

# Digital Transformation Drives Improved Shareholder Returns as Southeast Asian Companies Lead the Way

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# Digital Transformation Drives Improved Shareholder Returns as Southeast Asian Companies Lead the Way

**G**lobal digital transformation is accelerating to unlock new opportunities for enterprises. The COVID-19 pandemic has further catalyzed this existing trend, creating new impetus for organizations seeking to remain competitive in our connected modern landscape.

The vast majority of companies are embarking on digital transformations. The priorities depend critically on each organization's context—often to fix the customer experience, improve the digital channel, leverage data, drive productivity, or to underpin faster innovation with a better technology stack or more agile ways of working.

Despite this imperative, analysis by Boston Consulting Group (BCG) shows just 35% of companies are successful at delivering digital transformations. The successful companies of the future are building digital capabilities—and concentrating on how human talent and technology capabilities work in harmony together—to become what we call bionic. The companies furthest along this journey are already delivering superior innovation and performance. BCG has undertaken annual reviews over 100 digital transformation cases, backed by surveys of around 1,000 executive decision makers over two years, to assess this evolving landscape.

One important finding is the emergence of a new force in the changing business landscape—Digital Incumbents. These are traditional companies who have achieved a successful digital transformation and delivered performance improvements. They are pulling away from other traditional companies, and starting to look like Digital Natives, with the capabilities to disrupt existing business models and deliver innovation and revenue growth.

International examples of these Digital Incumbents include Adidas, Diageo, ING, John Deere, KLM, L'Oréal, Ping An Insurance, and Telstra. The digital landscape has now evolved, with four clear archetypes.

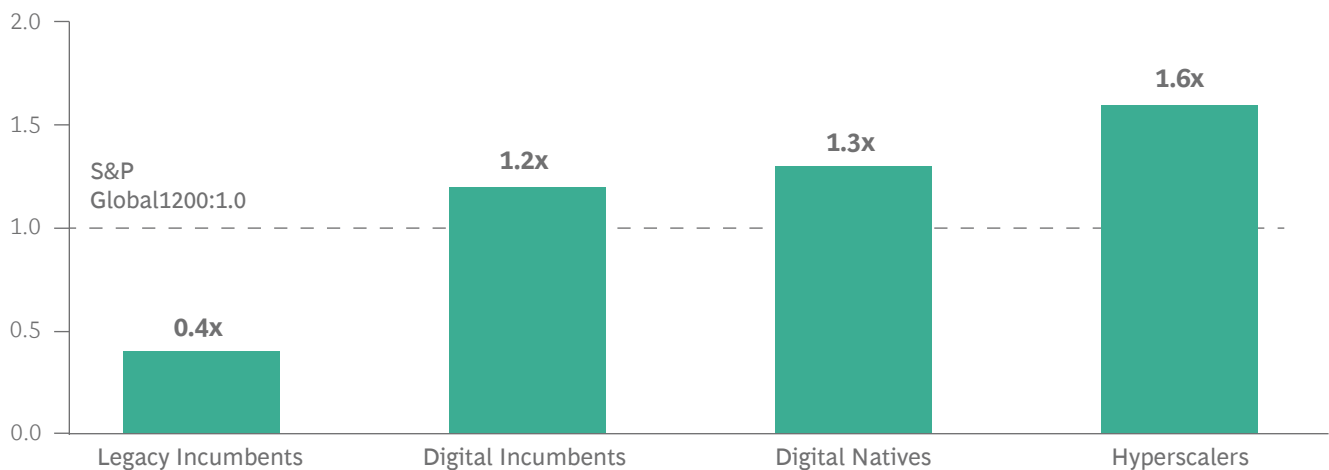
- **Digital Incumbents.** Traditional businesses that have successfully executed a digital transformation and are making progress in systematically building digital capabilities, with superior performance.
- **Legacy Incumbents:** Traditional companies that have yet to successfully achieve their initial digital transformation goals, with observable lower relative performance.
- **Digital Natives:** Companies founded in the Digital Era such as Salesforce, PayPal, Roku, Zoom, Spotify. These companies demonstrate significant leadership in digital capabilities.
- **Hyperscalers:** The dozen or so largest Digital Natives, including Meta, Alphabet, Amazon, Microsoft in the US, and BAT companies in China, whose far-reaching platforms, infrastructure, and data confer major structural advantages. These are pioneering market leaders of digital capabilities.

Leading companies of the future will follow the lead of Hyperscalers and the best Digital Natives by building their bionic capabilities, delivering superior innovation and performance along the way.

