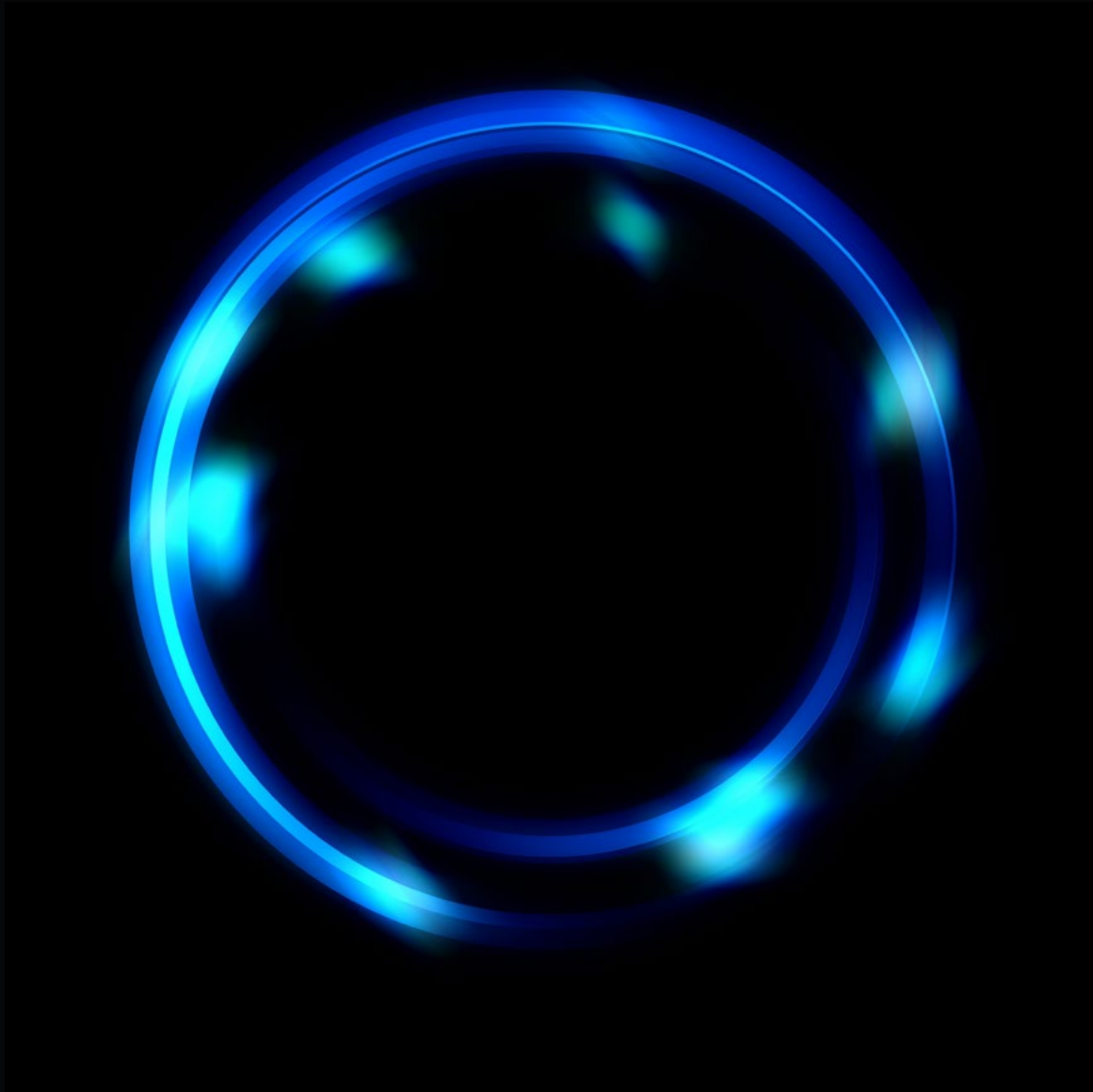
Family office trends 2024

A Middle East perspective

Board strategies

To address geopolitical
risks

Smooth transitions



Deloitte.



A word from the editorial team

Transitions are inevitable. Whether looking at technological advancements reshaping industries, geopolitical shifts opening up new opportunities, or strategic mergers shaping the corporate world, the ability and determination to manage these shifts smoothly is essential for success. In this issue of the Middle East Point of View magazine, we explore key strategies and insights to ensure businesses thrive amidst change and transition.

Innovation stands as the foundation of success in today's rapidly changing business environment. Companies that embrace innovation not only stay ahead of the curve but also carve out new markets and disrupt existing ones. In *The innovation imperative: Thrive or fall behind*, Zaid Selman highlights the crucial importance for businesses to anticipate and swiftly exploit advances in technology and process innovation to remain competitive, especially in the digital era. Not only does this apply to leading-edge tech companies but also to all companies that base their competition on innovation-led growth.

Effective financial management ensures smooth transitions by adapting investment strategies, complying with regulations, and optimizing cash flow for stability during periods of change or uncertainty. Discover why bringing together procurement and finance operations isn't just a smart move - it's essential for companies in the region to maintain their competitive edge and agility. In *Synergizing procurement and finance: Unlocking Middle East opportunities* by Clement Chan and Kevin Fulton, the discussion emphasizes how this integration isn't merely advantageous but a must-have.

The implementation of the fusion center model can also help financial institutions strengthen their defenses, protect customer trust, and maintain financial stability, as explained in the article *Fusion centers: Uniting forces against financial crime* by Collin Keeney and Farhana Aliya. The fusion center ensures efficient and effective transitions from detection to action through the use of integrated data and collaborative efforts.

Mergers and acquisitions offer another means for businesses to facilitate transitions and drive growth. Najib Hashem's article, *Mergers and acquisitions in the Middle East: The case for continuity*, puts forward the case for how labor laws across the GCC might evolve to regulate the treatment of expatriate labor impacted by corporate M&A activity.

As the private sector plays an essential role in driving growth, ensuring smooth transitions becomes increasingly achievable. Richard Nunn's article, *Top family office trends in 2024: A Middle East perspective*, delves into how family offices in the region demonstrate resilience and strategic foresight within the ever-changing economic atmosphere. Despite facing numerous challenges such as economic uncertainties, geopolitical tensions, and cybersecurity threats, family offices are proactive in investment and wealth management.

