IDC EXECUTIVE SUMMARY

Digital Transformation in Malaysia

August 2015

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In just a few short decades, information technology (IT) has moved from the back office, IDC's 1st Platform, to the front office, the 2nd Platform, and finally, embedded itself into nearly every aspect of people's business and personal lives, fueled by 3rd Platform technologies including mobile, social business, cloud, and big data and analytics (BDA). We're entering an era where the distinction between the technologies and processes that businesses deploy are so tightly linked to their customers and markets that the boundary between the internal operations of the enterprise and its external ecosystem (e.g., customers, markets, competitors, partners, regulators) is rapidly disappearing. Business leaders are challenged to move their enterprises to the next level, that of digital business transformation, employing digital technologies coupled with organizational, operational, and business model innovation to create new ways of operating and growing businesses.

Introduction

IDC believes that enterprises will either become adept at digital transformation (DX) and thrive or fail to master the disciplines and struggle to survive. IDC's Digital Transformation (DX) MaturityScape framework helps to assess organizations' stage of maturity in five key dimensions: Leadership DX, Omni-Experience DX, WorkSource DX, Operating Model DX, and Information DX.

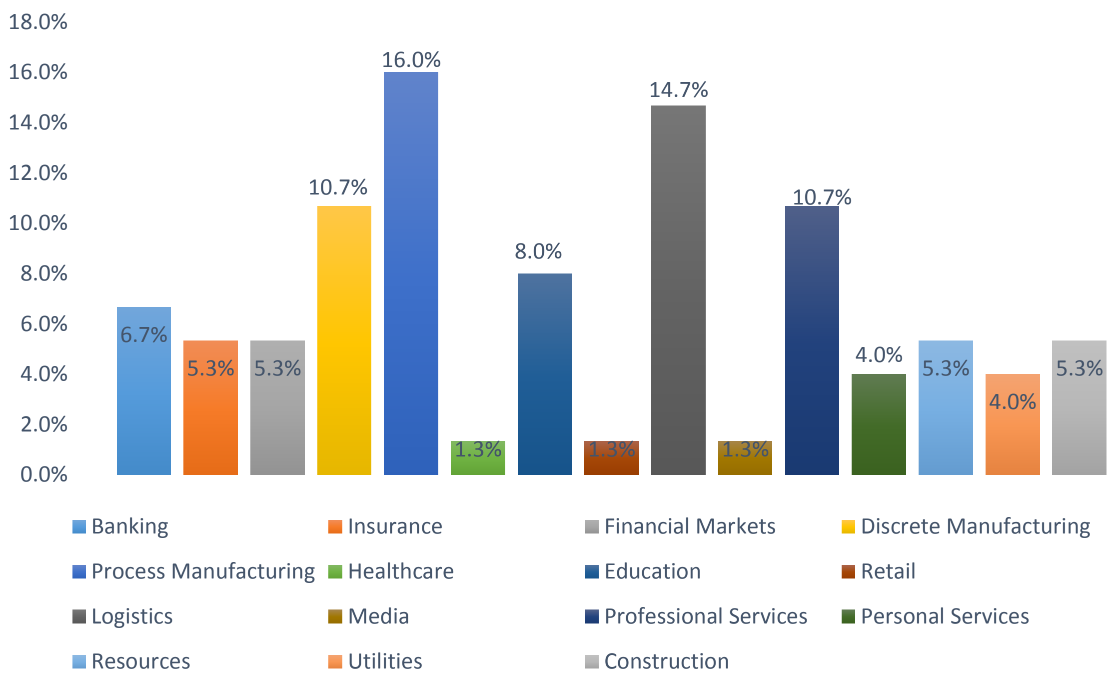
In May and June 2015, IDC interviewed 75 of Malaysia’s top 200 companies with the aim to create a country-level benchmark for Malaysia. The eligibility of these respondent organizations is defined based on the following criteria:

- Excludes government (except MAMPU), telecommunication service providers, datacenter players and IT vendors/service providers
- Minimum of 250 employees
- Respondent must be an IT decision maker with a designation not lower than IT Manager

In terms of the top 3 industry representation, manufacturing represented over 26% of the sample size, followed by banking and financial services at 17% and logistics at just under 15%. A detailed breakdown of the industry representation is highlighted in Figure 1.

