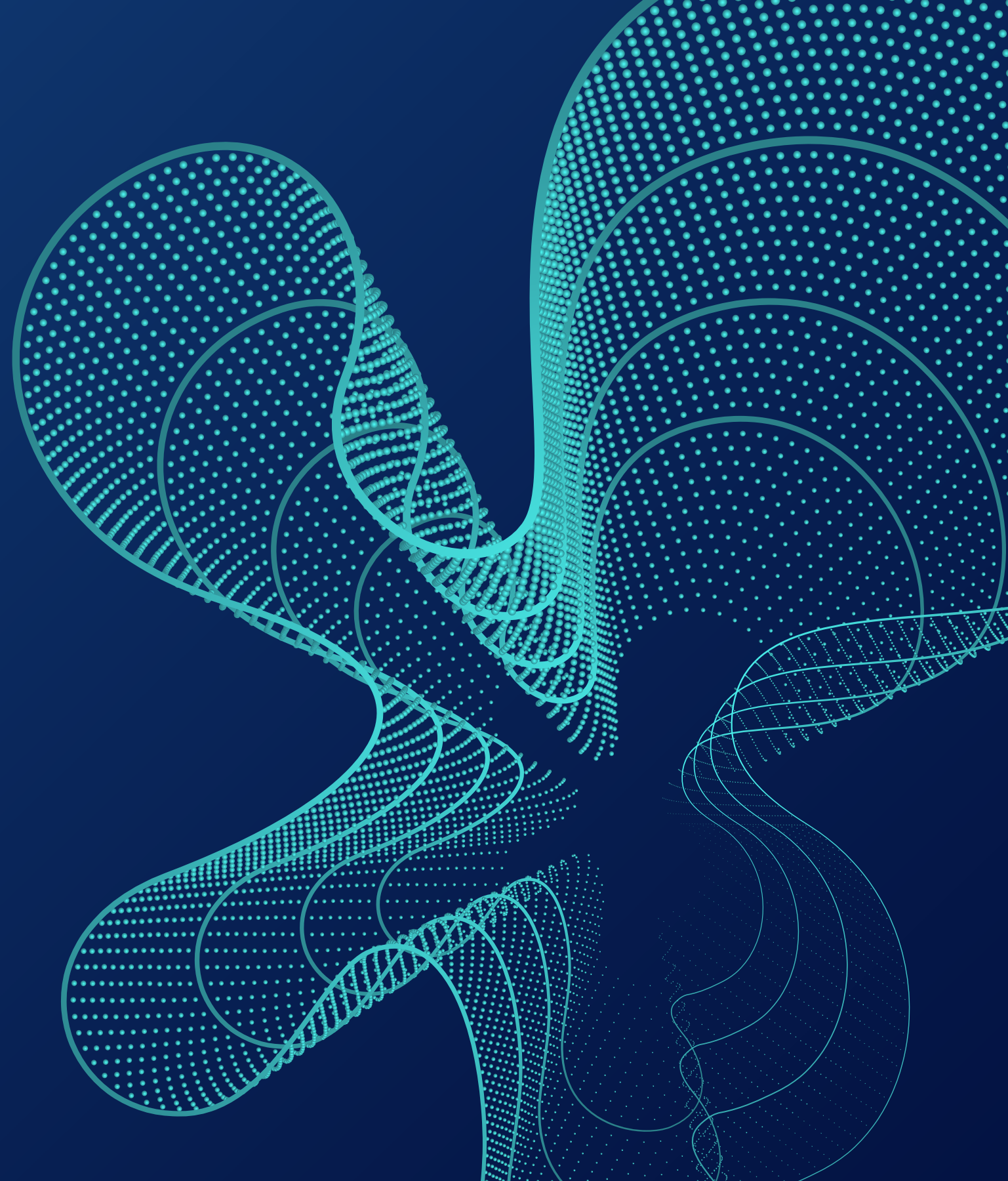


# Riding the Next Wave — Digital Transformation Strategies in Asia Pacific

Asia Pacific Business Renewal Series



# Foreword

Enterprise-wide digitalization is a core priority among business leaders in Asia Pacific today. Digital transformation (DX) is seen as essential to corporate Asia's recovery and renewal, with most governments across the region also pushing some form of a DX agenda in order to strengthen their economies for the post-pandemic era.

Digital transformation has taken center stage in restructuring and growth strategies in boardrooms globally, as companies reinvent themselves for the future, with the pandemic clearly expediting this change across borders and industries. However, despite efforts to optimize and transform their companies, most still feel they are lagging behind competitors.

Within Asia Pacific, the pace of digital transformation is accelerating as business leaders look for solutions to recover lost ground and plan for the road ahead. The impact of the pandemic on these efforts has been profound — almost all respondents (92%) say they are currently re-evaluating their digital strategies and optimizing digital infrastructure to remain competitive in response to COVID-19. About a third (31%) say efforts have been completely transformative as they implement deep reorganization to reshape and reposition their businesses for the digital age.

First-mover advantage emerged as a boon to businesses in the region. Among the minority who said the pandemic has had little or no impact, many respondents mentioned that their businesses had already achieved digital-first alignment, adequately meeting changing consumer demands for online services and eCommerce. As such, they have been able to weather the pandemic better than their industry peers, although not completely without challenges.

As businesses seek renewal whilst balancing current risks, value creation from digital transformation activities is also key. More than half of respondents (65%) say they are yielding positive results from on-boarding and monetizing new technologies, including about one-third (31%) who say these efforts have exceeded expectations and the overall impact on the business. This is a sign of clear progress in the region, as Asia Pacific business leaders and decision-makers recognize and respond to the need for now-or-never transformation.