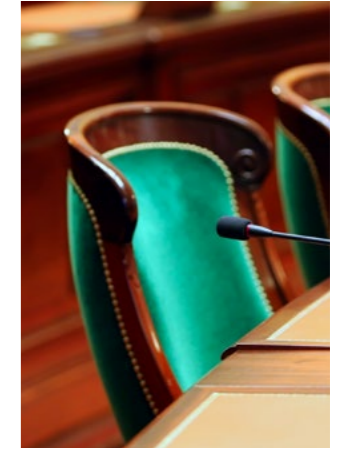
And lastly, in his article, *Board strategies for addressing geopolitical risks*, Hisham Zeitouny explores how boards can cope and manage complexities effectively in order to sustain smooth transitions.

Zeitouny emphasizes the importance of employing the right tactics to protect company interests and ensure long-term resilience.

Transitions are inevitable both in life and in business, representing periods of change and transformation that require careful management for a seamless and successful outcome. By implementing a forward-thinking approach, and leveraging insights shared in this issue, businesses can prosper in an era of continual evolution. We hope you enjoy reading this summer issue of the Middle East Point of View.

The ME PoV editorial team

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**The innovation
imperative:
Thrive or fall behind**

In the digital era, it's essential for companies to anticipate and quickly exploit advances in technology and process innovation to remain competitive. This applies not only to leading-edge technology companies but increasingly to all companies that base their competition on innovation-led growth. Once primarily the domain of high-technology and Research and Development (R&D)-led fast-growing companies, innovation and growth are increasingly on the agenda of many corporate executives in the region.

The influx of new companies into the GCC region, both established and early-stage, has necessitated that businesses, whether large or small, traditional or part of the new economy, must strive to enhance their competitiveness to survive. They can achieve this goal by improving operational efficiency, boosting top-line growth, or employing a combination of both strategies.

Yet as GCC markets continue to grow, many corporate executives experience challenges in delivering on their growth agendas. Commonly cited reasons for companies' inability to grow include the following:

- "The market is saturated and there is no further room for growth."
- "We replicate well-defined products and services, we do not have the skills to develop our own."
- "Innovation is not what we do here."
- "The risk of failure is too high and our resources are committed to operations."

Moreover, companies perceive innovation as an expensive undertaking that warrants a separate department. While there may be some truth to these arguments, standing still and dismissing innovation as an obscure, risky, and unpredictable activity is not a viable option. This is particularly true today, given the abundance of tools and methods available to innovate and the fact that the "cost" of innovation has never been lower.

Scientist William Brody summarized it best: "What is the calculus of innovation? The calculus of innovation is really quite simple: Knowledge drives innovation, innovation drives productivity, productivity drives economic growth."

So, what is innovation?

There does not seem to be any common definition of innovation. If you were to ask executives, you would likely receive a variety of responses ranging from large-scale transformation to the automation of a business process, and in a way, they are all correct.

Distinct from invention, an innovation is any new method, process, or activity that provides a tangible or intangible benefit to a business. This could be a new product, service, business process, or even something as simple as a new email feedback channel.

Without a common understanding or definition, it is difficult for companies to acknowledge or accept innovation as a relevant business tool to drive positive change.

How can a company create innovative capabilities?

Rather than being an obscure, unstructured series of activities, innovation can be incorporated into company practices, objectively assessed and aligned with the practices of market leaders.

Much like a company's operating model and technological infrastructure, a company can be evaluated based on its innovation capabilities and level of maturity. Through a structured approach, it is possible to begin by conducting an assessment of a company's innovation orientation, capabilities, and performance track record, with the aim of making practical recommendations.

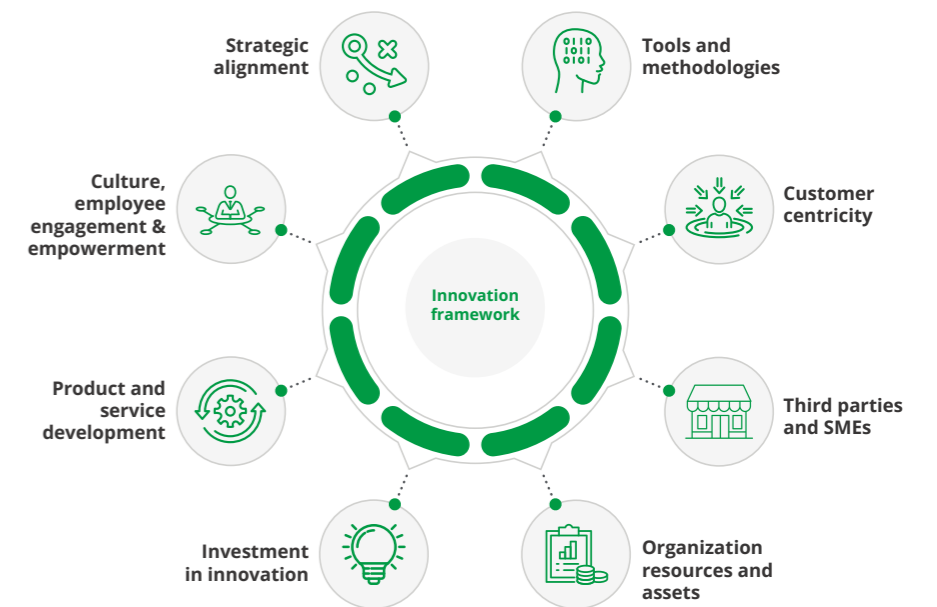
Distinct from invention, an innovation is any new method, process, or activity that provides a tangible or intangible benefit to a business. This could be a new product, service, business process, or even something as simple as a new email feedback channel.

So, what is involved in an innovation assessment?

For technology-centric firms, the primary measurement of innovation has traditionally been a simple metric, such as number of patents or products released. In some industries, reliance on R&D expenditure or the size of the R&D department was also common. Historically, these measures of innovation were static and focused on only one aspect of business operations.

In contrast, an effective assessment of a firm's innovation should take a holistic view of the company's ability to innovate. This requires a consideration of strategy, operations, culture, organization, and finance. While conventional metrics outlined previously describe certain drivers of innovation, they fail to accurately depict a firm's overall capability to innovate.

