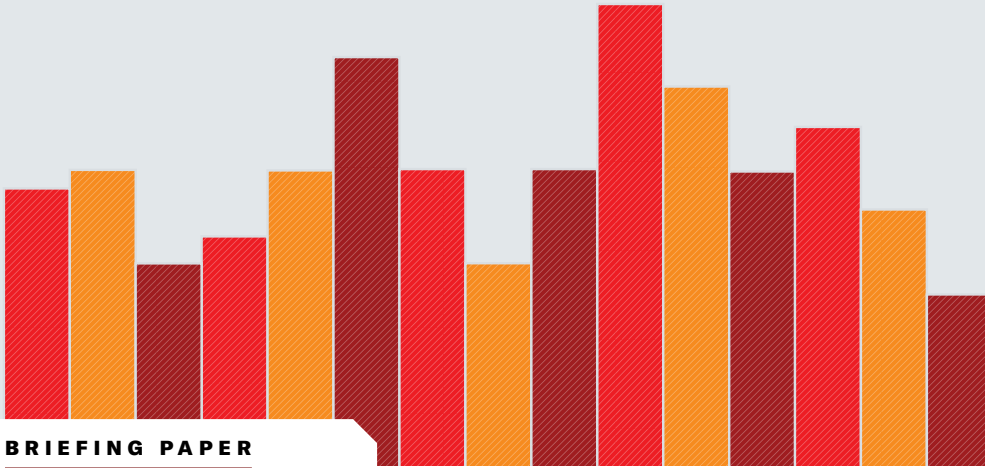




**Harvard
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Review**

ANALYTIC SERVICES



BRIEFING PAPER

Balancing Digital Innovation and Customer Trust in the Middle East and Africa



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Demographic and social shifts across the Middle East and Africa are bringing new attitudes and expectations, and a whole new set of priorities for businesses to reckon with.

With an increasingly younger population and a burgeoning middle class, the region is populated by digital natives and early adopters of new technologies who are used to many of the conveniences these technologies provide. But these consumers, like many of their global counterparts, are ever more discerning in their values and demanding of the brands they buy from.

What's key for businesses is understanding what these values are and making sure they live up to them. One thing the survey shows is that businesses and consumers are often prioritizing different things—for example, businesses rate benefits like responsiveness and personalization as more crucial than their customers do. Meanwhile, what consumers crave is data privacy and security—something some businesses have yet to pick up on.

When consumers can trust businesses, it gives businesses the space and security to innovate. Innovation can bring risk, and consumers across the region aren't afraid to punish businesses they see as risky. That's why trust is central to good innovation—it is the currency that underpins it.

Mastercard has always understood that trust and innovation go hand in hand, which is why we're focused on building a payments ecosystem that works for everyone. From governments and banks to merchants and consumers, we all need to share in the digital economy.

There are plenty of fascinating findings in this report, and lots of inspiring insights that show how much things are changing—and how quickly. The Middle East and Africa make up a diverse region filled with diverse people. Change is the one constant we can rely on.



Amnah Ajmal Sharma
Executive Vice President for
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Balancing Digital Innovation and Customer Trust in the Middle East and Africa



Consumers in the Middle East and Africa (MEA) are often early adopters of new products and services—especially when they are offered by brands that do good. These consumers are eager for a better customer experience with brands whose values are aligned with theirs and with companies that have demonstrated care and concern in the past. What’s more, just over half (54%) of MEA customers are willing to exchange their personal data to receive an excellent experience that anticipates their needs, compared with 36% of global customers, according to a January 2022 Harvard Business Review Analytic Services survey.

MEA consumers’ embrace of a digital world that is purpose-driven and built on connection bodes well for businesses in a region that prioritizes innovation—provided these businesses also take note of consumers’ growing desire for their data to be kept secure and private. With economic activity increasing online, security and privacy are emerging as foundational not just for trust but also for innovation. While MEA businesses recognize that security and privacy are foundational to gaining consumer trust, they may be overlooking its importance as a lever for innovation, the survey found.

At the same time, the region is undergoing significant demographic and social shifts. The population is young—and getting younger. Around 60% of Africa’s population is younger than 25,¹ and UNICEF estimates that half the population of the Middle East and North Africa is 24 or younger.² These consumers and employees have grown up with cell phones and the internet, and they have different expectations than previous generations, says Ayman Ismail,


HIGHLIGHTS

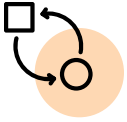
Consumers in the Middle East and Africa (MEA) are **often early adopters of new products and services**—especially when they are offered by brands that do good.

