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Becoming a tech champion

**Think globally to
succeed locally**

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EXECUTIVE SUMMARY

The Gulf Cooperation Council (GCC)¹ countries are developing tech champions in a bid to accelerate the growth of their digital economies and establish the region as a significant player in the global tech industry. Some GCC tech companies are established telecom or digital companies, while others are organizations building greenfield operations from scratch.

To succeed and truly become tech champions, many of these organizations need to change their approach to turning their digital vision into reality. Some are finding it more challenging than anticipated in several areas related to the comprehensive strategy for accelerating growth, namely innovation and talent.²

To overcome these issues, GCC tech companies need to think differently. They must eschew regional standards around talent and innovation, by adopting a global approach. In particular, they should:

- Attract talent through different and more competitive compensation structures with long-term equity-like incentives, hybrid working models, and opportunities for flexible career advancement.
- Support innovation through the construction and exploitation of global innovation hubs, and through strategic investments and mergers and acquisitions (M&A).

In parallel, GCC tech companies need to press ahead with an appropriate corporate structure and geographic footprint. That means rethinking their corporate structures and setting up a global footprint, which will enable their talent and innovation models. Taken together, such measures can help these companies to succeed, become tech champions, and achieve the economies of scale and scope needed to accelerate the growth of the GCC's digital economy.

OBSTACLES AND OPPORTUNITIES FOR TECH COMPANIES

Growth in the GCC technology sector is gaining momentum through supportive policies, regulatory changes, and a strong push by the private sector. Over the past couple of years, there have been sizable strategic moves in the region, such as M&A and investments in the tech space. No wonder that GCC governments' expectations for the region's tech companies are mounting. Governments understand that successful tech companies can provide the economies of scale and scope necessary for innovation, talent attraction, job creation, large-scale investment, and exports—all of which can put the region on the map as a thriving technology ecosystem.

However, few of these organizations have established themselves as full-fledged tech champions because they are struggling in two vital areas—talent and innovation.

The talent shortage

Finding tech talent is challenging because the regional tech and digital talent pool is shallow. A 2022 Coursera report on global skills shows that GCC countries score lower in technology and data science skills compared to peer countries.³ For example, the data science skills percentile rankings for GCC countries are United Arab Emirates (UAE) 35 percent, Kuwait 25 percent, Qatar 16 percent, and Saudi Arabia 15 percent. By contrast, countries in North America, Europe, and Asia rank much higher, with Singapore at 82 percent, Japan at 91 percent, Germany at 88 percent, Switzerland at 97 percent, the U.K. at 74 percent, Canada at 73 percent, and the U.S. at 54 percent.⁴ Part of the reason for the talent shortage is that highly skilled individuals continue to migrate mainly to North America and Europe for tech jobs, limiting the amount of talent available to the GCC.

There are, however, opportunities on the horizon. The recent wave of layoffs from major global tech companies—fueled by rising inflation, over-hiring during the pandemic, a tumultuous stock market, and geopolitical crises—presents an occasion for GCC tech companies to entice tech workers to the region.

Innovation challenges

Building innovation capabilities is critical and difficult. When it comes to innovation, the region lags behind other countries. According to the U.S. Chamber International IP Index 2021, the U.S. ranks at the top for overall innovation at 95.3 percent compared to the UAE at 42 percent, Saudi Arabia at 40.4 percent, and Kuwait at 27.9 percent.⁵ There is insufficient innovation in the region because too few companies have broadened their focus beyond traditional IT and reselling white-label solutions to their local markets. Companies in the region are slow to develop proprietary innovative digital solutions and intellectual property (IP).

