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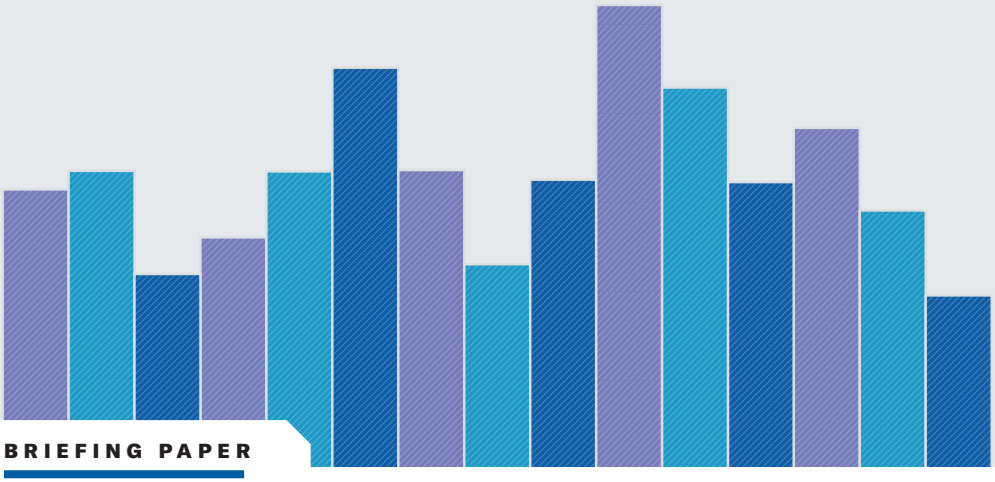

BRIEFING PAPER

Understanding APAC's Success in Digital Transformation

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I am glad that the results of this Asia Pacific survey are coming out at a crucial time in history. Nothing in recent memory has affected people, businesses, and societies as much as the current Covid-19 pandemic.

This survey of more than 200 business executives confirms some of the changes our team has witnessed over the past decade in Asia. For example, we have seen how Asian firms have latched on to digital transformation as a strategy, not just for growth but also for survival.

Through painstaking work and education, Red Hat has been raising awareness about open source and our open culture. It is no secret that part of our success is due to the culture and practices we observe.

This survey from Harvard Business Review Analytic Services, in association with Red Hat, shows more Asian companies are becoming increasingly receptive to culture change and to creating meritocratic organizations. We know that meritocracy leads to better collaboration and the birth of good ideas.

The survey highlights how Asian companies are ahead of their global peers in terms of success in digital transformation strategies, but this does not mean we could sit back and rest. We have a lot more to do. In fact, this same survey also shows that APAC businesses need to take bigger strides in investing in artificial intelligence and machine learning.

If anything, the current pandemic is proving that the move toward automation and digital transformation should not just continue but also be accelerated. I trust that our readers will find this research informative. We are here to collaborate with you.

Dirk-Peter van Leeuwen

Senior Vice President and General Manager

Red Hat Asia Pacific

Understanding APAC's Success in Digital Transformation

When it comes to succeeding in digital transformation, the Asia Pacific (APAC) region has something to teach the rest of the world.

Twenty-six percent of APAC companies say their digital transformation strategies have been highly effective, compared to only 19% of their peers in the rest of the world, according to a recent survey by Harvard Business Review Analytic Services. The APAC difference in transformation effectiveness translates into important business benefits for the region's firms, including helping them bring new products and services to market faster than their global counterparts.

What's more, nearly all—95%—of APAC executives say leveraging innovative technology to create new business models, products, or services has gained in importance over the past 18 months.

The imperative to modernize is taking on a new significance for organizations all over the world in the Covid-19 era. "Digital transformation has been on corporate agendas for some time, but now the consumer shifts we're seeing are challenging the paradigms that have slowed transformation in the past," says Stefan Mohr, a managing director and senior partner at the Sydney, Australia, office of the Boston Consulting Group (BCG). "Executives throughout the [APAC] region are saying that timescales are being compressed and their transformation goals are becoming more ambitious."