The success of emerging Digital Incumbents is already evident. Based on US companies in the S&P 1200 index over the last three years, Digital Incumbents generate 1.2X the average shareholder return, compared to 0.4x for Legacy Incumbents, 1.3X for Digital Natives, and 1.6X for Hyperscalers. [\[Exhibit 1.\]](#)

## Exhibit 1 - Digital leads generate superior returns

Three year relative shareholder return indexed to the S&P Global 1200

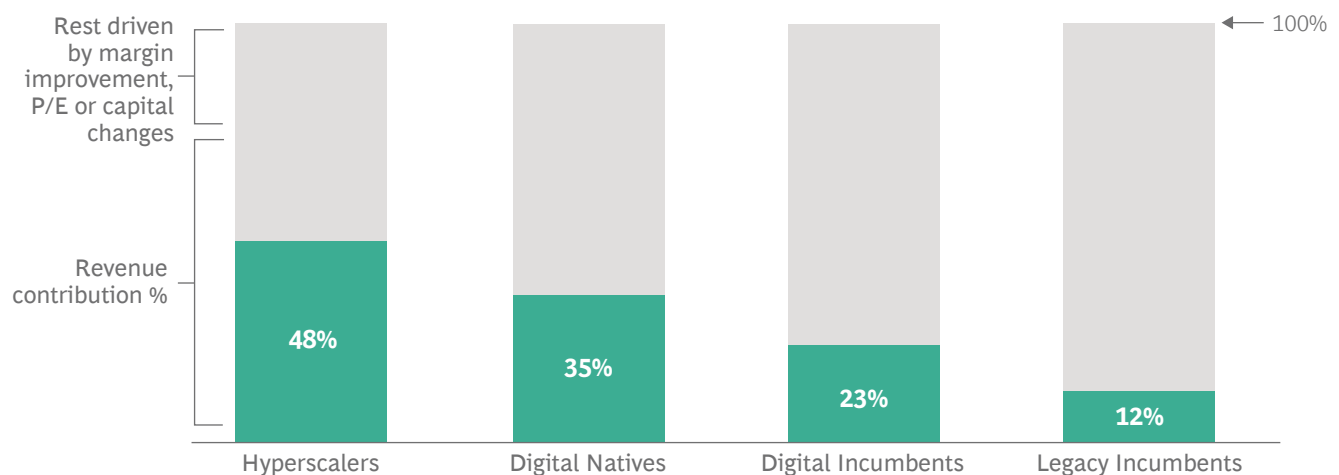


Source: BCG Global Digital Transformation Study 2021, S&P Capital IQ; BCG ValueScience@Center, stock prices between 31 May 2019 and 31 May 2022

Importantly, the major driver of this relative shareholder value performance has been revenue growth. Digital Incumbents show stronger revenue growth compared with Legacy Incumbents, and can aspire to the much stronger revenue growth of Digital Natives. [Exhibit 2] Typically, over the medium term, over 60% of TSR for Digital Natives and Hyperscalers is driven by revenue growth.

## Exhibit 2 - Majority value generation for digital-first companies comes from revenue growth; a shift becoming evident in 'digital incumbents'

Percentage point contribution to 3-year total shareholder return (TSR<sup>1</sup>) from revenue growth<sup>2</sup>



1.  $TSR = [(Current\ stock\ price - Historical\ purchase\ stock\ price) + Dividends] / Historical\ purchase\ stock\ price$

2. TSR disaggregated in Revenue Growth, Net Income Margin Change, Change in P/E Multiple, Dividend Yield, Share Change

Source: BCG Global Digital Transformation Study 2021, S&P Capital IQ; BCG ValueScience @ Center, stock prices between 31 December 2018 and 31 December 2021

