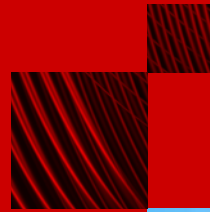




Key change

Spotlight on China



Introduction

China's digital economy is the world's second largest and one of the strongest forces shaping the global data landscape. It has grown continuously and is now worth approximately US\$7.1trn, accounting for 39.8% of the country's GDP.¹

Much of this growth is a result of China's e-commerce sector, which made huge gains when Covid-19 forced businesses to accelerate digitalisation. However, the country's industrial economy is still at an early stage of digitalisation, with room for development in industries such as traditional manufacturing.² Automation and artificial intelligence (AI) will be a focus as China moves to fully digitalise the sector by 2035.³

How are firms in China approaching digital in this operating environment? New research by DBS, which surveyed 100 senior executives in the country, sheds light on the digital ambitions, successes and lingering concerns of Chinese business leaders.

1 <https://research.hktdc.com/en/article/MTI4OTE5MTYwMg>

2 <https://www.chinadaily.com.cn/a/202211/07/WS6368ade4a3105ca1f2274811.html>

3 <https://www.globaltimes.cn/page/202104/1221088.shtml>



Priorities for transformation

Expanding the digital economy is an important part of China's national development strategy, and the government has launched a number of plans to incentivise transformation, including schemes for small- and medium-sized enterprises.⁴ The government is also implementing a digital currency, the digital yuan – the first state-led effort of its kind.⁵

China's businesses, meanwhile, are expected to play their part in boosting digitalisation by increasing investment in digital solutions over the next five years.⁶ DBS's research suggests that these firms see increasing efficiency as the most important goal of digital transformation. This is followed by improving customer experience and creating growth through new products, services and business models.

The most important cultural element of a successful digital transformation for companies in China is the shared adoption of a strategic vision (chosen by 42% of respondents, compared with 36% of respondents overall). Chinese firms also value collaboration across functions and the delegation and empowerment of teams.

⁴ <https://www.reuters.com/technology/china-vows-support-digitalisation-4000-6000-small-firms-by-2025-2022-08-17/>

⁵ <https://www.china-briefing.com/news/understanding-chinas-digital-economy-policies-opportunities-and-challenges/>

⁶ <https://global.chinadaily.com.cn/a/202301/03/WS63b3816da31057c47eba7587.html>

Goals: Efficiency is the top objective for transformation



Corporate culture: A shared strategic vision supports digital success



Transformation leaders in China

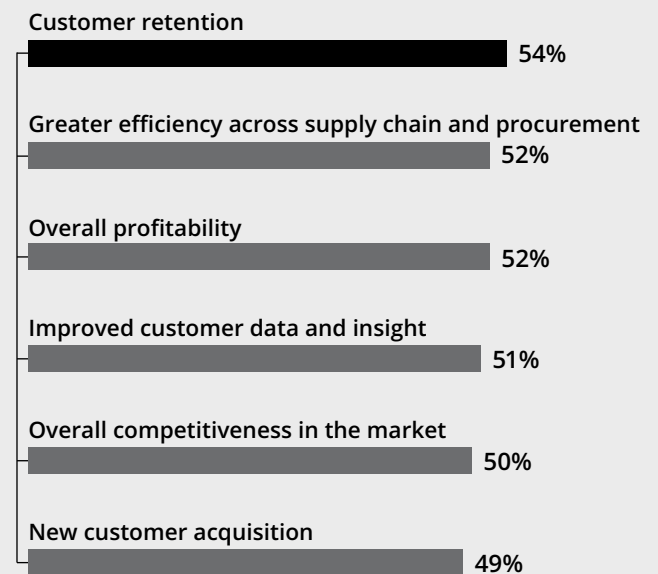
DBS's research identifies a select group of 'transformation leaders' that consistently outperform the global average when it comes to digitalising their customer engagement. These companies are not just pursuing strategic or radical transformation plans - they are also doing it extremely well.

