KFAS
مؤسسة الكويت للتقدم العلمي
Kuwait Foundation for the Advancement of Sciences

arabnet

Kuwait Corporate Readiness for 4th Industrial Revolution

Report 2021

Kuwait Corporate Readiness for 4th Industrial Revolution

Table of Contents

About Kuwait Foundation for the Advancement of Sciences (KFAS)

The Kuwait Foundation for the Advancement of Sciences (KFAS), a private non-profit organization, established in 1976 by an Amiri Decree under the direction of the late Amir of Kuwait, H. H. Sheikh Jaber Al-Ahmad Al-Jaber Al-Sabah with a vision to create and nurture a thriving culture of science, technology, and innovation for a sustainable Kuwait.

KFAS operations are funded by contributions from the private shareholding companies of Kuwait as part of their corporate social responsibility. The contributions currently amount to one percent (1%) of their annual net profit.
KFAS mission to "stimulate and catalyze the advancement of Science, Technology and Innovation (STI) for the benefit of society, researchers, and enterprise in Kuwait," continues to be at the heart of all the Foundation's activities and plans.

Since its creation, KFAS has successfully established a number of dedicated research and educational centers of excellence in Kuwait. These are: The Scientific Center, Dasman Diabetes Institute, Sabah Al-Ahmad Center for Giftedness & Creativity, and Jaber Al-Ahmad Center for Nuclear Medicine and Molecular Imaging. These centers are recognized as world-class facilities and pioneering scientific research institutes. In addition, KFAS has established the Advancement of Sciences Publishing and Distribution Company, the Foundation's publishing arm.

About Arabnet

Arabnet is a leading event, insights and innovation program organizer focused on tech business and innovation in the MENA region. We organize major conferences for the tech sector in Dubai, Riyadh, Kuwait and Beirut; publish news and analysis of the sector in our online news portal and produce original research and reports focused on the sector; and organize custom-tailored innovation programs for corporates and governments.

The insights and findings in this report are based on in-depth desk research, as well as one-on-one, semi-structured interviews conducted with the following entities. The answers obtained from the interviews have been aggregated and anonymized; the lessons learned and success stories have been de-identified.

بيت التمويل الكويتي
Kuwait Finance House

بنك بوبيان
Boubyan Bank

شركة إمتيازات الساير
AL-SAYER FRANCHISING CO.

كيبكو
KIPCO
شركة مشاريع الكويت (القابضة)
Kuwait Projects Company (Holding)

شركة علي عبدالوهاب المطوع التجارية ش.م.ك.م
ALI ABDULWAHAB AL MUTAWA COMMERCIAL CO. K.S.C.C.

gig
مجموعة الخليج للتأمين

CENTRAL CIRCLE CO.
شركة الدائرة المركزية

EQUATE
شركاء في النجاح
Partners in Success

mabanee
مباني

Agility

stc

zain

EXECUTIVE SUMMARY

Digital transformation has become an increasingly important priority for MENA's business leaders across industries, with spending on digital transformation in the region estimated to have reached $30bn in 2020.[1] This research report investigates how digital transformation is being driven forward in some of Kuwait's leading corporations through a series of twelve qualitative, semi-structured interviews. The report covers the key motivators for digital transformation, the first steps taken by companies to kickstart their journey, the challenges corporates are facing and the best practices they are implementing to drive transformation forward.

Despite plunging oil prices and economic slowdown, companies across the region are speeding up their digitalization initiatives. Governments in the GCC have dedicated extensive resources towards the digitalization of their economies through the creation of new institutions, legislative amendments, partnerships with 'Big Tech', as well as building local human capital.

The Kuwait Vision 2035 promises to strengthen the digital ecosystem and transform the country's digital infrastructure. In addition to supporting and strengthening Kuwait's technology focused SMEs, its main purpose is to diversify the economy, transforming it from an oil-based economy to one that is knowledge-based. As corporates and SMEs increasingly invest in disruptive technology and the IT market booms, Kuwait is well positioned to embrace the Fourth Industrial Revolution.

Report Highlight

Motivators

- Surveyed companies mentioned the following main drivers for digital transformation: agile digital challengers, the looming threat of global competitors, changing consumer behavior, global technology trends, and digitalization for market expansion.

- The top goals for digital transformation were improved customer experience (58%), efficiency (58%), and product innovation (41%).

First Steps

- A little over half of the surveyed Kuwaiti companies already have a digital strategy in place in 2019, the majority of which kicked off their strategies within the last 3 years.

- Steps taken to embark on digital transformation include: setting business priorities, getting board approval and buy-in, aligning stakeholders, running pilots and proofs of concept, assigning a team (and lead), and building a digital transformation milestones roadmap.

Challenges

- The top challenges for digital transformation mentioned by the surveyed companies are human resource issues, led by culture issues/resistance to change (77%) followed by lack of leadership buy-in (58%).

- Important challenges mentioned included cost and budget constraints, such as inflexible and restrained budgets, as well as sourcing external technology vendors or providers with the right capabilities and needed expertise. Other minor challenges mentioned included digital infrastructure and local regulation.

Best Practices

- Roughly half of the respondents said digital transformation is led by the C-Suite, while the remaining half said it is led by a mix of relevant teams and project managers, who are supervised by upper management.

- The majority of organizations (75%) have either created new roles, teams, and departments specific to digital transformation or have hired dedicated personnel in existing departments.

- 66% of the companies surveyed strongly believe in training their staff and offer a variety of learning and development initiatives. Half of the companies mentioned are leveraging external parties to implement and/or support digital transformation.

- Solutions for dealing with internal resistance included engaging and educating employees, building a business case with Return on Investment (ROI) numbers, and hiring new leadership.

- Support of the CEO/Board was cited as the top factor for facilitating the implementation of digital transformation.

- Key Performance Indicators (KPIs) used by the companies to measure success of digital transformation focused on financial performance, customer satisfaction, and internal processes.

- Surveyed companies believe that prioritization, customer focus, and staying-up-to-date with the latest trends are three key steps that ensure the future success of digital transformation.

Endnotes

1 Sharma, Alkesh. “Middle East and Africa Firms to Spend $30bn on Digital Transformation This Year.” The National, 27 Feb. 2020

INTRODUCTION

The way people live, work, and interact in today's world is changing radically. The Fourth Industrial Revolution (Industry 4.0) is characterized by the "marriage of physical assets and advanced digital technologies,"2 including artificial intelligence (AI), the Internet of Things (IoT), robotics, 3D printing, big data, and cloud-based services, among others. Industry 4.0 is ushering in a new era of economic disruption as it transforms the nature of human labor as well as economic and business activities.

Digital transformation marks an extensive rethinking of how organizations use technology, people and processes to fundamentally change business performance, according to George Westerman, MIT principal research scientist and author of *Leading Digital: Turning Technology Into Business Transformation.*[3] Digital transformation weaves digital capabilities throughout the fabric of an organization, going beyond the mere implementation of technologies. This often entails transforming and streamlining business processes, experimenting with innovative business models, finding new revenue streams, enhancing the interaction between customers and employees, and delivering excellent customer experience. The terms digitization and digitalization are often wrongly used interchangeably with digital transformation (as well as one another). While digitization is the process of changing from analog to digital form (also known as digital enablement), digitalization is the use of digital technologies to change a business model and provide new revenue streams and value-producing opportunities.[4]

The global digital transformation market is expected to grow from $469.8B in 2020 to $1,009.8B by 2025, according to the global market research and consulting firm MarketsandMarkets,[5] with International Data Corporation (IDC) forecasting that products and services offered by digitally transformed organizations will contribute to nearly half of the global GDP by 2024.[6]

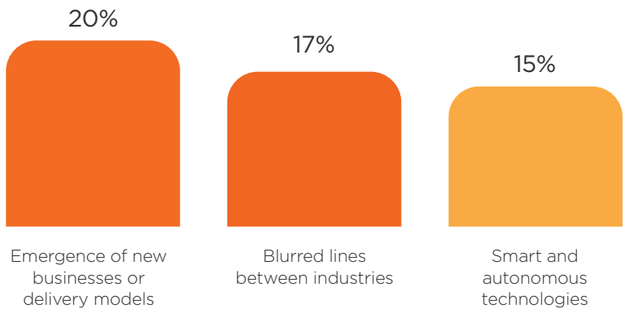
In order to fully benefit from digital transformation, industries will need to make their operations smart and connected. Multinationals and large manufacturers are already implementing technologies like big data for procurement, robotics for construction, 3D printing for food creation, AI for an augmented workforce, and IoT for connected cars. IoT technologies commanded the largest share of the overall digital transformation market in 2019, while Augmented Reality / Virtual Reality (AR/VR) technology is expected to register the fastest compound

annual growth rate (CAGR) during the forecast period of 2019 to 2025 according to Meticulous Market Research.[7]

However, the shift to Industry 4.0 is a significant undertaking for which many organizations are not sufficiently prepared. According to a recent Deloitte Global survey,[8] only 14% of surveyed executives were highly confident that their organizations are ready to fully harness the changes associated with Industry 4.0. Moreover, less than 20% considered themselves ready for blurred lines between sectors or new delivery models.[9]

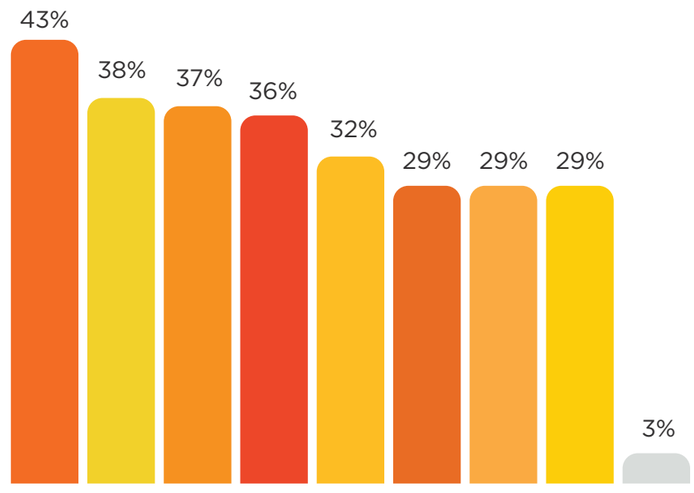
How prepared is your organization to address the following issues?