The key elements in any practical evaluation of innovation should consider the following topics:



A broad view of innovation across these dimensions allows for a clearer identification of a firm's strengths and weaknesses concerning its ability to innovate, as well as highlighting potential areas for further development. ➔

Key areas of focus would include the following:

Topic	Key considerations
Strategic alignment	<ul style="list-style-type: none"> • Is top management focused and committed to innovation? • How important is innovation to the company? • Does the company perceive itself as innovation-driven?
Product and service development	<ul style="list-style-type: none"> • What types of innovations have been rolled out in the past? Sustaining innovation? Disruptive innovation? • What is the product/service development process? • What are the roles and responsibilities of the product managers? • How are new ideas developed, tested, and rolled out?
Tools and methodologies	<ul style="list-style-type: none"> • Where applicable, which innovation tools, methods, and frameworks have been adopted? • How effective are these tools and do they support the product development process or operational improvements?
Culture, employee engagement, and empowerment	<ul style="list-style-type: none"> • Does the firm's culture encourage employees to see innovation as a core driver of growth? • Are employees empowered and encouraged to run innovation projects and experimentation?
Customer centricity	<ul style="list-style-type: none"> • Are there communication channels between the company and its customers with regards to product or service experience? • Is customer feedback shared with product managers (or equivalent) for input into future releases?
Organization resources and assets	<ul style="list-style-type: none"> • Which teams, groups, or divisions are dedicated or assigned to projects deemed as "innovation"? • How are they structured and how are mandates provided and evaluated? • Historically, how effective have the teams been in delivering on their mandates?
Third parties and small and midsize enterprises (SMEs)	<ul style="list-style-type: none"> • To what degree are innovative processes, functions, and activities reliant on inputs from third parties or external SMEs? • What is the process of ideation and incorporation of new initiatives from these sources?
Investment in innovation	<ul style="list-style-type: none"> • What is the annual budget given to "innovation" activities? • What does the current list of innovation projects look like? What is the split between focus on top-line growth versus operational improvements? • How do employees get rewarded for innovating?

Source: Deloitte analysis

While forward-thinking companies integrate strategies to foster innovation within their business models, many firms remain uncertain about which levers best facilitate corporate innovation. One way to address this issue is to provide a structured and proven framework (like the above) which assesses the impact of various levers that firms can use to harness innovation.

An innovation assessment, if conducted effectively, can identify the environmental, cultural, and operational factors that influence an organization's ability to innovate. These factors are often useful predictors of a company's future growth and its long-term likelihood of success. Leaders are ultimately accountable for growth and innovation; however, today's businesses rely on empowerment and engagement across all levels of seniority. Therefore, any approach to driving innovation must consider the processes, structures, and methods available to foster ideation, concept generation, and product or service development. ●

“If you look at history, innovation doesn't come just from giving people incentives; it comes from creating environments where their ideas can connect.”

- Steven Johnson

By **Zaid Selman**, Director, Value Creation Services, Deloitte Middle East

While forward-thinking companies integrate strategies to foster innovation within their business models, many firms remain uncertain about which levers best facilitate corporate innovation



Mergers and acquisitions in the Middle East: The case for continuity of service

All GCC countries have labor laws and provisions for the treatment of nationals and expatriate labor at managerial, professional, skilled, and unskilled levels. As a general rule, nationals are entitled to and contribute to a retirement pension scheme with contributions made by both the employee and employer. These arrangements are not impacted by any merger and acquisition (M&A) activity that may affect the employer or employee. Expatriates are entitled to an end-of-service gratuity based on the duration of their employment with their sponsoring or legal employer. Since employers can change as a result of M&A activities, the length of service with the new employer, and consequently, the gratuity entitlement of expatriate workers, can be impacted negatively.

This article puts forward the case for how labor laws across the GCC might evolve to regulate the treatment of expatriate labor impacted by corporate M&A activity and proposes an interim approach to be considered by any company contemplating an M&A transaction.

Historically, family enterprises across the GCC were in portfolio “build” mode. Diverting any part of the family portfolio was not a conversation founders were willing to entertain. More recently, there has been a shift in the discourse, and sometimes behavior, as governments have started to carve-out and sell portions of state-owned enterprises via initial public offerings (IPOs). This has encouraged private and semi-government organizations to follow suit. Many have started to consider the benefits of focusing on their “core” business and to package and shed peripheral activities. As a result, Deloitte has seen an uptick in the number of IPO readiness assignments and M&A activity with the intent to redistribute the IPO or sale proceeds to shareholders and/or reinvest in developing and growing the core and related ventures.

Organizations specializing in M&A integrations and separations often come across business units designated for carve-out that lack a full complement of management and staff. The business unit in question may or may not be part of a ringfenced legal entity. Often employees are employed by the “Group” or sometimes a combination of Group, the business unit itself, and/or a shared service center entity owned by the Group.

The reasons are varied and largely historic, regardless of company size. People may have been employed by the Group at the time the activity was launched. The same people and their successors continue to be employed by the Group while performing tasks for new business units even after those business units mature and are carved out into new legal entities. Over time, some Groups may have set up shared services to take advantage of operational synergies across the portfolio for support functions such as HR, IT, or Finance. Shared service staff could be deployed across several portfolio entities or dedicated solely to one business unit. Staff in shared service centers are inevitably impacted when the business unit or activity they support is carved-out.

So, what is the impact on employees who are caught up in such M&A transactions?

It is common for employees to be asked to change legal employers, either because the acquirer of the target employing the staff wants to integrate them into one of their existing legal entities or for other reasons. This is either because the business unit they support needs to be packaged with a full complement of staff in order to be sold as “stand-alone” or because the acquirer wants to integrate them into one of their existing legal entities. The process is relatively straightforward. In both scenarios, the employer making the request owns both legal entities. The HR department develops a simple three-way agreement to

be signed by the employee and directors from both the selling company and the acquiring company to transfer the existing employment contract.

There is an added complication in the Middle East due to expatriate employment visas linking to their legal employer. However, this is changing with the introduction of new visa categories such as the Golden visa in the UAE, where employees are no longer beholden to their employers. It is worth noting that Golden visas remain the exception rather than the norm and certain criteria need to be met to qualify for application. When transferring to a new legal entity, the residency visa for the employee must be transferred to their new sponsor. Aside from the cost (no GCC government offers a discount or refund for the unused portion of the existing visa), there is also a small risk that certain transfer requests will not be approved, creating unnecessary stress to the affected individuals and to the value of the transaction if these are key personnel.

GCC citizens who change legal employers do not require employment visas and are not impacted in the same way. In their case, the HR department has a grace period to inform the relevant social security authorities of the employer change so that contributions to their retirement fund can be drawn from the correct employer’s bank account.

