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How Gulf companies can overcome the five biggest challenges to their digital transformation

Although many businesses in the Gulf region are interested in digitization, few of them have moved aggressively enough. But there is a clear way forward.

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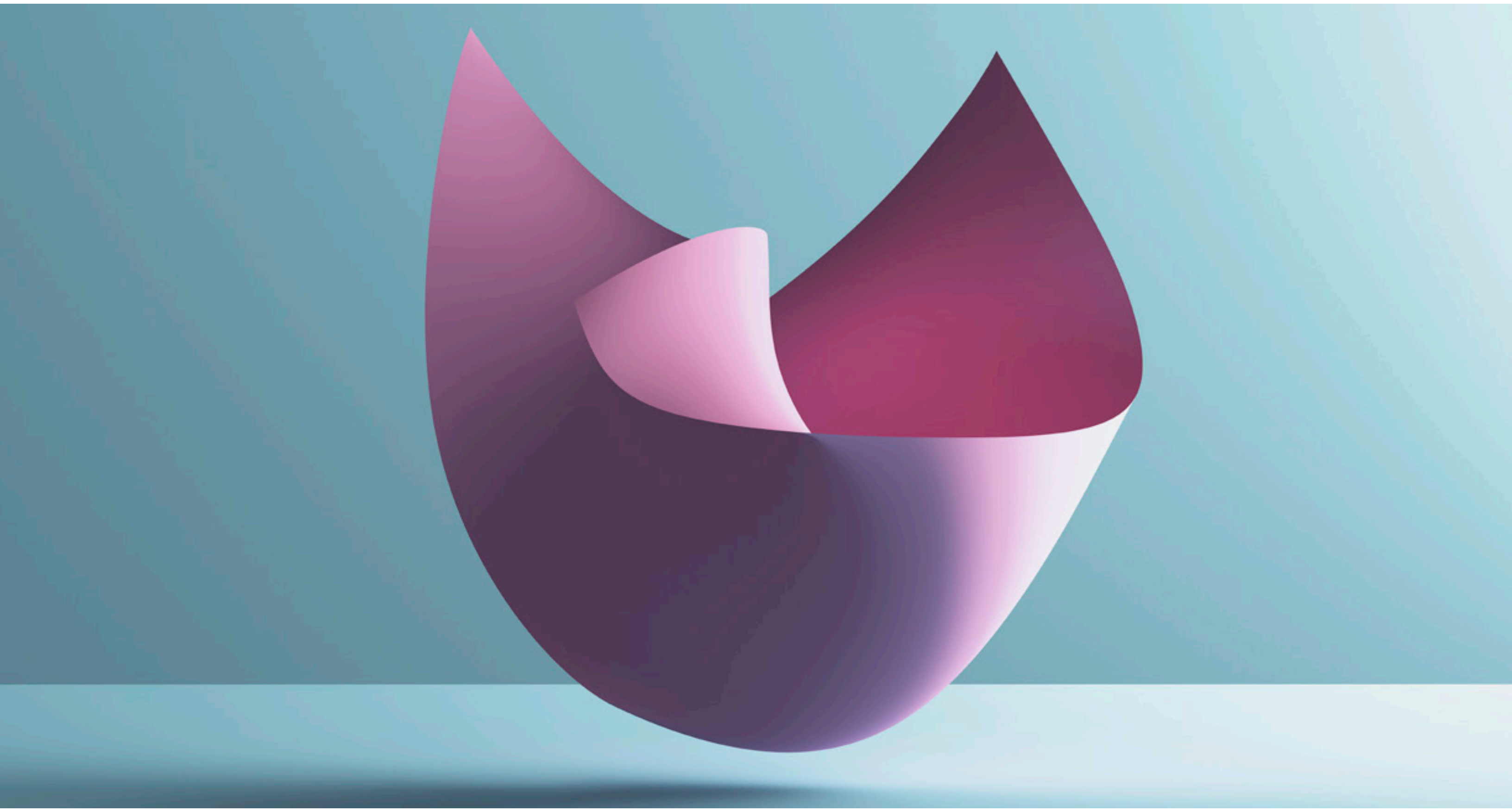

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By now, most companies in the Gulf region understand the necessity of going digital. After all, 82 percent of the region's population already owns smartphones.

Yet despite this awareness, progress on digital transformations among companies in the Gulf Cooperation Council (GCC)[1] has been limited, at best.

Some companies have tested the waters, while others have moved more aggressively but haven't scaled their programs. Many companies, however, are still sitting on the sidelines wondering how to move from strategy to action.

Almost no GCC companies have reached the end goal where analytics drives everything they do, agile operations and a culture of failing fast are the norm, and a mature and flexible technology stack is available to continually evolve offerings.

Regardless of where a company stands now, Gulf executives need to act quickly to move their organizations to the next level. Based on our work with incumbents in the Middle East and across the globe, we have identified five of the most common challenges GCC companies face when trying to go digital, as well as strategies for overcoming them and dramatically increasing the chances of success.