MEA businesses **serve an increasingly young population**, full of consumers who are eager to embrace digital experiences and online services—provided they feel safe and secure while doing so.

Balancing innovation imperatives with trust drivers can be challenging, as **companies may need to contend with increased risk**.

Due to rounding, some figures in this report may not add up to 100%.





“Now, much of the Middle East and Africa is experiencing the same phases of digital transformation that the U.S. and Europe went through 20 or 30 years ago,” says Ayman Ismail, the Abdul Latif Jameel Endowed Chair of Entrepreneurship and associate professor at the American University in Cairo (AUC) School of Business, and the founding director of the AUC Venture Lab.

the Abdul Latif Jameel Endowed Chair of Entrepreneurship and associate professor at the American University in Cairo (AUC) School of Business, and the founding director of the AUC Venture Lab, a business incubator. “Younger consumers are faster to adopt digital payments, e-commerce, and e-learning environments, for example, and they are more comfortable online,” he says. The region has thus been undergoing a push to digitize. “Now, much of the Middle East and Africa is experiencing the same phases of digital transformation that the U.S. and Europe went through 20 or 30 years ago,” says Ismail.

Digitization has a long history in the region. It has evolved due to the introduction of transformative technology—such as smartphones—that has enabled the region to bypass, or leapfrog, traditional development stages to some extent and connect its population regardless of infrastructure challenges. Despite these advances, the International Finance Corporation estimates that only 22% of Africans have access to the internet. And while user rates in the Middle East are generally high, digital inclusivity remains a challenge, as noted by the Wilson Center, a U.S.-based think tank, in a report published in 2021.

Another impetus for transformation comes from governments looking to formalize local informal economies and expand their tax base—a trend that incentivizes digital payments in particular, Ismail adds.

More than half of MEA businesses agree that innovation is a priority, and 80% said high levels of consumer trust make innovation easier. Businesses in the region are faced with the challenge of innovating to keep abreast of these changes and satisfy consumer demand for richer, more satisfying experiences while maintaining consumer trust. However, consumers in the region are also quicker than their global peers to punish businesses for adverse events by withdrawing their trust, which raises the stakes for businesses.

Contrary to its staid or conservative image, the financial services sector is on the cutting edge of innovation in the region. Financial services and associated technology (fintech) are one of the largest areas of innovation across the region. Fintech now accounts for half of all tech startups in Africa,

according to research by McKinsey & Co., and financial services on the continent are at an inflection point.³ McKinsey expects significant fintech growth and value creation ahead, as cash is still used for about 90% of transactions in Africa. In the Middle East, the number of fintech companies is expected to reach almost 500 this year, up from 30 in 2017.⁴

This report explores how businesses in the region are digitizing their processes and embedding innovation while ensuring that they continue to meet their customers’ expectations for reliable, secure systems and maintain their trust. It explores what companies across the region are getting right and offers best practices to embed innovation and promote trust across the Middle East and Africa.

A New Way of Doing Business Takes Root

Innovation is thriving throughout the Middle East and Africa, with the announcement of the region’s first unicorns—startups valued at \$1 billion or more—including Dubai-based ride-hailing company Careem, valued at \$3.1 billion in 2020, and Egyptian fintech provider Fawry. And while Africa in particular has lagged in the startup stakes, the number of startups receiving venture capital funding on the continent grew by a factor of seven between 2015 and 2020.

Despite this growth, a 2021 study by Boston Consulting Group estimates the continent still receives only 0.3% of global research and development spending. Meanwhile, Middle Eastern countries are emphasizing broad-scale digital transformation to create favorable conditions for the digital economy and improve current internet infrastructure.⁵

Companies and consumers throughout the region have accelerated their use of digital solutions and online services over the past two years, challenging traditional ways of doing business. The Harvard Business Review Analytic Services survey found that more than half of MEA businesses say they struggled to build trust during the Covid-19 pandemic when they were unable to meet in person, but only 39% said remote engagements made it harder to build trust. For 53% of MEA businesses, an inability to meet commitments and expectations was viewed as damaging to consumer trust.

“The primary driver for innovation is about becoming future ready and meeting the changes in customer demands. The pandemic created more focus and necessitated greater speed—it’s been a very strong learning environment.”

John Anderson, head of scheme management and partnerships at Standard Bank

Covid-19 has spurred innovation as some companies raced to digitize services. “The pandemic helped us to innovate. We were lucky to have a business with little physical interaction. More people adopted digital money during the pandemic, and it helped accelerate the scale of our business,” says Serigne Dioum, chief financial officer and head of mobile money at mobile network provider MTN, which operates in 19 markets across Africa, Afghanistan, and Iran.