Typical EOSB rules

Following at least 12 months of service as of the date of termination, EOSB is calculated based on:

1. 21 days of basic pay per year for the first five years of service;
2. 30 days of basic pay per year for any additional years; and
3. Benefits are pro-rated for partial years and capped at two years’ total salary.

In the case of expatriate workers, there is no equivalent social security contribution or retirement fund. Instead, every employer is obligated to provision for end of service benefits (EOSB). This is gratuity that is paid to the employee when they terminate their employment.

The payout of the EOSB is linked to each employee’s length of service and their final salary. One consequence observed is that some employers pay out the EOSB when employment is terminated under one legal entity and restarted with a new legal entity. The joining date for the employee is then reset to the date they joined their new legal employer. Most employees in this situation are happy to receive a lump sum and few have questioned or challenged their new starting date. For staff with more than five years of continuous service, there is potentially a negative financial impact over the long-term, although there have been no reported cases of expatriates challenging their employer to pay out EOSB and reset the joining date.

Other employers, particularly multinational firms engaging in cross-border transactions, apply a different policy, one aligned with policies that exist in their home markets. The new employer or acquirer assumes no changes to the joining date, thus giving all affected employees the full benefit for their length of service based on their initial joining date with their original employer. When agreeing to such deals, the seller is expected to transfer to the acquirer the EOSB provision on their balance sheet for the staff included in the transaction perimeter.

In EU member states, there is a concept relating to the safeguarding of employee rights during M&A transactions: “The transferor’s rights and obligations arising out of a contract of employment or from an employment relationship shall be transferred to the transferee”; in other words, the employment contract is

transferred with no changes to the joining date or length of service and without the employee being required to sign additional paperwork. Although in practice, a courtesy letter is sent to the impacted employees, either as a welcome letter from the new employer or as a letter drafted by the transferor, explaining the transaction and the transfer.

Given the current absence of GCC regulations relating to the rights and obligations of employers and employees in the event of M&A or transfers of businesses or parts of businesses, what should HR and M&A advisors recommend to their GCC clients?

The purpose of M&A is to create value. For the seller, it is about focus: releasing tied-up capital to reinvest and focus on core activities. For the buyer, it is about accelerating growth relative to an organic growth strategy. A starting point for any buyer is to retain, integrate, and incentivize newly acquired staff alongside existing staff in a merit-based remuneration structure. To that end, all employers should avoid creating different classes of workers within their expatriate staff population: those who will receive their full EOSB entitlement upon leaving based on continuous employment and others who may receive less due to being impacted by an M&A transaction. Instead, they should look to safeguard employee rights during the M&A process by:

- 1) Assuring continuity of service to all affected staff.
- 2) Placing an obligation on the original employer to transfer the EOSB provision on their balance sheet to the new employer for all affected staff.

Much like newly introduced bankruptcy laws in some GCC countries have provided some degree of protection for employees, GCC labor laws must evolve to recognize the prevalence of M&A and the necessity

to protect workers impacted by corporate transactions. In the interim, companies and their advisors should plan to transact on the basis that impacted employee contracts are not terminated (although in practice they often are), and ensure that continuity of service is recognized from the date of first employment. ●

By **Najib Hashem**, Director, Value Creation Services, Deloitte Middle East



Top family office trends in 2024: A Middle East perspective

The landscape of family offices in the Middle East is characterized by a strong presence of affluent families and individuals who establish these entities to oversee their wealth, investments, and business interests. Originating from family enterprises with diverse business interests and operating companies, they generate substantial wealth and complexity, prompting the creation of dedicated entities known as 'family offices' (FOs) to specifically cater to the needs of the family.

FOs in the region play a crucial role in shaping economic dynamics and investment strategies within the Middle East and globally. These FOs often adopt a long-term outlook and are dedicated to preserving and growing the wealth of the families they represent. The Middle East is currently witnessing significant growth and transformation, with FOs emerging as key players in shaping the region's growth trajectory. Despite facing economic and geopolitical uncertainties, they are strategically positioning themselves to capitalize on emerging opportunities and navigate potential risks. As the private sector assumes a central role in driving growth, FOs are leveraging their unique investment strategies and embracing sustainable practices to influence the region's financial future.

Amidst the backdrop of global economic uncertainties, FOs are charting a resilient path, with a remarkable 65% expecting an increase in total wealth. However, there is a more conservative outlook on assets under management (AUM) growth compared to the global average. Balancing risk and opportunity, they are adopting a long-term investment outlook, diversifying portfolios, and seizing opportunistic deals to maximize returns.

Recession fears, geopolitics, and market volatility loom as top market risks. Managing investment risk takes precedence, driving a strategic focus on diversification, exploration of new investment opportunities, and venturing into growth-oriented and overseas investments.

The Middle East is currently witnessing significant growth and transformation, with FOs emerging as key players in shaping the region's growth trajectory

Notably, private equity, real estate, and equities dominate investment portfolios, with plans to allocate more to private equity funds, private debt/direct lending, and developed market equities. This all reflects a proactive approach to portfolio diversification.

Sustainable investing has gained traction among FOs in the Middle East, with a growing number incorporating environmental, social, and governance (ESG) factors into their investment decisions. This trend aligns with the global shift towards responsible and impact-driven investing, reflecting the growing awareness of environmental and social issues among FOs in the Gulf region. Encouragingly, 47% of FOs in the Middle East are actively involved in sustainable investing. This commitment is set to grow significantly, with a projected 109% increase in sustainable investments within the next 5 years.

In tandem, the professionalization of FOs is on the rise. A significant proportion seek to hire non-family professional talent, reflecting a shift towards greater expertise and an institutional approach with an emphasis on specialized expertise in investment management, wealth planning, and operational efficiency. This shift towards professional management reflects a growing recognition of the need for strategic and diversified investment strategies to steer the evolving global economic landscape.

In an effort to enhance operational efficiency, half of the FOs are in the process of developing or implementing technology strategies. Cybersecurity has also emerged as a critical concern for family offices in the Gulf countries, given the increasing frequency and sophistication of cyber threats. A significant 67% have experienced cyberattacks, which is considerably higher than the global average of 43%. Despite this, a quarter of them lack cybersecurity strategies, highlighting the need to urgently prioritize cybersecurity planning and fortification against potential threats.

As a result, many FOs are now prioritizing cybersecurity planning and fortification to safeguard their sensitive financial and operational data.

