



ACCENTURE
INNOVATION
MATURITY
INDEX 2018
WINNING IN THE AGE
OF DISRUPTION

MIDDLE EAST

LEADING IN THE NEW

Industries in the Middle East are being roiled by disruptive change. We estimate that more than \$400 billion of enterprise value of Middle Eastern companies is at risk from both new competitors and established players that have learned to innovate and release trapped value in their industries. These companies are pioneering new ways of operating as well as creating new tech-enabled products, services, and business models. By making a “wise pivot” to the new and adopting the processes and organizational changes that make innovation come to life, Middle Eastern companies can thrive in the age of disruption.

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EXECUTIVE SUMMARY

The digital revolution has exposed abundant value opportunities for companies to raise efficiency and develop new kinds of products, services, and business models. In many industries, upstarts have shown the way—disrupting traditional ways of doing business with innovations such as online retailing or ride-hailing services. Too often, while disruptors rack up rapid growth, steal share, and enjoy fat margins, incumbents are left behind.

This does not have to happen. A small group of outstanding players across industries and economies has shown that large incumbents can innovate, release trapped value, compete with disruptors—and even act as disruptors. These companies are executing what we call a “wise pivot”—a way to reinvent themselves and harness the power of disruption. They are using data, digital tools, and new ways of working to optimize and grow the core business, even as they build a future business.

In this paper we explore how disruption is playing out in the Middle East, how much value is at risk, and how prepared companies are to fight back. Using outside-in analysis of 200 companies based in Saudi Arabia and the United Arab Emirates and a survey of 150 C-level executives, we have estimated how much trapped value exists across Middle Eastern industries. This trapped value represents the potential value available that companies are failing to realize. Viewed another way, trapped value is a measure of what is at risk from disruption. Our research suggests that the answer is more than \$400 billion in enterprise value. In other words, if the average Middle Eastern company does not find a way to release its trapped value, somebody else will.

What prevents most companies from “untrapping” value and accelerating growth is their limited innovation capabilities. Conversely, the small minority of companies that do release trapped value also score highly on the Accenture Innovation Maturity Index. This index takes a new approach to measuring innovation capabilities. In addition to looking at specific innovation processes—whether the innovation function is centralized, for example—the Innovation Maturity Index looks at how companies have adopted seven characteristics, like being “hyper relevant” to customers or being data-driven. The presence of these characteristics reflects a deep organizational change that gives companies the ability to surface new ideas, shepherd them through development, and implement them at scale, enabling them to unlock trapped value.

Only by building strong innovation capabilities, can companies successfully make the wise pivot and manage disruption. The wise pivot allows companies to shift decisively—but safely—to new digital processes and build new tech-enabled products, services, and businesses. The approach involves a series of decisions about where and how to invest so companies can transform and grow the existing business while also scaling “the new.”

MIDDLE EASTERN COMPANIES ARE EXPOSED TO DISRUPTION— TODAY AND TOMORROW

Across industries and economies, there is a sharp divide between the companies that are on the winning side of the digital revolution and those that are being disrupted by it. The winners are innovating—using digital platforms, big data analytics, and other technologies to unlock value in current businesses and build new ones. They routinely seize new market opportunities and scale up innovations. Today, such companies are a small share of enterprises globally and in the Middle East, but they point the way for organizations that want to accelerate growth and thrive in the era of disruption. Companies that do not learn from these leaders will remain vulnerable to disruption.

Sixty three percent of Middle Eastern companies are “omni-trapped” meaning that they are struggling to unlock trapped value

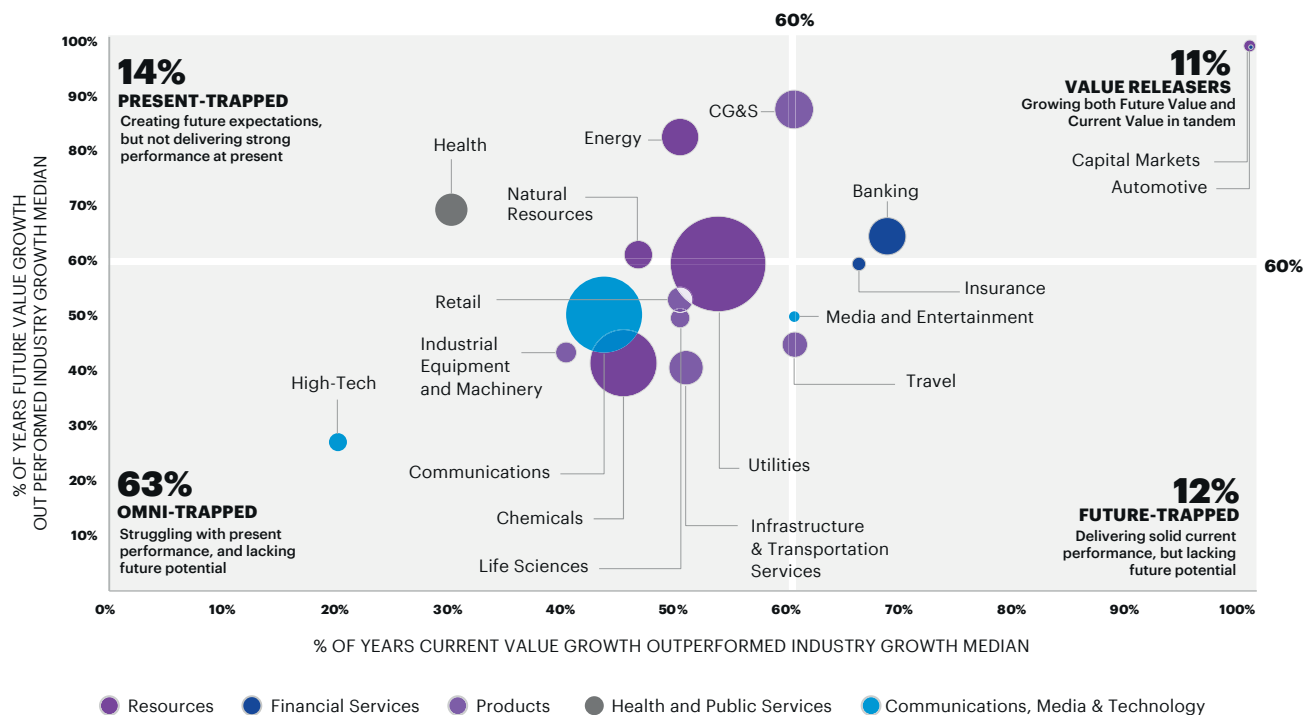
COMPANIES ARE ACCUMULATING TRAPPED VALUE