These challenges notwithstanding, there are opportunities for GCC tech companies. An impending bear market means declining valuations, increased startup capital requirements, and an unattractive initial public offering market. That could allow tech companies to improve their innovation capabilities if they act fast by accelerating their M&A efforts. Early acquisitions in a recession tend to result in higher overall returns in stock value in the following quarters. PwC analysis shows that companies that made acquisitions following the burst of the dot-com bubble in 2001 saw better shareholder returns than their industry peers in the months that followed—by 2.4 percent over the first six months and 7 percent over the following year.⁶

Another opportunity is to invest strategically in startups at cheaper valuations during venture capital (VC) “down rounds.”⁷ However, organizations must move fast. Several well-established global tech players are shifting their focus to the GCC region, with announcements in 2023 of around US\$9 billion worth of investment into Saudi Arabia alone.⁸



A GLOBAL VIEW TURNS TECH COMPANIES INTO TECH CHAMPIONS

Companies need to think differently to transition from tech companies to tech champions. Specifically, they must retire their regional views around talent and innovation, replacing them with a global approach.

Global talent model

GCC tech companies should adopt global talent leading practices in three areas: competitive structures and incentives, hybrid working models, and opportunities for flexible career advancement.

Competitive structures and incentives

Tech companies can attract and retain top talent by offering enticing benefits and incentives. Many global tech giants offer equity-based long-term incentives to senior employees, and stock purchase programs for junior employees (see *Exhibit 1*). Companies such as Meta, Apple, Amazon, Netflix, and Alphabet offer awards of as much as 10, 15, or even 20 times employees' base salaries, depending on seniority.⁹ Therefore, to compete with global firms in a small regional talent pool, local tech companies must offer long-term equity-like incentives, such as awards linked to company performance or cash payouts when companies meet financial targets or important milestones.

Hybrid working models

It is vital that companies meet changing employee expectations around how and where they want to work if they are to attract and retain top talent (see *"New ways of working"*). Many global employees prefer to work with companies from their home country outside the GCC region. As such, tech companies need to find ways to manage effectively talent scattered around the globe and ensure that people can work collaboratively and efficiently.

New ways of working

According to the 2022 Microsoft Work Trends Index report, 53 percent of global employees are considering shifting to hybrid work (working remotely and in an office) in the year ahead, compared with 58 percent of gen Z.¹⁰ According to a June 2022 survey from Gallup, 80 percent of U.S. workers in jobs that can be done remotely were performing their jobs either hybrid or fully remotely.¹¹ A Cisco study found that 80 percent of employees in the UAE would like a hybrid working model because of its associated benefits, including improved work-life balance and overall well-being.¹²