Whether it's to maintain the effectiveness of existing transformation strategies or to expand plans in the wake of Covid-19, APAC executives understand their efforts need three building blocks of transformational change—cultural realignment, targeted technology investments, and refinements of business processes. These building blocks are also top of mind for executives throughout the world, as shown in the main report, "Rethinking Digital Transformation." In APAC, some organizations, including Australia and New Zealand Banking Group (ANZ), are making these change-oriented building blocks part of their corporate identity.

"Transformation isn't something that happens for only a focused period of time and then there's no change after that," says Anthony Watson, enterprise domains lead at ANZ. "Our maxim is that constant change is absolutely a part of our organization's DNA—and that of other organizations across the region as well. We set the expectation throughout our organization that we will be evolving constantly."

HIGHLIGHTS

95% of Asia/Pacific (APAC) executives say digital transformation has **gained in importance** over the past 18 months.

80% of APAC business leaders rank **cultural change and technology modernization of equal importance** for digital transformation.

40% of APAC executives are quickly **developing and delivering new applications to market**, compared to only 23% of executives in the rest of the world.

Unique Characteristics of Transformation in APAC

What explains APAC's transformation edge? Well before Covid-19 compressed modernization schedules, market pressures were pushing APAC organizations to develop transformation plans designed to quickly deliver business value. "Even more than in the West, leaders in APAC, and especially in China, have limited tolerance for slow transformation," says Josh Ding, managing director and partner in BCG's Hong Kong office. "They are looking for quick, agile transformational projects. They know that if they are late in making a necessary change, they could fall behind [competitors]. Sometimes, we are even seeing internal competitions—two different teams working on the same project to create quick results."

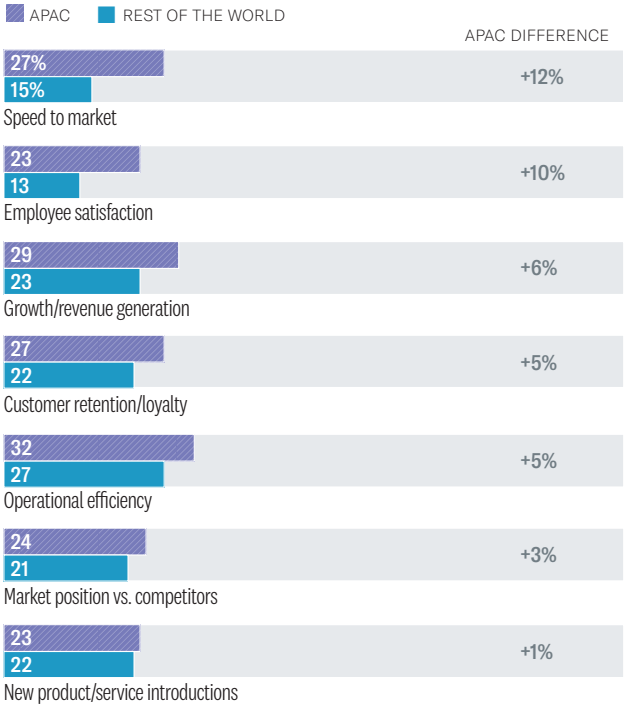
Business-performance indicators show how much APAC companies are outperforming global peers in improving speed to market as well as in other important areas, such as workforce engagement and financial returns. These results help explain why APAC companies are more upbeat than their peers about their transformation strategies.

FIGURE 1

APAC Sees an Advantage in Business KPIs

The need for speed fuels APAC innovation efforts

Which of the following measures of corporate performance have improved significantly as a result of your organization's digital transformation?



