

Digital Horizons

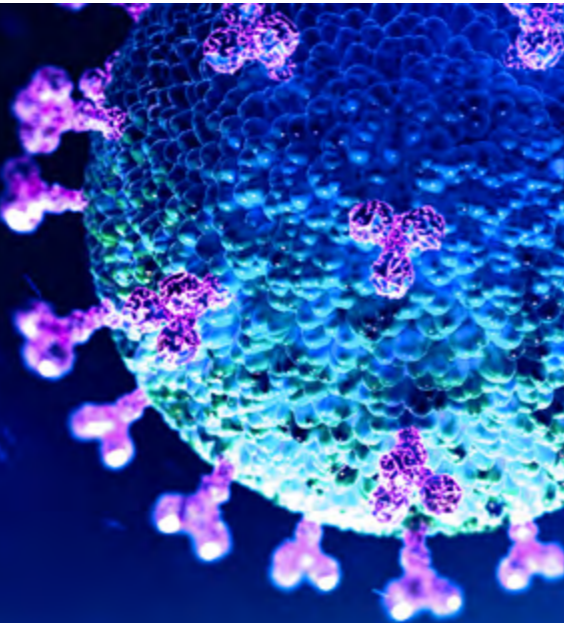
A series of reports exploring CEE's digital future

Introduction: CEE's digital ambitions fuelling future economic growth?

2020



Data highlights



92%
believe that the pandemic will accelerate future digital change in their business

Response to the pandemic is radically shifting the pace of digitalisation



56%
see the public sector making some progress in digitalisation

Governments need to embrace digitalisation more to ease the bureaucratic burden



86%
are worried about AI legal liability issues

Response to the pandemic is radically shifting the pace of digitalisation



58%
already use AI solutions

The benefits of cost and efficiency are driving businesses to use AI



65%
plan to increase their IT budget next year to invest in digitalisation

Most companies anticipate the need to commit greater resources to digital



98%
consider ethics as part of their current guidelines and policies

Safeguarding data, considering the human cost and making decisions based on brand values are key

CEE's digital ambitions fuelling future economic growth?

“Organisations often confuse digitisation with digital transformation”



Amit Joshi,
Professor of AI, Analytics
and Marketing Strategy,
IMD Business School



As the volume of data generated by commercial activity continues to grow at an exponential rate, a digital transformation of the global economy is well underway. For the countries in CEE, which has already become one of the most attractive regions in which to invest, it will deliver up to EUR 200bn in additional GDP by 2025, according to McKinsey. This will create an economic boost for companies operating in CEE and increase prosperity for the 150 million people who live and work there.

So what is digital transformation? Amit Joshi, Professor of AI, Analytics and Marketing Strategy at IMD, notes that **‘organisations often confuse digitisation - an analogue or manual process which is converted to digital - with digital transformation.’** What digitisation does, he explains, is to create lots of data, whereas digital transformation uses that data to transform business activities, processes and products to maximise and monetise the opportunities which are provided by digital technologies.

As well as opportunities, there are also risks. Prudent businesses recognise the complexities of digital transformation rather than making assumptions that it is risk free.

Strategically, as they seek to develop the enormous commercial potential of technologies that depend upon the newly created digital infrastructure, they have to strike a balance by satisfying regulatory compliance obligations and maintaining vigilant corporate governance in how they manage the enormous volumes of data at their disposal.

To make the most of digital technology, the need for immediate, smooth connectivity is also having considerable repercussions on corporate strategy. In some cases, much has already been achieved. **‘Over several years, we have undertaken very heavy investment in digitalisation development across CEE,’** says András Fischer, Head of Innovation at OTP Bank.

Evaluating the impact of new digital solutions can be challenging, notes Kamil Šebesta, Legal Director, Medical Devices Group at Johnson & Johnson, **‘When it comes to new technologies, it may be difficult to predict all the risks, but we never compromise on patient safety and compliance,’** he says.



Pandemic accelerating change

The growing influence of digital technology is further evident from a survey conducted by CMS of nearly 100 participants across the CEE region. Drawn from a broad range of sectors including financial services, TMT, manufacturing, life sciences, consumer products and energy, 65% of respondents see digitalisation as a priority in realising their immediate business goals. Most believe that it will reduce costs, making their operations more productive and more competitive.