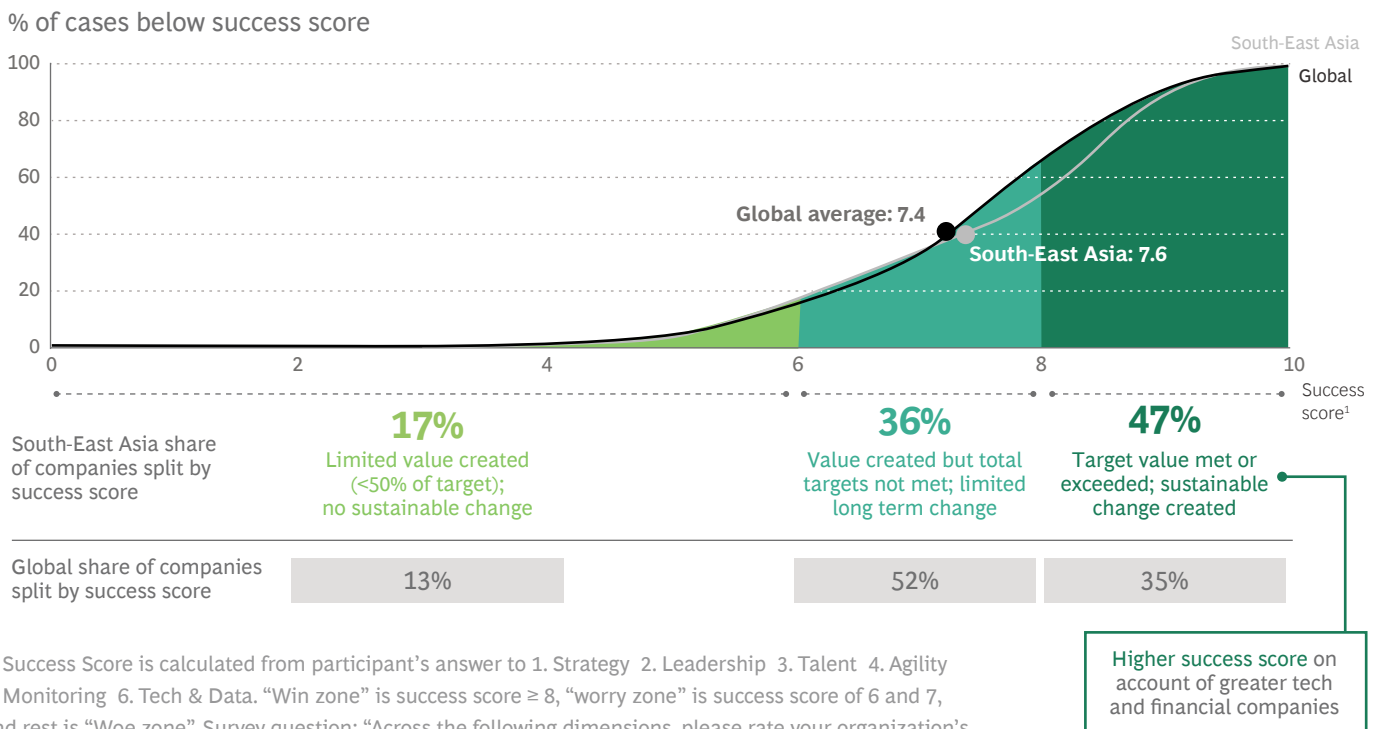
# Getting ahead of the global curve

In Southeast Asia, Digital Incumbents are also demonstrating substantial strategic success, and threatening to outpace some Digital Natives. This means Digital Incumbents are systematically building the same digital capabilities at scale, and are better suited to outpace Digital Natives due to existing advantages such as scale, scope, customer relationships and data, and regulatory relationships.

Our survey of over 45 Southeast Asian companies (with average revenue of USD1billion or more) incorporated insights from executives in a wide range of industries, including telco and communications, consumer goods, financial services, and more. It reveals progress on the digital journey, and the potential opportunity ahead for organizations in the region.

Digital transformation in Southeast Asian companies is comparatively successful, with almost half (47%) of companies set up to successfully deliver on their digital transformation ambitions, compared with a figure of 35% globally. [Exhibit 3]

## Exhibit 3 - ~50% South-East Asian companies are set up to successfully deliver on their digital transformation ambitions



1. Success Score is calculated from participant's answer to 1. Strategy 2. Leadership 3. Talent 4. Agility 5. Monitoring 6. Tech & Data. "Win zone" is success score ≥ 8, "worry zone" is success score of 6 and 7, and rest is "Woe zone". Survey question; "Across the following dimensions, please rate your organization's digital transformation experience to date on a scale of 1 to 10 using the guidelines in the table below."

Source: 2021 BCG Global Digital Transformation Survey

# Delivering a successful digital transformation

In its report, Flipping the Odds of Digital Transformation Success, BCG studied over 60 success factors across critical factors of digital transformation, including strategy and approach, governance, financial and people resourcing, technology enablers, and culture and commitment. This detailed analysis enabled us to pinpoint just six critical success factors that maximize the odds of success for digital transformation.

## 1. Integrated strategy with clear transformation

**goals.** A strategy describing the ‘why’, ‘what’ and the ‘how’ tied to business outcomes.

**2. Leadership commitment from CEO through to middle management.** High leadership engagement and prioritization, including middle-management ownership and accountability.