Source: Harvard Business Review Analytic Services Survey, November 2019

For example, 27% of APAC executives are seeing improvements in speed to market as a result of digital transformation efforts versus 15% of business leaders elsewhere. **FIGURE 1** In addition, nearly a quarter (23%) of APAC companies report higher employee satisfaction rates versus 13% of survey respondents in other regions. APAC companies also report a 6% advantage in growth resulting from transformation success as compared to their global counterparts.

APAC also excels in other factors critical to business success. Customer retention and loyalty as well as operational efficiency have improved at higher rates for APAC organizations than for those in the rest of the world. "Customer experience is crucial in a 'phygital' world [a blend of the physical and digital interactions with customers]," says Hoe Siu Loon, a digital transformation strategist who recently served as principal lecturer at the National University of Singapore. "It is the foundation leading to an increasing customer base and retention."

APAC Firms Prioritize Cultural Change

What are APAC companies doing to achieve these differences and excel in their digital transformation efforts? Executives in the region appear to have found ways of mitigating some nagging challenges. As in the rest of the world, APAC executives say cultural change—one of the three building blocks of modernization, along with technology and business processes—has created significant impediments to transformation success. But the survey data indicates that APAC companies have done more to tackle these roadblocks compared to their global peers. For example, APAC executives give their companies consistently higher marks than other respondents for five essential cultural characteristics. **FIGURE 2**

APAC's biggest differences in cultural characteristics appear in inclusivity and adaptability. Inclusivity gauges whether companies have established communication channels that let leaders and project teams actively solicit diverse perspectives from frontline staff and others. Adaptability describes how freely information flows so that individuals can make decisions and respond to changing conditions. Both are necessary components of collaborative decision making and agility when market conditions are changing quickly.

"In addition to their formal duties, individuals in our organization are supposed to be change agents," says ANZ's Watson. "When people encounter something that needs to change for the organization to achieve its goal, they are empowered and expected to work through how to drive that conversation."

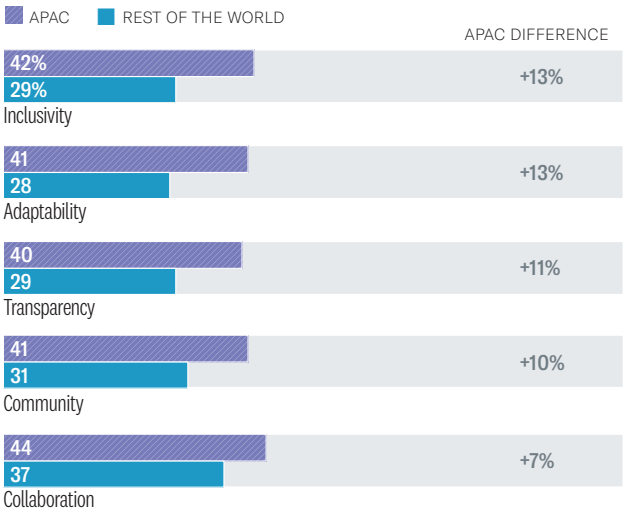
The advantages in these areas are good news for APAC companies, but industry analysts say more must be done to further cultivate cultures for transformation, especially as organizations try to accelerate innovation in the midst of the global Covid-19 crisis. "Fostering a modern culture with new ways of working is very important for attracting talent with

FIGURE 2

Culture Is Key for APAC Transformation

Executives cite progress in key areas

To what extent does your organization possess these cultural characteristics?



Source: Harvard Business Review Analytic Services Survey, November 2019

expertise in analytics and digital innovation that organizations need," says Tjun Tang, managing director and senior partner with BCG's Hong Kong office. "Otherwise, those types of people usually won't migrate to the organization, or they won't stay."

To do that, many APAC companies will need to replace traditional, hierarchical management structures by convincing senior executives to adopt more collaborative interactions with employees. "We're working with executives to become more like coaches," says Behnam Tabrizi, faculty and academic director of Stanford University's executive program and author of the books *Rapid Transformation* and *The Inside-Out Effect: A Practical Guide to Transformational Leadership*. "That means spending more time with frontline workers to listen to their problems and help them find solutions. It also requires creating environments where people feel safe enough to share problems or even criticize decisions made by their bosses."