Trapped value is a growing problem for companies across industries. In our global research, we find that only 14 percent of enterprises take full advantage of opportunities to release trapped value. In the Middle East, only 11 percent of companies fall in this category. It is not surprising that so few companies are good at releasing trapped value. Most incumbents understandably focus their energies and resources on the core business that generates most of their income and profits. These companies have typically reached the top of the “S curve,” when growth moderates—and, unfortunately, when trapped value accumulates, making companies more vulnerable to disruption.

We measure trapped value in two ways: how well companies are releasing value in the current business and how much more value they are expected to release in future. Figure 1 shows that the largest share of Middle Eastern organizations—63 percent—are “omni-trapped,” meaning that they neither use innovation effectively to improve the performance of current operations nor are they expected to innovate to build future growth. To gauge trapped value, we look at how the company’s enterprise value reflects current performance and how a premium to peers (or lack thereof) indicates expectations for releasing value in future (for more detail see “About the Research”). Figure 1 also shows that 11 percent of Middle Eastern companies are “value releasers,” companies that are performing well today and are expected to perform well in future. According to our analysis, value releasers grew revenue five times faster than the rest of the market did between 2012 and 2017.

Figure 1 : Current vs Future Value Consistency

CV and FV Consistency %, 2012-2017, Bubble size represents Average Enterprise Value



Source: Accenture Research Analysis

45 percent of Middle Eastern companies are feeling the impact of disruption today and 44 percent are susceptible to disruption in the future

ACROSS SECTORS, COMPANIES FEEL THE IMPACT OF DISRUPTION

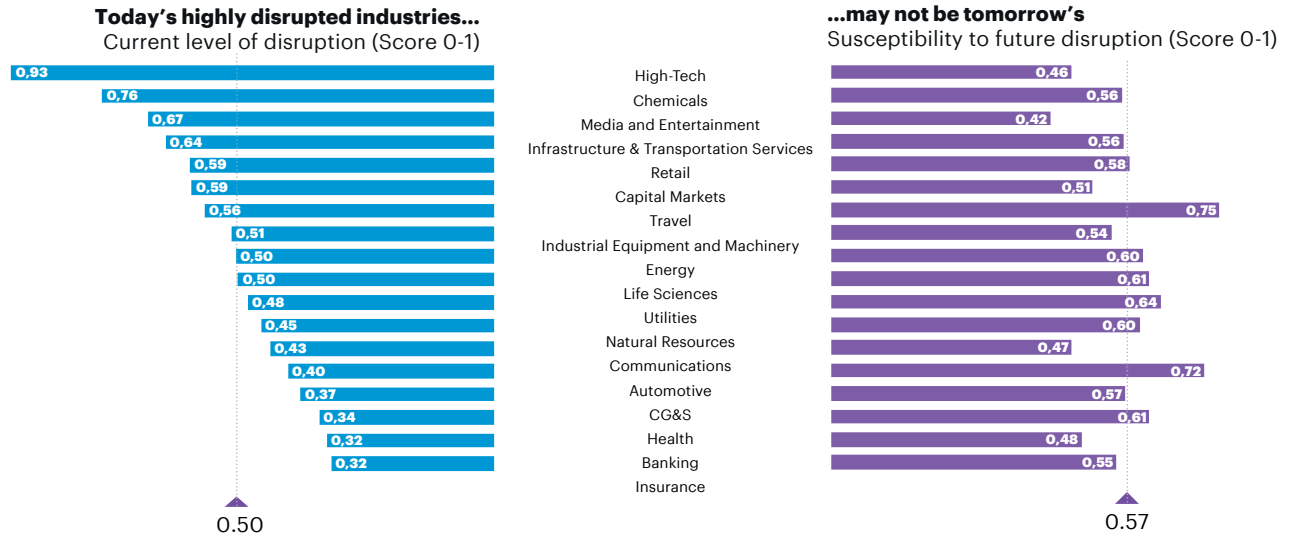
Business leaders in the Middle East rightly expect technology-driven innovations to disrupt the status quo and shape a new reality for their industries. In a survey of C-suite executives of Middle Eastern companies, almost 60 percent of respondents said they expect their industry to be significantly disrupted in the next three years. The size of the potential disruption is related to the level of trapped value.