Respondents who answered, "Highly prepared"; only select responses shown



Source: Deloitte

In the same Deloitte survey, when asked about the most common challenges their organizations face as they seek to adopt new technologies, executives pointed to lack of internal alignment about which strategies to follow (43%), lack of collaboration with external partners (38%), and short-termism (37%) as the top three challenges.



Source: Deloitte

Businesses can overcome these challenges by incorporating vital elements or capabilities known as enablers. These enablers drive digital transformation and collectively make up the engine that empowers an organization to reach its digital transformation goals.

The Key Enablers

Agility

Agility is the ability of an organization to adapt swiftly to opportunities and threats. Organizations can increase their agility by adopting non-hierarchical structures of networked teams, leveraging data and technology to foster experimentation and innovation, as well as introducing faster learning and decision cycles.

Data & Analytics

Businesses are more likely to lead in digital transformation if they are proficient in harnessing data to generate insights. Companies must go beyond developing strong algorithms and fully embed analytics in every business process, interaction, and transaction. This includes integrating trackers into web pages, portals, applications, and products, as well as internal operational activities.

Talent & Culture

Work culture must transform to support agile innovation, cross-functional collaboration, and risk-taking. Strategic foresight and visionary senior leadership are critical for success. Businesses will have to find ways to acquire, develop, and engage employees who understand the capabilities and limitations of digital approaches.

Customer-Centricity

Companies need to evaluate how digital disruption is changing customer behavior, rethink their customer engagement model to leverage disruptive technologies, understand customer expectations, and maximize customer value from offerings.

Endnotes

2 The Fourth Industrial Revolution Is Here." Deloitte, 13 July 2018

3 Boulton, Clint. "What Is Digital Transformation? A Necessary Disruption." CIO, 17 Sept. 2020

4 Bloomberg, Jason. "Digitization, Digitalization, And Digital Transformation: Confuse Them At Your Peril." Forbes, 17 May 2018

5 "Digital Transformation Market." Markets and Markets, July 2020

6 "IDC Predicts Strong Growth in Spending on Digital Transformation & Innovation as ICT Industry Gathers in Dubai." IDC: The Premier Global Market Intelligence Company, 23 Jan. 2020

7 Digital Transformation Market | Meticulous Market Research Pvt. Ltd." Meticulous Research, Feb. 2020

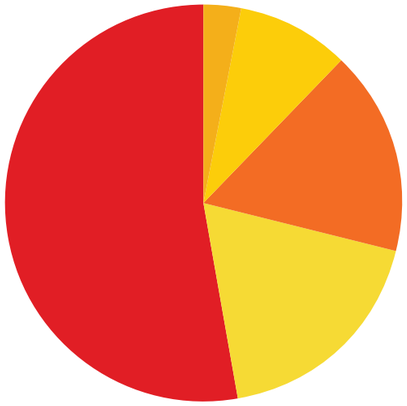
8 Industry 4.0: Are You Ready?" Deloitte Insights, 22 Jan. 2018

9 Industry 4.0: Are You Ready?" Deloitte Insights, 22 Jan. 2018

BACKGROUND

Global Context

Investment in technology is increasing despite the global economic slowdown. A recent research report by Industrial and Financial Systems (IFS) found that 52% of global companies planned to increase their spending on digital transformation. However, the survey also found that the appetite for digital transformation initiatives was inconsistent across industries. The survey placed construction in the lead, with 75% of respondents in the sector saying they had plans to invest in 2020, followed by information technology (58%) and manufacturing (55%). The industries found to be most cautious were energy and utilities (37%) and retail (35%).[10]



52.54%

I currently have plans in place to spend more on digital transformation initiatives

18.5%

I currently have plans in place to spend less on digital transformation initiatives

16.62%

I currently have no plans to change spending on digital transformation initiatives

9.27%

I planned to implement a digital transformation project but thought market conditions have forced me to review my vendor choice

3.07%

No plans to spend at all on digital transformation initiatives in the near term

The Covid-19 pandemic has accelerated the adoption of emerging technologies across governments and industries and pushed businesses to make drastic shifts crucial to their survival. In a In In a global survey by Twilio of 2,500 enterprise decision makers, 97% believed that COVID-19 accelerated their company's digital transformation efforts.[11]

Furthermore, businesses in many industries have been forced to experiment and innovate with digital solutions that reduce face-to-face interaction and secure the health of their customers and employees. These solutions have included applications such as grocery and food delivery services, business-to-business commerce applications, as well as video-conferencing applications.

Regional Context

The MENA region has also been moving towards large-scale digital transformation in recent years. MENA's governments have been dedicating extensive resources towards the digitalization of their economies with the creation of new institutions, legislative amendments, partnerships with 'Big Tech', as well as building local human capital. In late November 2020, senior government officials from Bahrain, Jordan, Kuwait, Pakistan, and Saudi Arabia patronized the launch of the Digital Cooperation Organization (DCO) – an organization aimed at strengthening cooperation across all innovation-driven areas and accelerating the growth of digital economies.

GCC states – in particular the UAE, Saudi Arabia and Kuwait – have made significant strides toward fostering innovation and digital transformation. The UAE was one of the early adopters of digital transformation in the region, with its digital economy expected to contribute $63.8B to GDP by 2023.[12] The UAE's long-term plans – such as the National Innovation Strategy, the Artificial Intelligence Strategy 2031, and the Blockchain Strategy 2021 – and its strong regulatory frameworks have helped foster an environment of technological adoption and innovation in both private and public sectors. Moreover, Dubai's Paperless Strategy has created a digital national identity for 300,000 registered users, a strong enabler for further digitalization of the economy.

Saudi Arabia's investments in technology are also paying off. As part of Vision 2030, the Kingdom initiated a National Transformation Program (NTP) to shift the oil-dependent economy to a digitally-empowered one, and established the National Digitization Unit (NDU) to lead several initiatives on that front. Saudi Arabia is positioning itself as a tech leader in the region, with the launch of its nationwide AI strategy, construction of mega smart city NEOM, and latest G20 presidency.

The Impact of Covid-19 in the Region

Despite regional economic challenges arising from the COVID-19 pandemic and plunging oil prices, the crises of 2020 appear to be speeding up the process of digital growth and innovation, in line with global trends. According to a survey by EY, 80% of MENA executives said that their companies were undergoing a significant digital transformation to meet profitability goals in response to the pandemic, whereas 73% were taking steps to change their digital transformation and speed of automation initiatives.[13]

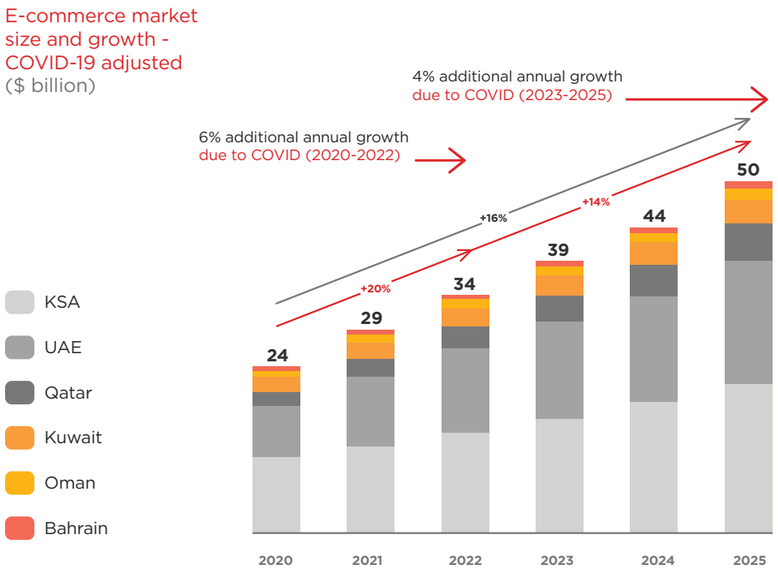
Shortly following the onset of the COVID-19 pandemic, the MENA market proved ready to shift gears. As schools were forced to shut down and move online, students from across MENA embraced online learning: Saudi-based Noon Academy, a leading edtech startups in the region, registered over 2 million students[14] and UAE-based Lamsa World, an Arabic education platform, witnessed a 300% increase in downloads and content consumption.[15] Kuwait, in particular, saw the launch of several e-learning programs and initiatives amidst the crisis by start-ups, such as Baims, as well as non-profit organizations, such as LOYAC and KFAS.

Baims, which offers online recorded courses for students of all ages, provided free access to high school students to help them learn at home. The startup also raised a seed funding round in April 2020, making it the first EdTech company to receive investment in Kuwait. LOYAC, a nonprofit organization working towards the overall development of the youth, launched a campaign called 'Be Ready', which included a number of creative online programs and workshops aimed at helping the youth make good use of their time and acquire new skills.

Enara Academy, established as part of an initiative by KFAS Academy during the crisis, provided free access to informal education based on the Ministry of Education's curriculum for all grades, from kindergarten (ages 5-6) through twelfth grade (ages 17-18).

