

Transformation Pulse

A survey-based study
jointly conducted by
National Bank of Bahrain
and Roland Berger



A quick introductory note about the Transformation Pulse

THE WHY

Recent events like the Covid-19 pandemic and the Russia-Ukraine conflict hit economies "out of the blue" with devastating results. Added to the mix are structural disrupting forces like new technologies and changing customer behaviors that can make business models obsolete. Today, the need to expect the unexpected and be adaptable is more important than ever for businesses to navigate increasingly choppy waters.

We wanted to know how this "new normal" affects businesses when it comes to their transformation agenda. That is why we conducted a survey to shed light on recent and planned transformation efforts, related priorities and the underlying key factors shaping these priorities.

THE WHO

Survey respondents reflect a diverse mix (one could say as diverse as the Bahraini economy):

- About **9 out of 10 companies have revenues below USD 50 m** (with the vast majority of them below USD 10 m). This means the vast majority of companies have **less than 500 employees**
- **The Services, Trade, Manufacturing and Construction & Real Estate sectors** make up **>80%** of respondents
- **77% of companies were profitable** in the last three financial years, and **71% last year**
- The vast majority of firms are **headquartered in Bahrain**

While the survey might not be fully representative, it confirms the widespread push for transformation and provides food for thought on what matters most to businesses today.

All data and graphs in this publication are based on the results of the 'Transformation Pulse' survey.

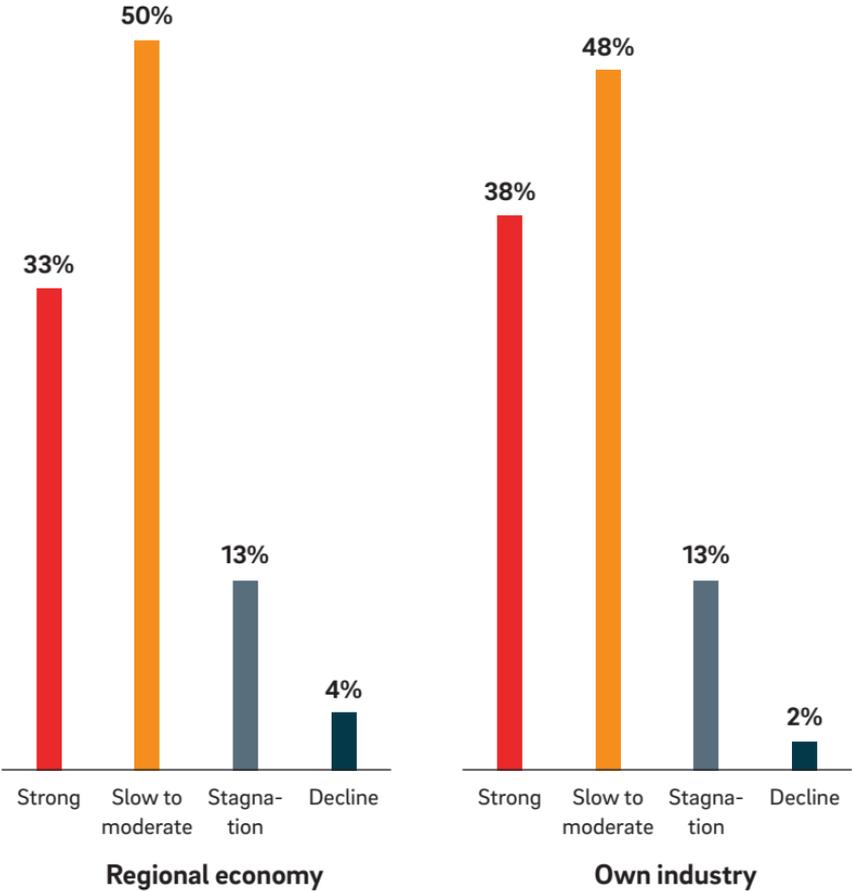
Pandemic impact, economic and business outlook

THE GOOD NEWS

Surprisingly, only 46% of firms flagged Covid-19 as having adversely affected their organization and its operations, and the vast majority (65%) of all firms say they have now successfully overcome pandemic-related challenges.