Industries are hit by two kinds of disruption. “Big bang” disruption involves the sudden appearance and rapid growth of a new player (or a category of players) that use digital technology to create high-quality offerings at a lower price or to change the cost structure of the industry with a new business model. Examples include the impact of e-commerce on retailing or of the internet on print advertising. The second form of disruption is more insidious and takes place over many years. This “compressive” disruption occurs when mature businesses experience falling profits, even as sales continue to grow (albeit slowly). Examples include the long decline of desktop computers as consumers switched to laptops and smartphones. Companies in the Middle East face both types of disruption. In either case, disruptors are releasing value that incumbents have been unable to tap.

How serious are the threats to Middle Eastern businesses from disruption? To answer that question, we analyzed the top 200 companies in 18 industries in Saudi Arabia and the United Arab Emirates. We considered 15 factors to gauge both the current level of disruption and susceptibility to future disruption (see “About the research”). We found that 45 percent of companies are feeling the impact of disruption today and 44 percent are susceptible to disruption in future. We also learned that executives from companies that are being disrupted currently say that disruption is coming equally from upstarts and incumbents in their industries. We estimate that the total cost of current and future disruption for Middle Eastern companies could be \$442 billion in lost enterprise value.

The most highly exposed industries in the Middle East, according to our research, are high tech, chemicals, media and entertainment, infrastructure and transportation, and retail. However, the industries that are being disrupted the most today may not be the same in future and industries that are not yet disrupted may be most exposed in future. Our analysis shows that industries that are most susceptible to future disruption include travel, automotive, and health (Figure 2).

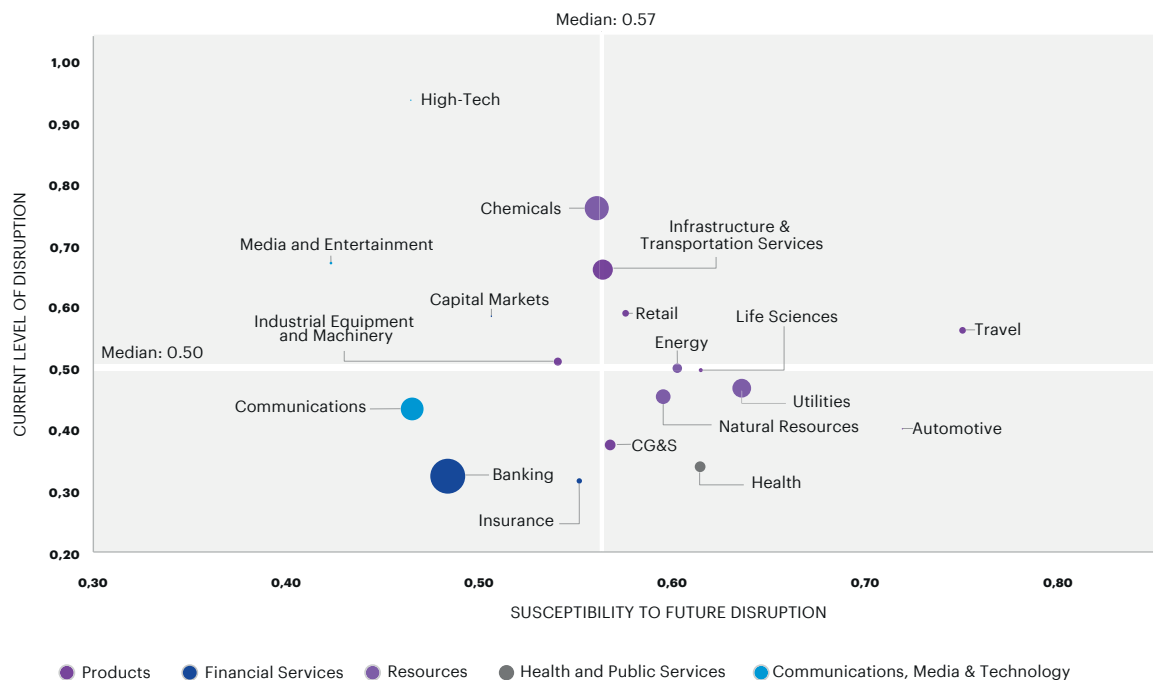
Figure 2 : Current vs. Future Disruption by Industry



Source: Accenture Research Analysis

Our research gauges current disruption in an industry by measuring the presence and penetration of disruptors, as well as the financial performance of incumbent firms. To measure susceptibility to future disruption in an industry, we looked at factors such as operational efficiency, innovation capacity and the ability to maintain defenses against new market entrants. Figure 3 shows where the major industries in the Middle East stand in terms of current and future disruption risk.

Figure 3 : Middle East Industry Exposure to Disruption



Sources: Accenture Research Disruptability Index
 †Total sample = 200

Average EV of companies in sample†

THE INNOVATION GAP

Ultimately, the way that companies in the Middle East and elsewhere will release trapped value and thrive in the era of disruption is through innovation. To manage disruption, then, companies need a mature innovation capability—building both a reliable innovation process and creating the type of organization where innovation can thrive. Today, few incumbent organizations around the world and even fewer in the Middle East have these capabilities. Indeed, in our C-suite survey, 42 percent of respondents said they feel unsure or dissatisfied that their company's innovation efforts will position them well to overcome future disruption. The same share of respondents concede that their companies are not prepared for disruption. More than half of the respondents (57 percent) spend less than 5 percent of revenue on R&D.