Although the digital trend started well before Covid-19 appeared, the dramatic global response to the pandemic has clearly acted as a further spur in the digital agenda of multiple CEE businesses: 38% of respondents have completed or initiated new projects as a result while 45% say that it has served to accelerate ongoing projects. Notably, 92% (46% very much; 46% somewhat) believe that the pandemic will accelerate future digital change in their business.

One example is the increased prevalence of e-signatures for commercial contracts and corporate documents. Three quarters of survey respondents anticipate that IT budgets will be enlarged next year to support digitalisation with 40% of them expecting a double-digit increase. They highlight financial services and life sciences as the standout sectors in which digitalisation will be most driven by the fallout from the pandemic, followed by manufacturing, automotive and energy.

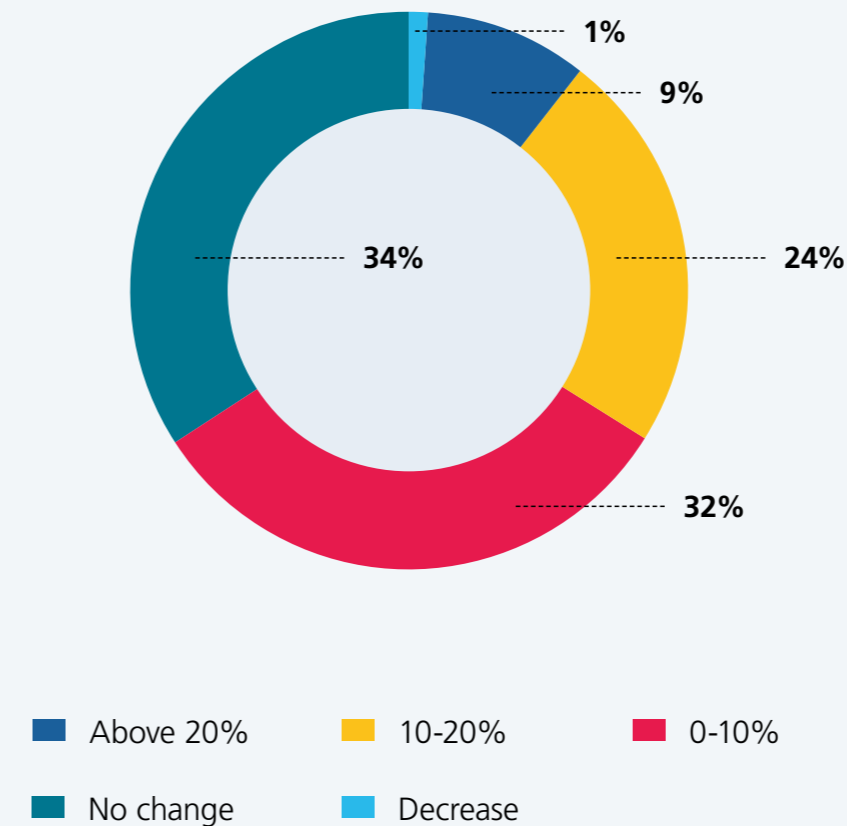
'With Covid, all digital activities have expanded because of the pressure to look for efficiencies using digital tools,' says David Kozák, General Counsel EMEA at Honeywell. ***'In terms of customers, not only for us, but also for other companies,'*** adds Markus Fleischer, who is responsible for Corporate Development at A1 Digital, ***'Covid has provided evidence of which digital services deliver value.'***

In many CEE countries, existing high-quality digital infrastructure is already boosting the levels of e-commerce and online banking activity: 4G coverage is excellent, ultrafast broadband is commonplace and affordable for most citizens, while the CEE region benefits from one of the world's highest contactless-payment adoption rates.

'We have Industry 4.0: smart offices, smart factories and production lines, where digital infrastructure is the base of operations,' says Dóra Petrányi, CEE Managing Director, Head of TMT, Hungary at CMS. ***'It's no longer just financial services and telecoms.'***

Three quarters of survey respondents anticipate that IT budgets will be enlarged next year to support digitalisation

By how much will your IT budget increase next year to support / invest in digitalisation?