With generational succession looming for the majority of families in the Middle East, succession planning is a constant talking point. Historically, it has often been discussed rather than acted upon, but the tide is now shifting, making it a central and universally recognized theme. Effective planning for the transition of leadership and wealth is crucial for FOs to ensure continuity and sustainability for future generations.

In conclusion, FOs in the Middle East are navigating a dynamic economic landscape with resilience and strategic foresight. Despite challenges such as economic uncertainties, geopolitical tensions, and cybersecurity threats, FOs in the region are demonstrating adaptability and a proactive approach to investment and wealth management. The rise of sustainable investing, professionalization of FOs, and impending generational succession further underscore the evolving nature of family office dynamics in the Middle East. As these pivotal players continue to shape the region's financial future, their strategic positioning, commitment to sustainable practices, and emphasis on professional management will play a crucial role in steering the region's growth trajectory in the years to come. ●

By **Richard Nunn**, Family Enterprise Leader, Deloitte Private, Deloitte Middle East

Sources

Dr Rebecca Gooch, Global Head of Insights at Deloitte Private, "The Family Office Insights Series – Global Edition The Top 10 Family Office Trends, 2024," Deloitte, <https://www.deloitte.com/global/en/services/deloitte-private/about/family-office-insights-series-global-edition.html>.

Synergizing procurement and finance: Unlocking Middle East opportunities



In Deloitte's recent report "Benefits of Integrating Procurement and Finance Operations," the alignment and coordination of activities between the procurement and finance departments within an organization are examined. Based on experience and global benchmarks, a more integrated, end-to-end, process-driven approach to procurement and finance operations can result in a 20-40% uplift in realized savings, a 10-30% improvement in operational efficiency/cost, and a better end-user experience. This could deliver improved cashflow, vendor management, and decision-making. However, despite the numerous benefits, experience indicates that tight integration between procurement and finance operations is the exception rather than the norm. What are the common integration challenges, and how are these relevant to the Middle East region?

Why integrate procurement and finance operations?

Integrating finance and procurement operations is essential for achieving operational excellence and maximizing value. By aligning these critical functions, organizations can streamline processes, reduce costs, enhance financial controls, and improve supplier relationships. This integration is particularly vital in the Middle East, where rapid growth and evolving market dynamics require agile and efficient business operations.

Challenges and approach to integration

Organization structure/functional ownership: The maturity of organization setups is advancing, particularly in more mature, larger-scale enterprises. However, many have experienced rapid growth in recent years, leading to a sense of change fatigue and the need to let things settle; this pause can be detrimental.

Management must seize the opportunity now to solidify these changes in order to stay competitive and efficient.

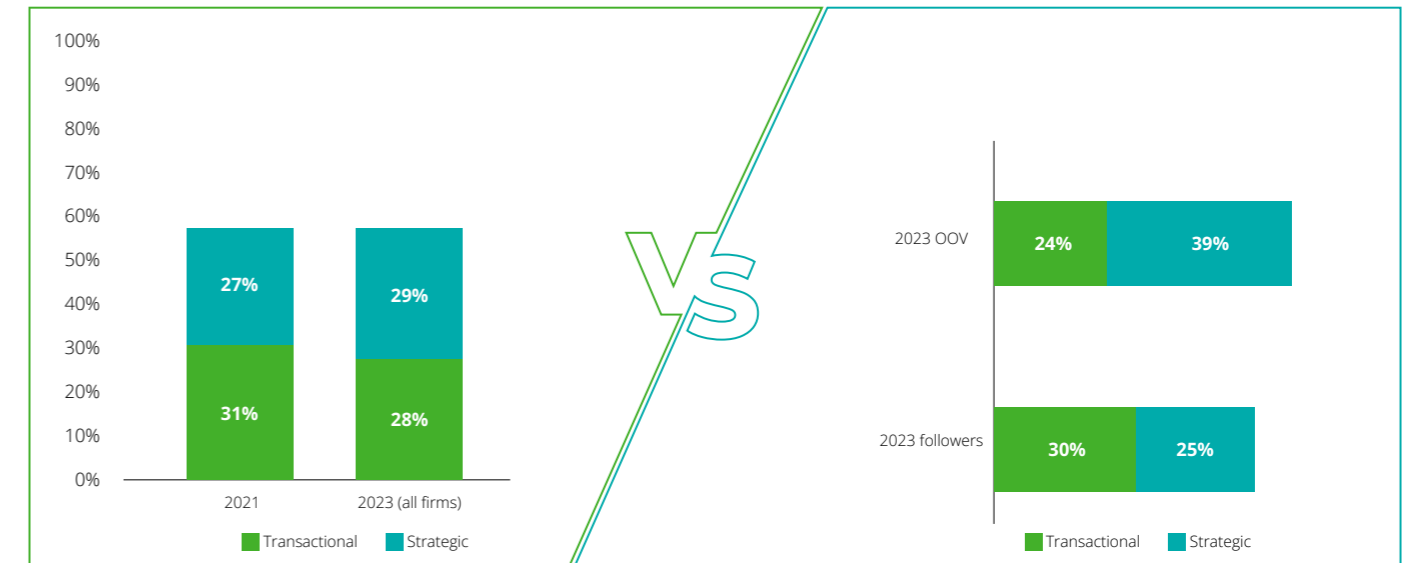
Functional expertise: Procurement and finance operations require different skillsets, and competition for talent is particularly fierce in the region. Traditionally, these two functions focus on separate and targeted development paths. While home-grown expertise is emerging fast, it is imperative for pioneering management teams to devise a long-term plan with a dedicated talent strategy. Without immediate action, companies risk falling behind in the rapidly evolving business landscape.

In Deloitte's 2023 Global Chief Procurement Officer (CPO) survey, talent acquisition and retention were the most cited internal risks (four times higher than digital fragmentation). More than 70% of CPOs in the study had difficulty attracting talent over the past 12 months, with only 4% of firms saying it's less difficult to find talent.

Segregation of duties: The need to avoid conflicts of interest is key to maintaining good corporate governance. The Middle East region is maturing fast in terms of digitizing controls, but many processes and controls are still highly manual and not documented or followed as diligently as they should be. Immediate steps to digitize these controls are crucial to safeguard against governance risks and enhance operational efficiency.