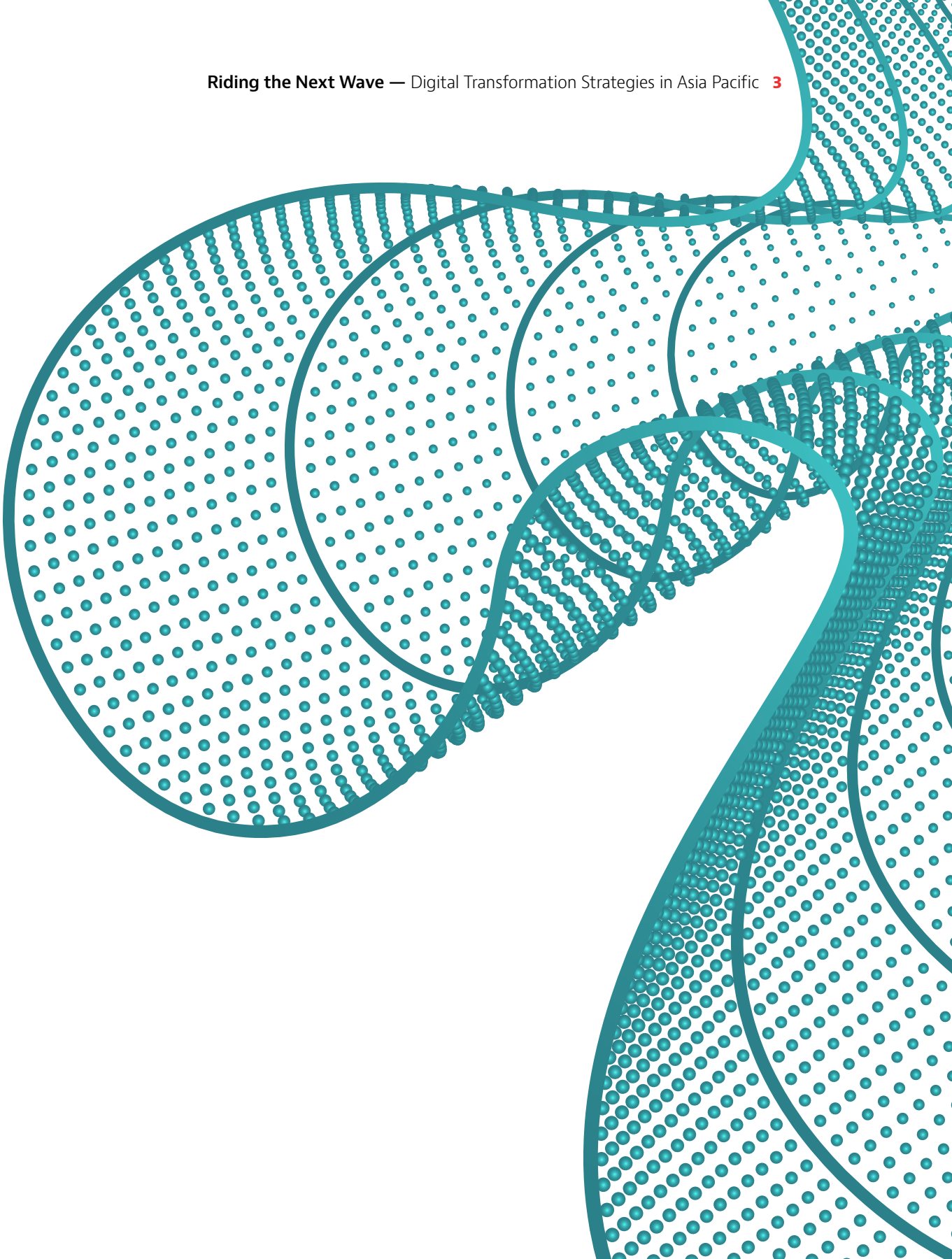
**Adrian J. Lawrence**

Asia Pacific Head of Technology, Media & Telecommunications Group and Partner  
Sydney



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# 1 About the Asia Pacific Business Renewal Series

Unpacking the hypercomplex nature of business in 2021, the Asia Pacific Business Renewal Series sheds light on the momentum and mindset of business leaders and decision-makers in the region as they navigate challenges relating to four main areas of business: Supply Chains, New M&A Landscape, Digital Transformation and Sustainability.

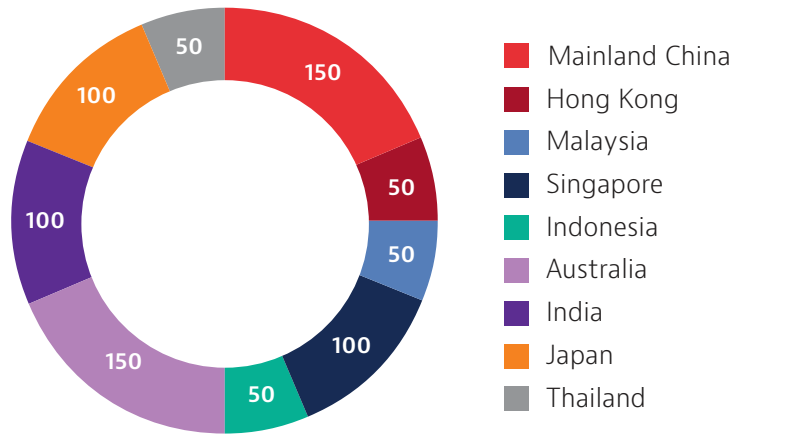
Each report features key considerations and action points to helping businesses to understand the horizon ahead as they make strategic decisions, pursue growth and secure lasting success.

## About the Research

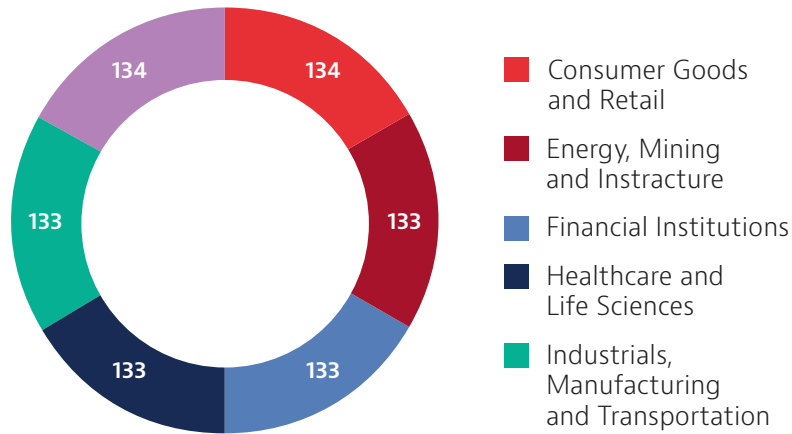
Findings from this report and others within the series were conducted in Q1 2021 in partnership with Acuris.

800 respondents were surveyed across nine jurisdictions and six sectors, including Technology Media and Telecomms (TMT) , Healthcare and Life Sciences (HLS), Consumer Goods and Retail (CGR), Industrial, Manufacturing and Transport (IMT), Financial Institutions (FI) and Energy, Mining and Infrastructure (EMI). This Asia Pacific business and legal issues research has been run every two years since 2016 by Baker McKenzie in Asia Pacific.

By Jurisdiction



By Sector





## 2 The Digital Imperative

Long-lasting impacts of the pandemic have shaped the way businesses are enacting digitalization plans and their sentiment towards their performance within their respective sectors.



### Disruptor or Disrupted?



feel they are digital laggards (disrupted) rather than digital leaders (disruptors) in their industries.

CGR (**83%**) and IMT (**82%**) sector respondents identify more strongly as being disrupted.



“The pandemic has been a major accelera[nt]. We have to remain competitive by including new digitalization solutions in our sales and marketing processes. Moreover, our operational value is also being increased through digitalization.”

Head of Corporate Strategy, Indian mining company

### 2.1 Disruption Gathers Force

COVID-19 is accelerating shifts in consumer behavior and the rise of the digital economy, particularly in Asia Pacific where major developments in ICT infrastructure are improving connectivity for large population groups.

The pandemic led to an exponential surge in online demand for goods and services — demand that is being fulfilled by businesses already positioned to engage customers in the digital marketplace. As it is highly unlikely that consumer behavior will revert to pre-pandemic conditions, businesses have a great imperative to transform their operations today to be better placed to meet the needs of an increasingly digital society. A Chief Executive Officer in a Malaysian retail company says that the pandemic “had a transformative effect on [their] technology implementation rate”, allowing them to “avail real time tracking of during transportation” to improve the efficiency for distribution.

Despite such progress, the vast majority of companies across the region still see themselves facing significant competitive headwinds: 79% feel they are digital laggards (disrupted) rather than digital leaders (disruptors) in their industries. This is even more stark than in 2019, when our research showed that 75% said their organizations were among the ‘disrupted’ in their primary industries.