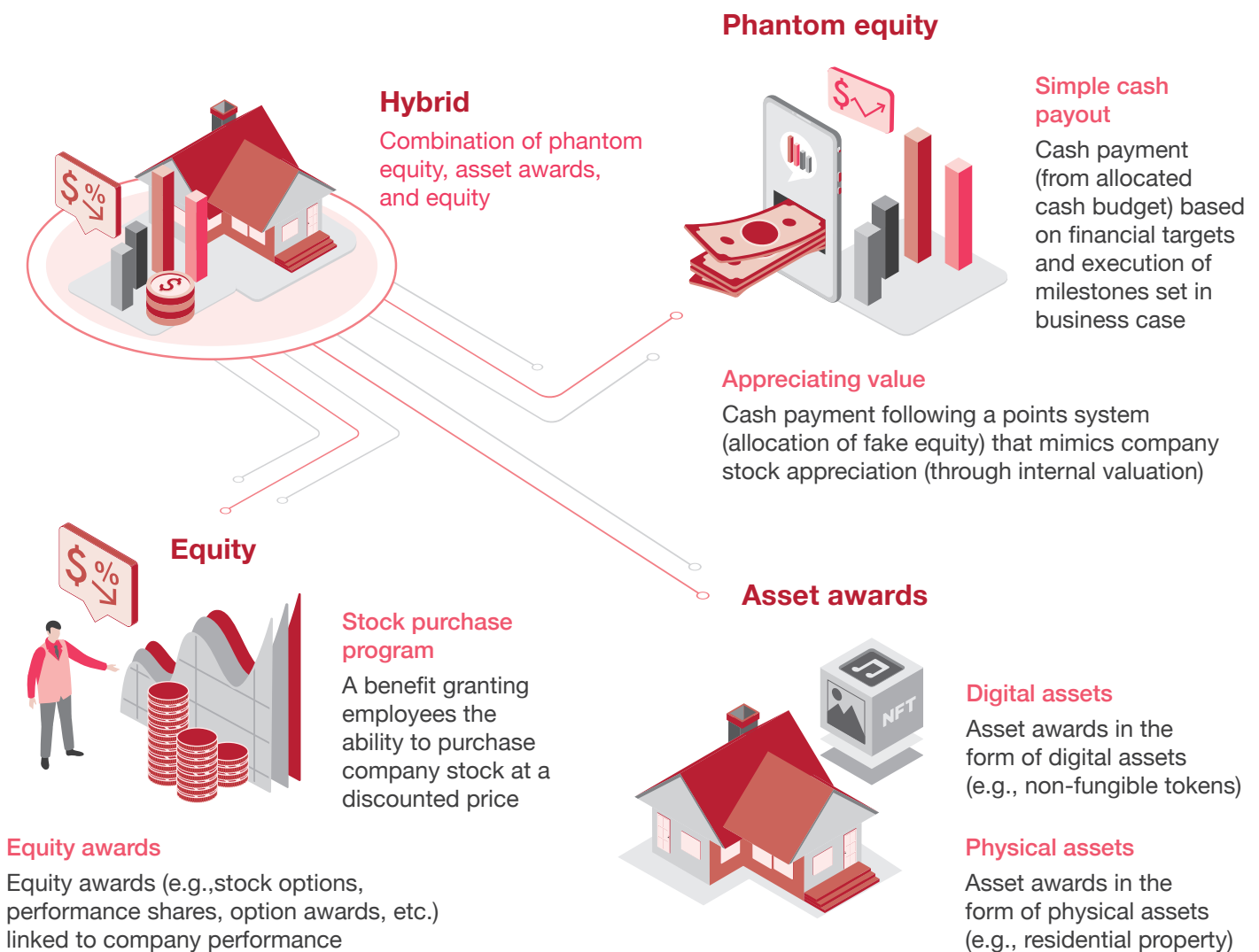
Countries and companies in the GCC are responding to these trends by making policy changes to support remote and hybrid working models. For example, GCC-based Binance, a cryptocurrency exchange, adopted a remote working model.¹³

Seven actions can help companies to implement successfully a hybrid working model that meets the needs of employees while ensuring the business runs effectively, productively, and securely:

- Establish hub locations or satellite offices along with regional headquarters so that employees who work outside of the area (or even in it) can come into an office and work during part of the week.
- Strengthen security layers to ensure secure collaboration and data sharing.
- Choose virtual collaboration solutions and tools to support asynchronous and synchronous communication, cloud storage, development, and efficient handling of information and resources.

EXHIBIT 1

Tech companies must offer long-term equity-like incentives



Source: Strategy&

- Redesign office spaces to facilitate teamwork and team building by removing individual desks and offices.
- Adjust HR processes across the employee life cycle, especially in performance management. In a hybrid setup, employees have less exposure to management, requiring clear outcome-based objectives and key performance indicators that measure collaboration and productivity.
- Build strong employee connections within the region by creating opportunities for everyone to meet physically through bi-annual summits, quarterly in-person employee retreats, and mandated visits to regional headquarters.
- Create forums—such as ad hoc co-working spaces, remote onboarding buddy programs, and virtual classes—in which remote teams can work together and build rapport and a sense of belonging.

Opportunities for flexible career advancement

An enticing employee value proposition and exciting career advancement and development opportunities are basic necessities for GCC companies competing with global tech players for talent. A 2021 IBM survey asked employees what employers should offer to engage them. The respondents ranked career growth higher than compensation and benefits, at 43 percent and 41 percent, respectively.¹⁴ Employees are also increasingly mobile, enjoying the ease and flexibility of moving from job to job within the tech ecosystem.