South Africa-based Standard Bank, operating in 20 countries on the continent, also found that innovation accelerated. “Covid-19 is certainly not the primary driver of the need to innovate, but it has sped things up,” says John Anderson, head of scheme management and partnerships at Standard Bank. “The primary driver for innovation is about becoming future ready and meeting the changes in customer demands. The pandemic created more focus and necessitated greater speed—it’s been a very strong learning environment,” he asserts.

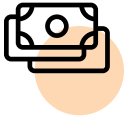
Trends such as the growing digital economy, as well as associated expectations for digital payments and services, connectedness of customers, and the rise of platform businesses, have driven innovation focus at Standard Bank—points of focus that closely correspond to the survey’s findings about innovation priorities in the region. For MEA businesses, as for their global counterparts, the top innovation drivers are to improve existing products and services (63%), increase profitability (57%), and build customer loyalty and lifetime value (54%).

Overcoming Hurdles for Steady Gains in Innovation

With relatively fewer large companies in the region and more informal businesses, there is less funding for research and development in the region, says AUC’s Ismail. Similarly, startups can struggle to access finance, although this is starting to change as countries begin to prioritize the sector. “One way around this constraint is for businesses to practice ‘frugal innovation,’ which aims to optimize existing business models without large investments and produce low-cost solutions for agile deployment with relatively little financial risk, although scalability can be limited. We have a lot of that creativity in Egypt,” he says.

Funding is starting to flow toward tech startups with the emergence of venture capital funds targeting new companies in the sector, as well as attention from large regional investors, development finance institutions, and governments. In Egypt, there are also initiatives to provide subsidized capital to small and medium-sized companies via a central bank directive.

Partnerships between startups and established companies have always supported innovation, says Ismail. “In developed markets, large companies learned to innovate by connecting with, investing in, or acquiring startups. But in other parts of the world, companies have not yet learned how to connect with startups, and this will be an interesting process for them,” he says.



“Cross-border transactions look simple and straightforward but are not easy to implement. It took us time to secure regulatory approval, implement, and launch,” says Serigne Dioum, chief financial officer and head of mobile money at mobile network provider MTN.

Partnering with nimbler startups can be especially helpful for companies that operate in heavily regulated industries, as Standard Bank’s Anderson makes clear. “We realized that innovation by ourselves is difficult, and the fintech environment is undergoing substantial innovation,” says Anderson. “The question became ‘How do we leverage what they’re doing?’”

While banks face regulatory and compliance constraints that can limit innovation, fintech providers can work more freely, says Anderson. That’s why Standard Bank has partnered with fintechs to drive innovation throughout the group. The bank acquired Firepay, the developer of South African mobile payments solution SnapScan, adding biometric identification and bringing Firepay’s capabilities to the bank’s own processes.

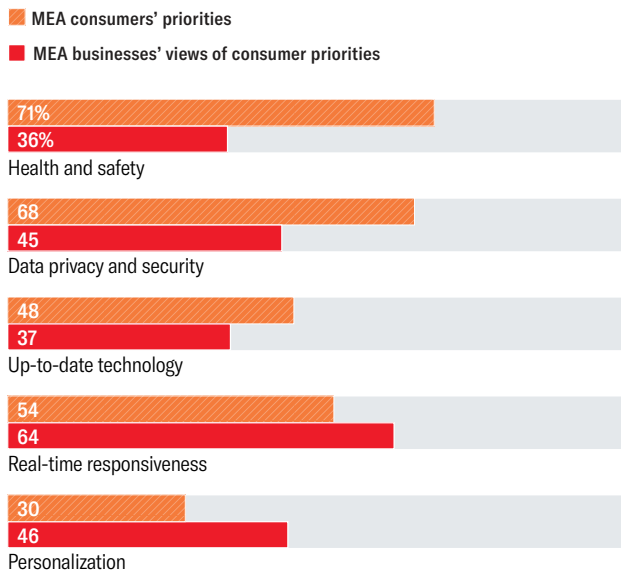
MTN also prioritizes partnerships. The company has the joint ambition of building the largest fintech platform in Africa while also enabling innovation from partners and stakeholders, says MTN’s Dioum. “We need to keep innovating to be ahead of everyone else,” he says. For instance, MTN was the first mobile money operator to provide cross-border transactions. “Cross-border transactions look simple and straightforward but are not easy to implement. It took us time to secure regulatory approval, implement, and launch,” he says.