## 2.2 Risk Aversion is a Barrier

Respondents point to a number of issues that may be impeding their digital transformation strategies. Financing concerns arise frequently as an obstacle in respondent commentary, especially as many companies grapple with the ongoing economic impact of COVID-19 on their bottom lines. Cost and integration are also major concerns as companies continue to manage the effects of the pandemic and pivot in response to macro risks whilst addressing trade disputes, increasing protectionism and supply chain disruption.

The Head of Operations at an Australian telecom provider points out that risk-aversion within executive ranks may be causing their company to be further disrupted as they “only adopt technologies after other companies have been using them for a while.” From this commentary and others gathered through our survey, two common pain points holding respondents back from digital agendas emerge: adopting the wrong technologies, or adopting the right technologies but at a cost that surpasses initial estimates.

## 2.3 Innovation a Lower Priority

The drive to innovate has lost some of its momentum when compared to our 2019 research, having fallen down the list of top challenges and risks that Asia Pacific business leaders are prioritizing — it now ranks 8th out of the 14 complexities. While the pandemic and geopolitical situation has demanded shifting emphasis on other business vulnerabilities, technology and innovation must remain top of mind for respondents as the sea swell of technological change will only grow stronger in the years ahead.

The Director of Marketing at a Japanese consumer goods company captures this urgency, recognizing that the cost of failing to adopt new practices and enforce digital transformation could prove fatal to the bottom line: “Consumers want digital tools, applications and more time online. Unless we can provide this experience, they move on to new companies to fulfil their demands.”



“Digitalization is key to sustainable business development. However, overall speed in digitalization has been rather slow in some business sectors due to large existing legacy systems. A recent report from the Japanese government notes that due to insufficient digitalization, Japan will suffer an economic loss of around USD 100 billion every year after 2025. Digitalization is an important strategy for companies to retain and strengthen competitiveness. Companies should be aware of new legal issues in their digital transformation journey, including areas such as cybersecurity and compliance. Disruption resulting from digitalization will also affect the company operations including tax and transfer pricing aspects.”

**Yaeko Hodaka**  
Partner, Baker McKenzie (Gaikokuho Joint Enterprise)  
Tokyo

# 3 Uneven Sectoral Landscape

Heavy industries struggle, although most sectors face challenges.



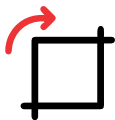
## Accelerated Change



say the pandemic has accelerated to their digitalization plans.



of EMI and IMT respondents say the pandemic has accelerated their digitalization plans.



## Transformative Change



say the pandemic has had a transformative impact on their digitalization plans.

These numbers are significantly higher for FI respondents (45%) and TMT respondents (41%).





3



“Financial institutions have always been ahead of the curve when it comes to digital transformation. The FinTech revolution had begun in earnest before the pandemic accelerated the pace of adoption and deployment of digital wallets, payment gateways, robo-advice, digital banking, P2P lending and more. Now, the power of data collection and analytics has also become an even bigger motivation for the industry to digitalize and build agility.

Generally, companies across all sectors should consider the time, money and resource it takes to develop, deploy and refine their digital offering, taking care to ensure they on-board technology that fits with their current operational structure, culture, expertise and regulatory environment. The time-factor may be a reason why we see technology acquisitions becoming a “faster” way for companies to progress their digital transformation plans, as opposed to building in-house systems, tools and expertise.”

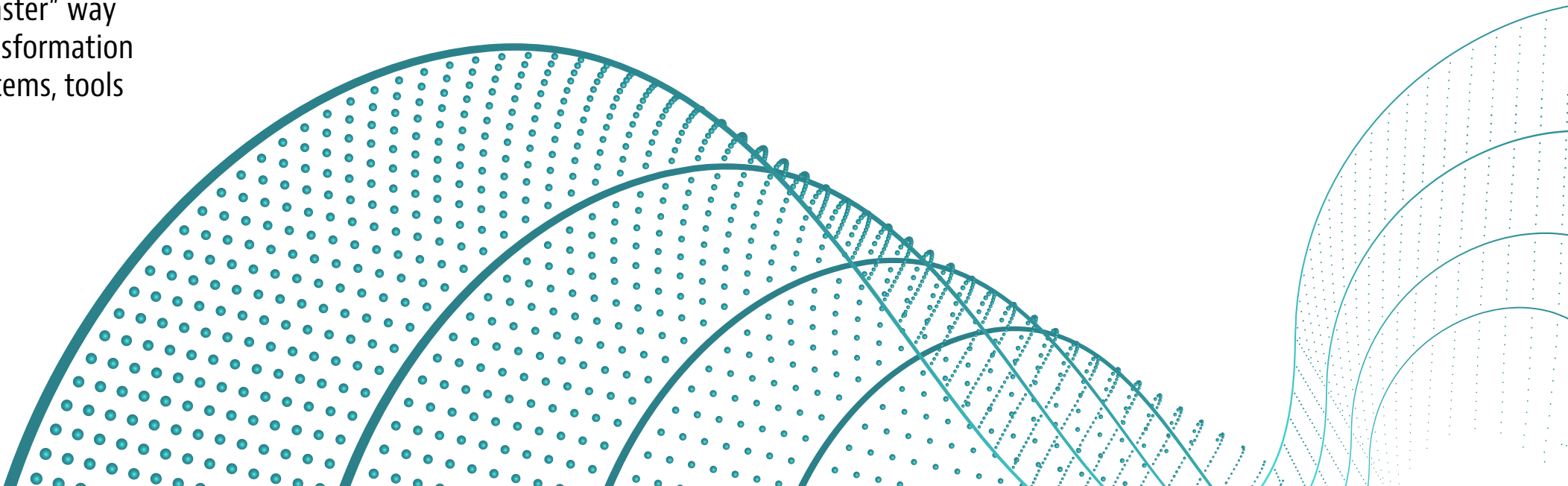
**Stephanie Magnus**  
Principal, Singapore

Across the board, Energy, Mining and Infrastructure (EMI) and Industrials, Manufacturing and Transportation (IMT) companies seem to be falling dangerously behind the digital change curve. Ranking among the highest groups claiming they are disrupted, these respondents also note that digital transformations efforts are well behind the average and that their businesses are producing mostly mixed or negative results when on boarding and monetizing new technologies.

“The industry is very capital-intensive and expecting faster changes is in no way practical. It becomes a huge task to make any technological changes,” says the Head of Corporate Strategy at an Indian mining company; a sentiment that is shared among many other respondents in this industry. Another respondent, the Director of Marketing at a Singaporean manufacturer, says that their organization lacks a culture of innovation. “We are not as innovative in using robotics technologies or smart solutions as compared to other companies in our sector. We have to be more adept at innovating new solutions,” says this respondent.

Further gains could be made as governments across the region put greater emphasis on improving their manufacturing capabilities and the Industry 4.0 movement. For instance, Mainland China’s “Made in China 2025” initiative seeks to comprehensively upgrade manufacturing and transition to smart factories. Companies in Southeast Asia are likewise making progress and showing willingness to jump aboard this trend.

Within the financial sector, respondent sentiments are much more positive and indicate that the industry may be undergoing one of the biggest transformations and with higher success rates: 99% say the pandemic is accelerating the digitalization of their businesses and 74% say they have been successful at on boarding and monetizing new technologies. As a result, almost a third (31%) say they are leading disruption rather than responding to it.