Regional tech players can capitalize on these trends by joining forces to create clusters of innovation. These tech hubs can include joint research labs, hackathons, funding boot camps, artificial intelligence (AI) incubators, and training that strengthens ties to academia (see below, “Global innovation hubs”). Companies also can give employees the option to work in different locations and with subsidiaries.

Career opportunities, or lack thereof, can sway people’s decisions to join a company. A 2019 survey by Indeed found that the chance to learn new skills is one of the top things tech workers look for when considering a position.¹⁵ AI-enabled platforms that support role matching are becoming crucial in globally competitive talent models. Google, for instance, has an algorithm-powered internal job marketplace where employees can bid for assignments.¹⁶

Global innovation model

Tech companies need to move in two areas in terms of their innovation model. They should support regional innovation and improve access to valuable IP by making use of global innovation hubs, and they need strategic investments and M&A.

Global innovation hubs

A well-executed innovation hub supports tech and digital ecosystems by providing access to centers of excellence, digital labs to enhance user experience, and design studios to test blockchain and drone technology. Innovation hubs have been around since the 1950s and have grown in popularity. These centers bring together researchers, creators, and innovators to transform ideas into industry-changing products, and guide services from idea to implementation.

Tech companies can use these hubs to engage with global talent and build capabilities across product life cycles. These hubs can also amplify brand recognition, which attracts investors and partners. Such hubs deepen the pool of potential acquisitions and provide access to IP.

GCC tech companies must evaluate three considerations before entering the highly competitive space of innovation hubs.

Construction. Global reach and representation are essential when building innovation hubs. Tech companies can achieve this by establishing an interconnected network of these centers. However, geographic hurdles can slow progress. Companies can overcome them by partnering with existing innovation hubs and creating synergies with national academic institutions and government-funded research organizations. Tech companies should also decide on their optimal mix of tenants and talent, how to attract them, and the level of innovation necessary to achieve their desired IP portfolio.

Operational agility. Although the physical location of an innovation hub is important, it is even more critical to ensure that the hub shares knowledge and innovation efficiently. Flexible delivery models, governance mechanisms, and stakeholder collaboration can make this possible. A digital spine, for instance, allows for seamless cooperation based on shared data architecture, datasets, simulation labs, computing power, and tools.

Sustainability. Tech companies must decide which milestones they will use to push the commercialization of products and services and to accelerate revenue generation within the tech ecosystem. Global players often prioritize an accelerated route to market and develop cutting-edge solutions for commercialization and business purposes.

Microsoft Research: Global innovation in action

Microsoft Research has over 120 innovation centers in 33 countries. These centers partner with universities, IT professionals, software developers, researchers, and entrepreneurs to foster innovation and growth in local software economies. Currently, Microsoft Research is focusing on areas including AI, gaming, computer vision, quantum computing, and machine learning.

Microsoft provides stakeholders with the technical and commercial resources they need to develop, test, and optimize their products and services in a real-world environment, accelerating commercialization and market entry. It also creates

international standards adapted to a local context to accommodate more innovators.

This working model increased the number of independent software vendors and startups that use Microsoft's technologies to build their products and services. It also helped Microsoft attract top talent globally, remain competitive in local markets, and expand the national IT ecosystem in several countries. As of 2021, Microsoft had over 65,000 U.S. and international patents and over 21,000 pending worldwide.¹⁷

Strategic investments and M&A

Success in strategic investments and M&A requires that tech companies possess a clear vision and the ability to move quickly after making decisions.

Strategic objectives

Tech companies should set clear strategic objectives and define a blueprint to inform their investments and M&A execution, from target short-listing to sourcing, deal structuring, and post-merger integration.

Most digital disruptors pursue strategic investments and M&A for multiple aims, including market access, digital product development, management capabilities, IP sourcing, talent acquisition, and revenue generation. IP sourcing is likely the most critical objective for companies hoping to expand quickly and commercialize their product portfolio offerings along the tech value chain.