The e-commerce industry also witnessed a significant increase in consumer demand following the pandemic. According to analysis conducted by Kearney, e-commerce in the GCC is expected to accelerate between 2020 and 2022, at 20 % CAGR, and reach $50B by 2025.[16]

The COVID-19 pandemic has led to greater expected growth in the e-commerce market



Source: Kearney

Research commissioned by A.T. Kearney Middle East also revealed that 48% of consumers in the UAE and 69% in Saudi Arabia would maintain their current shopping behaviors after the pandemic.[17] Retail players in the region had already been growing their e-commerce capabilities, and in the past few months, major corporations like Carrefour and Majid Al-Futtaim Retail have reskilled their employees, expanded their network of fulfilment centers, and increased capacity with new transport partnerships to meet the increase in online orders.[18]

Similarly, patients have embraced telehealth during the crisis. With limited physical access to healthcare facilities during the pandemic, many healthcare providers and patients in the region readily adopted telehealth as a mainstream service. Vezeeta, a digital healthcare platform that serves patients in six countries, launched a telehealth solution in March whereby patients could receive remote consultations and medication in the safety of their homes. The product generated more than 30,000 calls and led to the development of Vezeeta's complete digital healthcare concierge. Similarly, in the UAE, digital healthcare is on the rise with patients seeking help via remote services both for detecting symptoms as well as treatment of mental health issues. During the pandemic, UAE's Telecommunications Regulatory Authority unveiled six new telehealth applications in an effort to facilitate hospitals providing virtual healthcare services.

Kuwait Context

The digital revolution in Kuwait is well underway with Vision 2035 aiming to shift Kuwait away from an oil-based economy to a knowledge economy and transform the country into a regional and international financial and trade hub. Kuwait has dedicated over $900M specifically for nationwide initiatives that will directly contribute to a stronger digital ecosystem and transform the country's infrastructure.[19] These initiatives target a variety of sectors including (but not limited to) telecommunications,

manufacturing, banking and finance, oil and gas and the public sector.

In the public sector, digitalization initiatives include projects ranging from the installment of fiber-optic networks by the Ministry of Communication to the adoption of Microsoft's Azure Cloud by Directorate General of Civil Aviation (DGCA) to gather, analyze, and transform airport data.[20]

Digital transformation has also been making considerable headway among large enterprises in Kuwait. In the telecommunication sector, Kuwait's operators have all been working extensively towards building 5G infrastructure and Long-Term Evolution (LTE) networks, while developing new digital services in several verticals including healthcare and transportation and logistics such as drone and fleet management systems. In the manufacturing sector, one of Kuwait's largest manufacturers, Kuwait Steel, is digitally transforming with the global technology company SAP to boost manufacturing growth, efficiency, and productivity. The oil and gas sector has also responded to pressure to adopt digital transformation, with the Kuwait Oil Company launching four major pilot programs for integrated digital oil and gas fields in 2011, and Kuwait Integrated Petroleum Industries Company (KIPIC) announcing in May, 2020 that it had expanded its partnership with Microsoft to accelerate its digital transformation journey.

Kuwait has also sought to foster SMEs that are focused on the technological sector to strengthen the nation's innovation capabilities and drive economic diversification. In line with this objective, the government established the Kuwait National Fund for SME Development, an independent public corporation that seeks to grow SME contribution to the national economy by building a business-friendly ecosystem for entrepreneurs and business owners; the Fund offers incubation services, specialized training programs, as well as funding up to 80% of the capital needs of ventures run by Kuwaiti nationals.

With enterprises and SMEs in the private sector investing in disruptive technologies, Kuwait's IT market is set to grow by 20% to KWD 556M ($1.8Bn) in 2021, according to a recent report by Fitch Solutions.[21] Kuwait Vision 2035 and the booming IT market show that organizations are embracing digital transformation as they chart their growth plans and future.

Endnotes

10 "70 Percent of Businesses Increase or Maintain Digital Transformation Spend amid Pandemic, IFS Study Says | IFS Australia." IFS, 30 June 2020

11 Twilio. "Twilio Study Finds COVID-19 Accelerated Companies' Digital Communications Strategy by Six Years." Twilio, 15 July 2020

12 Gibbon, Gavin. "UAE Government Pushing Right Buttons for Digital Transformation." Arabian Business, 7 July 2020

13 Benson, Matthew. "MENA Executives Look to Strengthen Their Resilience through M&A." EY, 21 June 2020

14 "9 MENA-Based Edtech Startups That Have Led Online Learning During the Pandemic." StartUpScene, 2 Sept. 2020

15 "How the Coronavirus Crisis Reinvented Online Learning as a Necessity." Arab News, 21 Aug. 2020

16 "GCC E-Commerce Unleashed: A Path to Retail Revival or a Fleeting Mirage?" Kearney, 2020

17 "The Growth and Future of E-Commerce in the Middle East." Pedersen & Partners Executive Search, 29 Jan. 2021

18 "Majid Al Futtaim Reskills and Redeploys More Than 1,000 Employees." Majid Al Futtaim, Mar. 2020

19 Phillips, Jess. "New Kuwait 2035 Drives Digital Innovation Market to KWD 300 Million." Intelligent CIO Middle East, 8 Mar. 2019

20 Microsoft. "Kuwait International Airport Uses Microsoft Azure and Office 365 to Handle Growing Air and Passenger Traffic." Microsoft Customers Stories, 1 Feb. 2018

21 "Kuwait Invests in Customer Experience to Drive $1.8 Billion Million IT Market by 2021." AMEInfo, 19 Feb. 2020

OBJECTIVES, METHODOLOGY, & CONTRIBUTORS

This report aims to investigate how large corporations and SMEs across industries in Kuwait are transforming to thrive in the digital age, and the drivers and barriers faced by corporations when implementing digital transformation strategies.

The research methodology, which follows a qualitative, descriptive, and exploratory approach, is based primarily on one-on-one, in-depth and semi-structured interviews conducted with 12 corporate senior executives leading in technology or innovation departments across manufacturing, real estate, finance, food & hospitality, telecommunication, and ICT industries. The companies include Kuwait Finance House, Boubyan Bank, Zain Group, Equate, Agility - the new name for PWC Logistics, Ali Abdulwahab Al-Mutawa Commercial, Kuwait Projects Company Holding (KIPCO Group), Mabanee Company, Central Circle Company, stc, Gulf Insurance Group (GIG), and Al Sayer Franchising. The interviews are further augmented with desktop research to contextualize the findings within broader regional and global trends.

It must be noted that the size of the sample (12 interviews) is too small to yield statistically significant quantitative analysis. As such, statistics presented from the research should be considered directional and not precise; they do, however, give a good indication of the types of digitalization strategies and tactics that are being pursued by top corporate leaders in Kuwait.

Among the organizations surveyed, all C-Suite respondents said that their companies were embracing digital transformation, either by following a comprehensive digital strategy that tackles the transformation of talent, corporate culture, and systems, or by implementing ad hoc digitization efforts. Under four main sections titled **Motivators, First Steps, Challenges, and Best Practices,** the report will explore what is driving organizations to digitally transform, how and when they embarked on their transformation journeys, the challenges they are facing, and the best practices and lessons learned from implementation.

DIGITAL BUSINESS TRANSFORMATION MOTIVATORS

One of the best ways to understand digital transformation is to look at the top motivators spurring it, as underlying business needs typically drive digitalization efforts. While many factors contribute to the need for digital transformation within organizations, below are the key drivers and goals of digital transformation identified by survey respondents.

Implementation Drivers

Drivers of digital transformation are attributes that influence and enable the process of digital transformation to take place.[22] The Kuwaiti companies surveyed revealed the following drivers spurring their digital transformation efforts: agile digital challengers, the looming threat of global competitors, changing consumer behavior, global trends, and the need to digitize to expand.

Agile Digital Challengers

Pure-play digital challengers are threatening incumbent businesses as they transform value chains and redefine the boundaries of industries. Boasting rapid customer acquisition, seamless customer experience, and value propositions that target specific customer segments, digital challengers have become a key driver for digital transformation in Kuwait.

Digital challengers understand that today's consumers seek transparency, convenience, accessibility and do not wait. Therefore, if companies are to stand out and protect themselves from quick and agile competition, they will have to adapt, innovate and transform to become agile digital businesses themselves.

Threat of Global Competitors

According to a recent survey by Altimeter, 41% of companies cited competitive pressure as their main motive for digital transformation.[23] In a digital landscape riddled with complexity and rivalry, companies are under constant pressure to sustain growth, enhance differentiation, and increase customer loyalty in order to outpace and outgrow competition.

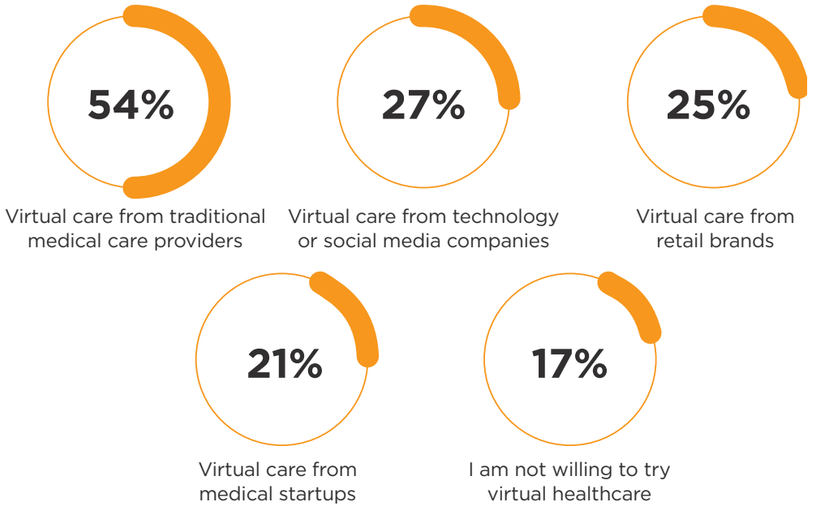
Through disintermediation, the removal of intermediaries between producers and consumers, companies transforming into digital enterprises have replaced traditional service providers with technology platforms that directly connect demand and supply. For example, in the real estate industry online property marketplaces bring buyers and sellers together, disintermediating the traditional broker out of the process.

Technology has also blurred the lines between industries as big tech companies venture into new sectors. For example, Amazon is an e-commerce company, a media company (Amazon Prime Video), a technology infrastructure company (Amazon Web Services) and a retail grocery company (through its acquisition of Whole Foods); meanwhile, search giant Google, restructured into Alphabet Inc., develops autonomous cars (through its subsidiary Waymo) and has a research and development biotech subsidiary, Calico. A company's next big competitor could come from anywhere, even another industry, making competition much harder to identify.