To achieve this, Orchestrators of Value (OOV) work to shift from transactional processes (and operational ones) to strategic activities (Figure 1). Reducing focus on the transactional, which is arguably still too high, gives them more time to spend on strategic activities like business engagement or supplier collaboration, as well as on transforming and digitizing the function.

Integrating finance and procurement operations is essential for achieving operational excellence and maximizing value. By aligning these critical functions, organizations can streamline processes, reduce costs, enhance financial controls, and improve supplier relationships.



Source: CPO survey 2023

Figure 1: Allocation of time: Strategic vs. transactional ('operational' not shown)

They achieve this in the following ways:

- Standardizing processes/policies (and systems and data) and using flexible automation tools (e.g., low-code/no-code and self-service) and methods (e.g., agile approaches for iterative design/build/realize).
- Creating purposeful/thoughtful teams focused on efficiently and effectively executing common tasks in shared services or centers of excellence (CoEs) (e.g., business engagement, sourcing, contracting, risk management, and analytics) and composed of specialists (internal and external).
- Using outside intelligence to help inform the highest-priority opportunities to target (e.g., the No. 1 managed service CPOs plan for falls under the insights—data and analytics operating model).
- Formally planning/coordinates their efforts on prioritizing focused transformation that enables the greatest value, defending the high ground, and better navigating the challenges of having to chase the latest shiny object in the business.

How to do more, and better, with less

In the previous two installments of Deloitte's CPO Survey, "complexity mastery" and "agility" characteristics were measured to see if they influenced procurement performance in the face of increasing business volatility. They did, but there have been diminishing gains due to execution challenges regarding resource gaps, both capability and capacity (the No. 1 cited issue keeping CPOs awake at night, along with lack of visibility outside the function), and the difficulty of scaling the procurement operating model to stay in sync with both stakeholders and supply markets.

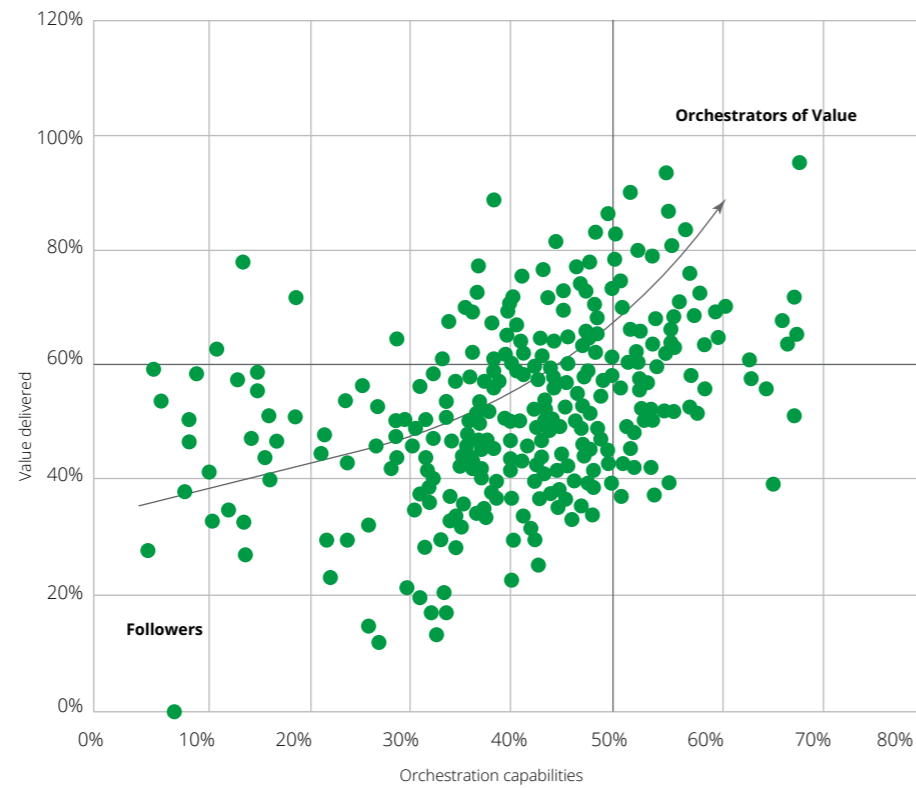
For a CPO to help transform value chains, enhance third-party management, and maximize enterprise value beyond basic supplier cost reduction and risk mitigation, the CPO must take a leadership role in collaboratively building an enterprise capability of "orchestration." Delaying these actions could result in missed opportunities, reduced efficiency, and lower competitive advantage. ➔

For a CPO to help transform value chains, enhance third-party management, and maximize enterprise value beyond basic supplier cost reduction and risk mitigation, the CPO must take a leadership role in collaboratively building an enterprise capability of "orchestration"

Orchestrators of Value

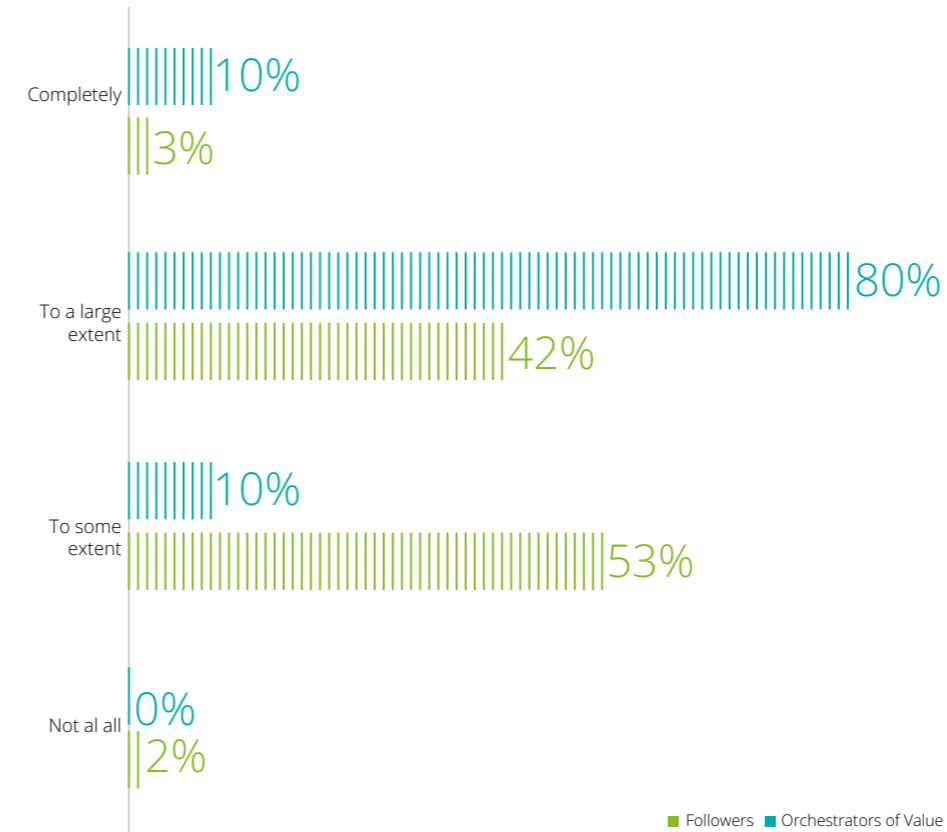
The survey illustrates how top-performing procurement teams increasingly work with business unit leaders, functional partners, and suppliers to empower their teams to become "Orchestrators of Value" and get everyone playing off the same "score." This orchestration is built upon numerous capabilities (identified in the study) that help drive improved performance and value, ranging from operating model reconfiguration (e.g., increased leveraging of hybrid delivery models or open talent networks) to far higher rates of digital enablement and more advanced and sophisticated talent development strategies.