Figure 1

Survey Respondents by Industry



N=75

Source: IDC's Digital Transformation (DX) Malaysia Survey, June 2015

DX Maturity Stages

There are five stages of maturity: ad hoc, opportunistic, repeatable, managed, and optimized. For each stage, the IDC DX MaturityScape Benchmark addresses how capabilities for a particular dimension (e.g., Leadership) need to change to improve the business' ability to leverage digital technologies for competitive advantage. The key characteristics of the five maturity stages are:

- Ad hoc: Management goals for DX are poorly defined and occasionally chaotic. Success often depends on individual effort and benefits are not widely shared within the business. Business and IT digital initiatives are disconnected and poorly aligned with enterprise strategy and not focused on customer experiences.
- Opportunistic: Basic capabilities are established. The necessary disciplines for DX are in place to repeat earlier successes on similar initiatives. The business somewhat lags behind best performing peers. Business has identified a need to develop digitally enhanced customer business strategies, but execution is on an isolated project basis, and progress is neither predictable nor repeatable.
- Repeatable: Business-IT goals are aligned at enterprise level to near-term strategy and include digital customer product and experience initiatives but are not yet focused on the disruptive potential of digital initiatives. Capabilities are documented, standardized, and integrated at the enterprise level. Digital transformation at the business level is a strategic business goal. The business maintains parity with its competitors and peers.

- Managed: Capabilities for DX are embedded in the enterprise and tightly linked to an agile management vision. The business leads its peers and competitors. Integrated, synergistic business-IT management disciplines deliver digitally enabled product/service experiences on a continuous basis.
- Optimized: Enterprise is aggressively disruptive in the use of new digital technologies and business models to affect markets. Ecosystem awareness and feedback is a constant input to business innovation. Continuous improvement is a core business management philosophy. Leadership embraces risk taking and experimentation to develop innovative, groundbreaking capabilities.

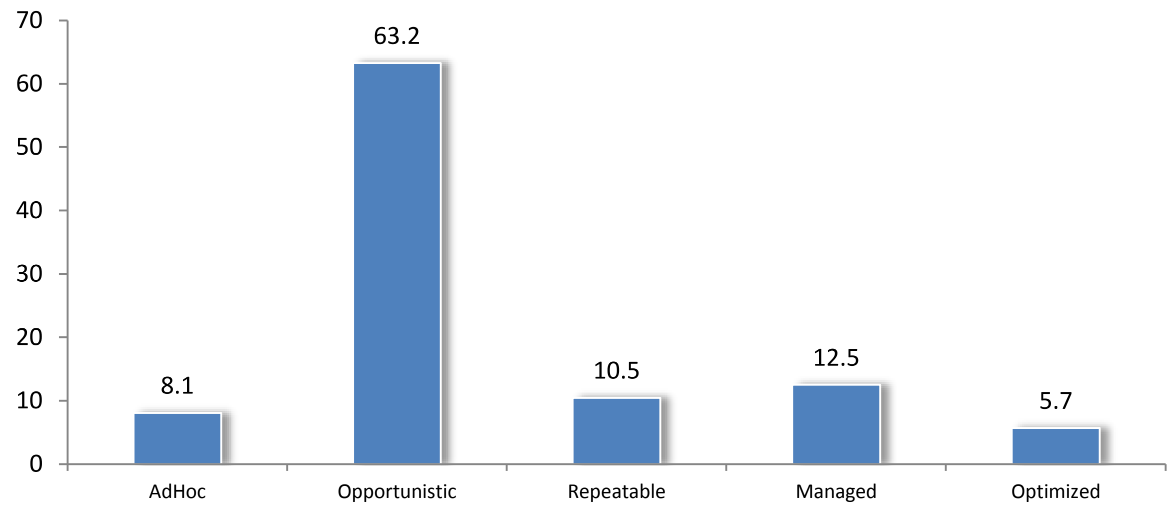
Figure 2 denotes Malaysia's DX maturity distribution across the above mentioned stages. Key highlights are as follows:

- For this study, it is important to note that the perspective of how mature an organization is across the different stages of DX is based on the perspective of purely the IT decision maker. In other countries, where IDC has conducted similar benchmarks, it is apparent that business leaders (e.g. CEOs and CFOs) tend to be less optimistic as opposed to IT decision makers when measuring the DX maturity levels.
- The majority of respondents (63.2%) fall under the opportunistic stage. IDC sees these organizations as those that have not only identified the need for a DX strategy but to a certain extent have part and parcel of the necessary DX discipline in place. That said, what best characterizes organizations in this stage and therefore the vast majority of Malaysian organizations is the fact that there is an inconsistent use off digitally enabled products and experiences. This means digitally enabled customer experiences and products tend to be inconsistent and poorly integrated.
- Although only 8.1% of organizations fall under the ad hoc stage, it does clearly represent room for growth and the untapped potential of digital transformation within organizations. As stated earlier, IT leaders tend to be more optimistic with regards to the maturity of the organization they represent as opposed to business leaders, IDC therefore believes that there is opportunity for the systematic adoption of digital solutions to take organizations into the digital world.
- It is interesting to note that there is a higher percentage of organizations in stage 4 of the MaturityScape as opposed to stage 3. This means that there are already players in the market that see themselves as Digital Transformers. Because each level builds on the capabilities of the one before it, those in the managed stage have not only aligned business-IT goals in relation to the creation of digital products and experiences at an enterprise level but also have achieved an integrated and synergistic business-IT management disciplines to continuously deliver digitally enabled products and services. While these organizations are leaders in their respective markets, IDC believes that they are still vulnerable to disruptive innovation from competitors.
- It is no surprise that the optimized segment represents the smallest number of organizations in Malaysia. With only 5.7% of the total respondents falling into this category, this represents organizations that have mastered the alignment of digital strategies with long-term business goals. More importantly, they actively try to remake existing markets to their advantage through disruptive digital innovation. It is important to note what might be considered optimized this year will change in the future as technologies (and their use) become more sophisticated and transformative.

Figure 2

Digital Transformation Maturity Distribution Across Stages

% of respondents



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Source: IDC's Digital Transformation (DX) Malaysia Survey, June 2015

DX MaturityScape Model Dimensions

To view the opportunities and challenges more clearly as IT moves through the various stages of DX maturity, organizations need to understand the following five critical dimensions:

- Leadership DX: This set of disciplines enables businesses to develop the vision for digital transformation of products, services, and experiences that are optimized to deliver value to partners, customers, and employees.
- Omni-Experience DX: This dimension describes an omnipresent and multidimensional ecosystem approach to continually amplify experience excellence for products and/or services.
- WorkSource DX: This dimension covers the evolution of the way that businesses will achieve business objectives by effective sourcing, deployment, and integration of internal (full- and part-time employees) and external (contract, freelance, partner) resources.
- Operating Model DX: This dimension describes the ability to make business operations more responsive and effective by leveraging digitally connected products/services, assets, people, and trading partners. Operating Model DX defines "how" work gets accomplished in terms of digital transformation.
- Information DX: This dimension encompasses the focused approach to extracting and developing the value and utility of information relative to customers, markets, transactions, services, products, physical assets, and business experiences.

Figure 3 denotes Malaysia’s DX maturity distribution across the five mentioned critical dimensions. Key highlights are as follow:

- Leadership DX: As evident in the overall DX results, the bulk of respondents (61.4%) fall into the opportunistic stage. Leadership in such organizations can be seen as the recognition of the importance of digital technologies. That said, the openness to grow DX initiatives is limited in scope and lack integrative digital/business strategies. Unfortunately this limited approach often tends to result in the inability to scale and broaden the impact of DX initiatives. Only 4.4% of organizations fall under the optimized category. This is to no surprise as organizations at this level have leaders employ visionary and disruptive DX based on deep ecosystem insight and influence, which drives organizational culture, goals, and projects.