Challenge 1: Convincing decision makers to go all-in on digital and analytics

It's understandable that Gulf executives would be reluctant to hit the go button on digital transformations. These efforts are largely new to the region, require considerable capital expenditures, and can lead to very different ways of working. You can't transform only a little. Leading financial-services companies, for example, spend more than 4 percent of their revenues on digital transformations (with some spending as much as 9 to 12 percent). And digital transformations can go on for at least five years, with a breakeven point that can be one to four years away. Giving decision makers the confidence to go ahead with this level of commitment relies on three factors.

1. Convincing them that doing nothing is a bigger risk

McKinsey has found that current levels of digitization have eroded annual revenues in many industries by an average of 6 percent.[2] As industries become more digital, this decline will accelerate to 12 percent. Only by mounting a bold, holistic bid to develop disruptive digital and analytics capabilities can companies expect to earn back these losses and stay competitive. Companies that go even further to combine a superior long-term digital strategy with organizational shifts—such as agile operations, a risk-taking culture, and a focus on high-quality talent—can eventually expect a net positive impact of 4 percent growth.

2. Reducing investment risks by acting like a venture capitalist

A digital transformation doesn't have to be one massive investment. In fact, it shouldn't work that way. The best companies adopt a venture-capital-based funding model, where chunks of investment are released based on progress and value creation. This allows leaders to pull the plug on projects that lag expectations and to invest more in promising ones. Companies should also start with some low-risk moves that can generate early wins and then quickly move toward bigger actions.

3. Attracting a strong, experienced digital leader to run the program

Hiring a respected senior-level leader with digital and analytics expertise will go a long way toward boosting organizational confidence in digital initiatives. But first, in order to attract such an in-demand digital executive, the CEO and the board must demonstrate that they have an unwavering commitment to digital that's based on a clear vision for the company and a realistic budget.

[1] The Gulf Cooperation Council is the political and economic alliance of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates.
[2] Jacques Bughin, Laura LaBerge, and Anette Mellbye, "The case for digital reinvention," *McKinsey Quarterly*, February 2017, McKinsey.com.

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Challenge 2: Finding the right collaboration models to bridge the broad GCC skills gap

The GCC has a skills gap in software engineering, customer-experience design, digital marketing, and data analytics, and the limited number of individuals with these skills are looking to be part of a culture that many Gulf companies can't yet offer: a fast-moving, risk-taking, innovation-orientated workplace full of tech-savvy colleagues.[3] To overcome this, Gulf companies can partner with the right set of strategic digital players and software-development vendors. There are three basic guidelines for forming such partnerships.

1. Start with a strategic service provider

Finding the right joint-venture partner can be time consuming. Finalizing the agreement itself can take up to another nine months. The better option is a contractual partnership with a strategic service provider, such as a software-development vendor or a company that supplies freelance developers, whether locally or outside the region. Such arrangements are relatively quick and simple to set up and easy to get out of if needs or circumstances change. To ensure success, a portion of the service provider's fees should be linked to the outcomes of the partnership.

2. Form a single unit with a focus on building your people's skills

It's important to create a single, unified team with your partner company that is aligned on targets, has a "win or lose together" mind-set, and is colocated. This helps everyone get used to working together and producing quick results. Winning companies put in place incentives such as training opportunities, certifications, and bonuses tied to performance to spur the development of their own digital and analytic capabilities and not become dependent on the service provider. The ultimate goal of these partnerships is new skills and capabilities, not new apps or pieces of software.

3. Simplify and accelerate procurement processes

When partnering to form a digital unit, existing corporate procurement processes can get in the way. Many procurement teams, for instance, have a service-provider selection process biased toward price. Vendors need to be onboarded much faster than many companies are used to and paid in a timely manner. Procurement can help by creating flexible service contracts to allow for increases or decreases in staffing. It can also give the joint team authority to make low-cost purchasing decisions so no one is waiting six months to get a credit card or a laptop.

Challenge 3: Overcoming resistance within the current organization

In large GCC companies with a history of success, change is profoundly unsettling. Many companies in the Gulf region aren't accustomed to risk taking and innovation. Conservative thinking that rewards working in traditional methods is the norm. Resistance to disruption is inevitable and tends to be significant. Several tactics can help overcome these issues.

[3] Stack overflow developer survey, 2016.

1. Protect the digital unit from the legacy business

If a digital business or lab is founded within the structure of a legacy business, it inevitably inherits traditional ways of working and thinking that will limit its growth. To avoid this, a digital unit initially needs a distinct set of people, processes, and capabilities so it can function independently and minimize dependencies on the existing organization. This includes its own budget, a new technology infrastructure, separate office space, and a dedicated team that spends 100 percent of its time on digital. As the digital hub matures and stabilizes, it can be integrated into the core of the organization.