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“Digital solutions and applications are introduced by our teams faster than competitors. We make sure that client expectations are met and that client retention is not taken leniently,” says the Managing Director of an Australian bank.

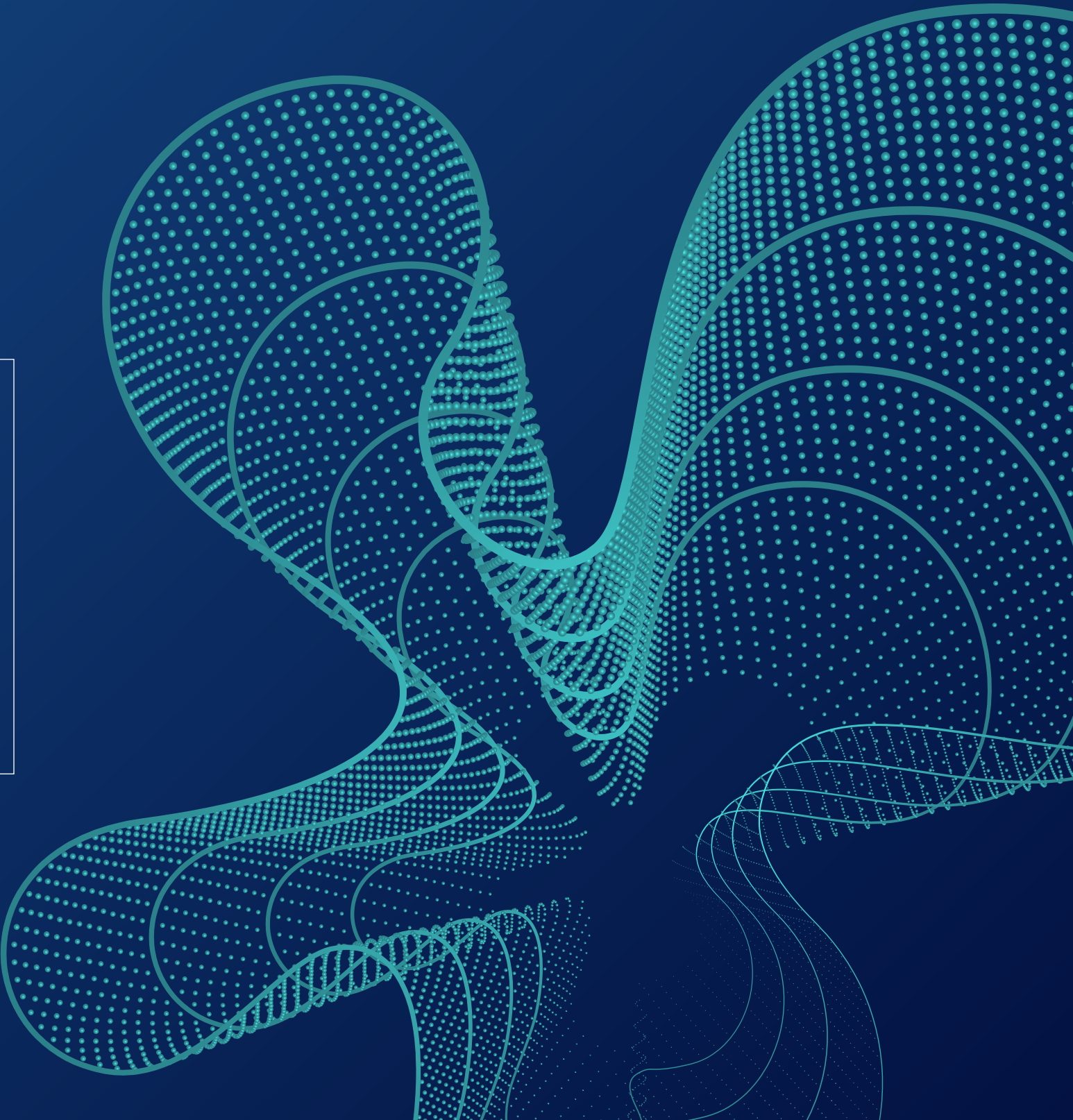
In the CGR space, while most respondents (96%) say they are making progress with their digital transformation efforts in response to the pandemic, 32% cited problems integrating new technologies, one of the highest groups outside the EMI and IMT sectors. Among respondents, many say they are running a losing race against competitors to implement new tech solutions, with delays in decision-making playing a leading cause to this sentiment.



Jurisdiction Spotlight: Hubs for Innovation

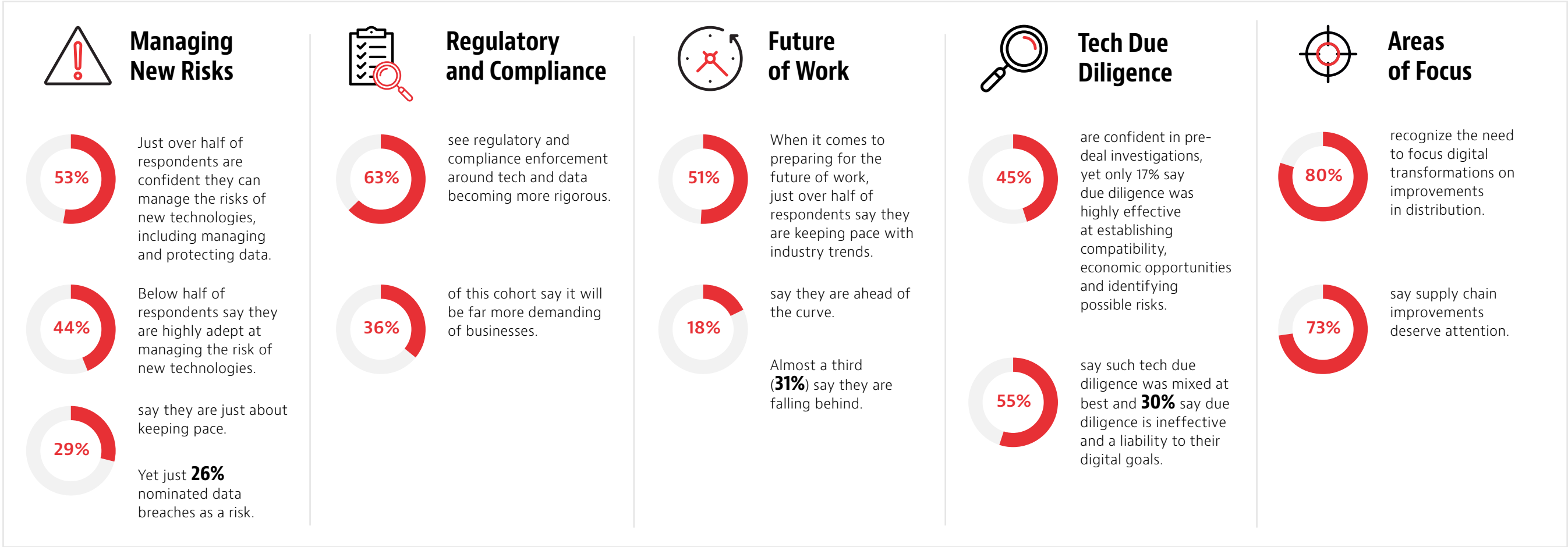
Singaporean respondents are most confident that their companies are leaders in their respective industries with 30% saying they are leading disruptive trends. Respondents mention a commitment to change as a key driver in these sentiments, with the Director of Marketing at a Singaporean tech company says that the pandemic played a key role in driving change, mentioning that “market disruptions have driven new changes within the organization. [W]e’ve adopted new solutions in our marketing, customer services and administration processes.”