Tech companies will face unique integration challenges when they seek to acquire large and mature companies with complex portfolios and established sales and distribution arms. Among the challenges will be repurposing capabilities and meeting demand for a higher premium requiring more capital. To avoid these issues, tech companies could inquire about signing commercial agreements with exclusivity terms and IP licensing rights. An even better option is to acquire midsize companies and startups with valuable IP. It is vital to scrutinize the IP of acquisition targets, particularly the IP of startups.

Another option is to create corporate investment funds or corporate venture arms to help secure IP, attract talent, and get exposure to new sectors. This method will also help tech champions drive specific innovations and offer entrepreneurship paths to close talent gaps in the regional ecosystem.

Agility in deal-making

Tech companies must embed agility into their processes and infrastructure to move swiftly when they find an ideal target. Regional tech companies often compete with global tech titans on similar deals. These global companies have established brands, strong market positioning, and a significant presence in international tech hubs, giving them priority access to prospective targets. To beat them, speed is of the essence.

To start, companies need clarity on shareholder aspirations around parameters such as returns and risk appetite, which articulate the investment focus, business model choices, and overall portfolio structure. Getting stakeholder support early allows organizations to move fast when they find a promising target. Corporate venturing desks also can help tech companies identify strategic opportunities that align with stakeholder aspirations.

When approaching prospective targets, GCC tech companies must have a sharp value proposition ready to expedite negotiations. This proposition might include continued access to lucrative regional demand, funding to support global expansion, and existing IP that can complement the target's offerings.

Using M&A to accelerate global and regional growth

Hitachi, a Japanese multinational conglomerate, decided to transform its business and expand its offerings by making several acquisitions. Over the years the organization has made 14 acquisitions, spending more than \$11 billion in the process, and has made 16 investments in sectors including enterprise storage, IT operations, and business intelligence.¹⁸ This approach transformed Hitachi into a social innovation company by shifting its focus from products to solution building. In 2021, Hitachi acquired Global Logic, an agile software development company.

Similarly, Alibaba, an online commerce juggernaut, decided to use M&A to diversify its portfolio and grow outside China. To date, the Alibaba Group has made 21 acquisitions and 165 investments, most over the past decade. The company also spent over \$20 billion in acquisitions in areas including e-commerce, food tech, and cross-border commerce.¹⁹