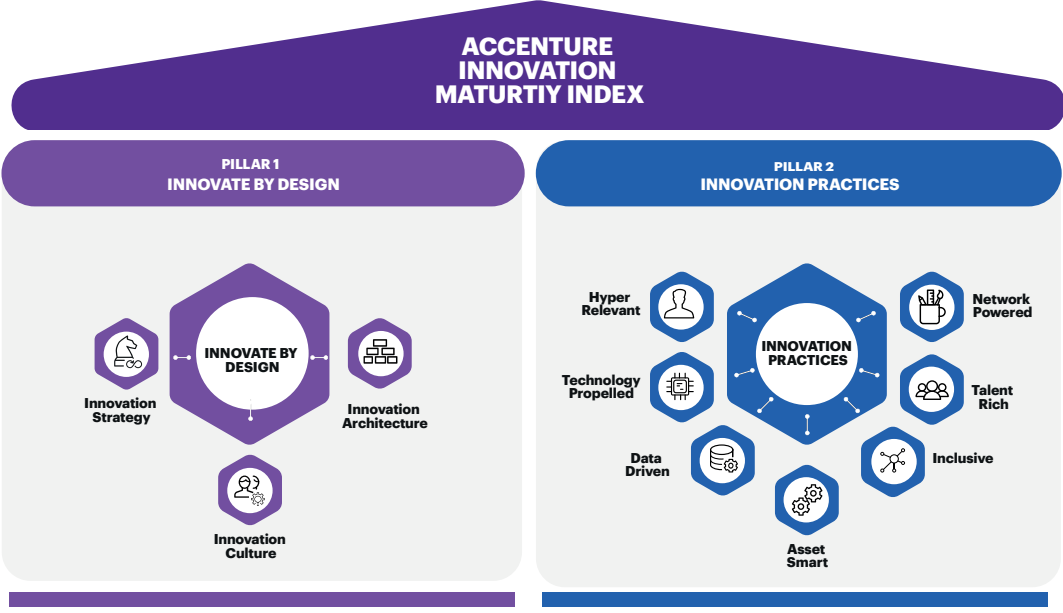
The struggle to master innovation is global. In an Accenture survey of C-level executives at 840 companies around the world, we found that most of the businesses that had significantly increased their investments in innovation did not achieve above-average growth. In fact, our research indicates that the return on innovation spending has declined by 27 percent over the past five years.

Yet a relative handful of companies have bucked this trend and routinely turn innovation investments into accelerated growth. Based on survey responses, these leaders have grown faster than their peers in the past five years and expect to do so for at least the next four years, as well. Our analysis reveals that these companies did two critical things that made them what we call Innovation Champions. First, they have done all the right things to create a smooth, reliable, and repeatable innovation process—defining a strategy, creating a culture that rewards innovation, and building a formal innovation architecture. Second, and perhaps more importantly, these companies have undertaken a fundamental organizational change that embeds innovation across the enterprise and makes innovation part of everyday business. This change is reflected in seven traits that successful innovators share: they are hyper relevant, network-powered, technology-propelled, asset-smart, inclusive, talent rich, and data-driven. Our research shows that companies that successfully and consistently release trapped value also exhibit these seven characteristics.

The Accenture Innovation Maturity Index measures the presence of these traits (Innovation Practices) and the quality of specific innovation processes (Innovate by Design) to rate companies on their innovation strength (Figure 4).

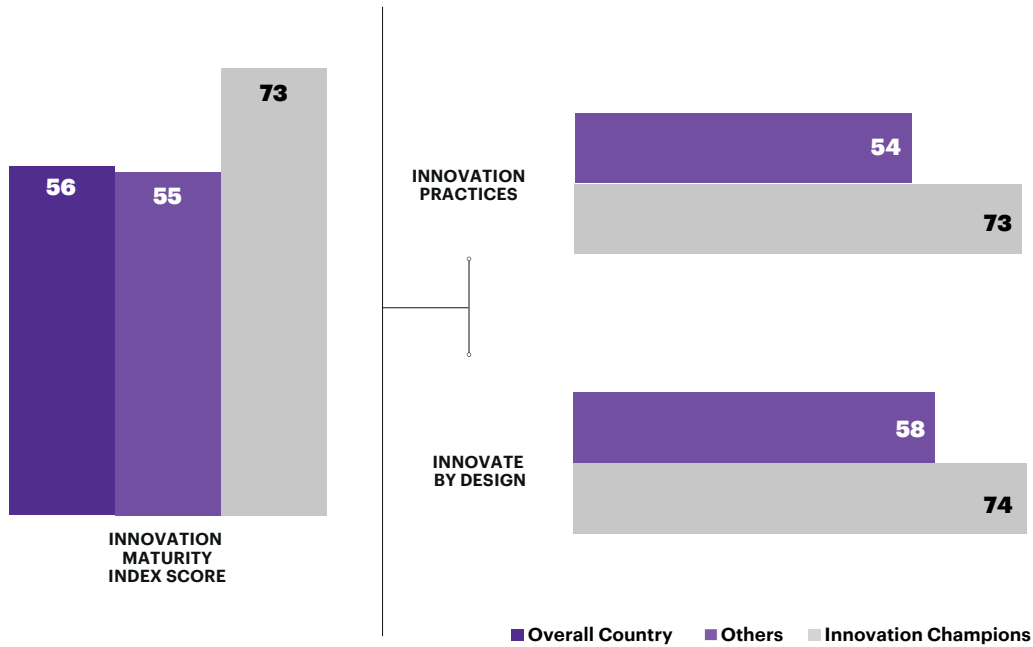
The overall country score on the Accenture Innovation Maturity Index in the Middle East was 56 out of 100. But a small group of innovation champions—6 percent of the sample—averaged 73 points

Figure 4 : Innovation Maturity Index Framework



Using data from our survey, we scored Middle Eastern companies on their innovation processes and the seven innovation practices to arrive at their innovation maturity scores. The overall country score on the Accenture Innovation Maturity Index in the Middle East was 56 out of 100. But a small group of high-growth companies—6 percent of the sample—averaged 73 out of 100 (Figure 5). These innovation champions have built innovation skills to create new products and services for customers and have also achieved deep organizational change. Because of their innovation “maturity,” these companies are able to release trapped value much more effectively than peers.