Respondents from Hong Kong (28%) and Mainland China (27%) also said say their businesses are leading change within their industries. Indian respondents (26%) likewise hold this sentiment. Within each of these groups, respondents emphasize focus and commitment on integrating new technologies as key to their success. “Research and development has been emphasised on so that we are always competitive,” says the Managing Director of a Mainland Chinese consumer goods company.



# 4 Key Drivers for Next Wave Digital Transformation

Regulation and tech due diligence represent areas where businesses must bridge the gap in order to accelerate next-wave digital transformation. To forge ahead, companies look to strengthen capabilities in managing data privacy risks, the future of work as well as distribution and supply chain channels







# 4



“Regulatory risk has been increasing recently as companies have started using technology solutions across most business functions. We will consult with legal advisors to know our exact liability.”

Director of Operations, Mainland Chinese infrastructure company

## 4.1 Regulation: A New Age of Enforcement

On a global scale, governments are moving to limit the power of tech companies and organizations that deploy digital technologies (specifically AI). While these efforts have mostly focused on the likes of Facebook, Google and Amazon, the increasing reliance and uptake of digital infrastructure and big data across industries means most companies today could fall under the umbrella of these sweeping regulations.

In Asia Pacific, regulators are already making waves. Australia recently passed a law forcing Google and Facebook to pay publishers for news and India has stepped up legislation to regulate social media.<sup>1</sup> Mainland China has likewise heightened regulation on several of its leading tech giants, while authorities across Southeast Asia are making similar moves.

For these reasons, it is unsurprising to see regulatory pressure top the list of tech risks facing businesses in Asia Pacific. Because of the complexity and shifting nature of laws across the region an even greater number of respondents (61%) say they will be seeking legal support in this domain.

Generally, more than half of respondents (63%) see regulatory and compliance enforcement around tech and data becoming more rigorous — and 36% of this cohort say it will be far more demanding of businesses.

49% of respondents from India say they expect enforcement to be far more rigorous. According to the General Counsel at an Indian tech firm, “We see that new technologies are being introduced more frequently. In such a scenario, the authorities are trying to attend to the potential threats and create a more rigorous framework.” The Head of Finance at an Indian bank also says “there will be stricter rules and regulations to curb data and privacy breach. I think the authorities will take a firm stand against those that do not follow the stricter regulations.”

Respondents in Japan and Singapore hold similar sentiments that that new regulatory frameworks will pose a challenge. A noticeably large percentage of Malaysian respondents (and the highest percentage in Asia Pacific at 58%) feel enforcement will be far more rigorous.

<sup>1</sup> “A global tipping point for reining in tech has arrived.” New York Times article published 20 April 2021.

“Mapping regulatory risks is crucial for businesses currently undertaking digital transformation activities. Companies active in many jurisdictions need to ensure they can comply with regulatory requirements in different geographies and stages of digital transformation. At a time where many businesses are focused on strengthening their digital transformation capabilities to ensure that they can continue to compete in the increasingly online business environment, an early assessment of the global and regional regulatory hurdles is essential to ensure a smooth roll out of digital transformation projects.”

Paolo Sbuttoni  
Partner, Hong Kong





4



“Our tech due diligence team have the necessary tools to conduct the assessments. We have also used external help when the process or architecture was complex and our teams were not able to manage evaluations themselves.”

Director of Operations, Australian mining company

### 4.2 Tech Due Diligence is Vital

Due diligence is one area where improvements can possibly lead to better digital transformation outcomes. The mixed results among respondents show that despite claiming to be successful at investing in and on boarding new technologies, they may be falling short on initial assessments.

Indeed, while 45% are confident in pre-deal investigations, only 17% say due diligence was highly effective at establishing compatibility, economic opportunities and identifying possible risks. The remaining 55% say due diligence was mixed at best or, as 30% share, ineffective and a liability to their digital goals.

Speaking to the ineffectiveness of internal teams, the Chief Financial Officer of a Hong Kong-based media company says, “We have had to invest more to ensure a productive work output, because the problems were not figured out initially.”

Yet, within the respondents who pointed out the failings of due diligence, many also recognize where they could have made improvements: consulting experts to assist during the diligence and integration processes. The Chief Financial Officer of a Japanese bank says that they “could have hired external help to complete the tech due diligence because there were multiple parameters to check”, citing that it was a challenge for their “internal team to complete the task on its own on time.”

### 4.3 Perception Gap: Data Security Risks

While data has proven to be invaluable to digital transformations, it can be a particularly deep pain point for organizations who do not safeguard their data effectively. Data leaks or breaches can cause sinking reputations and damage consumer trust in the process. Below half of respondents (44%) say they are highly adept at managing the risk of new technologies including managing and protecting data. A further 29% say they are just about keeping pace.

Yet, surprisingly few respondents (only 26%) nominated data breaches as a risk. Notably, other elements of information security ranked among top concerns, with close to half of respondents (47%) noting that the theft of sensitive information is a potential risk that could prove harmful to the business and one where many (58%) also feel legal support is needed. Information vulnerabilities regarding IP and trade secret is another liability businesses may face, according to 34% of respondents.

Ken Chia, Principal, Singapore notes that “one possible reason for the low response in relation to data breaches is that mandatory data breach notification in Asia is still relatively uncommon and penalties have been low.” Chia shares, however, that “this is changing with countries like Singapore introducing mandatory data breach notification in February 2021. Following ‘Solar storm’, robust data management should not be viewed as a cost but as strategic advantage as more customers are looking to their suppliers to help secure their supply chains, and the inability of a supplier to demonstrate the steps taken to secure its systems and processes may mean it will not be even invited to the table. Companies should look to reduce vulnerabilities regarding IP and trade secrets — security needs to come from the top and increasingly board members will need to focus on this as a key business risk.”

4

4.4 Preparing for the Future of Work

While most respondents think they have adequate technology in place to support the future of work, they also highlight several areas of the business where changes are necessary to remain resilient.

In general, respondents are confident that the technology they have in place is adequate to meeting remote working requirements while driving more efficient process. More than half (51%) say they are keeping pace with industry trends and another 18% say they are ahead of the curve.

Almost a third (31%), however, say they are falling behind, with the pandemic placing new pressures on businesses to adapt. EMI (51%) and IMT (41%) companies are among those struggling to catch up, although large numbers of respondents from the CGR sector (35%) also mention challenges. According to the Chief Marketing Officer of an Australian retailer, “The time taken to start using new technology and train our staff is higher than we expect each time. This disrupts the process-related planning.”

4.5 Prioritizing Distribution and Supply Chains

Businesses see the need to respond to changes in consumer behavior and increased demand for digital services. Most respondents highlight the need to focus digital transformations on improvements in distribution (80%), with large numbers also saying supply chain improvements (73%) deserves attention.