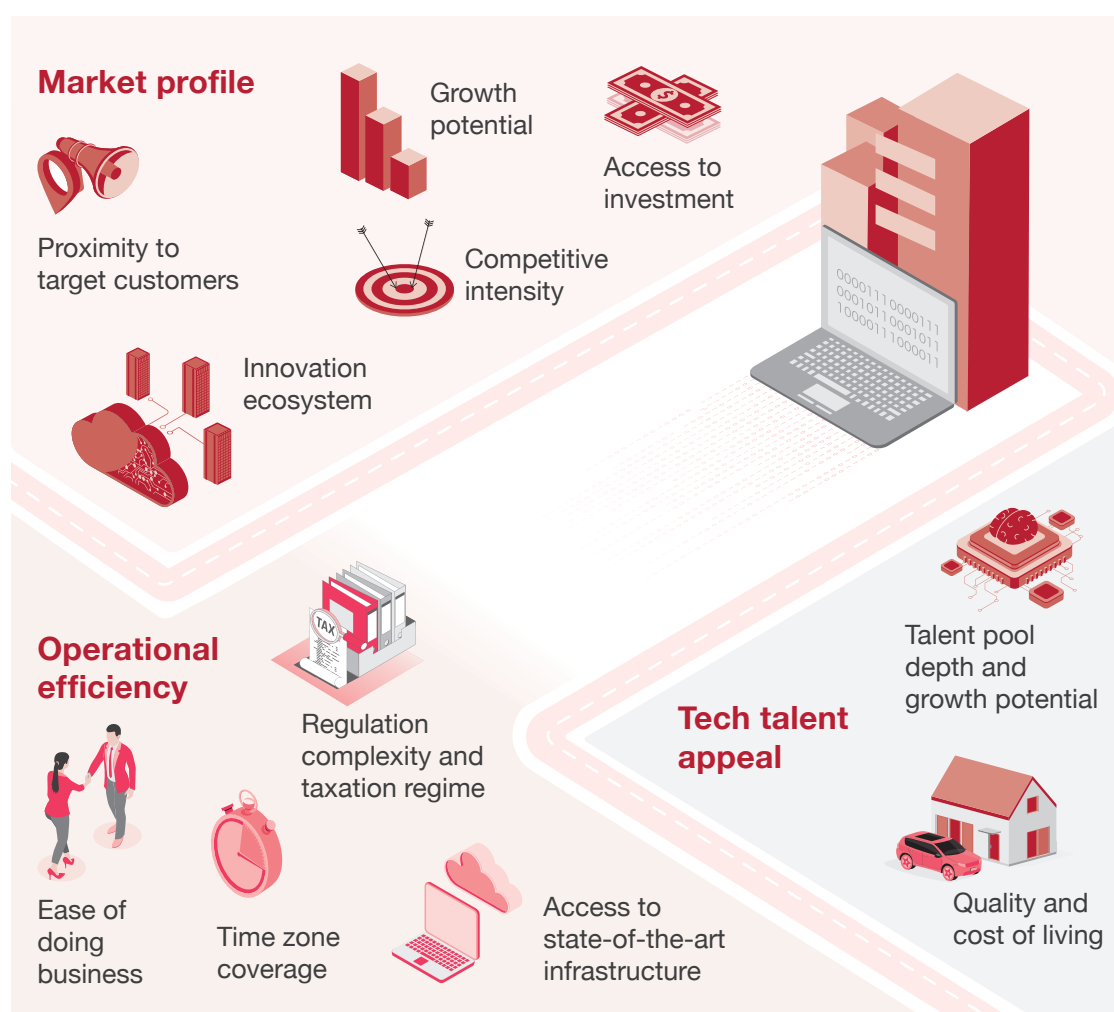
GLOBAL FOOTPRINT AND AN OPTIMAL CORPORATE STRUCTURE

Together with measures to address talent and innovation, tech companies must update their corporate structure and define their global footprint, which enables their new talent and innovation models to succeed regionally and globally.

When deciding where to establish a physical location, companies should evaluate three elements: operational efficiency (such as ease of doing business and time zone coverage), appeal to tech talent (quality and cost of living), and market profile, such as growth potential and competitive intensity (see *Exhibit 2*).

EXHIBIT 2

Tech companies must choose the global physical footprint carefully



Source: Strategy&

Tech companies must also pick the right corporate structure for any entities outside the GCC to comply with the requirements of other jurisdictions. Organizations may need a combination of holding companies, special purpose vehicles, IP holding companies, management companies, and funds abroad in addition to any portfolio companies.

Setting up funds could allow tech companies to diversify access to capital through structures that attract investments and enable exits while gradually gaining value. Legal vehicles can also support the acquisition and integration of global companies. In addition, the right structure can help tech companies use IP from outside the GCC and bring it to the region while protecting monetization.

The tax strategy for an operating structure also has implications for funding and repatriation of earnings to the GCC.

Organizations should take care to evaluate regulatory considerations such as antitrust and foreign investment rulings (such as a Committee on Foreign Investment in the United States filing) and export restrictions. When it comes to hiring talent, companies will need the support of legal entities, or they can partner with global employment organizations.



CONCLUSION

Aspiring GCC tech companies have an opportunity to reimagine how they do business locally by moving away from regional standards around talent and innovation and instead harnessing the power of a global approach. Success in these areas, alongside a solid corporate structure and location strategy, can enable these companies to grow into tech champions. In that way they can achieve their ambitions of reaching the economies of scale and scope needed to accelerate the growth of the GCC's digital economy.

ENDNOTES

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