**3. Deploying high-caliber talent.** The most capable resources sourced and freed-up to drive transformation.

**4. An agile governance mindset that drives broader adoption.** Showing perseverance, addressing roadblocks quickly, adapting to changing context, driving cross-functional, fail-fast-learn behavioral change deeper into the organization.

**5. Effective monitoring of progress towards defined outcomes.** Clear metrics and targets around processes and outcomes, with a high degree of data availability and quality.

**6. Business-led modular technology and data platforms.** Modern, fit-for-purpose architecture to enable secure, scalable performance, rapid change deployment, and seamless ecosystem integration.

All companies pay attention to these success factors, but this is not enough—for success, companies need to “pass” minimum threshold tests on each success factor. For example, most companies can articulate their digital strategy, but far fewer can translate the corporate strategy into digital business needs, and then translate these into specific digital initiatives with incremental business outcomes related to new digital functionality. Whilst only 30% of companies globally achieve successful digital transformations, the success rate is far higher, at 80%, for those who pass the threshold tests on all six key success factors described above.

Is your company configured for success? Flipping the Odds of Digital Transformation Success

## Performance in Southeast Asia, and closing the gaps for further success

The performance against these success factors in Southeast Asia is encouraging, with organizations in the region outperforming global averages in areas of integrated strategy, agile governance, effective monitoring of progress, and business-led modular technology and data platforms. [Exhibit 4.]

Southeast Asian companies struggle most with two success factors—adopting an agile governance mindset and deploying high-caliber talent.

“We have recruited a lot of digital talent, but there are still a lot of things that need to be improved in terms of the talent,” noted Muhamad Fajrin Rasyid, Director of Digital Business at Telkom Indonesia. “We’ve also made improvements in agile governance, but we still recognize there are ways that this can be improved.”

Many executives stressed that talent has become a major differentiator in digital success. Incumbent companies often lack the requisite mix of skills or specialist

technology talent, and don’t have sufficiently strong employee value propositions to attract scarce digital talent away from “cool” Digital Natives and start-ups.

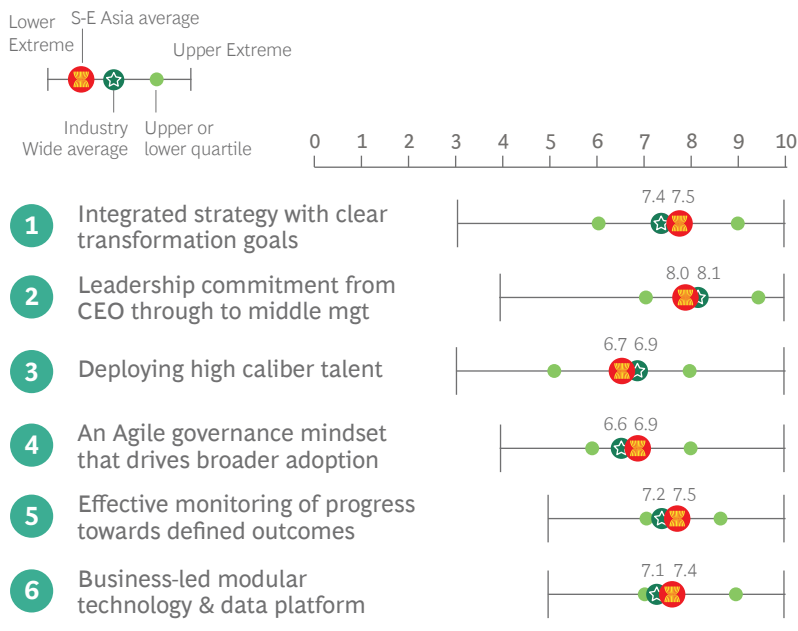
Companies need to experiment with different ways of sourcing talent, using multiple recruitment and training channels, new acquisition pathways, acquihires, innovative employment models, and the use of external talent to ensure an adequate supply of talent.

In order to effectively adopt an agile governance, it is necessary to move away from traditional, rigid approval structures and hierarchal decision pathways. Agile governance empowers the digital initiative leaders and enables them to progress in a flexible and transparent manner, with appropriate risk levels.