He says senior executives at two firms that he has worked with—a nationwide bank in Thailand and a global logistics company in Hong Kong—created more collaborative environments with a combination of team-building initiatives, new incentives, and skill development. They've each seen improvements in employee engagement and loyalty, along with gains in customer satisfaction.

Tabrizi does not gloss over the difficulty of getting executives to think differently. "In some cases, it takes a lot of heavy lifting to change the hearts and minds of traditional leaders," he says. "There's a huge opportunity for transforming the mindset of companies by using the best of modern, Western thinking about coaching and collaboration along with the Asian philosophy of caring for employees. Companies with this cultural orientation will be the ones that will succeed in the long run."

But as they redefine their roles, executives at progressive companies must continue to balance collaboration with their oversight responsibilities. "As workforces become more empowered to contribute to innovation, senior leaders must ensure teams don't become unguided missiles that fly off in different directions," BCG's Mohr warns. "Executives must put guardrails in place to provide the guidance and alignment for meeting specific business objectives."

APAC Is Putting Technology on Solid Footing

Cultural change is a key element of digital transformation, but APAC business leaders see it intertwined with technology modernization—80% rate the two areas as equal in importance for their innovation strategies. By contrast, executives in the rest of the world show clearer distinctions between the importance of the two categories, with 83% saying culture is the highest priority, compared to the 74% who rank technology on top.

APAC's focus on technology appears to be paying off. Executives there rate the effectiveness of their current infrastructure and application architecture much higher than do peers in areas important for transformation. For example, 40% of APAC business leaders say they are quickly developing and delivering new applications to market. This compares to only 23% of executives in the rest of the world. **FIGURE 3**

"Our company is using technology to modernize operations to deliver services faster and more efficiently," Watson says. "Technology also lets us better integrate customer feedback as we develop new financial products."

Similarly, 39% of APAC executives say they are effectively updating internal systems versus only a quarter of other executives. Nearly four in 10 (39%) APAC companies are also controlling maintenance costs. This is an important way to overcome friction that develops as organizations try to maintain legacy IT infrastructure, while simultaneously investing in digital innovation. The less firms spend on maintenance, the more financial resources they can devote to innovation. But only a little more than a quarter (28%) of firms in other regions have this budgetary flexibility.

Finally, regional differences are clear when it comes to resources for responding rapidly to customer demands. By a margin of 39% versus 29%, Asian firms give themselves high marks in this area.

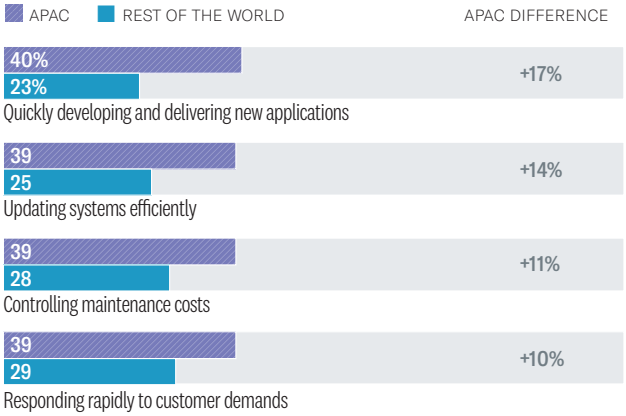
APAC executives have clear ideas about where to invest over the next 12 to 18 months to maintain their momentum in IT effectiveness. But in one area, they'll still be playing

FIGURE 3

APAC IT Supports Innovation

The region's executives express greater satisfaction with their infrastructures

How effective are your current infrastructure and application architecture in providing the foundation for each of the following?