"We have Industry 4.0: smart offices, smart factories and production lines"



Dóra Petrányi
Partner, CEE Managing Director, CMS

Is CEE 5G ready?

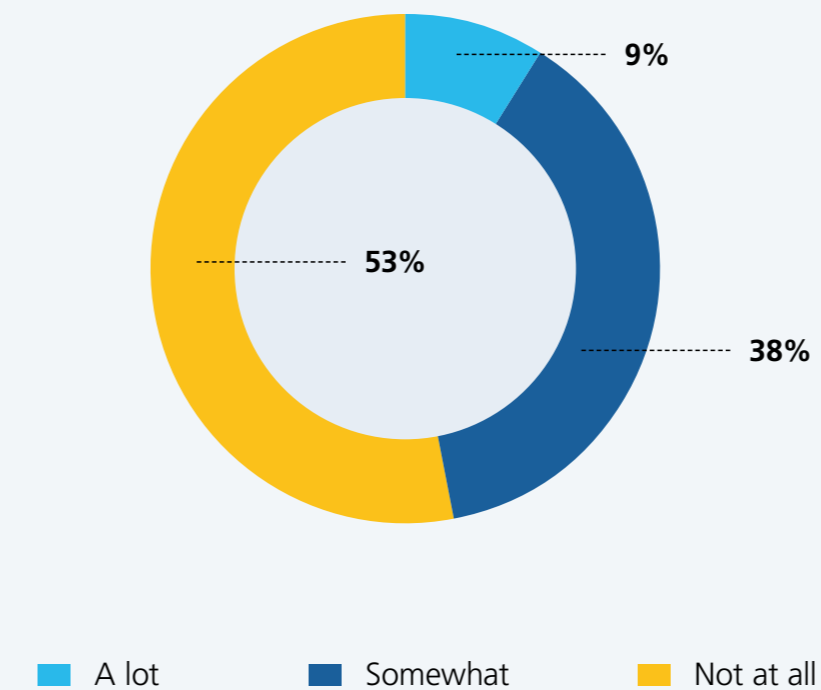
Of all digital technologies, 5G continues to make the biggest headlines. Viewed by some as a transformative technology, not least for CEE companies, full European 5G standardisation is not yet complete. Although more network sharing is already happening, there is clearly some uncertainty from regulators at a national level. For businesses throughout the region, certainty is a paramount concern.

Survey respondents are divided on how much their digital agenda is reliant on 5G roll-out: only 10% said a lot; 36% somewhat and 54% not at all. Magyar Telekom successfully bid for a 5G commercial licence in Hungary earlier this year. But much remains to be done before it is fully operational. **'Applications using 5G - that's not the present, but the future,'** says Gergely Barczy, general counsel at T-Systems Hungary, an affiliate of Magyar Telekom.

Many would argue that the most important component of CEE's digital future comes with systems and processes that use artificial intelligence (AI) as part of their operation. Notably, among survey respondents, 58% already use AI solutions. But there is widespread concern about risk: 45% are concerned and 15% very concerned about security risk, while 86% are worried (including 10% who are very worried) about potential legal liability issues.

Nevertheless, opportunity and risk are equally balanced: 83% (19% to a significant degree) are planning future AI investment. Guidance and regulation are seen as key with 60% of respondents expressing a desire for more of both. **'It's a permanent debate between the business divisions and data scientists on one side and compliance and data protection on the other,'** says Ara Abrahamyan, Chief Digital Transformation Officer at the Erste Group.

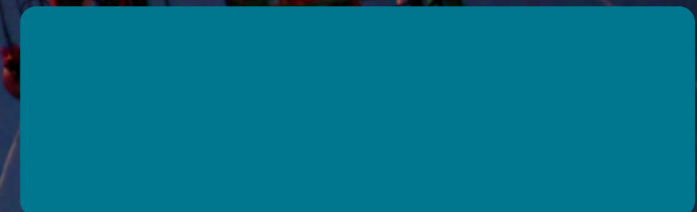
How much does your digital agenda rely on 5G roll-out in your CEE jurisdictions?