We also identify a 'developing leaders' category of businesses that are excluded from the leader group because they are performing only 'somewhat' rather than 'highly' effectively. At the other end of the scale, the transformation laggards are pursuing ad-hoc transformation and are doing it poorly.

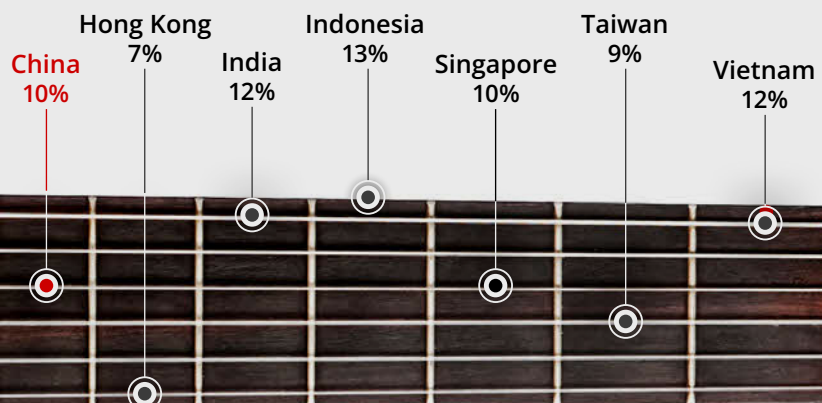
In China, 10% of respondents are transformation leaders. A further 30% are in the developing leaders group, which suggests that the country's overall proportion of transformation leaders is

likely to increase in future. Today, however, China's transformation leaders are outnumbered by the laggards: 22% of Chinese respondents are in this category.

Successes: Digital has boosted customer retention



In China, 10% of respondents are transformation leaders



Strategic challenges to overcome

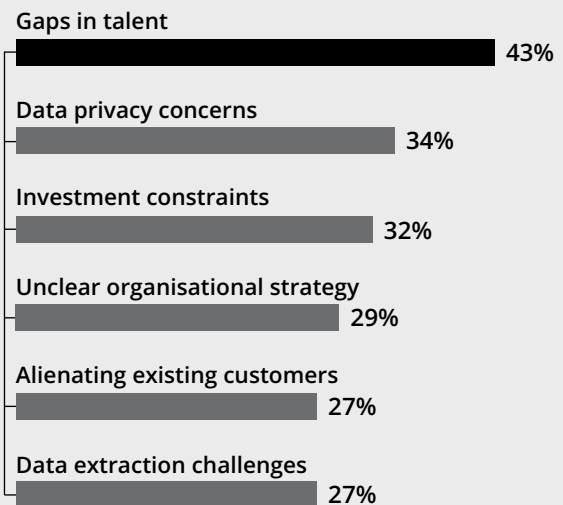
China's economy grew by just 3% in 2022 – the weakest rate of growth since 1976 except for the period at the beginning of the pandemic.⁷ This slump has not yet affected the strength of country's digital economy, but it could affect businesses' investment priorities in the long term.

The research indicates that investment constraints are a problem for many Chinese companies: 32% say that budgets are a barrier that prevents them from making faster progress on transformation. Their top challenge, however, is gaps in talent such as technology or change management skills (identified by 43%). This talent shortage is a growing problem in China – particularly in 'hard tech' industries such as AI, where recruiters report that an average of 12.5 companies compete for a candidate with one particular skillset.⁸