Improving customer relationship management (CRM) and sales channel functions will also receive attention. “CRM has become more functional with the implementation of digital technology. We can understand the client needs better through data collection and analysis,” says the Group Director of strategy at a Hong Kong based insurance provider.

In many cases, respondents hope that improving data analytics will provide new insights into these processes that can help raise efficiencies while decreasing the potential for errors. According to the Managing Director of a Hong Kong based life sciences company, “Sales, distribution and supply chain challenges will be reduced significantly. The manual tasks will be reduced and so will the number of human errors when relaying information.”

Anne Petterd, Asia Pacific Head of International Commercial and Trade, comments on the importance of digitalizing supply chains, emphasizing that “[u]sing data to effectively anticipate risks is key. Leading companies are digitalizing by integrating pre-emptive risk management and deeper data analytics into their supply chains. An objective of this is to help them to streamline logistics and manage downstream compliance by using in-built defences against large shocks to their supplier ecosystems.”



“Distribution and supply chain are two parts of the business that need stabilizing. The pandemic has had a significant impact on the transfer of goods and services.”

Company Secretary, Singapore industrials company



# 5 Conclusion: Now-or-Never Digital Transformation

DX now sits at the top of corporate growth agendas, and with the pandemic aggressively expediting and solidifying consumer preferences for eCommerce and digital engagements with brands, these trends are unlikely to slow down.

Business renewal and recovery will depend on companies’ willingness to act now to improve their digital infrastructure and engender deep enterprise-wide change.

To maximize digital transformation efforts and position the business on the fast-track to growth and competitiveness, businesses in the region can focus on three key areas.



## Decisive and Strategic Action

Asia Pacific business leaders who identify as disruptors in their industries benefited from moving quickly to implement innovative, digital solutions rather than waiting to learn lessons from competitors.

This has allowed them to operate normally and even to achieve growth in the face of the global health crisis.



## Tech Due Diligence

Make due diligence an opportunity to consult with technical and legal experts to enhance sourcing and integration efforts.

Thorough pre-acquisition investigative work can result in either a smooth transition and integration or a shambolic mess that stifles growth for years.



## Strong Relationships with Regulators

Business leaders must stay on top and on task when it comes to regulation in their sectors, given shifting attitudes of global and regional policymakers.

Stay ahead of regulatory trends and remain compliant with new laws by embedding government relations into corporate and digital transformation strategies.

Digital transformation will continue to be influenced by other macro factors. Strategic impetus to become more efficient or sustainable will also fuel business efforts to optimize operations and go digital. As the region looks to ensure continued economic development in emerging markets and to cope with rapid demographic shifts, businesses must transform to enhance their digital connectivity to serve increasingly digital societies.



# 6 Key Contacts



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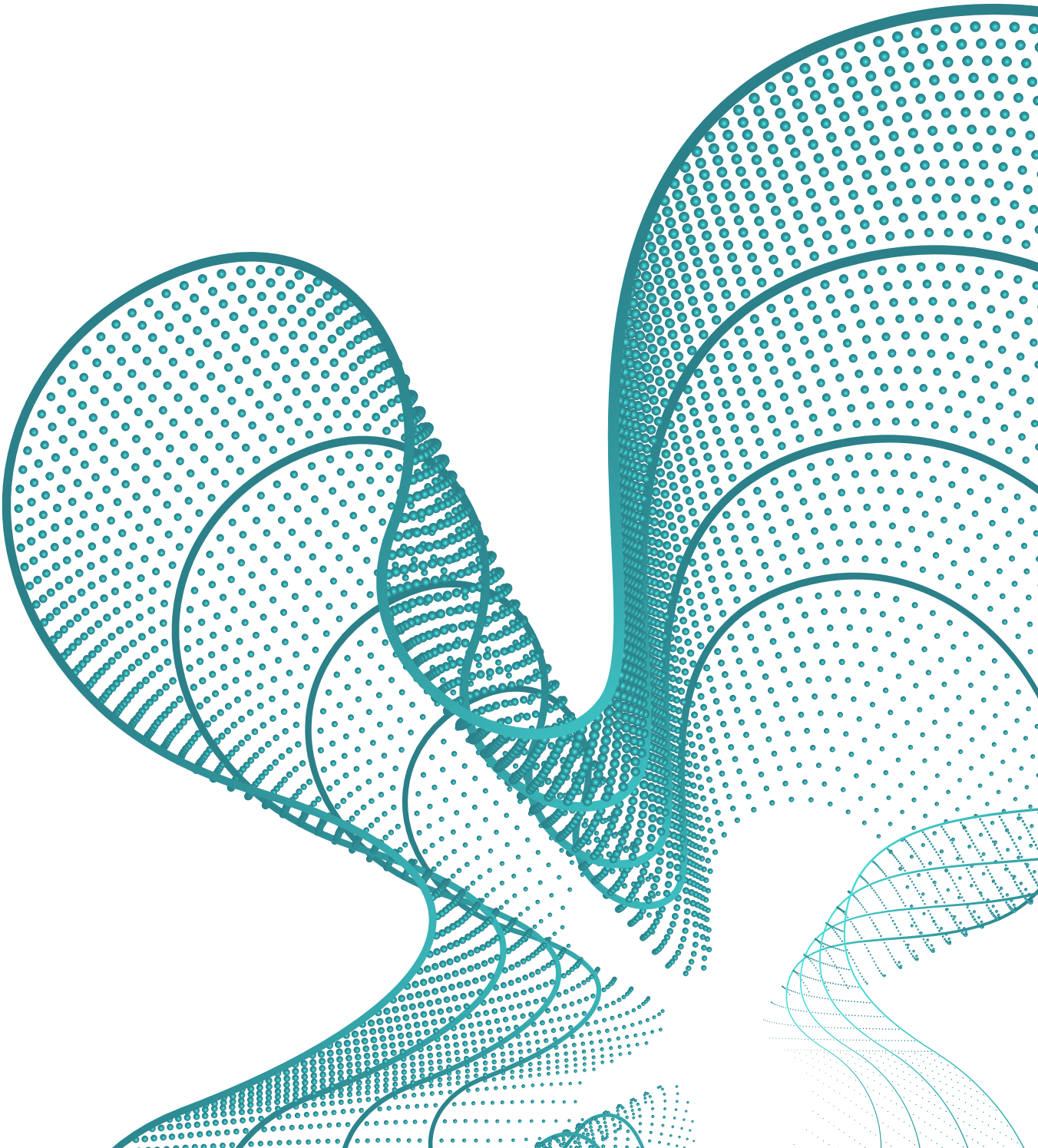
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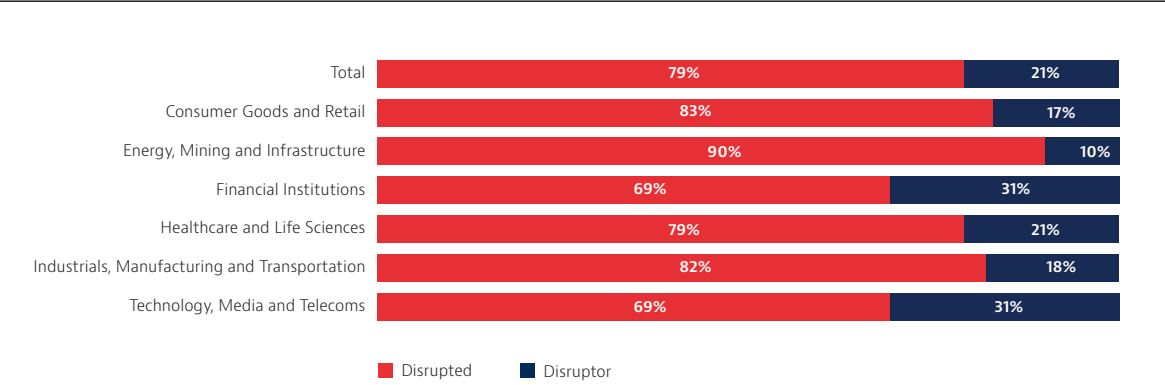
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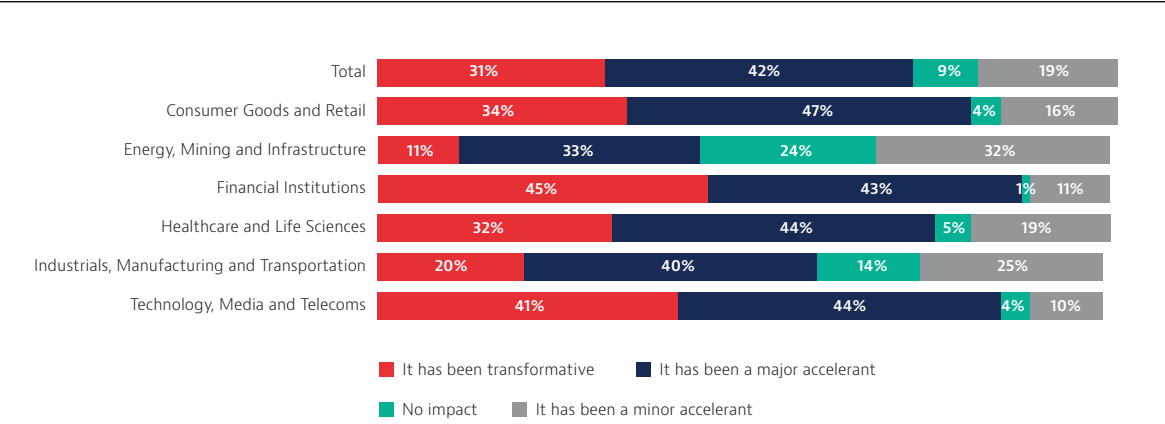
Appendix of Figures