Changing Consumer Behavior

The changing behavior of how and where consumers buy and use products and services has been accelerating the shift to digital, as companies move to catch up. In a recent global research study by digital experience leaders Acquia, 40% of consumers have bought more goods online in 2020, and 84% have used digital channels – including social media, mobile apps, and websites – more frequently than they did in 2019.[24] Moreover, a 2020 Digital Health Consumer Survey showed that higher numbers of healthcare consumers are open to receiving virtual healthcare services from their traditional providers (54%), from technology or social media companies such as Google and Microsoft (27%); retail brands such as Best Buy, Walmart and Amazon (25%); and medical startups (21%).[25]

Consumers are much more willing to receive virtual services from traditional providers



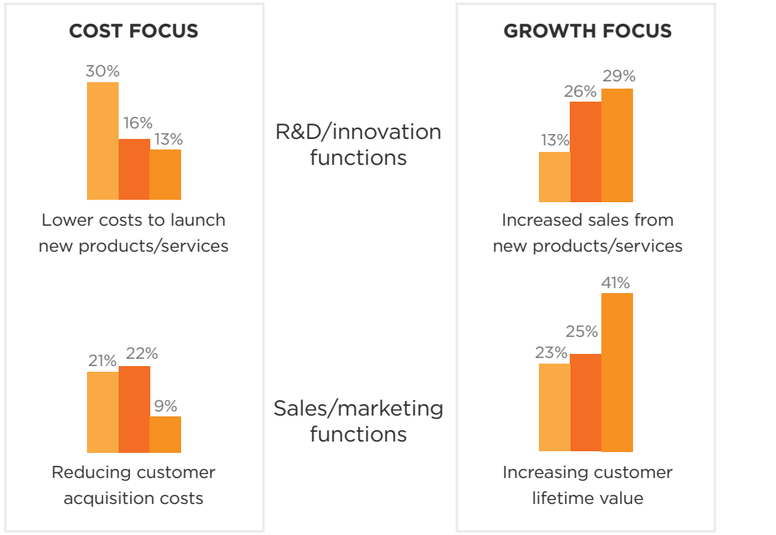
Source: Accenture

Digitalization for Expansion

Companies embarking on digital transformation journeys tend to focus on cost-reduction, however, as they become more mature, the focus usually shifts to growth and innovation. When asked to choose the single biggest benefit of digital transformation to their functional areas, executives from higher-maturity organizations were likely to highlight growth-oriented benefits such as increased sales, responsiveness to business needs, and customer satisfaction.[26]

Executives from higher-maturity organizations are more likely to emphasize digital transformation's benefits for growth and innovation

Percentage of respondents reporting positive impacts on specific functions, by digital maturity level



Source: Deloitte

Endnotes

22 "Conceptualizing Digital Transformation in Business Organizations." Research Gate, Dec. 2017

23 "The State of Digital Transformation 2019." Growth Transformation Consultants | Prophet, 21 July 2020

24 "CX Report Reveals Global Marketing Pivot." Acquia, 14 July 2020

25 Accenture. "How Can Leaders Make Recent Digital Health Gains Last?" Accenture, 26 Aug. 2020

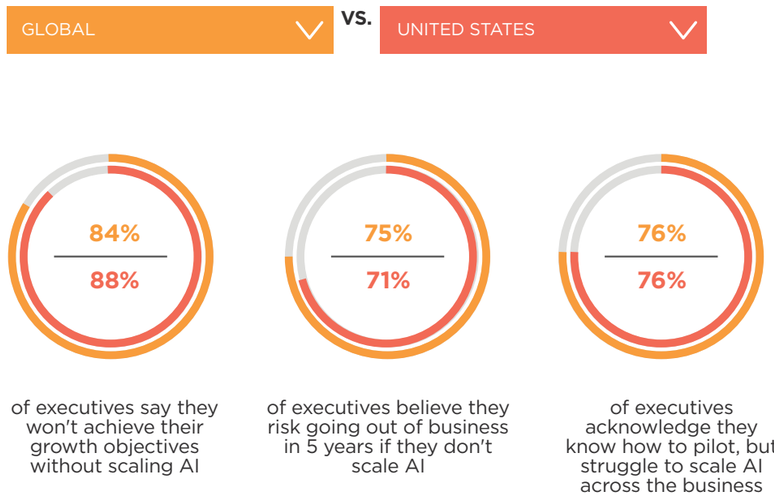
26 "Uncovering the Connection between Digital Maturity and Financial Performance." Deloitte Insights, 26 May 2020

Keeping Up with Global Trends

As digital technologies dramatically reshape industries, business leaders must stay on top of emerging global technology trends such as artificial intelligence (AI), cloud computing, blockchain and big data analytics in order to drive innovation, accomplish business goals, and keep up with competitors.

Artificial Intelligence

Artificial intelligence (AI) is defined to be the ability of a digital computer or computer-controlled robot to perform tasks commonly associated with intelligent beings.[27] As businesses have turned to technology to gain insights from their data, the use of AI has skyrocketed. The worldwide market for artificial intelligence is forecast to grow from around $5B in 2015 to a little over $125B in 2025, according to global data platform Statista,[28] with 3 out of 4 executives (surveyed by Accenture) stating that if they don't scale AI in the next 5 years, they risk going out of business.[29]



Source: Statistica

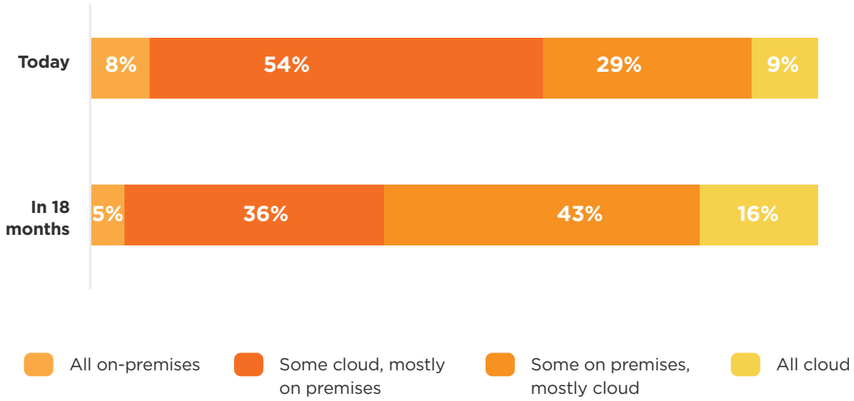
From helping detect diseases in healthcare and improving customer experience in e-commerce, to pricing risk in insurance and securing payment systems in banking, organizations across industries are leveraging AI to streamline business processes and increase efficiency through Robotic Process Automation (RPA), Chatbots, Natural Language Processing (NLP), and Machine Learning (ML). In March, 2019, Kuwait Finance House (KFH) became the region's first company in the financial services industry (FSI) to adopt RBA solutions and implement a fully automated workflow system for retail credit, thus enabling the organization to empower its employees to better engage customers, optimize operations, and transform services.

According to PWC, AI could contribute US$320B to the Middle East economy in 2030, equivalent to 11% of GDP.[30] However, while interest in AI is high in the region, relatively few projects have been implemented. Barriers to the adoption of AI in the region include a lack of understanding around AI, a lack of in-house skills, and inadequate infrastructure.[31]

Cloud Computing

Cloud computing is the delivery of computing services—including servers, storage, databases, networking, software, analytics, and intelligence—over the Internet ("the cloud") to offer faster innovation, flexible resources, and economies of scale.[32] According to IDG,[33] 32% of total IT Budgets will be dedicated to cloud computing by 2021. Meanwhile, 92% of organizations already have at least some part of their IT environment in the cloud, and the percentage of organizations with most or all of their IT environment in the cloud is expected to increase from 38% today to 59% in 18 months.

Percentage of organization's IT environment in the cloud



Source: IDG

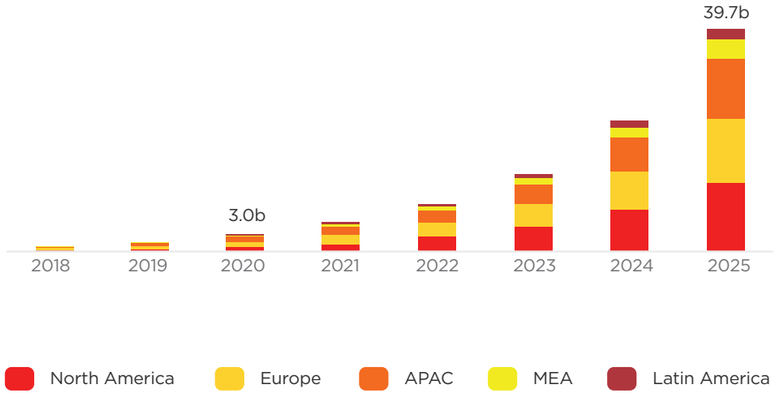
Cloud continues to be one of the fast-growing segments of IT spend,[34] with organizations across industries increasingly using cloud services such as Infrastructure as a Service (provides users with a cloud environment in which they can develop, manage and deliver applications), and Software as a Service (provides users with access to a vendor's cloud-based software) to reduce costs, enhance security, improve cooperation, and mitigate data loss risks.