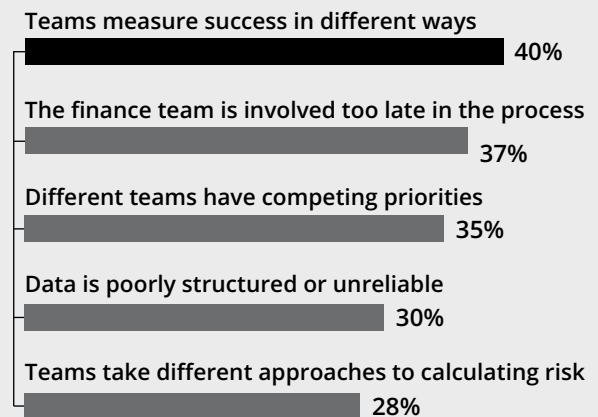
Other challenges arise when finance and commercial teams work together towards transformation. For Chinese businesses, the main difficulty comes when teams measure success in different ways. Chinese respondents also say they struggle when the finance team gets involved too late in the process or when there are competing priorities between the two teams.

Wei Wei Chum, Head of Global Transaction Services at DBS Bank China, explains that harmony between teams is key to successful transformation.

Change barriers: Gaps in talent are an obstacle to transformation



Collaboration challenges: Teams differ on how to measure success



"Transformation requires a collaborative effort, and the treasury and finance teams are instrumental in driving this change. By working together, we can cultivate a culture of innovation, experimentation, and continuous improvement, and propel our organisations towards success. At DBS Bank China, we are uniquely positioned to support our clients in their digital transformation journey through our cutting-edge banking solutions. We are also committed to leveraging our expertise to foster collaboration between finance and commercial teams, and to empower our clients to embrace the digital revolution with confidence and agility."

⁷ <https://www.ft.com/content/ebe63075-32c1-46a0-8d49-570dfb654547>

⁸ <https://uk.news.yahoo.com/china-lacks-workers-boost-xi-230012778.html?guccounter=1>