- Omni-Experience DX: Not many organizations have the ability to repeatedly disrupt market and personal behaviors by delivering world-class experiences across products and services to the entire ecosystem. It is therefore expected that among all five dimensions, Omni-Experience has the smallest number of organizations (3.5%) at an optimized state. While Leadership DX provides the necessary vision to disrupt the market, the ability to continuously and successfully disrupt the market and personal behaviors is often times the Achilles heel as leaders today may be followers tomorrow. The majority of Malaysian organizations fall under the opportunistic stage for omni-experience, this means these organizations tend to see inconsistent and unsustainable outcomes from efforts to deliver omni-experiences to their stakeholders across the ecosystem. These organizations deliver specific projects and initiatives around omni-experience as part of their digital transformation, but they struggle to scale that approach across the broader organization.

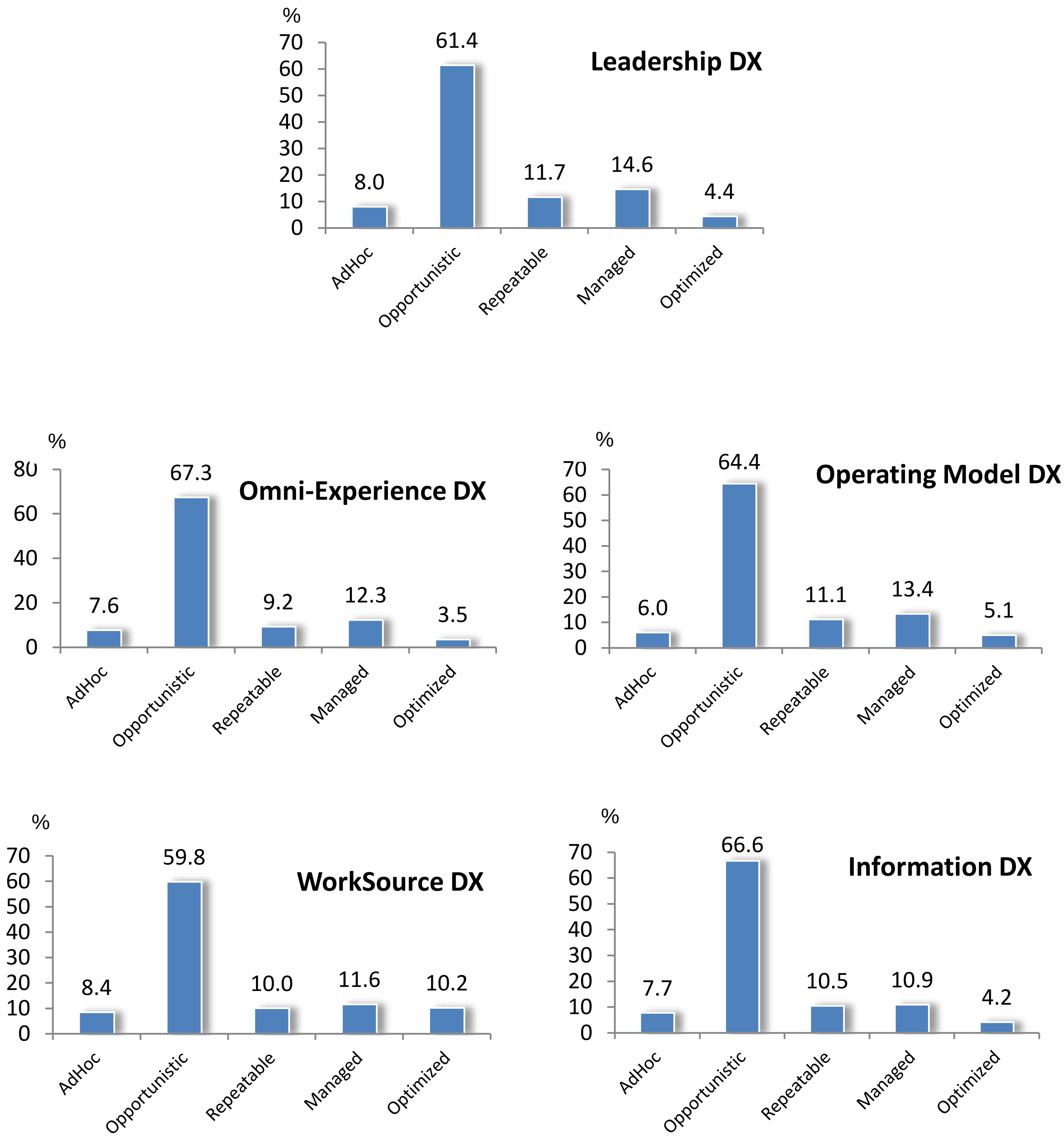
- WorkSource DX: Talent has always been an issue in the tech industry, even more so now with DX. As business leaders are challenged to move their enterprises to the next level, leaders are looking for ways to transform how their enterprises acquire, manage, and leverage talent for competitive advantage. Key to this dimension is in it having the highest number of organizations (as a percentage total) across stages 4 and 5 of the Maturity Model (21.8%) with 10.2% at an optimized state. That said, the majority of organizations have yet to establish transformative WorkSource digital transformation capabilities. Talent is generally managed in silos, and collaboration is often "case by case."