In another first for mobile money, MTN has also made its application programming interface (API) available to software developers, which allows them to build additional solutions, further fueling innovation. By partnering with developers, MTN benefits from outside solutions and accelerates its progress while continuing to meet changing expectations.

FIGURE 1

Out of Step with Consumer Priorities

Businesses underestimate consumer concern over safety and data security, but overestimate other factors.

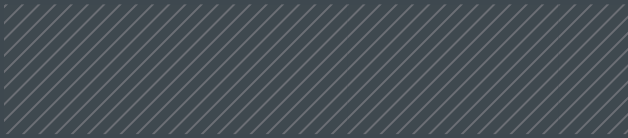


Source: Harvard Business Review Analytic Services survey, January 2022

A Mismatch between Consumers and Businesses

Smartphones and always-on connectivity have created an environment where consumer expectations have fundamentally changed and now center on immediate gratification, explains Anderson. In looking at where or how to innovate, businesses naturally focus on what they think customers are looking for. Consequently, two-thirds of MEA businesses prioritize responding to their customers’ needs in real time. Most MEA businesses also prioritize convenience and pricing, yet they may not realize that these areas are less of a concern for their consumers.

In fact, businesses are drastically underestimating consumers’ interest in key areas. Seventy-one percent of MEA consumers rate “health and safety” as an innovation area that matters most, compared to less than one-third (30%) of businesses. Similarly, 68% of consumers view data security and information privacy as a top innovation area, but only 45% of businesses consider it so. **FIGURE 1** Companies also don’t realize the extent to which consumers want up-to-date technology (37% of businesses versus 48% of consumers). Businesses overestimate consumers’ interest in real-time responsiveness (64% versus 54% of consumers) and personalization/customization (46% versus 30% of consumers), too. However, businesses and consumers are more aligned on costs and environmental and social impact.



80%

of Middle East and Africa consumers are eager to embrace digital benefits but will not buy from businesses or brands they don't trust.



“Biometric identification has enhanced payment experiences and improved security. But in innovating, you potentially create points of weakness. We often see attacks increase in areas where we are innovating, because fraudsters think there’s a potential weakness,” says Standard Bank’s John Anderson.

For most consumers in MEA, privacy is rising in importance, but they’re also looking for a better customer experience. Among MEA consumers, 84% indicate that privacy and security are more important to them than ease of purchase.

Almost half (47%) of consumers are also early adopters of products and services, and they are willing to give up some of their data in exchange for better experiences—including tailored product recommendations, personalized offers, more convenient purchasing, and more personalized experiences. In total, 83% of consumers in the region said they connected emotionally to businesses or brands that deliver a good customer experience.

“You have to solve the problems customers are facing,” notes Dioum.

Consumers in the region have underlined the importance of strong values. In total, 85% of consumers said they were more likely to buy from brands that demonstrated care and concern for their customers during Covid-19, and 84% said they were more likely to buy from brands that showed that same compassion for their employees. And 80% of MEA consumers said they prioritized buying from businesses that act on causes they care about, including the environment, racial justice, supporting small businesses, women’s economic empowerment, disaster relief, aid, and more—a far higher proportion than the global average of 63%.

Consumers also enjoy transactional innovations that make buying more convenient. Two-thirds of consumers said easier online ordering was most valuable to them in the past year, and 60% said they valued new digital payment options; more than half said they valued improved website or app experiences (55%), better access to customer support (52%), discounts (51%), and easier refunds (51%).

Building and Maintaining Trust

For financial services providers in the region, data security and payment systems are business-critical issues that are foundational for their reputation. “Your ability to recover from issues depends on how quickly you resolve them, how often issues take place, how you communicate with customers, and how you equip them to deal with their customers in turn. But

recovery is difficult, and it takes a long time,” asserts Anderson. “The moral of the story is that you don’t want to lose trust, because rebuilding is very difficult.”

While MEA consumers are eager to embrace digital benefits, more than 80% will not buy from businesses or brands they don’t trust. Businesses in the region understand the importance of trust for their own sustainability, with more than three-quarters saying trust improves customer loyalty and more than half saying it provides a competitive advantage.

MEA consumers are more sensitive than their global peers to factors that damage trust in brands, and data security is a top concern. Around 60% of consumers in the region said incidents in which consumer data has been mismanaged or exposed through a cybersecurity breach would damage their trust. Fifty-five percent would withdraw their trust if businesses were unable to meet commitments, such as during a payment systems outage. Businesses are aware of the risk, with 90% saying a breach in trust would damage their reputations.