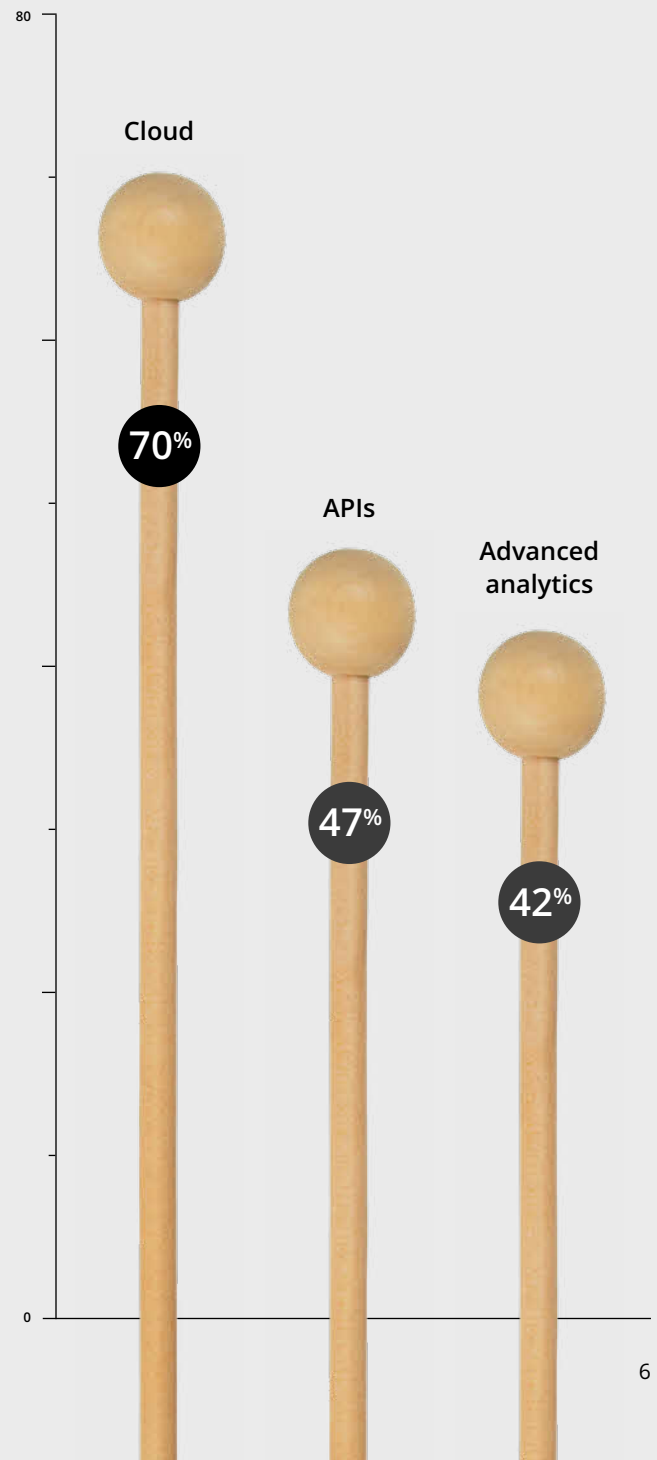
Harmony in the back office

The research explores the growing role that treasury and finance are playing in enabling change and innovation. Here, we go through some of the transformation and technology trends among China's finance and treasury teams themselves.

Overall, businesses see cloud technology as the most important tool to realise their digital transformation within treasury and finance. Our research shows they are more likely than the global average to be prioritising it (70% compared with 67%), which is likely to be contributing to the country's fast-growing cloud computing market – expected to grow from US\$32bn in 2021 to US\$90bn by 2025.⁹

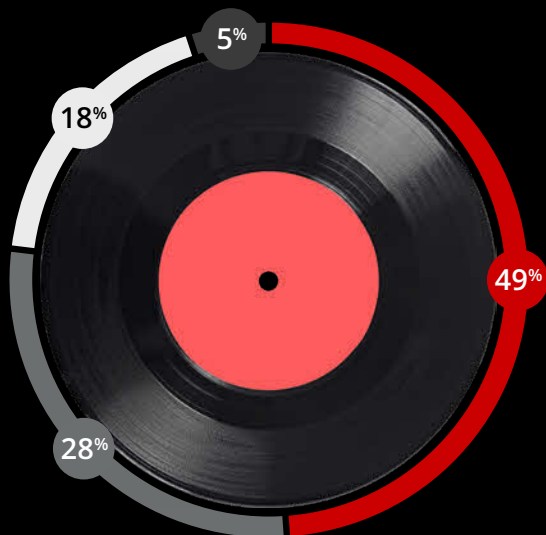
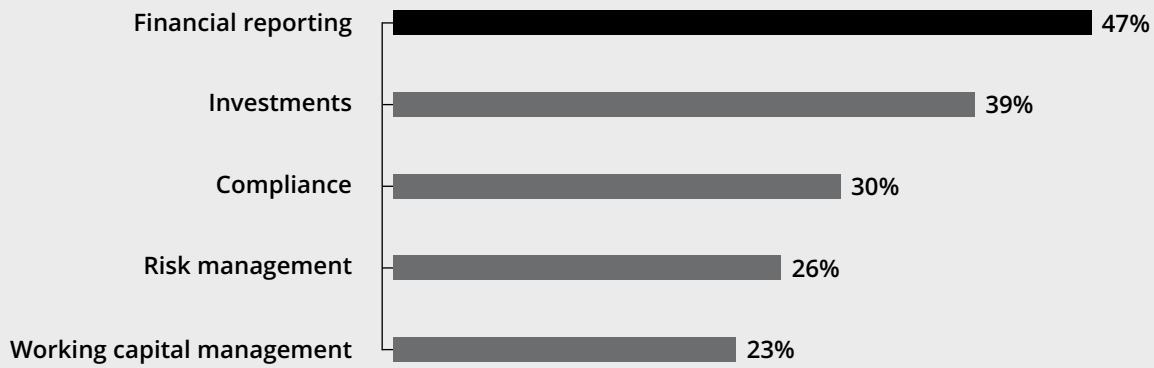
Respondents also have confidence in APIs and advanced analytics, with 47% and 42% respectively planning to use these tools to transform treasury and finance. Within treasury, financial reporting is the top activity businesses are prioritising for digitalisation, followed by investments and compliance. Strategic partnerships with external companies are likely to be a big feature of this transformation, and for respondents in China the most popular types of partnership are with banks (49%) and fintechs (28%).