FIGURE 1. SENTIMENT ANALYSIS: DISRUPTOR OR DISRUPTED (SECTOR VIEW)



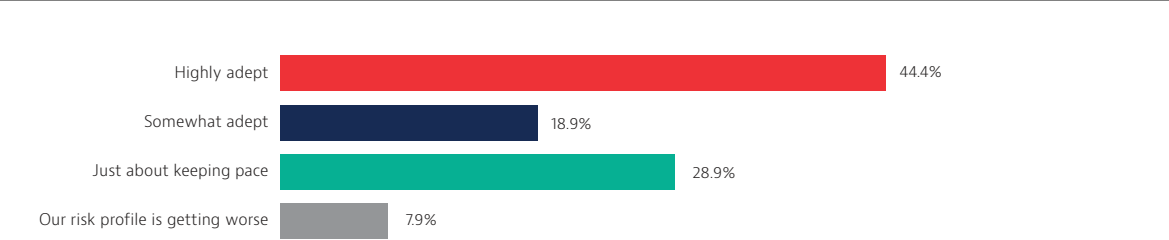
Source: Acuris

FIGURE 2. IMPACT OF COVID-19 ON DIGITALIZATION (SECTOR VIEW)



Source: Acuris

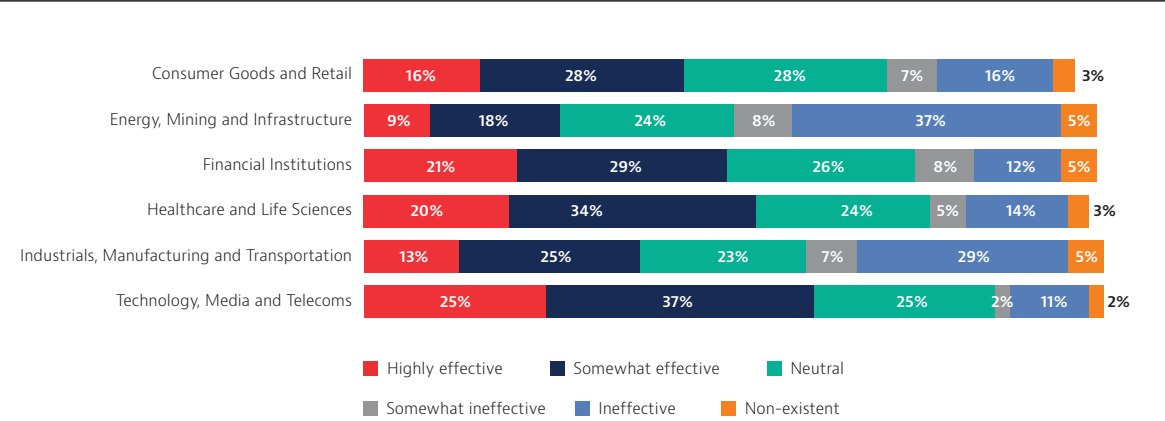
FIGURE 3. MANAGING RISKS OF NEW TECHNOLOGIES (INCLUDING MANAGING AND PROTECTING DATA)



Source: Acuris

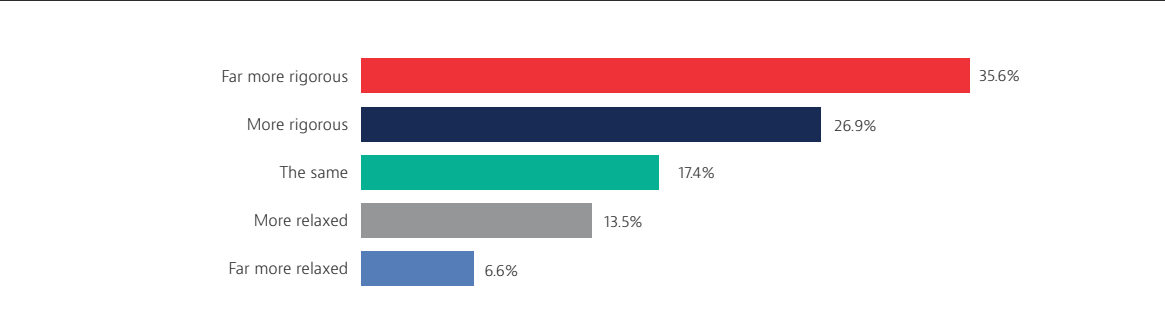
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**FIGURE 4. EFFECTIVENESS OF TECH DUE DILIGENCE IN PRE-DEAL INVESTIGATIONS (SECTOR VIEW)**  
(Relating to establishing the compatibility, ability to monetize and possible risks related to the tech elements of the transaction)