Figure 2 shows how each CPO who responded to the survey ranked against orchestration capability measures and the associated value delivery performance attributes. It was evident how Orchestrators do indeed perform better, with a strong statistical correlation. Top-quartile Orchestrators have a 25% performance advantage over their peers. For convenience and illustration, the top-quartile Orchestrators who delivered top-quartile performance were designated as Orchestrators of Value and compared to 'Followers.'



Source: CPO survey 2023

Figure 2: Value delivered by Orchestrators of Value vs. Followers



Source: CPO survey 2023

Figure 3: Procurement leaders who believe their teams have the skills and capabilities to deliver their strategy

In conclusion, integrating procurement and finance operations is not just a strategic advantage but a necessity for companies in the Middle East to stay competitive and agile. The challenges are significant, but the potential rewards in terms of cost savings, efficiency gains, and enhanced decision-making are too substantial to ignore. By adopting a proactive approach and focusing on strategic activities, companies can transform their operations and become true Orchestrators of Value. Now is the time to act and embrace the integration of these critical functions to drive sustainable growth and success.

By **Clement Chan**, Global Business Services Offering Lead and **Kevin Fulton**, Supply Chain & Network Operations Offering Lead, Deloitte Middle East

Endnotes

1. us-benefits-of-integrating-procurement-and-finance-operations.pdf (deloitte.com).
2. <https://kx.deloitte/documents/view/74668?u=1&lang=EN>.



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:



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

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.

Actions to be taken by boards

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

Priority 1:

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.

Priority 2:

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.

Priority 3:

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. ●

By **Hisham Zeitouny**, Partner, Risk Advisory, Deloitte Middle East

Endnotes

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Fusion centers: Uniting forces against financial crime

Technological advancements within the Middle East financial services industry have given rise to a rapid transformation of the fraud landscape, rendering traditional prevention and detection methods increasingly inadequate. Fraud schemes, originally opportunistic in exploiting the vulnerabilities of individuals, have evolved into more intricate, complex, and syndicated enterprises, now targeting both individuals and organizations. Most financial institutions rely on a myriad of independent teams, operating primarily in their fields of expertise and relying on fragmented data sets from siloed systems to protect themselves and their customers from financial crime, fraud, cyber, and insider threats.

Fraud techniques are becoming increasingly sophisticated, making them harder to detect and mitigate using traditional methods. Inconsistent processes for identifying the technique, incident response, and recovery contribute to delays in addressing fraud risk effectively, leaving organizations vulnerable for longer periods to fraud and financial crime threats. Addressing these challenges requires a shift towards more integrated, proactive, and automated approaches for fraud prevention, more collaboration across departments, and investment in technology to enhance detection and response capabilities.

Globally, several leading financial institutions have begun to adapt to these challenges, implementing an emerging solution referred to as a "fusion center." This article explores the prevailing fraud typologies in the financial industry due to technology transformation. It examines the "fusion" model, discusses the advantages of fusion centers, explores their global adoption, regulatory drivers, relevance in the Middle East market, and offers suggestions for practical implementation.

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The fusion model

The fusion center serves as a centralized hub of experts who might normally operate in silos, collaborating in real-time to analyze and respond to both traditional and technology-driven threats by developing actionable intelligence. The fusion center draws on the specialized skills of fraud, cyber, and financial crime teams, facilitating cross-functional cooperation to develop comprehensive action plans and incident management strategies. Comprehensive data is crucial, as fusion centers rely on having access to integrated data flows from across the institution's operations and technology stacks. When armed with enablers such as dashboards, interactive visualizations, and automated workflows, fusion centers can empower teams to swiftly detect, investigate, and respond to potential fraud and financial crime risks posed by evolving threat actors.

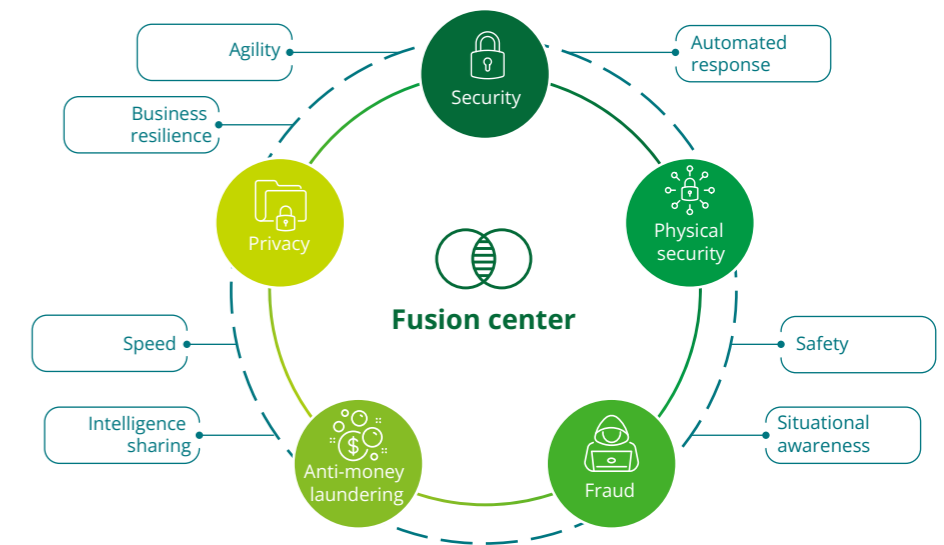








Figure 1: Transforming data into actionable intelligence

The fusion center draws on the specialized skills of fraud, cyber, and financial crime teams, facilitating cross-functional cooperation to develop comprehensive action plans and incident management strategies

Emerging fraud typologies in the financial industry

Digital transformation can significantly enhance customer experience and efficiency. However, it also introduces new fraud risks and vulnerabilities that, if not properly addressed, could erode customer confidence in financial services and products. Below is a selection of emerging fraud trends afflicting the global financial industry, illustrating the crossover between fraud, financial crime, and cyber threats.