Although the MENA cloud market is set for rapid growth, cloud spending in the region remains among the lowest globally. According to IDC, the total spend on cloud in the Middle East in 2018 was $2.2B, or around 10% of the $21.4B IT spend on IT hardware, software and services as estimated by Gartner. By comparison, the global average of cloud spend was close to 20% of the total global IT spend. In addition to insufficient local hyper-scale and large-scale data centers to support cloud systems, lack of skills and data security concerns are other barriers slowing down cloud expansion and adoption.[35]

Blockchains

Blockchain is a shared, immutable distributed ledger that facilitates the process of recording transactions and tracking assets in a business network.[36] The global blockchain market size is expected to grow from $3.0 billion in 2020 to $39.7 billion by 2025, according to MarketsandMarkets.[37]

Blockchain Market By Region (USD Billion)



Source: Secondary Literature, Expert Interviews, and MarketsandMarkets Analysis

Blockchain is reshaping how businesses are run in sectors ranging from infrastructure to public policy, addressing needs for trust, transparency, and traceability. Some of the innovative ways companies are harnessing the power of blockchain include: enhancing accuracy and information sharing in financial services; verifying academic credentials in academia; lessening paper-based processes in real estate; and bringing transparency to the supply chain in agriculture and food products.

Across MENA, public and private sectors are evaluating opportunities to leverage blockchain technologies, with spending on track to reach $307 million by 2021. However, despite the region's bold ambitions, challenges ranging from technical and organizational to regulatory must first be resolved in order to unlock the opportunities of blockchain. This includes the need for more and better education around the benefits of blockchain, the need for interoperability between blockchains, the importance of collaboration between organizations, and the important role of governments as enablers and regulators.[38] In Kuwait, the banking and financial services sector is one of the first to adopt blockchain technologies. Kuwait Finance House and the National Bank of Kuwait have both adopted blockchain technology to offer fund transfer services in partnership with RippleNet, a US-based technology company that develops a blockchain-based, global real-time payment system for banks and financial institutions. The National Bank of Kuwait, which was the first bank in Kuwait to join RippleNet's growing network, launched 'NBK Direct Remit', which uses blockchain technology to power cross-border payments from within the GCC region. Kuwait Finance House also started operating an instant cross-border remittance service, 'Instant International Transfer', using Ripple's technology.

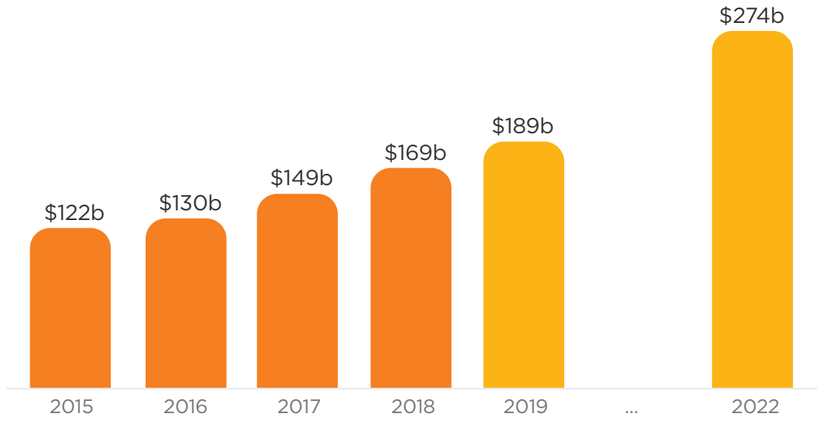
Big Data Analytics

The global big data and business analytics market was valued at $168.8B in 2018 and is forecast to grow to $274.3B by 2022, with a five-year CAGR of 13.2% according to IDC.[39]

The Big Business of Big Data

Global big data and business analytics revenue, 2015-2022

Source: IDC



The adoption of big data analytics is being driven by a number of factors - including faster innovation cycles, improved business efficiencies and more effective R&D. In industries such as banking, big data analytics is being used to improve customer services, create new and personalized offers, and manage risks. It also has immense potential in the healthcare industry, where it is set to bring about reduced healthcare costs, improved treatment capacity, and the ability to better predict epidemic outbreaks.

Many MENA countries have recognized the importance of big data analytics and have designed forward-looking strategies to unlock the possibilities offered by the technology. However,

critical challenges remain including limited governance, undefined data standards, lack of capabilities/skills, absence of data sharing culture, and lack of awareness of the importance of big data.[40]

Cybersecurity

A critical and common component in all these technology trends is cybersecurity. According to an IBM study, the rush to achieve digital transformation increases the risk of data breach by 72% and the risks of cybersecurity attacks or threats to high value assets by 65%.[41] Moreover, according to Gulf Business Machines' (GBM) 8th Annual Security survey, only 15.4% of respondents said that security teams were fully involved in the digital transformation journey.[42] With the severity of risks posed by cyber-threats and the importance of digital technologies and data security to business success, cybersecurity must be addressed as a key element in organizations' transformation plans.

Endnotes

27 Copeland, B. "Artificial Intelligence." Encyclopedia Britannica

28 Statista. "Artificial Intelligence Software Market Revenue Worldwide 2018-2025." Statista, 7 Dec. 2020

29 Accenture. "Failure to Scale Artificial Intelligence Could Put 75% of Organizations Out of Business, Accenture Study Shows." Accenture Newsroom, 14 Nov. 2019

30 PricewaterhouseCoopers. "PwC: AI to Contribute $320 Billion USD to Middle East GDP by 2030." PwC, 11 Feb. 2018

31 Allan, Keri. "Middle East CIOs Face Challenges to AI Adoption." CIO, 18 Oct. 2019

32 "What Is Cloud Computing? A Beginner's Guide." Microsoft Azure

33 IDG. "2020 Cloud Computing Study" IDG, 20 July 2020

34 Pettey, Christy. "Cloud Shift Impacts All IT Markets - Smarter With Gartner." Copyright (C) 2021

35 Lago, Cristina. "Cloud Computing in the Middle East: The next Big Tech Market?" CIO, 28 May 2020

36 "What Is Blockchain Technology? - IBM Blockchain." IBM

37 "Blockchain Market." Markets and Markets, 2020

38 "PwC Middle East Lays out the Solutions to Key Blockchain Challenges in Latest White Paper." PwC, 25 Mar. 2019

39 "Big Data and Business Analytics Revenue Worldwide 2015-2022." Statista, 11 Jan. 2021

40 "Big Data in the GCC." Deloitte, 26 July 2019

41 "Bridging the Digital Transformation Divide: Leaders Must Balance Risk & Growth", Ponemon Institute, 2018

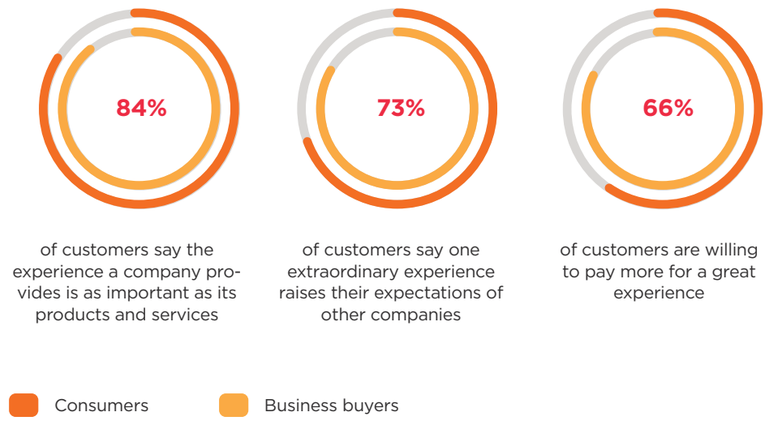
42 GBM 8th Annual Security Survey: The Unspoken Truth, GBM, 2019

Transformation Objectives

A key success factor of any digital transformation strategy is alignment with the business' vision, mission and objectives. When asked about their goals for digital transformation, 58% of the surveyed executives cited improved customer experience and increased efficiency as their top goals, followed closely by 41% who want to develop innovative products. Other goals mentioned included agility, security, differentiation and market expansion.

Improving Customer Experience

In a recent PWC report, nearly half of global companies cited improving customer experience and customer satisfaction as the leading drivers for embarking on digital transformation,[43] and with good reason: 80% of customers say the experience a company provides is as important as its products and services (State of the Connected Customer, Salesforce, 2019).[44]



Data source: salesforce.com-State of the connected customer, 2019

Customer expectations have never been higher. In addition to their demands for enhanced performance, responsiveness, authenticity, and consistency in messaging and tone, customers want better and more personalized experiences in every interaction they have with a company. Companies that are unable to fulfill these demands risk losing their customers to more digitally-enabled competitors.

By specifying sub-goals such as improved access to services, digitally engaging products and platforms, and enhanced user experience and interface design (UX/UI), companies can work to create a differentiated and competitive experience that not only attracts and retains new customers but also increases profits.

Increased Efficiency

In addition to keeping up with changing consumer behavior, companies often undergo digital transformation for the purpose of increased efficiency. Through the optimization and automation of internal processes -- which results in faster, simpler digital workflows -- companies can create systems that allow for key tasks to move forward more quickly, and enable employees to focus more on long-term priorities that bring business value.

Digital transformation goals for increased efficiency and process optimization often include rapid decision-making and learning cycles, the modification of standard outdated procedures, cost-reduction, increased speed to market, as well as changes to a company's overall culture. By reducing the burden of mundane data-heavy tasks and giving employees more opportunities to collaborate and communicate with peers, increased efficiency often results in improved employee productivity and performance management.

Customers also benefit from a company's increased efficiencies. Using the latest digital technologies, companies can create streamlined platforms and tools that add true value and fulfill customer needs.

SUCCESS STORY: KUWAITI BANK

"Robotic Process Automation (RPA) was a successful implementation within our company not because of the technology and the product itself, but because of the impact it had on the wider system. We applied robotics in underwriting and managed to reduce the turnaround time six-fold, with a similar reduction in the number of errors. The approach to implement robotics was phenomenal and we are now starting to run eight other robotics projects within the bank in addition to forming a center of expertise to serve the remainder of the bank. In addition to the capability that got transferred, some of the benefits included the overall reduction in headcounts, repurposing of staff to do other things, and delivering a better customer experience which we're also measuring."