Figure 5 : Accenture Innovation Maturity Index Scores: Innovation Champions vs Others



A company that scores high on the innovation index can expect to increase revenue by 12.8 percent more than peers and raise profits by 10 percent more

To quantify the rewards that come with innovation maturity, we developed an econometric model to examine the relationship between the innovation index scores and corporate financial performance. The projections from our model indicate that if the average Middle Eastern company raised its score on the innovation index from 55 points to 73 points — on a par with the innovation champions— this would imply an average increase in revenues of 12.8 percent for Middle Eastern companies, and a 10 percent increase in profits (See About the Research).

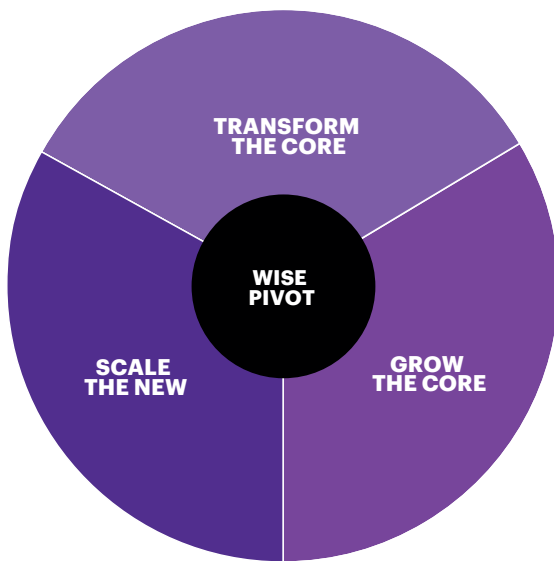
MANAGING DISRUPTION LIKE AN INNOVATION CHAMPION

Today, by their own admission—which is confirmed by our analysis—many companies are not prepared to compete in the age of disruption and grab the opportunities of the digital age. They have not made the investments in new digital capabilities that are needed to manage disruption and they have not built the capacity to innovate and consistently release trapped value. To position themselves to manage disruption, companies need to execute a wise “pivot” to new opportunities decisively and sustainably—a three-part program to accelerate the company’s digital transformation and grow “the new,” while protecting and nurturing the core business, too. To make a successful pivot, organizations also need to make innovation part of the company’s DNA. They do this by building innovation processes and adopting practices that lead to organizational change across the enterprise, enabling them to unlock trapped value.

MAKE A WISE PIVOT

Making a wise pivot should be a matter of urgency among companies in the Middle East, where only 4 percent of companies we surveyed have transformed their core business and 71 percent have not even begun their transformation. Half of the respondents do not feel ready to transform their legacy business and even fewer are confident about their ability to scale up new tech-enabled businesses. Only half of surveyed companies say they have sufficient investment capacity to transform their legacy business. Following the wise pivot model, companies can position themselves for the digital age in a steady, safe and balanced way, by transforming the core (and generating funding for new investment), growing the core, and scaling the new (Figure 6).

Figure 6



Transform the core to generate investment capacity. This involves investing in processes and functions to increase efficiency and create value in the form of higher profits. This additional cash flow can help fund innovation and growth initiatives. As noted, in the Middle East, most companies have only begun their digital transformations, and many are unprepared for this task.

Grow the core to sustain the fuel for growth. The pursuit of accelerated growth should not overlook growth opportunities in the core business. This may involve finding new customers or markets for existing offerings or innovations that improve customer experience.

Scale the new to identify and scale new growth areas at pace. Innovations—whether new products or new business models—will not deliver the growth and impact the company expects if they are not commercialized and brought to a mass market.

Companies that succeed in the wise pivot can protect their businesses from disruption and look forward to a new S-curve of growth. By carefully scaling and timing investments, they can build “the new” and continue to nurture and grow the core.

MAKE INNOVATION PART OF THE COMPANY'S DNA

Knowing how to innovate and doing it routinely is how companies will pivot to the new and manage disruption. This requires another kind of transformation—building formal innovation systems (Innovate by Design) and adopting the practices of innovation champions.

INNOVATE BY DESIGN

Too often, companies still view innovation as an ad-hoc “creative” process. But real innovation requires a persistent effort, well-defined processes, and true commitment. Innovating by design is a framework for building the mechanisms for reliable innovation. It involves defining an innovation strategy, instilling a culture of innovation, and creating an innovation architecture. Innovation champions are particularly good at building innovation architecture.



Strategy. Successful innovators share a similar approach to innovation strategy. They aim for disruptive advances, rather than incremental improvements. They build concentrated innovation functions, rather than dispersed teams. They balance innovation between old and new and make sure innovation is quantifiable. In general, Middle Eastern organizations score well on innovation strategy, but innovation champions score highest. They also make the investments to back up innovation strategy. Half of the innovation champions in our survey raised innovation budgets by more than 25 percent between 2012 and 2017 and 51 percent expect to increase investments by 25 percent more between 2017 and 2022. In contrast, only 19 percent of other companies in the region raised spending on innovation by more than 25 percent between 2012 and 2017, although 39 percent expect to do so by 2022.