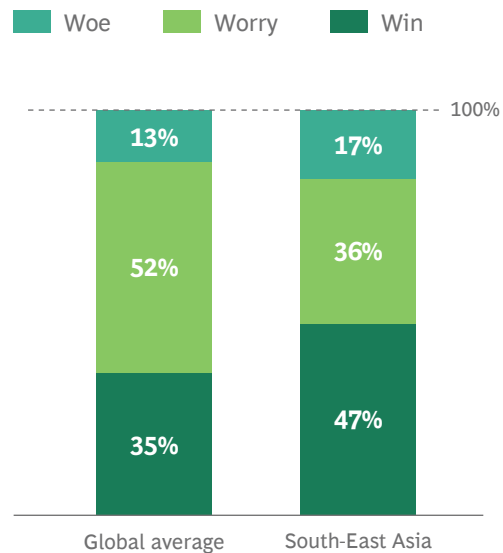
In addition, agile governance must encourage the adoption of broader agile ways of working in the organization. This requires genuine buy-in from leadership, enabling teams to operate in a cross-functional and collaborative manner.

# Exhibit 4 - South-East Asian companies struggle most with deploying high caliber talent and having an agile governance mindset

## 6 Key Success Factor Score Distribution



## Overall readiness to successfully digitally transform



1. Success Score is calculated from participant’s answer to 1. Strategy 2. Leadership 3. Talent 4. Agility 5. Monitoring 6. Tech & Data. “Win zone” is success score ≥ 8, “Worry zone” is success score of 6 and 7, and rest is “Woe zone”. Survey question; “Across the following dimensions, please rate your organization’s digital transformation experience to date on a scale of 1 to 10 using the guidelines in the table below.”

Source: 2020 BCG Global Digital Transformation Survey, 2021 BCG Global Digital Transformation Survey

Leadership, whilst not a relative weakness in Southeast Asia, is nevertheless critical. As one Southeast Asian executive said, “To get leadership commitment [on digital transformation], you need what I call digital savviness in leadership: the ability to think about innovations using

digital. If they don’t have digital experience, they’ll find it very difficult to think outside that box... with digital, how you run the business is different. It’s difficult if your leaders only have traditional bricks-and-mortar experience, and very risky to expect success in a digital transformation.”

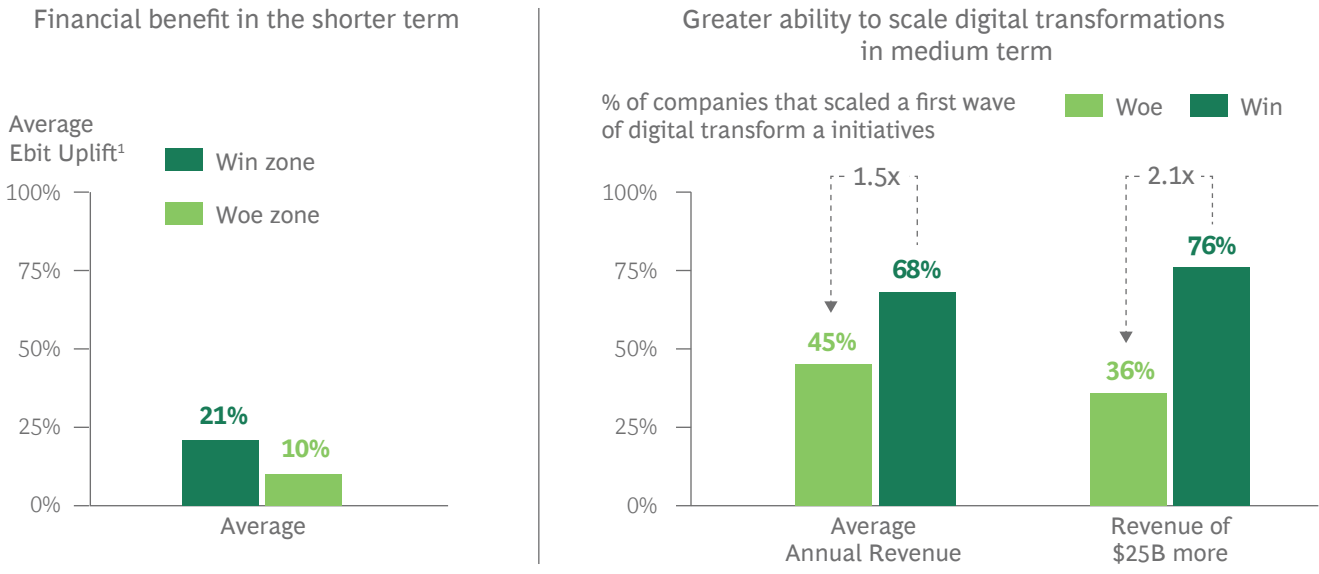
## What winning looks like

In the near-term, successful transformations deliver superior financial benefits—21% average EBIT uplift for Digital Incumbents vs. 10% for Legacy Incumbents—and greater ability to scale their transformations in the medium-term. [Exhibit 5.]