Source: Harvard Business Review Analytic Services Survey, November 2019

catch-up compared to the rest of the world. Over the past 18 months, APAC companies have lagged their counterparts in spending for resources associated with analyzing corporate data. For example, APAC business leaders have underspent for advanced technologies, such as artificial intelligence (AI) and machine learning, for predictive analytics and other benefits.

That is about to change—APAC executives will focus more on analytics platforms over the next 12 to 18 months. However, when asked what new technologies they are planning to invest in over the next year or so to support digital transformation, 40% of the APAC survey respondents identified AI and machine learning, 9% less than their global counterparts. By a similar percentage, companies outside of APAC will also spend more for collaboration platforms. Instead, APAC firms will invest slightly more than others in cloud analytics platforms. The survey found other regional differences in technology investment plans. APAC firms are slated to invest 8% more for cloud-based business applications than companies elsewhere, and 6% more for business process automation.

Some in APAC have been focusing on doing the groundwork that will support the greater use of AI and other advanced analytics. "The biggest focus for us is to become a data-driven organization, because it's the ability to effectively use data that feeds tooling like AI," Watson says. "AI then enables us to gain insights and intelligence from the large data sets we're collecting. But at end of day, it all comes down to the data—how we view it and extract value from it. We're continuing to invest heavily in that space."

APAC's Business Process Modernization Plans

Like executives in other regions, APAC business leaders are also modernizing the third pillar of digital transformation—business processes. Previous digital transformation strategies in the region were often focused on optimizing internal processes to bring about cost reductions, says Hoe at the National University of Singapore. "The trend now is toward business model transformation for business growth," he says. "The aim is to look outside the company to capture a bigger piece of the pie with new products and services and more customers. Unfortunately, many APAC companies still have cumbersome and tedious processes in place due to legacy issues."

To improve processes, APAC leaders, like executives in the rest of the world, are looking to many of the same process improvement resources for help. Two-thirds of executives globally view the adoption of agile methodologies for development and project management as being extremely important for enabling digital transformation. Executives around the world also agree that DevOps and lean methodologies are extremely important. The biggest process difference surfaces with continuous integration/continuous delivery methods: three-quarters of APAC companies consider them vital, compared to 66% of the respondents from other regions. This difference speaks to the desire for high-speed transformation projects fueled by short iterative improvements that bring about ongoing change.

A New Perspective on Transformation

The drive for digital transformation is not contained by political boundaries or regional markets. Companies throughout the world understand the need for a multifaceted transformation strategy that encompasses three pillars for change: cultural, technological, and business process modernization. And while change remains difficult, APAC executives are generally finding ways to become more effective at transformation than their global counterparts. This is positioning the region to address something else that knows no boundaries—the Covid-19 pandemic, as it disrupts business plans and puts new pressure on organizations to become more agile, more tuned to customer needs, and more innovative.

"Corporate leaders are having to make some very transformative decisions because of Covid-19," says BCG's Tang. "The virus is giving them quite a different perspective on what's needed in terms of how to guide their companies into the future."

METHODOLOGY AND PARTICIPANT PROFILE

A total of 690 respondents drawn from the HBR audience of readers (magazine/ enewsletter readers, customers, HBR.org users) completed the survey.

Size of organization

19% 100 – 499 employees

9% 500 – 999 employees

24% 1,000 – 4,999 employees

10% 5,000 – 9,999 employees

39% 10,000 or more employees

Seniority

19% Executive management/ board members

44% Senior management

19% Middle management

17% Other

Key industry sectors

13% Financial services

11% Manufacturing

10% Technology

8% Business/professional services

7% Consulting services

7% Government/not-for-profit

6% or less other sectors

Job function

20% General/executive management

16% Consulting

11% Sales/ business development/ customer service

13% Financial services

11% Manufacturing

10% Technology

8% Business/professional services

8% IT/software engineering

7% or less other functions

Regions

37% North America

25% Europe

21% Asia Pacific

7% Latin America

7% Middle East/Africa

2% Other

Figures may not add up to 100% due to rounding.

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