Plus, there is more good news. Sentiment is good when it comes to both economic outlook in the region in 2022 and growth expectations with regard to the respondents' sector of activity this year.

Growth expectations in 2022 – Regional economy vs. own industry [in % of participants]



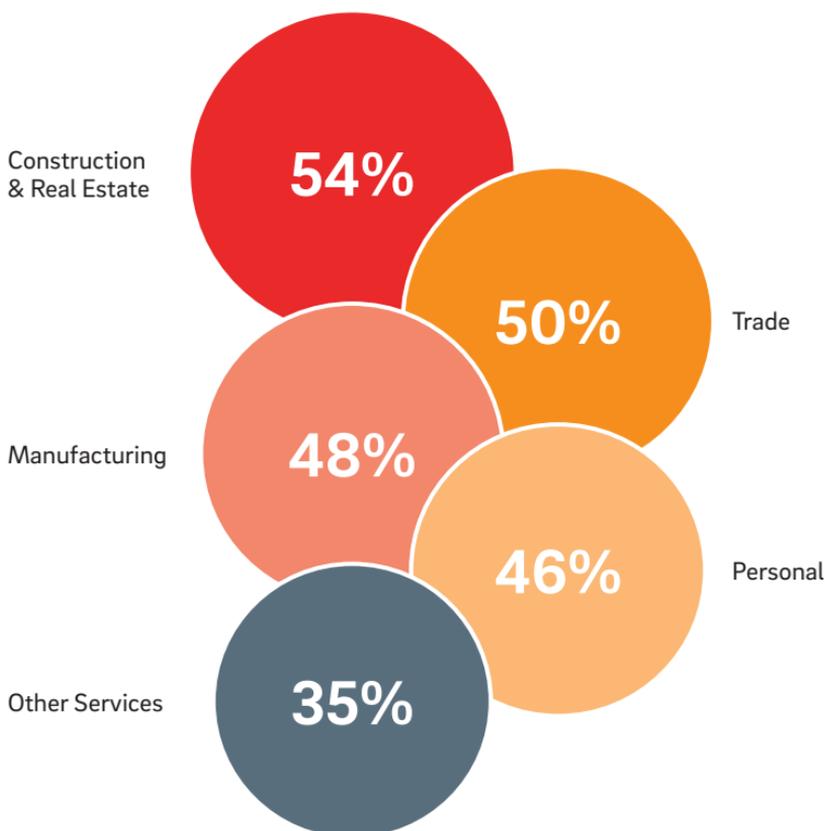
A little more than 8 out of 10 firms anticipate economic growth in the region, although only about 3 out of 10 anticipate strong growth. Growth expectations for their own sector of activity largely mirror this positive sentiment. Digging deeper into the data, it is interesting to note that firms anticipating a stable or shrinking economy typically say their industry will beat the economy. At the same time, the majority of firms expecting their own industry not to grow do anticipate some economic growth.

NOT ALL SECTORS ARE EQUAL – BRACING FOR DISTRESS

When asked which top 5 industries will face distress this year (2022), four activities stand out: Construction & Real Estate, Trade, Manufacturing and Personal – each mentioned by about every 2nd respondent.

What about financial services, you might ask? Banks were mentioned by 4 out of 10 respondents, and non-banking financial services by every 5th survey participant.

Top 5 industries to face distress in 2022 [in % of participants]



Transformation as a constant

STANDING STILL SEEMS NOT TO BE AN OPTION

A staggering 83% of all firms have recently gone through a transformation program or are currently executing one. And it doesn't stop there: 4 out of 5 firms that answered the question about their future transformation ambitions plan to (continue or) kick off their transformation journey in 2022 or 2023. What about the 17% of respondents that have not recently embarked on a transformation program? Fully 3 out of 4 of them have transformation plans for 2022 or 2023.

MEASURING TRANSFORMATION SUCCESS

About 8 out of 10 firms that have recently gone through a transformation program (or are currently executing one) consider this transformation program a success. This number might come as a surprise, as making change happen is difficult. We do not know what measure of success is behind these numbers. In any case, in our experience even small success stories are important to strengthen employee buy-in and anchor a "can do" change mindset.