Emerging fraud trends

	Phishing and social engineering	Perpetrators mislead employees or customers into disclosing sensitive and confidential information through sophisticated and deceitful emails, evading traditional email security measures.
	Synthetic identity fraud	Criminals generate fake identities by combining both real and fabricated information, creating accounts, and committing fraudulent activities, which challenge traditional verification methods.
	Account takeover attacks	Perpetrators obtain unauthorized access to accounts using stolen credentials to carry out fraudulent transactions and steal funds, hindering detection by traditional security systems.
	Mule accounts	Perpetrators establish or seize legitimate accounts to facilitate the laundering of stolen funds and fraudulent transactions, obstructing traditional detection systems from tracing the money trail.
	Business email compromise	Cybercriminals exploit email communications by intercepting or mimicking actual email accounts to execute fraudulent transactions, often exploiting legitimate business operations.
	Insider threat	A key risk for financial institutions is posed by staff who have administrative levels of access to sensitive client data and who intentionally or unintentionally cause reputational and financial harm to the organization and its customers.

Benefits of fusion centers

Overall, the fusion concept enables a more coordinated and cohesive response to cybersecurity, financial crime, and fraud, enhancing the resilience and security of financial institutions. By adopting a fusion approach, organizations can address multi-layered threats that span across different domains. An integrated approach allows for shared visibility and costs among the different stakeholder teams (such as the Financial Crime, Fraud Risk Management, and CISO teams), promoting collaboration and efficiency. The fusion concept can enable faster and more efficient information sharing across these groups, leading to a better

understanding of threats when they arise and facilitating the development of more proactive defense measures. With cross-functional collaboration and the application of advanced analytics to integrated data sets, the fusion center can help institutions detect and mitigate a range of illicit activities more rapidly. By synthesizing data sources and strengthening information sharing, these centers allow institutions to remain vigilant against evolving fraud and financial crime tactics, enhancing their security in the digital age.

Global adoption of fusion centers in the financial industry

The key drivers behind leading financial sectors' push to adopt fusion centers:







- Rapid adoption of digital platforms by the financial industry to address customer needs during the pandemic;
- Risks associated with digital platforms and technological advancements such as artificial intelligence, machine learning, ransomware, phishing attacks, deepfake technology, etc.;
- Concerns of risks "falling through the cracks" if different stakeholders within financial institutions do not collaborate or share intelligence;
- Emerging trends of organized crime targeting specific attacks; and
- Regulatory requirements related to data privacy, penalties, and data security.

Relevance in the Middle East market

With the proliferation of digital banking services, transformation to open banking platforms, and the growing sophistication of cyber-attacks, the case for adopting fusion centers becomes clear in the Middle East. These developments come with challenges that necessitate a proactive and collaborative approach from all stakeholders within a financial institution. Although digital banking is rapidly growing

in the Middle East, the industry is still evolving. Therefore, customer awareness and education are crucial in ensuring the secure and effective use of these services. Many banks in the region are investing heavily to make these platforms safe and secure, gaining customer confidence through proactive monitoring activities. Meanwhile, regulators have begun to take a much more determined stance on topics like financial crime and fraud risk

management. For example, the Central Bank of the Kingdom of Saudi Arabia (SAMA) has issued a Counter Fraud Framework regulation as part of their Vision 2030, addressing many of these interrelated topics and acknowledging the need for more collaborative approaches to combating fraud. The UAE Central Bank is also actively working with financial institutions to make digital platforms safe and secure through technology innovation.

Steps	Description
 1. Establishing a centralized hub	Financial institutions should designate a central location or platform to serve as the fusion center. This hub should facilitate effective communication and collaboration among teams responsible for fraud, financial crimes, and security.
 2. Consolidating data	Fusion centers require an integrated data flow from across the institution's relevant operations. This allows data/alerts relevant to a particular customer or risk theme to be compiled and analyzed across the different businesses rather than individually within each silo.
 3. Integration of advanced analytics	Fusion centers should leverage advanced analytics tools to enable real-time threat detection and analysis. These tools can help identify patterns, anomalies, and potential threats across multiple data sources.
 4. Developing incident response protocols	Institutions should develop incident response protocols aligned with industry best practices and regulatory requirements. These protocols should outline procedures for identifying, triaging, and responding to threats effectively.
 5. Developing interaction models	Fusion centers should have strong interaction protocol covering stakeholders from fraud, cyber, and financial crimes. These protocols should outline accountabilities with levels of engagement, communication, identification, remediation, and control feedback.
 6. Continuous training and development	Fusion centers should prioritize ongoing training and skill development for staff members involved in threat management. This ensures that teams remain up to date on the latest threats, technologies, and best practices.

Fusion centers offer financial institutions a compelling, proactive approach to managing fraud and financial crime risk. This approach helps overcome internal barriers to information sharing between an institution's risk management teams. By fostering collaboration, integrating advanced analytics, and providing a platform for continuous training, these centers enhance an institution's ability to detect, respond to, and recover from evolving threats.

In the Middle East, embracing the fusion center model can help financial institutions strengthen their defenses, protect customer trust, and maintain financial stability as the region's financial services sector becomes increasingly digital and globally interconnected. ●

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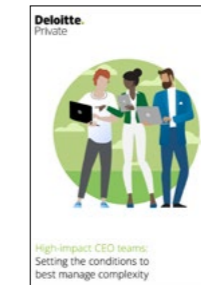


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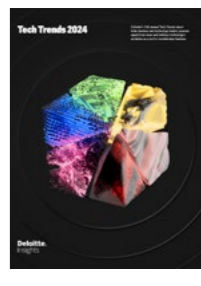
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