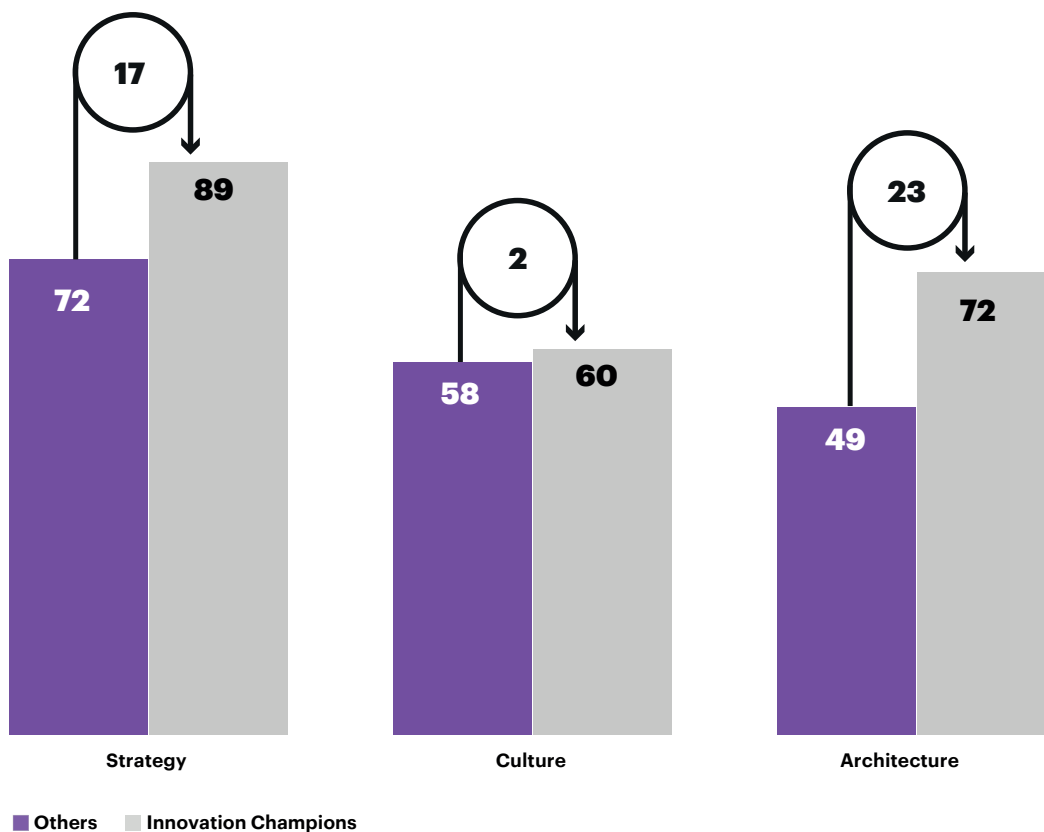
Culture. Companies that succeed in innovation have a culture of innovation in which creativity is encouraged and rewarded. Ideation is applauded by managers. Both innovation champions and average companies in our Middle East sample score around 60 on this dimension. All companies in the region have work to do to build a culture of innovation.



Architecture. Building the innovation architecture—the actual processes that are used to find ideas and bring them all the way to full-scale innovations—is where innovation champions are farthest ahead of their peers, scoring more than 20 points higher on the Innovation Maturity Index (Figure 7). A well-designed innovation architecture specifies clear processes for moving innovation from ideation through R&D to mass-market commercialization, employing a combination of internal and external innovation capabilities. Three-quarters of Middle

Eastern innovation champions, for example, use crowdsourcing strategies, but only a third of other companies do. And 90 percent of champions have in-house teams to acquire external innovation capabilities, vs. 40 percent for the rest of our sample. Internally, 90 percent of innovation champions use innovation centers (vs. 42 percent of other companies); 75 percent of champions also have centralized R&D, vs. 48 percent of other companies. Champions are also more likely to seek opportunities to pilot and test product ideas with end users.