Southeast Asian executives highlighted what success can deliver. “Profits have doubled in a year since we

engaged [digital] transformation. Half of it is from the commodity price, and half of it is from being able to identify low-hanging fruit in supply chain decisions regarding cost, volume, profit, product mix, sales mix, and basic inefficiencies. This digital improvement generated two trillion Rupiah in just 1.5 years since we started end of 2020” said Panji Winanteya Ruky, Director of Business Transformation, at PT Pupuk Indonesia (Persero).

# Exhibit 5 - Rewards of Successful Digital Transformation are Clear



1. Survey question behind the data: For the planned digital outcomes selected by you in the earlier part of the survey, what is the size of impact you have already experienced through your digital transformation so far?.

Source: BCG Global Digital Transformation Survey 2021

“The second stage of our digital transformation focused on capturing the interaction with end-consumers. There are about 17-20 million farmers in Indonesia with whom we previously had minimal interaction. Now we are capturing many of these interactions, so that we can influence and improve the farmer experience. In addition, we’re now doing analytics to further optimize our product mix, promotion, loyalty, pricing, and even product innovation. We get clear insights into which products are in demand, informing decisions about sunsetting some products, and ideas for product breakthroughs.” Panji Winanteya Ruky, Director of Business Transformation, PT Pupuk Indonesia (Persero).

One area of specific focus is in using digital capabilities to drive cultural changes which enable a more ambitious ESG agenda. In the wider Asia Pacific (APAC) region, 71% of companies focused on environmental concerns, 74% on social, and 75% on governance, perhaps challenging the traditional view that governance is given out-sized focus in the region. While traditional governance focus such as transparency, governance, and compliance, remain critical, it’s clear that social and environmental initiatives are still a key priority for many businesses across APAC.

## The focus of digital transformation in Southeast Asia

Digital transformation has long been a focus for many Southeast Asian companies, and one which has been accelerated by the impacts of the COVID-19 pandemic.

The COVID-19 pandemic triggered transformation in some (27%) companies. Director of Digital Business at Telkom Indonesia, said “We created a superapp which displays real-time vaccination and COVID-19 testing data for entry to venues. Our executive commitment, agile governance, and talent recruitment enabled us to deliver this in a short timeframe, and have a real impact on the spread of COVID-19.”

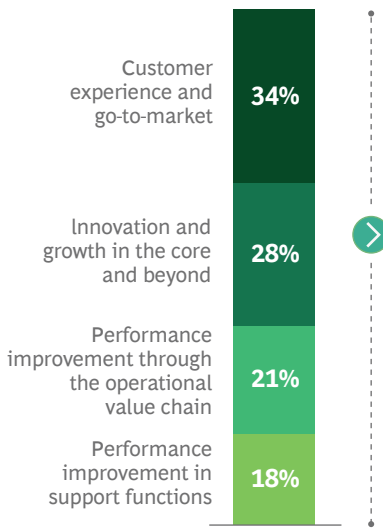
Customer experience, growth, and business model innovations are the priority for a significant majority (80%) of Southeast Asian companies. Sales and market acceleration is another focus area for digital transformation in more than-three quarters (76%) of businesses. [Exhibit 6.]

“In the near-term, improving customer experience is the number one priority. If we can improve customer experience, then customers will be more loyal. As the company matures, the importance of innovation in the business model will increase, as we look to find a new growth path or story.” Muhamad Fajrin Rasyid, Director of Digital Business, Telkom Indonesia