2. Build bridges that allow the new culture to permeate the incumbent business

Invite employees to see how the digital team works. It's been our experience that when people see how digital teams work—the speed, the accomplishments, the freedom to make decisions—they are energized and want to be part of it. On a more formal level, it's important to build bridges to key functions such as security-risk assessment as well as regulatory and legal compliance. This can be done by embedding key employees into the digital teams as domain experts for at least 50 percent of their time.

3. Tie leadership compensation to digital key performance indicators

One of the biggest reasons digital reinventions fail is that executives don't have adequate incentives to make them happen. To encourage leaders to put skin in the game, a portion of their compensation should be based on specific outcomes from digital initiatives. Initially, these key performance indicators (KPIs) should be tied to outcomes that encourage digital ways of working and adoption, such as the speed of product launches or increases in the number of customers using digital channels. Then, once digital initiatives are up and running, KPIs can shift to track the value these efforts create, such as sales generated through digital channels or a reduction in service costs.

Challenge 4: Replacing a command-and-control operating model with an agile one

A major factor setting leading digital companies apart is their agile and lean operating model. This is a particular challenge for GCC companies, which tend to value traditional operating models and have relatively strict command-and-control practices. We see three ingredients for how incumbent Gulf companies can make agile the core operating model of the business.

1. Scale agile to get the value

Agility drives value. For example, McKinsey has found that companies applying agile approaches can boost their productivity 25 to 30 percent in six to 18 months, with increased gains as agile is fully adopted across the organization.[4] Although the rollout can be done in phases, agile must ultimately span the entire organization to capture its full value.

2. Move IT to the cloud

The technology architecture needs to be as modern and flexible as the business itself. Moving key functions to the cloud creates a software-as-a-service (SaaS) model that provides the flexibility to ramp up or down as needed and facilitates access to the large amounts of data needed for machine learning.

3. Own your IT

Technology is too important to outsource. Gulf companies should develop core platforms themselves and then procure other needed cloud-based solutions from third parties. Application programming interfaces (APIs) can help integrate systems into a flexible and modular landscape that organizations control. The alternatives—all-inclusive IT systems or packages bought from vendors—too often come with their own proprietary road map of features and data-management protocols, making them inflexible and redundant with other systems. Such end-to-end solutions can also make continuous-delivery

[4] Santiago Comella-Dorda, Peter Dean, Vito Di Leo, Nick McNamara, and Pankaj Sachdeva, "Transforming IT infrastructure organizations using agile," October 2018, McKinsey.com.

pipelines difficult to implement and render companies too reliant on the vendor.

Given the talent gap in the GCC, this is a particular challenge. Partnering with vendors to develop IT capabilities is a useful way to start, but it must be paired with an aggressive and ambitious program to acquire new capabilities and talent (see following).

Challenge 5: Scaling digital and analytics talent

Success in the digital era will go to companies with the highest-caliber digital talent and capabilities.

1. Go where the talent is

Given the unique challenges of finding the right kind of talent in the GCC, one approach we've seen work is to host the digital business in a location where there is more high-quality tech talent. An online travel company in Dubai, for instance, set up a satellite office in Berlin so it could more easily hire software developers, data engineers, and digital designers. Acquiring start-ups in the region or elsewhere is also a viable way to gain access to people you wouldn't otherwise be able to hire.

When hunting for talent, be sure to focus on quality over quantity. Leading engineers, for example, are anywhere from three to ten times more productive than the average, and such talent can accelerate a transformation timeline by as much as 20 to 30 percent.[5] It's important to be selective, seeking out "anchor hires" who are respected within their area of expertise and likely to bring in other quality people.

2. Build capabilities through academies

You won't be able to hire your way to success—there just aren't enough people to fill all the gaps. Effectively training your own people will be crucial. Building out a digital and analytics academy can help senior leaders, product owners, and technologists develop the full suite of digital capabilities they need. The key element here is to make sure that the academies operate at sufficient scale to train (and continue to train) all the people necessary.

For example, retail conglomerate Majid Al Futtaim established the Leadership Institute in 2015 and the School of Analytics & Technology in 2017 to sustain its digital and analytics transformation and to build the required skills within its organization. The Institute offers multiple leadership-development programs and a full curriculum to cultivate digital skills and a digital culture, so that the organization can fulfill its vision of "creating great moments for everyone, everyday." More than 2,000 people have been trained to date.

Those who attend the academy should have incentives to go on to teach others (for example, their effectiveness in training others should be part of their performance review). This teaching would be done both formally at the academy and informally within departments to help instill a culture of innovation and continuous improvement.

Ultimately, the biggest determinants of digital success are the mind-sets and attitudes of people at the top. Gulf companies whose CEOs, boards, and other top leaders are truly committed to reinventing their organizations will develop the capabilities necessary to power future growth.

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[5] Various studies of professional programmers have found an "order of magnitude" difference between the best and average programmers in individual and team productivity, as stated by Steven McConnell in his book *Making Software* (O'Reilly Media, 2011, p. 568).