**Figure 7: Innovate by Design
Innovation Champions vs Others**

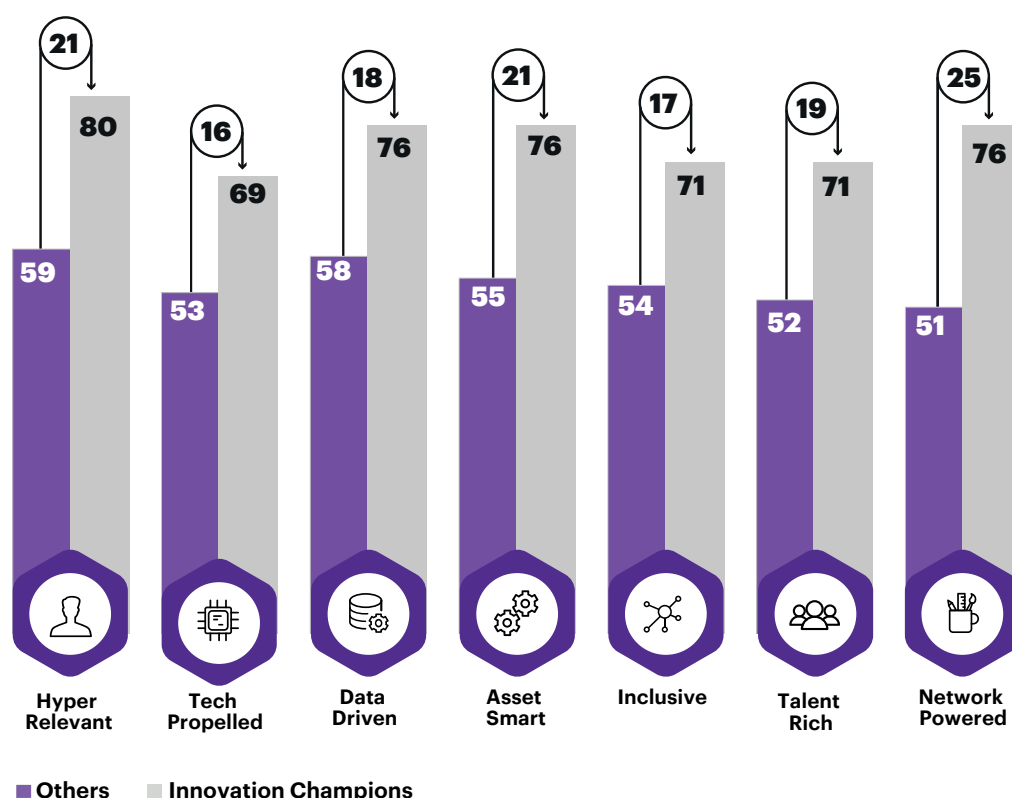


ADOPT THE SEVEN WINNING PRACTICES OF INNOVATION CHAMPIONS

As the Innovation Maturity Index demonstrates, Middle Eastern companies that are doing the best are applying innovation broadly across their activities. This is because they have made significant organizational changes that make them more open to new thinking, more attuned to customer needs, and more adept at using data and digital

tools. These changes are captured in a cluster of seven characteristics we use in the index. Today, the average company in the Middle East lags innovation champions in each of the seven key innovation characteristics by almost 20 points (Figure 8). This is where the average company has the most work to do. By adopting the practices that are associated with these characteristics, the average Middle Eastern corporation can start to release trapped value and accelerate growth.

**Figure 8: Winning Innovation Practices
Innovation Champions vs Others**



Innovation Champions build innovation into the fabric of their business by adopting practices that make them:

1

Data-driven. Innovation champions generate, share, and deploy data to support innovation. They use advanced analytics to discover insights and make recommendations—identifying places to cut costs, for example—and to anticipate future demand. They also use data to guide customer interactions and customize offerings.

2

Hyper-relevant. Innovation champions strive to always be relevant by sensing and addressing customers' changing needs. One way in which they stay hyper-relevant is by collaborating with customers during innovation to identify the most high-potential ideas. These companies also use design thinking to create products and services that create great customer experiences and employ data analytics to personalize customer interactions.

3

Talent Rich. Innovation champions create a new type of workforce—flexible, augmented, and adaptive—to gain a competitive advantage in fast-changing markets. This means using a combination of permanent and temporary resources and adopting tools such as artificial intelligence (AI) to offload routine tasks and give employees super-human capabilities. Innovation champions also invest in developing leadership capabilities to manage innovation and disruption, mix employees and contractors in a “liquid” workforce, and deploy talent in agile inter-disciplinary teams to tackle problems and innovate.

4

Asset smart. Innovation champions adopt intelligent asset- and operations-management approaches to run businesses as efficiently as possible and free up capacity for innovation. These companies use advanced tools to optimize asset utilization and intelligent process automation, combining basic process redesign with AI and robotic process automation. To accelerate innovation, they use corporate venture-capital funds and in-house incubators.

5

Inclusive. Innovation champions take an inclusive approach to innovation and governance, involving a broad range of stakeholders. This might involve, for example, working with ecosystem partners to develop a responsible supply chain or adopting blockchain to increase transparency. Inclusion could also include open platforms that allow third parties to make money (an app store, for example) or developing services that address customer needs for social interaction.

6

Network-powered. To bring the best innovations to their customers, champions strive to harness the power of a carefully managed ecosystem of partners. This might include investments in processes that facilitate the flow of ideas from outside the company or using digital technology to offer products “as a service.”

7

Technology-propelled. Innovation champions master leading-edge technologies that enable business innovation. Companies that are good at innovation are serious about the tools they use. This starts with ensuring that top leaders are advocates for adoption of new technologies. Top companies also make bigger investments in technology than peers and they build technology platforms for collaboration.

Box 1.

HOW THE INNOVATORS DO IT

How do the characteristics of fast-growth companies lead to innovation? Here we illustrate examples of companies using two or three characteristics and approaches.

Nike¹, for example, has relied heavily on the power of its network to streamline supply chains and automate manufacturing to get the latest styles to customers as quickly and efficiently as possible. Working with global manufacturer Flex, Nike has simplified footwear assembly and shifted many tasks to robots. It now produces uppers in 30 seconds, with 30 percent fewer steps and about 50 percent less labor. Nike has increased its hyper relevance with a new digital platform to gather and analyze customer data. And the company is more inclusive, thanks to a new push to use recycled materials that reduces the company’s environmental impact. The payoff: from April 2013 to April 2018, Nike’s shares more than doubled vs. a 62 percent gain for the S&P 500.