# Exhibit 6 - 80% of South-East Asian companies focus on customer experience, growth and business model innovations

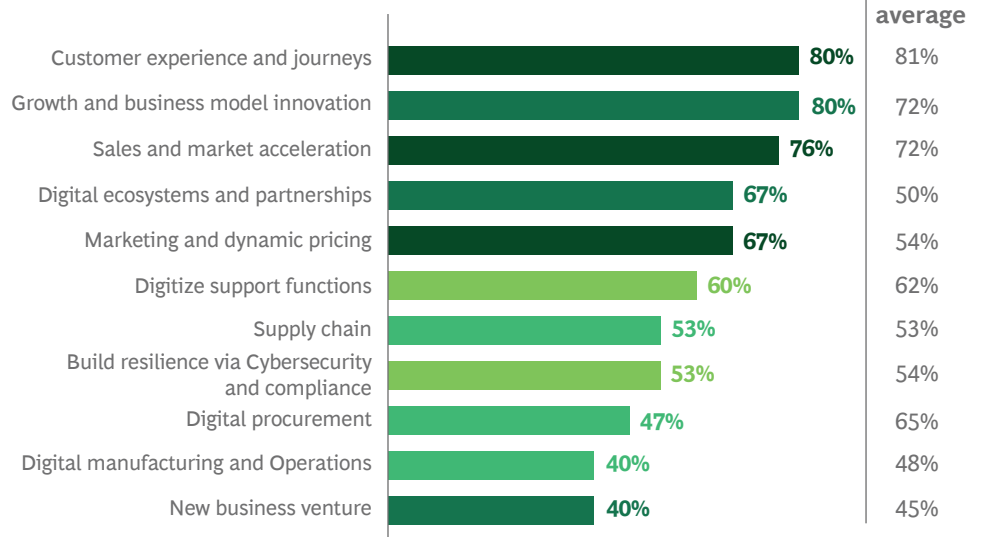
## Strategic objectives

(share of respondents)



## Scope of digital transformation

(% of respondents, select all that apply)



Survey question : From the list of most common digital outcome areas and enablers in digital transformation, please help us identify the scope of your digital transformation (select all that apply).

Source: BCG Global Digital Transformation 2021 Survey

Successful Southeast Asian digital transformers are also pivoting from re-engineering their core value chain activities to focus on growth-from-innovation agendas as well as digitizing support functions. [Exhibit 7.] Support functions such as human resources, finance, and compliance, do not have an immediate direct impact on

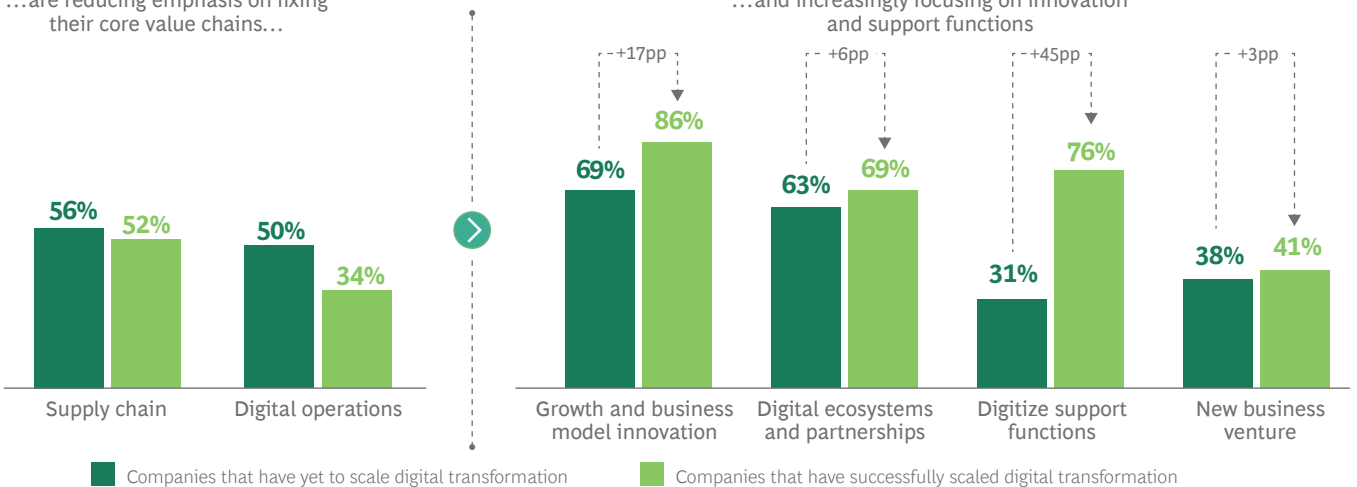
customer experience—often seen as a big ticket item for many enterprises during digital transformation—but successful digital companies recognize their importance, and their digital transformation is often taken forward in later pushes for digital transformation.

# Exhibit 7 - South-East Asian companies shift from Re-engineering to Innovation as they successfully scale their first wave of Digital Transformation

## Companies who have successfully scaled their transformations

...are reducing emphasis on fixing their core value chains...

...and increasingly focusing on innovation and support functions



Survey question : "From the list of most common digital outcome areas and enablers in digital transformation, please help us identify the scope of your digital transformation (select all that apply)". "Which situation best describes the stage of your current digital transformation effort?"