Product Innovation

In the Strategy in Digital Era Survey by Gartner, 80% of organizations cited having digital initiatives focused on the creation of new products and services, while nearly 90% cited adopting digital initiatives to improve current products and services.[45] Companies need to reimagine the way products and services are made and delivered in order to stand out among competitors, respond to market changes and maintain customer relevance.

Digital transformation, and the technologies involved, are crucial for companies to develop and test new products faster, more expansively, and more cheaply than ever before. In order for innovation initiatives to succeed, companies need to build an innovation culture with the right people, processes, and platforms; they also need to strategically identify new opportunities, determine what they want to achieve, and modify internal operations accordingly.

Endnotes

43 PricewaterhouseCoopers. "2020 PwC Global Digital IQ. Buckle up. Uncertainty Is Back." PwC, 2020

44 Afshar, Vala. "New Rules of Customer Engagement: Key Findings from Global Research." Salesforce.Com, 2020

45 Wiles, Jackie. "Foster Innovation to Drive Digital Transformation - Smarter With Gartner." Copyright (C) 2021 Gartner, Inc. All Rights Reserved., 25 Sept. 201

FIRST STEPS

The COVID-19 pandemic has forced companies to realize the need for an accelerated shift away from incremental changes and towards a comprehensive digital transformation strategy. In this section, survey respondents reveal how and when they made the shift and embarked on their digital transformation journeys.

Starting Date

When asked about when they embarked on their digital transformation journeys, there was a general consensus among survey respondents that digital transformation is an ongoing continuous process, one without a start nor an end.

58% of companies surveyed already had a digital transformation strategy in place: 41% of which had developed that strategy more recently (within the past 3 years), and 17% of which have had a strategy in place for 3+ years.

For the rest of the respondents (42%) who did not have a strategy in place: 17% of the companies were looking to launch a digital transformation program imminently (within the next 6-12 months), while a significant proportion (25%) did not have any current plans of implementing an overarching digital strategy. Companies cited formalization of their digital strategy as a factor of delay, and COVID-19 as a factor of acceleration (especially of company culture).

25%
No current plan to run a digital strategy

17%
We are planning to introduce a program within the next 12 months

41%
We have just started a digital transformation program (within the last 3 years)

17%
We have had a digital transformation process in place for > 3 years

Kicking Off

In order to successfully undertake a company-wide digital transformation plan, companies must effectively identify and prioritize the areas of their business that need to be transformed first as well as the optimal processes required to kick off their efforts.

Depending on their individual needs and objectives, different companies follow different steps when implementing their digital transformation plans. Here are the 6 steps that the surveyed companies emphasized:

Set Business Priorities
Companies define what they want to accomplish through digital transformation, starting with the company's strategic priorities, which provide focus for the organization. Digital teams can identify clear business values, build a compelling business case, and start the conversation at the C-Suite level, which is a key step to the cultural shift that digital transformation demands.

Board Approval and Buy-In
Digital transformation requires change at all levels of an organization, and while it can be hard to sell digital innovation to company boards, particularly in traditional and family-led companies, it is imperative for a successful transformation strategy. Senior leadership plays a pivotal role in defining company culture and goals as well as leading the way for quick and efficient technology adoption. Therefore, it is crucial to bring them up to speed and make sure they understand the importance and need for digital initiatives.

Stakeholder Alignment
In addition to achieving buy-in from the board, it is vital that all stakeholders are also on board, including employees, customers, and partners/vendors. Companies must create communication plans to explain changes, address key concerns and issues, and receive feedback. If stakeholders can solve their problems with digital transformation, then they are more likely to buy into the digital vision of the company.

Moreover, companies must choose partners or vendors that can give employees and operators the training and support they need to use new tools and systems confidently and efficiently. Technology partners can also offer insights and expertise to guide companies as they define their project goals, timelines, and scope.

Pilots & Proofs of Concept
One way to get stakeholder buy-in is by running pilot tests and proof of concepts (POCs) prior to implementing new tools and moving forward. Since pilots and POCs are quick, low-cost and low-resource methods for testing new technologies, they involve minimal disruption to company workflows. In addition, they can showcase (and potentially convince stakeholders of) the utility of new technologies, allow companies to react faster to market shifts, and support more flexible transformation roadmaps. However, in order for pilots and POCs to work properly and efficiently, funding should be allocated for the testing of emergent ideas.

Assign a Team (and Lead)
Recent research by McKinsey and Company shows that companies who engaged a Chief Digital Officer (CDO) to support transformations were 1.6 times more likely than others to report a successful digital transformation.[46] In addition to potentially hiring a CDO to lead transformation, companies must bring together employees from all ranks who strongly believe in the

transformation, alongside third parties such as partners, consultants, and vendors, to form a cross-functional “change team.” The members of the change team will define the company’s digital organization structure and processes, engage the company as a whole, and spearhead the adoption of innovative technologies.

Build a Milestones Roadmap

Digital roadmaps serve as blueprints for action, enabling companies to align their digital initiatives with short-term and long-term business objectives. In order to be effective, digital roadmaps need to be comprehensive, flexible, and factor in KPIs that measure progress.

Since transformations are often multi-year efforts (with slow and unpredictable progress), roadmaps should feature timelines with ambitious yet achievable milestones linked to specific company objectives such as product launches, campaigns, sales targets, and/or other features the digital team is delivering. Through the creation and celebration of milestones, achievements can be shared with executives and internal stakeholders and keep employees company-wide motivated and on track.

Endnotes

46 Unlocking success in Digital Transformations, McKinsey & Company, Oct. 2018

CHALLENGES

Despite best efforts, many digital transformation initiatives may fall short, with a report by McKinsey revealing that 70% of large-scale transformation programs don't meet the organizer's targets.[47]

When asked about the challenges and obstacles standing in the way of their organizations' digital transformations, survey respondents cited human capital issues as their biggest barriers, followed by budget and vendor issues, and finally infrastructure and regulation challenges.

Human Capital Issues

While people and culture are integral to a company's success, they can also be the biggest barriers to digital transformation.[48] Survey respondents cited human capital issues such as culture issues and resistance to change (83%), lack of leadership buy-in (58%), shortage of talent and skills (50%), and lack of collaboration and conflicting priorities (33%) as the top challenges.

Cultural Issues and Resistance to Change

Digital transformation requires significant changes to company processes and organizational structures, which are often met with cultural resistance. 83% of the organizations surveyed highlighted this resistance to change as their top transformation challenge – and specifically highlighted employee fear of the unknown, concerns about job security, and inertia resulting from their affinity to do things in a familiar way.

Companies must be able to change not only their technology stack but also employees' mindsets. This can be accomplished through the implementation of a workforce change strategy, which involves communicating to employees the importance of the changes involved as well as the objectives, timing, and benefits. Companies must also mitigate, as much as possible, fears that staff may have about losing their jobs. Open communication can clarify organizational priorities, resolve unnecessary tension, and provide employees with the guidance they need. According to McKinsey & Company, companies in which senior management communicated openly and across the organization about transformation progress were eight times more likely to progress and succeed.

LESSON LEARNED: KUWAITI BANK

"We have an open door policy for all staff, between them as well as our leaders, CEO, all the way from middle management to the CEO and Deputy CEOs. We have learned that what we experience from our leadership really impacts employee performance in the sense of employees being more engaged, innovative, and productive."

Lack of Leadership Buy-in

Having the right leadership for digital transformation efforts is critical to building organizational confidence and moving goals forward.

58% of survey respondents pointed to a lack of buy-in from leadership as a top challenge for digital transformation, and for good reason. Without endorsement and support from the highest levels of leadership within a company, it's unlikely for digital transformation to have a lasting impact across the business.

Survey respondents identified many reasons why leadership buy-in for digital transformation can be difficult to come by. Digital projects are inherently risky and clouded by uncertainty, especially when it comes to costs, resources, and return on investment (ROI). Moreover, the "old guard" (or older decision makers in family businesses), many of whom may not be digital natives, can be very resistant to change.

Getting all business divisions aboard the digital transformation train is notoriously difficult, which may be why only 42% of the respondents said there was stakeholder alignment within their organizations. Strong alignment is an indicator of digital transformation success, and the more that stakeholders share the company's digital ambitions, the more likely they are to support the overall plan and accept the changes involved. Securing strong stakeholder alignment for digital transformation is imperative, and can speed R&D cycle time by 20% according to a study by Gartner.[49]

Young companies with tech-savvy management have more buy-in

A little less than half of the respondents that claimed to have stakeholder alignment credited tech-savvy and supportive management as well as being a young company naturally driven by customer demands.

Senior leaders are not fully aligned

One quarter of the respondents believe that their senior leaders do not clearly understand the benefits and value of digital transformation or endorse the company's digital strategy.

The bigger picture

A little more than half of the respondents that claimed to have stakeholder alignment said their challenges were not a matter of buy-in (stakeholders were all in), but were linked to maintaining the approval of stakeholders over time, agreeing on the process and speed of digital transformation, and organizing priorities as well as competition for resources within the company.

Shortage of Talent and Skills

The third challenge hampering the progress of half of the organizations surveyed is lack of skills and capabilities. This is in line with global trends, where according to PwC, 80% of global CEOs are concerned about not being able to find talent with the right skills[50] such as analytical thinking, creativity, flexibility, and self-management.