Balancing innovation imperatives with trust drivers can be challenging, as companies may need to contend with increased risk. “Biometric identification has enhanced payment experiences and improved security. But in innovating, you potentially create points of weakness. We often see attacks increase in areas where we are innovating, because fraudsters think there’s a potential weakness,” says Anderson. Governance processes are essential to mitigating this risk, he adds.

Innovation brings change, and with it, there are risks of customer dissatisfaction or failure. “It’s not always clear what the implications of a change are. Trust comes with predictability, and innovation creates disruption. Those two words are opposing, so it’s very hard to have innovation and trust at the same time,” says Ismail.

Reliability and security are nonnegotiables for consumers in the region. However, the data shows that these factors on their own are unlikely to be sufficient for consumer regard. MEA consumers want to see purpose-driven brands whose values align with theirs, with 90% prioritizing purchases from these brands. Here, ethics as a dimension of trust becomes more important.

MTN is clear about its purpose in order to build trust relationships among stakeholders across the board—from

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Ayman Ismail, the AUC School of Business and the AUC Venture Lab

customers who rely on the company for everyday transactions to governments and regulators that have their own goals for economic development and financial inclusion. “Our ambition is to make sure that we give dignity to more people by providing appropriate financial products,” says Dioum. “Customers who were previously unbanked can now save and become financially independent, while MTN also supports more than a million sales agents across its operations,” he says.

“We’re a private-sector profitable business, but we’re also making sure that we are driving financial inclusion in Africa,” Dioum says. By sharing MTN’s purpose and vision, Dioum and his colleagues can find common ground with stakeholders and secure the buy-in they need to implement their business strategy.

Driving Innovation across the Middle East and Africa

The experiences of Standard Bank and MTN offer lessons for other companies in the region looking to embed innovation while maintaining the trust of their stakeholders.

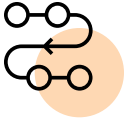
Build security into products and be transparent when issues arise. Customers expect secure, reliable systems that they can trust to keep their personal data safe and that are appropriate for their needs. If an outage or security breach occurs, organizations should let customers know immediately

and tell them how the company plans to fix it. “Always acknowledge issues, escalate what needs to be escalated, and take appropriate action. Communication is at the core of rebuilding trust,” says Dioum.

Communicate the company’s vision and values. MEA consumers prioritize buying from brands that support their values, and communicating a clear vision can support stakeholder engagement. “Being a purpose-led business goes beyond sustainability efforts,” says Anderson. “It’s about how we contribute to Africa’s growth. We started thinking about where this growth is coming from and where we can help businesses grow and succeed.”

Make innovation part of the company culture. For large companies with legacy infrastructure and set processes, innovation can be difficult to implement. Companies can benefit from a considered 360-degree approach to innovation. “We are embedding innovation into our organizational culture,” says Anderson. “Innovation needs to be organized, driven, funded—and employees must be measured on it. When innovation is a core competence, it becomes a strategic driver rather than ad hoc.”

Partner with like-minded companies to boost innovation. Both MTN and Standard Bank recommend a partnership approach to innovation. Companies don’t have to innovate



“We try, we fail, we learn, we adapt. Sometimes when you innovate, your initial plans are different from what you end up doing, because you realize along the way you need to adapt and change,” says MTN’s Serigne Dioum.

on their own, and those initiatives and efforts can greatly benefit from an ecosystem approach, with suppliers bringing new solutions and capabilities to the table, developers sharing code, and larger enterprises bringing scalability to smaller organizations.

Conclusion

MEA businesses serve an increasingly young population, full of consumers who prioritize strong brand values and are eager to embrace digital experiences and online services—provided they feel safe and secure while doing so and trust the brand they’re buying from. Trust remains an important lever for customer loyalty, business sustainability, and, ultimately, innovation itself.

Over 70% of MEA businesses recognize that service reliability and availability are paramount. However, less than half (42%) recognize the importance of data security and privacy to customers, especially as digital tools and

experiences become ubiquitous. To safeguard the trust of consumers and earn a license to innovate in the future, businesses will need to do more.

Businesses operating in heavily regulated industries may feel constrained in how they can act. The financial services industry shows that innovation can be derived from collaboration. Sometimes, this requires partnering with more agile startups that can bring solutions to market faster. Companies that acquire or invest in startups can benefit from a culture of innovation and help scale solutions that startups provide, as Standard Bank did. In other cases, sharing a business’s own processes and knowledge can result in new solutions, as MTN hopes will result from sharing its API.

Ultimately, innovation requires flexibility and commitment. “We try, we fail, we learn, we adapt,” says Dioum. “Sometimes when you innovate, your initial plans are different from what you end up doing, because you realize along the way you need to adapt and change.”

Endnotes

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