Technology: Cloud is the most important tool for treasury and finance



⁹ <https://www.mckinsey.com/capabilities/mckinsey-digital/our-insights/cloud-in-china-the-outlook-for-2025>

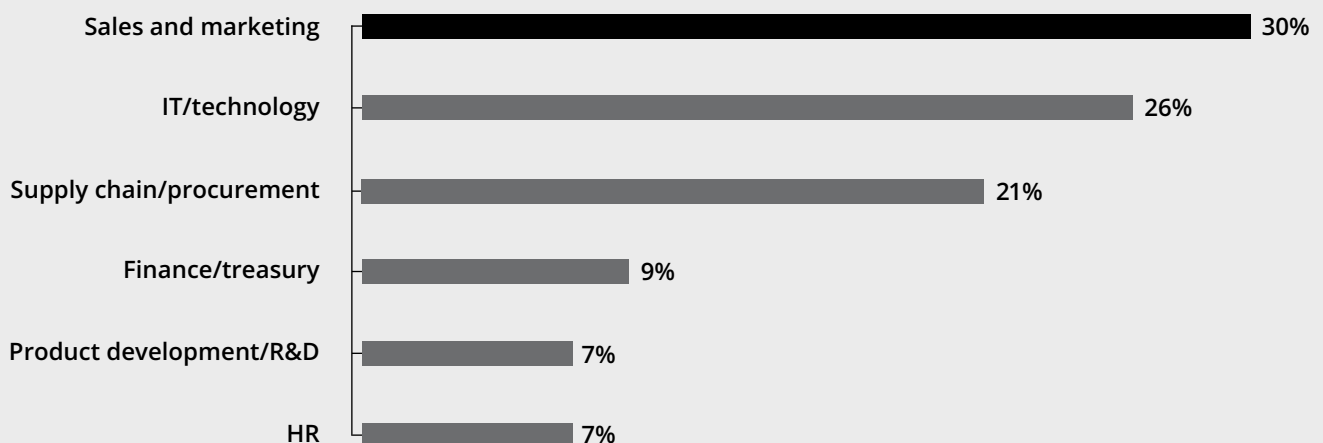
Treasury transformation: Digitising financial reporting is the priority



Chinese treasurers prefer working with banks on treasury transformation

- Partnering with banks
- Partnering with consultants
- Partnering with fintechs
- Partnering with a combination of the above

Commercial priorities: Commercial teams want to see digitalisation of sales and marketing



Immediate actions

Our findings give us a snapshot of digital transformation trends in China. At a high level, we recommend that the country's businesses take the following immediate actions:

Develop the talent pipeline

China's digital transformation ambitions are restricted by the limited availability of skilled professionals to fill a rapidly growing number of tech-based vacancies. In response, Chinese businesses need to develop their talent pipelines by recruiting internationally or investing in training schemes to encourage untapped talent.

Streamline cross-functional collaboration

Chinese businesses see efficiency as the top goal of digital transformation, and a shared strategic vision as the most important cultural element. To achieve these, they must work to close any gaps in internal processes. Resolving the challenges between finance and commercial teams should be a top priority, starting with standardising measurements of success and resolving issues with data access.

Form a clear data plan

The research suggests that Chinese businesses are experiencing difficulties securing and extracting data, which is affecting collaboration and transformation. As a priority, companies in the country should develop clear data guidelines for their teams to ensure that data is used safely and responsibly and is made accessible to everyone who needs it.

This report was produced by FT Longitude, the specialist research and content marketing division of the Financial Times Group. The views expressed in this report are those of DBS.

© Copyright 2023