NOT ALL TRANSFORMATION PROGRAMS ARE EQUAL

We asked companies what their transformation programs focus on. Transformation programs can be strategic, operational or financial in nature. Or can adopt a combination of these different lenses.

Nature of transformation programs – strategic, operational, financial [as % of transformation programs]

Strategic



Operational



Financial

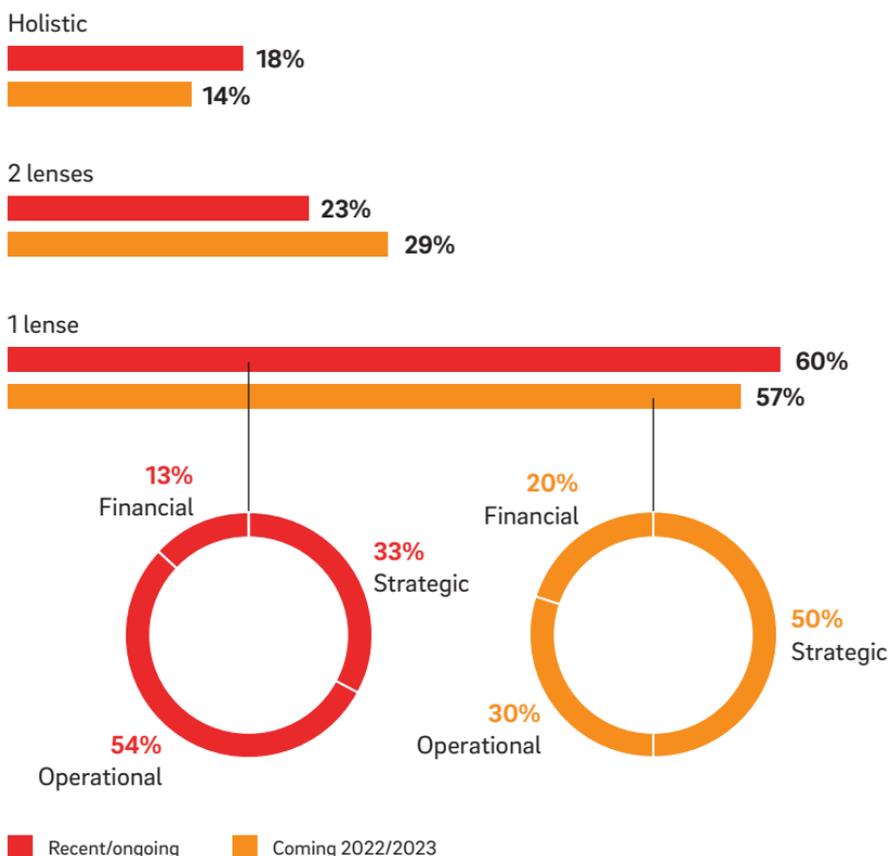


Recent/ongoing Coming 2022/2023

Operational transformation was part of 65% of all recent/ongoing transformation programs, followed by strategic revamp (53%). Transformation programs expected for 2022/2023 seem to prioritize strategic topics over operational excellence, although both lenses continue to rank above financial transformation geared towards debt and equity position. About 6 out of 10 transformation programs have a single focus, be it strategic, operational or financial. Less than 20% are holistic in nature.

In our experience, a holistic transformation mindset often yields the best results, and is typically a must for companies in advanced stages of crisis. Financial transformation is a powerful tool to strengthen balance sheet and financial resilience. Yet bear in mind that both shareholders and banks need confidence in a healthy business outlook. Plus, chances are that standalone financial transformation will not yield the desired long-term results if the underlying root causes of weak business performance are not addressed in parallel.

Nature of transformation programs – Single focus or combination [as % of transformation programs]



The driving forces behind the need for transformation

We asked about business priorities until 2023 and the key factors shaping these priorities.

REINVIGORATING GROWTH AND COST OPTIMIZATION LEAD THE PACK

All respondents indicated at least 1 priority, a bit less than 8 out of 10 respondents listed 3 priorities, and almost 4 out of 10 chose 5 priorities.