In 2017, a bank in the UAE committed to a digital transformation to optimise both front-end and back-end processes. New customer-facing digital systems that make the bank more hyper-relevant include FaceBanking, a video banking portal that connects customers with bank advisors 24/7, and an online banking service aimed at millennials, who make up 26 percent of the UAE population. Internally, the bank is focusing on enhancing security, resilience, flexibility, and data analytics to streamline operations and support new services. The bank has committed to shifting all applications to a private cloud, reducing its asset footprint and costs while improving its ability to serve customers around the world. To support innovation, the bank launched an initiative, through which bank developers collaborate with a network of outside vendors and experts in areas such as AI, augmented reality, and blockchain. It is also investing in recruiting and training the talent to manage the digital transformation and working on building a culture that supports innovation and risk-taking, data-driven decision making, and continual efforts to be hyper-relevant to bank customers.

IT'S YOUR MOVE

In this paper we have shown that there is a way forward for companies that want to wind up on the right side of disruption in the era of digital business. That path has been blazed by the small group of leaders in the Middle East and elsewhere that have executed (or are executing) a wise pivot to the new that gives them the resources and tools to manage disruption and thrive in the digital age. These companies have also learned how to find and release trapped value through innovation. They have a clear innovation strategy, foster an innovative culture and a robust innovation architecture. And by adopting the practices that define organizational change, they have built organizations that can deliver sustained innovation. That's what the future requires.

ABOUT THE RESEARCH

This report combines multiple streams of proprietary research using both outside-in and survey-based research methodologies. For the outside in analysis we measured the current and future value consistency to gauge the level of trapped value within companies as well as exposure to disruption by analyzing 200 of the largest companies by revenue across 18 industries in the UAE and Saudi Arabia.

Between June and August 2018, we surveyed 150 C-suite executives from 11 industry sectors across the UAE and Saudi Arabia. The survey objective was to learn how large companies are prepared to respond to disruptive change, both in terms of improving their innovation capabilities to unlock trapped value and their efforts to use digital technology to transform legacy business and build new businesses. Respondents included Chief Executive Officers, Chief Financial Officers, Chief Innovation Officers, Chief Operating Officers, Chief Strategy Officers and other leaders in equivalent roles, or direct reports to these positions. The sample is balanced between large, medium, and small companies. Illustrative case studies were researched using publicly available sources including company and industry reports.

Our disruptability framework measures an industry’s current level of disruption as well as its susceptibility to future disruption. For the former, we examine two components: the presence and penetration of disruptor companies and the financial performance of incumbents. To gauge susceptibility, we measure three components: incumbents’ operational efficiency, commitment to innovation, and defenses against attack. To measure these variables, we built a bottom-up index using data from 200 companies across UAE and Saudi Arabia.

PRESENCE AND PENETRATION OF DISRUPTORS	PERFORMANCE OF INCUMBENTS	ABILITY TO OPERATE EFFICIENTLY	INNOVATION ACTIVITIES AND INVESTMENT	DEFENSES
<ul style="list-style-type: none"> Presence of incumbent disruptors Presence and penetration of start-ups Value of venture capital flows 	<ul style="list-style-type: none"> Incumbent profitability Scale and consistency of incumbent growth Incumbent bankruptcy rate 	<ul style="list-style-type: none"> Transaction intensity Asset intensity Labor intensity 	<ul style="list-style-type: none"> Scale of innovation efforts Investment in new digital technologies Market perception of ability to innovate 	<ul style="list-style-type: none"> Brand dominance Openness of market Scale of trapped value

We used a two-step method to estimate trapped value:

Financial analysis. We analysed growth of current operations (Current value) and investor expectations (future value) of 200 of the largest companies by revenue.

Survey Analysis. To understand the characteristics of companies that successfully release trapped value, we conducted a three-part survey. First, we gathered demographic and financial information on the sample, then we assessed the companies' approaches to innovation, and finally we asked questions to establish the extent to which companies are applying 49 practices associated with innovation and the ability to release trapped value (the practices were identified based on an extensive literature review).

By studying innovation-related approaches, practices and processes of high growth companies globally we designed the Accenture Innovation Maturity Index framework. By high growth companies we are referring to those who self-report revenue growth and profitability above the industry median over 2012-17 and expect this to continue from 2017-22.

To quantify the relationship between Innovation Maturity Index scores and company growth, we developed an ordered logit econometric model. The model estimates the probability of a company falling within a given band of revenue or profitability growth, conditional on its revenue/income, size, and Innovation Maturity Index score. The results indicate that companies with higher innovation scores are significantly more likely to demonstrate faster growth rates in both revenue and profits. We then conducted two simulations a) to estimate how growth would accelerate for lower-scoring companies if they raised their index scores to the level of top performers, and b) to test the effects of lower-scoring companies raising their scores halfway to the level of top-scoring. We then quantified the theoretical rise in revenue and profits using actual data of all private and public companies in Saudi Arabia and the UAE from the S&P Capital IQ dataset.

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Nike, Inc. Announces New Direct Consumer Offense: A Faster Pipeline to Serve Consumers Personally, At Scale, June 15, URL: <https://news.nike.com/news/nike-consumer-direct-offense> , https://www.nike.com/gb/en_gb/c/innovation/grind

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SPECIAL ACKNOWLEDGEMENT TO:

Vedrana Savic, Ebru Tuygun, Andreas Ludwig, Geoffrey Lewis, Arlene Lehman, Christine Yiannakis, Jonathan Thomas, Geoffrey Nolting, Amy Chang, Davina Naidoo, Dua Mukesh, Babak Moussavi.

Accenture also thanks Oxford Economics for partnering with us to carry out the fieldwork.

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