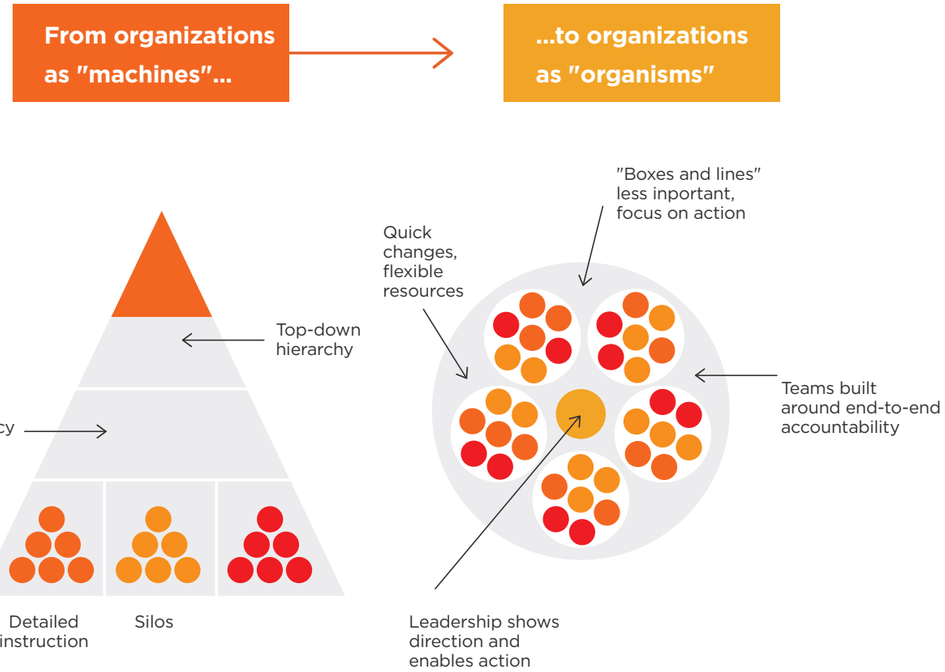
As process automation grows, new roles emerge, and remote working becomes commonplace, company leaders will need to rethink talent needs and close the widening gap between the demand and supply of tech-savvy employees. While hiring for today's skills is one solution, it is not enough, and companies must focus on upskilling their existing workforce. It is only with the right people and the right skills in place that companies can ensure the implementation of technology with maximum impact.

Lack of Collaboration and Conflicting Priorities

Organizational silos can prevent resources and information from being shared, resulting in conflicting priorities and lack of collaboration between departments and teams. This not only makes working together difficult, but can also hamper digital success, according to 33% of the surveyed companies.

By supporting and prioritizing cross-team communication, companies can create a culture of collaboration to spur innovation. However, in order to remove or work across silos, companies need to move towards an agile organization model. Elements of successful agile organizations include clear organizational structures, accountable roles, hands-on governance, communities of knowledge and practice, active partnerships, as well as open virtual and physical working environments.

According to McKinsey, agile organization models mobilize quickly, are nimble, and make it easy to act. In short, they respond like a living organism,[51] allowing companies to maintain a top-level structure while replacing the remaining traditional hierarchy with flexible and scalable networks of teams.



Source: McKinsey

Endnotes

47 "Why Do Most Transformations Fail? A Conversation with Harry Robinson." McKinsey & Company, 12 July 2019

48 "Gartner Identifies Six Barriers to Becoming a Digital Business." Gartner, 25 July 2018

49 Engler, Scott. "Lack of Skills Threatens Digital Transformation." Copyright (C) 2021 Gartner, Inc. All Rights Reserved., 16 July 2020

50 PwC's 23rd Annual Global CEO Survey: Navigating the Rising Tide of Uncertainty, PwC, 2019

51 Aghina, Wouter, et al. "The Five Trademarks of Agile Organizations." McKinsey & Company, 5 Mar. 2019

Budgets & Vendors

In addition to human challenges, other key hurdles faced by nearly half the companies surveyed include cost and budget restraints, as well as limited availability of quality technology vendors.

Survey respondents identified a number of challenges with traditional budgeting methodologies. First, budgets tend to be inflexible – often leaving little or no room for up-and-coming digital investments. Second, budgets handled by the 'top' can be restrained by senior leadership who are set in their ways and may not see the full value that can come from digitalization.

To approach digital transformation in times of budget constraints, companies will benefit from prioritizing value-based projects, moving in shorter iterations/phases, and being more agile. Moreover, to protect investments and reduce risks, companies can test digital initiatives with a Proof of Concept (PoC) or a Minimum Viable Product (MVP) to demonstrate success before implementing a large-scale project or rolling out a new system.

External vendors or providers, who bring in technology, skills and talents that cannot be found within companies, are crucial players in digital transformations; when transformation projects hit a wall, technology sourcing can be one of the roots of the problem.

Survey respondents cited that they often face challenges in sourcing local suppliers with the needed expertise, and that available suppliers vary greatly in experience and motivation. Moreover, the companies themselves sometimes lack the knowledge and experience needed to identify the right tools/suppliers and collaborate effectively. This can result in technology partnerships that do not advance the company's goals and aspirations.

Infrastructure & Regulation

Among the challenges mentioned by respondents, digital infrastructure and regulation received the least mention with less than 10% of respondents citing them as obstacles.

As discussed in the Background section of this report, countries across the region are incorporating digitalization across business, government, and private sector settings. With a growing demand for enhanced customer experience, improved transparency, and increasing e-government and smart initiatives, the region has witnessed accelerated development of new digital infrastructure such as 5G networks and data centers as well as increased adoption of digital technologies such as AI. 5G is expected to reach 80 million subscriptions in the Middle East and North Africa (Mena) region by 2025, according to the latest Ericsson Mobility Report,[52] while IDC estimates that spending on AI systems in the Middle East and Africa (MEA) region will reach $374.2 million this year.[53]

Easing in government regulations has also enabled the proliferation of digital transformation solutions across business organizations. Laws such as e-transaction and e-commerce laws, introduced by local governments, have created significant opportunities for regional as well as global players, attracting numerous foreign investors and businesses to the region.

Endnotes

52 "Ericsson Mobility Report"; Ericsson, June 2020

53 "Spending on Artificial Intelligence Systems in the Middle East & Africa to Top $374 Million in 2020." IDC: The Premier Global Market Intelligence Company, 30 Sept. 2019

BEST PRACTICES

In addition to identifying the main challenges facing transformation, the survey elicited some of the key best practices for successful implementation of digital transformation. These lessons learned also address some of the challenges highlighted in the previous section, and can be grouped under three main themes: Human Capital, Vendors and External Partners, and Measuring Success.

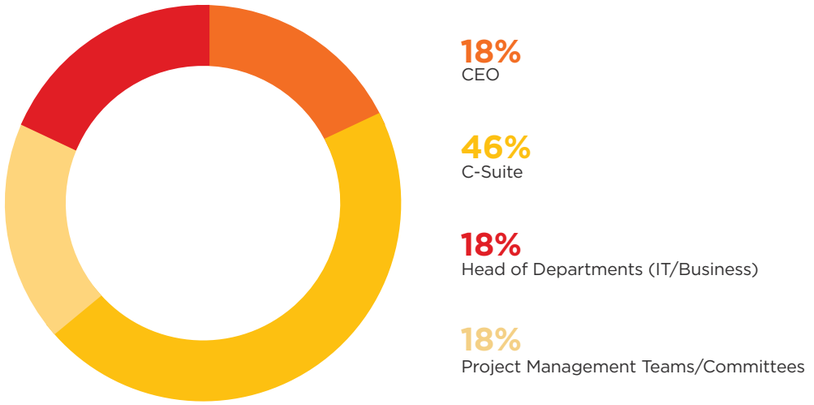
Human Capital

Digital transformation is technology enabled, but people-led: having the right digital-savvy talent in place is crucial to driving digital transformation success. At the same time, as seen in the previous Challenges section, human capital issues represent one of the top hurdles hindering digitalization.

In this section, survey respondents reveal best practices for who leads digital transformation, the status of new roles/hires, insight on training initiatives, as well as solutions for tackling internal resistance – identified as one of the major challenges in the previous section.

Who Leads?

Today, the C-Suite is much more involved in the digital transformation of their businesses than they were a decade ago. Among the companies surveyed, 64% of the respondents said that digital transformation is led by the C-Suite (including CEO), while the remaining 36% said that digital transformation is led by a mix of relevant teams and project managers (in IT, maintenance, marketing) and supervised by upper management (CEO, CIO, COO).

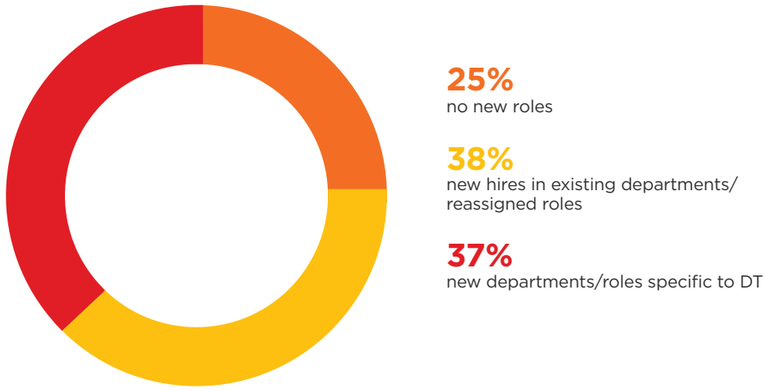


This seems in line with global best practices: according to a survey of 700 IT professionals in IDG's "Digital Business Transformation 2019" report, the Chief Information Officer (CIO) still takes ownership of most aspects of the digital transformation process, from data protection strategies, to tech needs and IT skills assessments, to change management and data management strategies.[54]

In order to ask the right questions and propose the right solutions, the C-Suite must have a thorough technical understanding of digital capabilities and tools, a digital mindset that allows for continuous curiosity, adaptation and experimentation, and clarity on the relevant risks and benefits involved.

New Roles/Hires

When asked about new roles, hires, and departments for digital transformation, survey respondents had varying answers. While the majority of companies have created new roles and teams, hired dedicated personnel, and set up departments specific to digital transformation, a quarter of the surveyed companies have not made any organization or hierarchical changes at all.



Digital transformation often requires an array of new skills and talent that existing resources may not possess. According to a recent McKinsey survey, successful digital companies spend 30% of their mergers and acquisition (M&A budgets to acquire digital capabilities).[55] In addition, a growing number of companies are embracing the need for new digital leaders. 95% of organizations in a Randstad research study agreed that a different type of leadership is required to effectively address changes in organizational structure and operating models due to digitalization.[56]

To build and retain a new pool of digital talent with specific roles, companies must understand who is available on the market, where to find them, and most importantly, how to recruit and retain them. Since digital talent is in such high demand, it is a critical time for companies to rethink compensation, benefits, organizational culture, and work environment to lure the best digital talent.