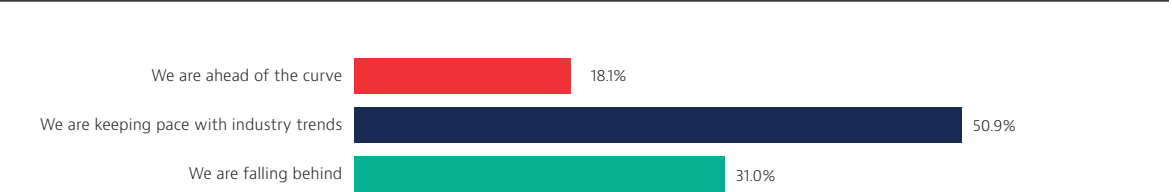
Source: Acuris

**FIGURE 5. EXPECTATION OF REGULATORY/COMPLIANCE ENFORCEMENT AROUND TECHNOLOGY AND DATA (OVER THE NEXT YEAR)**



Source: Acuris

**FIGURE 6. SUPPORTING THE FUTURE OF WORK**  
(Relating to establishing the compatibility, ability to monetize and possible risks related to the tech elements of the transaction)



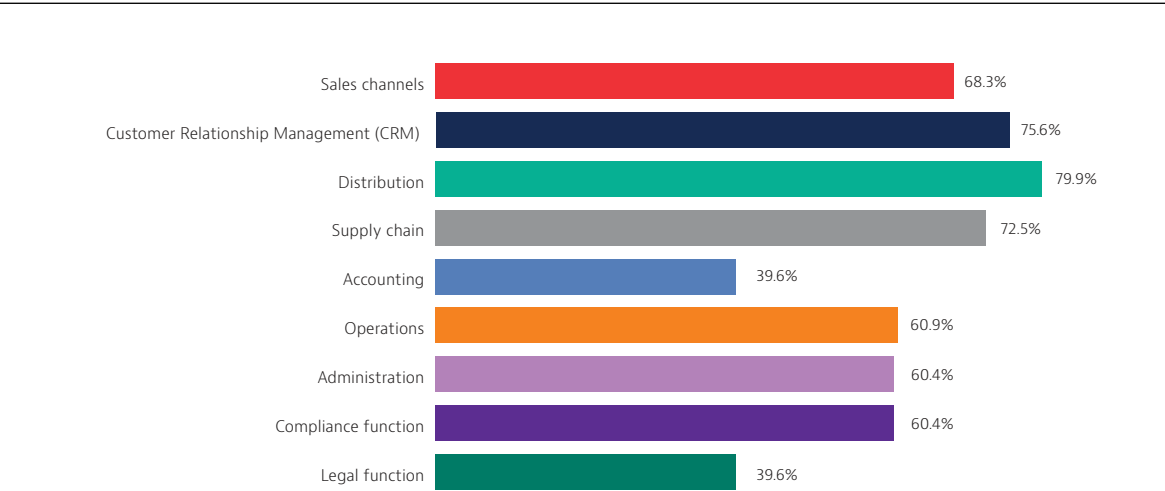
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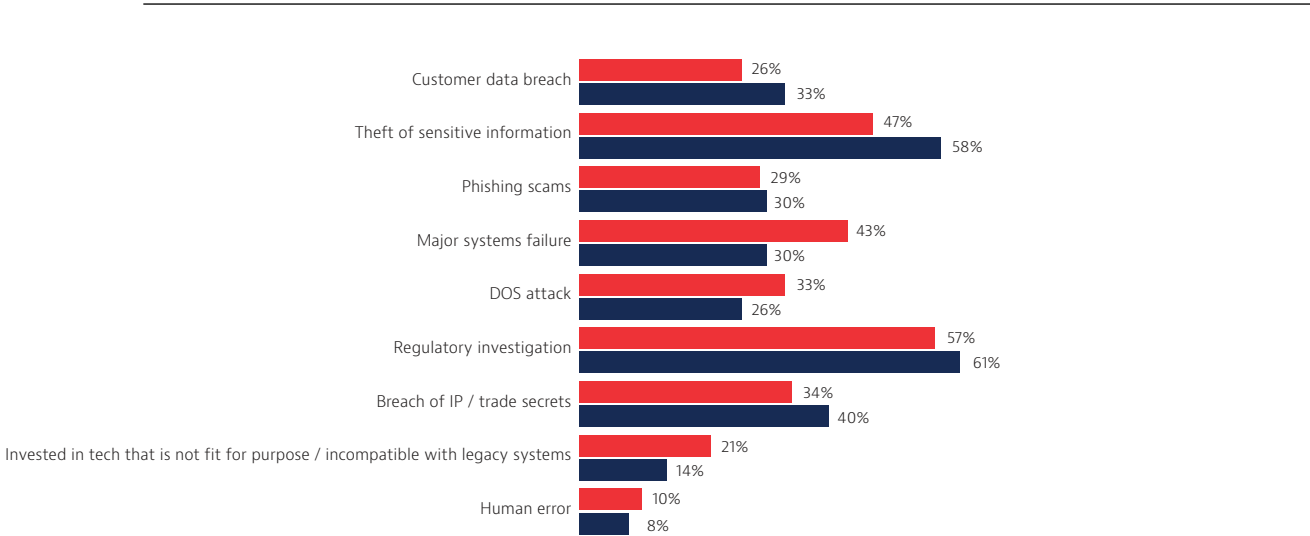
FIGURE 7. FOCUSING OF DIGITALIZATION EFFORTS

(Respondents selected as many as appropriate)



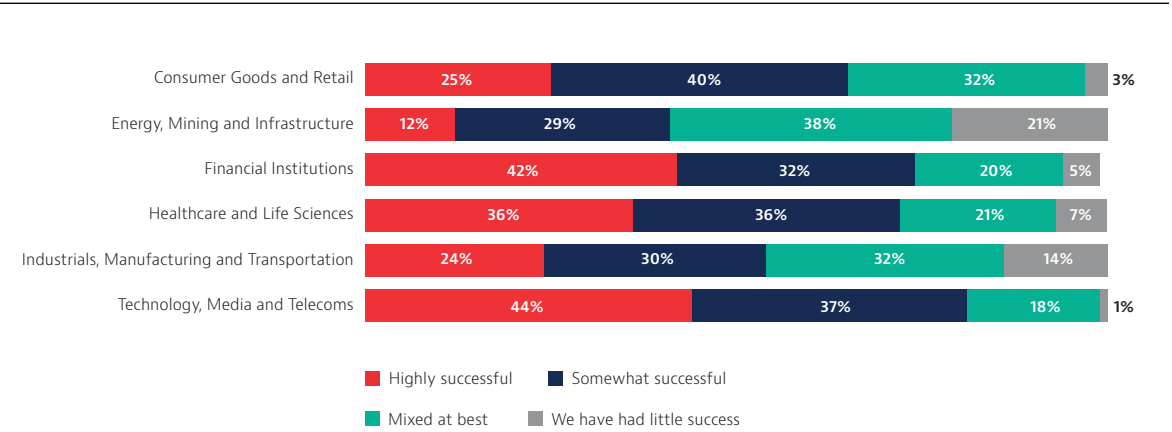
Source: Acuris

FIGURE 8. GREATEST TECH RISKS AND EXPECTATION FOR LEGAL OR EXTERNAL ADVICE



Source: Acuris

FIGURE 9. SUCCESS AT ON-BOARDING AND MONETIZING NEW TECHNOLOGIES (SECTOR VIEW)



Source: Acuris

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