After around 2 years of Covid-19 adversely impacting the economy, it might not come as a surprise that a focus on general customer growth and financial growth rank as the top 2 priorities. These are followed by optimizing cost, operations and products & services.

Top business priorities going forward [in % of participants]



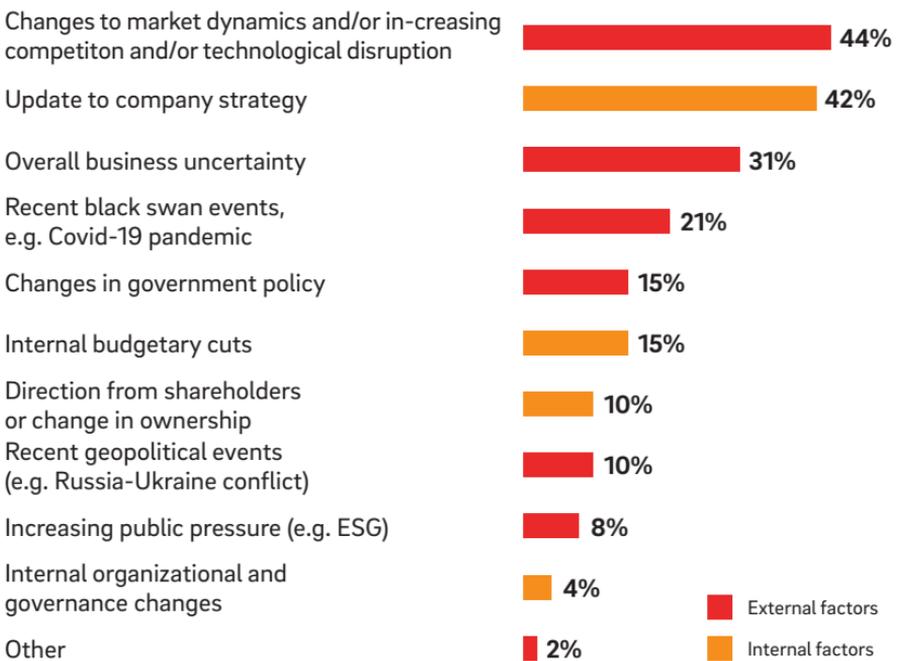
Innovation and digitalization were "only" mentioned by 27% and 19% of respondents, respectively, as being among the top 5 business priorities. We can only speculate as to how innovation and digitalization would have ranked in previous years. What we see in discussions with many of our clients in the region is that innovation and digitalization are consistently considered high priority but that the past hype has gradually shifted to embracing the importance of such enablers while recognizing they are not a panacea.

What about sustainability & citizenship? They are ranked last. This is not a surprise considering the region's starting point when it comes to ESG topics. It is mainly governments and selected large corporates in the region that have so far embarked on a sustainability journey. Over time, sustainability can only climb up the priority ranks.

MARKET DYNAMICS AND UNCERTAINTY AS KEY EXTERNAL DRIVING FORCES

Changes related to market dynamics, competitive landscape and technology rank as the #1 factor shaping business priorities. This is followed by overall business uncertainty and black swan events (that is, if you exclude updates to company strategy, which typically result from a combination of internal and external factors).

Key factors shaping business priorities [in % of participants]



Quo vadis

Without a doubt, the need for transformation is here to stay, and businesses have recognized this.

It is always inspiring to read about firms that managed to successfully disrupt an industry or make the right game-changing bets in the context of changing industry dynamics. Whether this is thanks to visionary foresight, a bit of luck, or a combination thereof.

Yet the ability to quickly adapt to changing business contexts and priorities is the one constant that should matter to any firm. Transformation is a never-ending journey. It is a marathon with sprints in between.

As the need for transformation is here to stay, we plan to conduct the Transformation Pulse survey on an annual basis. Stay tuned for next year's edition.

Do you want to know more about the findings of the study, discuss your transformation priorities, or find out how we could help your firm along its transformation journey?

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