Training

Of the companies surveyed for this report, 66% strongly believe in training their staff for digitalization and offer a variety of learning and development initiatives – ranging from standard training such as orientation and technical training, to less traditional training on topics like design thinking, UI/UX, and empathy. Training is led by both in-house talent as well as external consultants or speakers when necessary; programs are implemented based on changing organizational needs or as part of a larger training development plan.

According to PWC's 22nd Annual Global CEO survey, 46% of CEOs plan to introduce upskilling in order to close the skills gap.[57]

By acquiring the proper skills and knowledge needed to change, employees and stakeholders will be more adept in using new software, implementing new processes, and operating efficiently, resulting in less frustration and resistance. Moreover, employees are more likely to support training that personally benefits them and improves their long-term job prospects.

Endnotes

54 Collett, Stacy. "Who Should Really Be Driving Digital Transformation?" CIO, 29 July 2019

55 "A Winning Operating Model for Digital Strategy." McKinsey & Company, 13 Feb. 2020

56 Link, Jim. "Why Organizations Need Digital Leaders With These Five Key Strengths." Forbes, 4 Oct. 2018

57 22nd Annual Global CEO Survey: CEO's Curbed Confidence Spells Caution, PwC, 2019

Tackling Internal Resistance

Internal employee resistance is one of the top challenges in organizational change and was clearly identified as a major challenge by survey respondents in the previous section, as resistance to change can completely cripple a company's digital transformation efforts.

Combating employee resistance needs to be a part of a company's overall organizational change management plan and strategy. Some of the solutions for dealing with internal resistance mentioned by the companies surveyed include engaging and educating employees, building a case with numbers, and hiring new leadership.

Engagement and Education

Communication is key, and it is the first step to overcoming internal resistance. Companies must communicate to employees early and often through various mediums: the what, why, and how in order to build an awareness of and desire for change. Employees must be engaged in the process and given the chance to voice their opinions, thoughts, concerns, and suggestions. When handed a measure of control or power over the situation, employees are less likely to see digital transformation as a potential threat. Company-wide education and training is also another essential tool to combating resistance.

Building Cases Around Return on Investment

When convincing top executives about investing in digital transformation and innovation, digital leaders will need to focus on how the proposed digital initiatives will translate into increased revenue and profit.

To build a strong case and articulate the ROI of digital investment, leaders should focus on the current market analysis. This includes what competitors are doing and the results they are seeing, in addition to how digital transformation is changing the growth of the industry and disrupting the market segment and its competitiveness. Other important points to highlight include the impact of digital initiatives on brand value, customer experience and satisfaction, operations, and how this can lead to reduced costs (from increased operational efficiency) and increased revenue/profit (through more sales). Finally, leaders should detail how these changes will be measured and the plans for flexibility moving forward.

Vendors & External Partners

Third-party partnerships are growing in popularity as key solutions for successful transformations. Whether they are vendors, consultants or startups, external parties add value to the digital transformation process by lending their expertise, filling in gaps, and helping companies capitalize on immediate opportunities. In the previous section, survey respondents highlighted that finding qualified vendors can be challenging; this section discusses the best practices that surveyed companies are using when it comes to working with third parties.

Types of External Support

In the survey, half of the companies mentioned leveraging external partners to implement and/or support digital transformation. The two main types of external support cited were technology vendors and strategy and design consultants, with 66% of the companies that leverage external parties indicating that they have sought both types.

When it came to choosing and assessing vendors, 60% of companies did not require external support in order to do so, and the 40% that did said it depended on the size and type of project. As for partnerships, most of the companies are building collaborations with solution providers (such as Microsoft, Visa/ MasterCard, Oracle, Blue Prism, Automation Anywhere) and strategy consultants (such as EY, McKinsey, and PwC), as well as investing in startups.

Availability of Vendors

When asked about access to quality vendors, one third of respondents highlighted difficulty in locating vendors with enough experience, citing reasons such as low quality local suppliers, limited local offerings, as well as finding the right team to handle

operations. 66% found locating quality vendors to be easy (whether locally or abroad) due to the sheer number of vendors available, as well as remote communication and implementation technologies. Overall they worked with a mix of local and global vendors, with global vendors bringing in specialized skills or technology.

SUCCESS STORY: KUWAITI MOBILE TELECOMMUNICATIONS COMPANY

"We have completely revamped our B2B department by introducing new services, and set up several partnerships. We have also digitized the customer experience in terms of billing, engaged with the government, built a data center, and we're going into cybersecurity."

Data Sharing with Vendors

While none of the companies surveyed had any issues or concerns regarding data sharing, a minority did not share data with third-party vendors. For one company this was due to imposed regulatory measures, whereas another company avoided sharing data by requiring vendors to work on-site on in-house devices. Among the companies that did share data, the majority adhered to international security practices such as General Data Protection Regulation (GDPR), and protected their data by either signing non-disclosure agreements with vendors or following data policies such as internal data governance or data loss prevention (DLP).

Gartner predicts that by 2023, organizations that promote data sharing will outperform their peers on most business value metrics, and that organizations that can instill digital trust will

be able to participate in 50% more ecosystems, expanding revenue-generation opportunities.[58] With data sharing being key to the acceleration of digital business, companies must establish a data-sharing environment while looking at progressive ways of protecting their data.

Building Technology In-House

The surveyed companies that chose not to work with external parties cited confidence in their internal capabilities as the main reason, in addition to challenges such as finding the right partner and questioning whether external parties truly deliver innovative and out-of-the-box solutions. Moreover, the companies that believe they can do it themselves mentioned needing external help just to make sure they were getting best practices and putting the governance in place to accelerate their transformation. While investment in internal capabilities can be effective and a source of long-lasting value, there are certain cases where internal resources are insufficient; therefore, it may be best to support and accelerate short-term change agendas with a mix of both internal and external innovation.

Endnotes

58 Goasduff, Laurence. "Data Sharing Is a Key Digital Transformation Capability." Copyright (C) 2021 Gartner, Inc. All Rights Reserved., 20 Jan. 202

Transformation Metrics

To measure the success and the growth of their digital transformation results, companies have adopted various KPIs to measure the progress and efficacy of their efforts, most commonly focused on financial performance, customer satisfaction, and internal processes such as the adoption of digital channels.

Financial Performance
In order for companies to determine whether newly introduced digital solutions are having a positive impact on increasing revenues and overall profitability, they should leverage KPIs focused on financial performance. 50% of the survey respondents cited using KPIs and metrics such as cost reduction, efficiency, revenue, and sales generation to measure commercial ROI.

Customer Satisfaction
Companies must keep regular tabs on their delivery of customer experience. 33% of the survey respondents are using KPIs and metrics such as user engagement, customer acquisition/retention, migration, customer surveys, and percentage of conversions/drop-offs to measure customer satisfaction.

Internal Processes
With companies increasingly adopting agile practices, aligning internal processes and making sure adopted technologies are performing well is paramount. 33% of survey respondents mentioned the migration of users to and adoption of digital channels as key KPIs in addition to KPIs such efficiency and optimization.

LESSON LEARNED: KUWAITI BANK

"Technology is not your friend. It took a failed project and very interesting discussions to realize that the approach to digital transformation should not be about technology implementation, but about staff engagement, customer activation, driving the right business KPIs, and defining ownership, The lesson learned was technology is not your friend, it needs to be part of something bigger for it to work."

FUTURE TRANSFORMATION PLANS

COVID-19 accelerated digitization efforts, forcing companies across industries to move faster than ever before; as the lockdown begins to unwind with no return to the ‘old normal’ in sight, companies will have to maintain momentum and future-proof their organizations with digital transformation projects to survive this year and beyond.

According to the companies surveyed, three steps ensure the continuity and future success of digital transformation: prioritization, customer focus, and staying up-to-date with the latest trends and technologies.

Prioritization

The scope of digital transformation varies widely, and can range from focusing on staff and overhauling technology to replacing legacy systems and moving to the cloud. In order to avoid spreading themselves too thin, it is critical that companies prioritize and focus on digital initiatives that further their strategic goals, show results, build momentum, and can be used to combat threats and competition.

LESSON LEARNED: KUWAITI HOLDING COMPANY

“You need to be very careful about understanding what is challenging your business and use that understanding to prioritize what you’re going to do and how you’re going to respond to that competition and that challenge. That is the most important thing. It’s very easy to lose focus. You have to have real clarity about what your threats are, how you are going to address them and in what order and understand exactly what you need to do, what resources it will take. You’ve got to understand what are the critical parts of your business and make sure they run properly.”

Becoming More Customer Focused

According to a study by IBM, 68% of Customer Experience Officers (CXOs) said they expected their organization to emphasize customer experience (CX) over products in the future.[59] Companies must remain relevant by building more direct contact with customers, positioning them at the center of all transformation planning, and shaping products and services to meet their ever-changing needs and expectations.

Staying Up-to-Date

By 2022, 80% of enterprise revenue growth will depend directly on digital offerings and operations, according to IDC forecasts.[60] With constantly emerging innovative trends and technologies, companies must foster a constant quest for knowledge. Some ways to stay up-to-date on the latest technology trends include consulting suppliers and vendor partners, monitoring social media, peer-to-peer networking, aligning with technology research firms, connecting with startup businesses, and attending industry-specific conferences. Moreover, putting skilled leaders that understand the technicalities and potential of digital technologies at the forefront can help bridge technology gaps and guide the company in the right direction.

Endnotes

59 Orchestrating Advantage: Insights from the Global C-Suite Study, IBM, 2018
60 Pucciarelli, Joseph C. “Developing the New IT Capabilities for Digital Transformation.” IDC: The Premier Global Market Intelligence Company, Feb. 2018