Source: BCG Global Digital Transformation 2021 Survey

Muhamad Fajrin Rasyid, Director of Digital Business at Telkom Indonesia, noted that digital transformation was essential to “find new revenue growth, new revenue sources. So we go into businesses or sectors that previously did not exist in the company, like big data analytics, artificial intelligence, and IoT. That’s the main purpose of digital for us.”

In terms of human and technology enablers, there are again differences between Southeast Asia and the global average. Three-quarters (76%) of Southeast Asian companies cited agile ways of working as an important enabler for digital transformation, notably lower than the global average (90%). Upgrading IT infrastructure (89%) and data transformation (84%) are the key priorities for Southeast Asian companies, broadly echoing the global data.

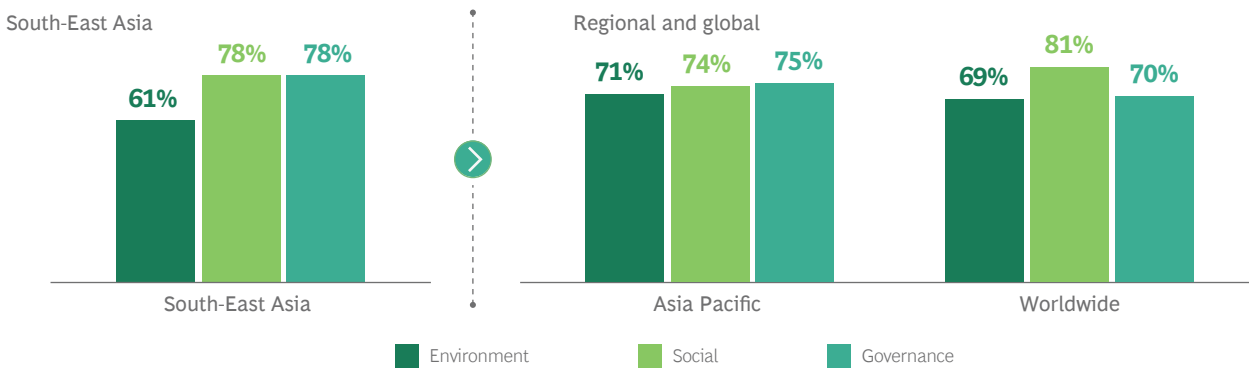
“As a state-owned company that primarily operates B2B, we are trying to transform towards B2C to enable our retail

transformation and become more customer-centric. We are in the early stage of transformation, but we’re looking into AI to drive supply chain efficiency, and perhaps in the future to support products and sales directly,” said Panji Winanteya Ruky, Director of Business Transformation, at PT Pupuk Indonesia (Persero).

Environmental, social, and governance (ESG) issues also emerged as important in the digital agenda for many Southeast Asian organizations. [Exhibit 8.] Almost 80% of Southeast Asian companies have existing digital efforts targeted at ESG, with social (78%) and governance (78%) perceived a slightly more important focus than environmental (61%). ESG is a priority for future digital initiatives, with more than half (55%) of organizations noting it as a primary or key focus area for digital transformation projects.

## Exhibit 8 - South-East Asian companies show existing ESG efforts focused on Social and Governance while lower presence of Environment initiatives

Share of respondents indicating they have a focused set of initiatives in either Environment, Social or Governance (select all that apply, % of respondents)



Survey questions : “Does your organization have a focused set of effort(s) towards furthering its sustainability or environmental, social and governance (ESG) score?”  
**Source:** BCG Global Digital Transformation 2021 Survey

## Sustaining success in digital transformation

Delivering a successful digital transformation can unlock significant opportunities for enterprises in Southeast Asia. The success of Digital Incumbents shows the power these players have to compete with Digital Natives, and unlock valuable benefits through improved innovation, superior revenue growth, and enhanced shareholder performance. Those companies that fail to act are at risk of being left behind, and finding themselves increasingly uncompetitive in a connected digital landscape. The later organizations move, the more limited the value they might capture through digital transformation.

The first step is acknowledging the six main success factors highlighted in this report. BCG’s research has shown that overcoming the threshold of success on these six factors

offers an important platform to maximize the odds of a successful digital transformation across an organization.

Digital transformation provides a path to improve customer experience, optimize business operations, reduce costs, and create new revenue growth through a commitment to innovation in order to unlock future success. In an increasingly disruptive industry landscape, Digital Incumbents can seize a lucrative opportunity to channel that disruption into genuine business value. Successful digital transformation promises a fascinating future for these enterprises, and hints at the enticing digital opportunity ahead for organizations in Southeast Asia.

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## For Further Contact

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