- Operating Model DX: A total of 70.4% of organizations are currently in the first two stages of this DX dimension. Most of these companies are at the second stage rather than at the first stage of maturity (ad hoc), which indicates that there is at least active experimentation. Unfortunately this also means that initiatives are small and disconnected and provide little business momentum. It will be imperative for organizations to move beyond the opportunistic stage looking at ways to address connected products/services, connected assets, connected processes and others to eventually master digital transformation of operating models to dominate and shape markets.

- Information DX: There is a strong linkage between the state of maturity of Operating Model DX and Information DX. As Operating Model matures the number of sources for information will also increase. The majority of organizations surveyed have yet to establish integrated information transformation capabilities and expertise at the enterprise level (i.e., managed maturity) and are still at the opportunistic stage. A company's overall maturity in information transformation is a clear signal that digital transformation is under way. Organizations that are working actively to take advantage of information transformation solutions will profit by integrating existing capabilities and technologies to establish a firm base for digital transformation.

Figure 3

DX Individual Dimensions Maturity Distribution Dashboard



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Source: Digital Transformation (DX) Malaysia Survey, June 2015

Conclusion

Digital transformation is a foregone conclusion for most, if not all businesses. The only choice for businesses is whether to hunker down and try to weather those disruptions, develop digital transformation competencies and become a disruptor, or split the difference and become a fast follower of disruptors.

IDC believes that most organizations will find themselves wanting with regard to managing and leveraging the five disciplines addressed in this study. Many will attempt to transform through a series of initiatives targeting specific digital competencies while losing sight of the interplay and synergies that are needed for true DX. Organizations that master the orchestration of the five disciplines will thrive; those that don't will struggle to survive.

With regards to the five dimensions, IDC offers the following guidance:

Leadership

- Coordinate all DX programs, products, services, and functions through a leadership council that includes the CEO, CMO, CDO, COO, and other key executives.
- Challenge the organization to maintain a culture of experimentation while growing organizational stability without destroying a risk-taking culture.

Omni-Experience

- Target the ability to use digital technologies to integrate ecosystem usage to autonomously improve multidimensional experience.
- Coordinate ecosystem awareness to transform the business value of omni-channel, omnipresent experience.

WorkSource

- Acquire or partner with leading-edge DX companies through experimental, risk-tolerant business projects.
- Try of the opposite of "opportunistic" — seed the organization with skills in developing and scaling operations, marketing, and other key processes while continuing to reward and incent leading-edge thinkers in DX R&D.

Operating model

- Integrate all digital operations within the context of a digital operations group (DOG), under the leadership of a digital operations executive.
- Aim to have all operating models adhere to a digital framework that is highly aware, autonomic, and contextually aware

Information

- Capture real-time prediction analytics to monetize data from and about products, customers, and markets.
- Use data algorithms to capture and valuate information as a key driver for new DX products and services

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