"A permanent debate between the business divisions and data scientists on one side and compliance and data protection on the other."



Ara Abrahamyan
Chief Digital Transformation
Officer, Erste Group



AI regulation - (un)necessary disruption?

Responsibility for future regulation of AI resides both with national governments in CEE and, more immediately, at an EU-wide level. As with developing the necessary infrastructure to ensure that digital transformation is possible, there is frustration concerning the pace at which change is being implemented.

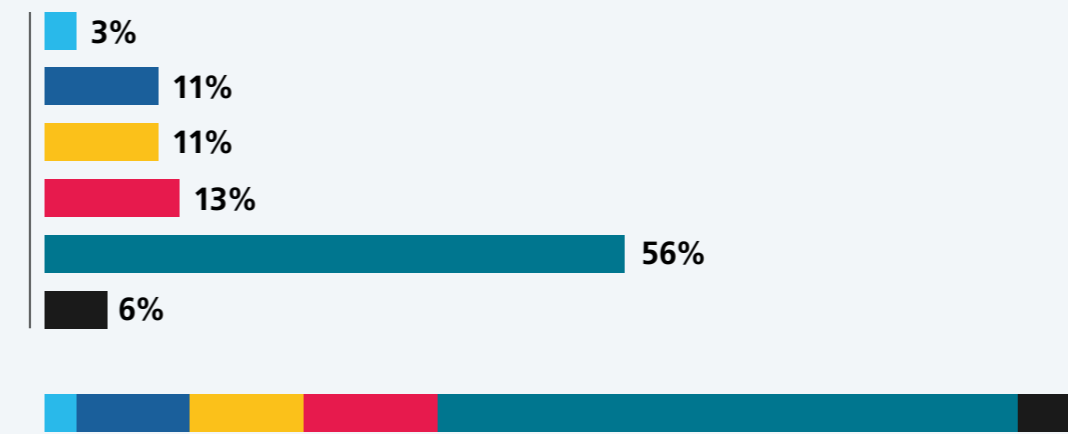
Conversely, some fear that introducing new AI-related regulation that is too onerous or restrictive may hamper growth. **'Everyone understands that AI machine learning is less to do with algorithms, and more to do with the variety and quantity of data you collect,'** says Joshi. **'It's easy to puncture this balloon before it's fully expanded. If you regulate and prevent companies from collecting data, you might see AI not taking off in your country or your region – that's a real fear.'**

Whatever regulations may eventually be put in place, the ultimate responsibility for regulatory compliance and the ethical use of data under their control resides with companies themselves. Here, as with GDPR, there may be a difference in standards between what the law requires and what is deemed ethical. In this context, the role of governments is to regulate as soon as is practicable, achieving the right balance to ensure that any difference is not too great.

By fundamentally disrupting the business landscape, the pandemic has significantly accelerated the shift to digital. The digitalisation outlook in CEE is therefore very positive, although a lot remains to be done: most organisations that have engaged in digitisation are still in the relative early stages of their digital transformation. To achieve that transformation, having the right local advice at hand is critical.

Is public bureaucracy an impediment to your company's digital agenda?

To what extent do you feel that public authorities in the CEE jurisdictions in which you operate support your company's digital agenda?



- Public authorities have kept pace with/facilitated digitalisation in the private sector
- Public authorities have made some advances, but the level of bureaucracy is low
- Public authorities have not made many advances in this area, and the level of bureaucracy is high
- Public authorities have not made many advances in this area, but the level of bureaucracy is low
- Public authorities have made some advances, but the level of bureaucracy is high
- Other



Stress-test: is your business' digital strategy future-ready?



Does the growth in your IT investment create a fast-enough route to digitalisation?

Is your strategic planning sufficient to meet your digital transformation needs?

In developing your digital footprint, are you taking sufficient account of the risks?

As AI increases in your operations, have you put plans in place around mitigating potential legal liability?

Are you keeping up to date with new regulations that affect your digital activities?



Talk through your digital strategy with us

If you would like to consult on or stress-test your business' digital strategy with your local CMS experts, please do get in touch with us.

CEE



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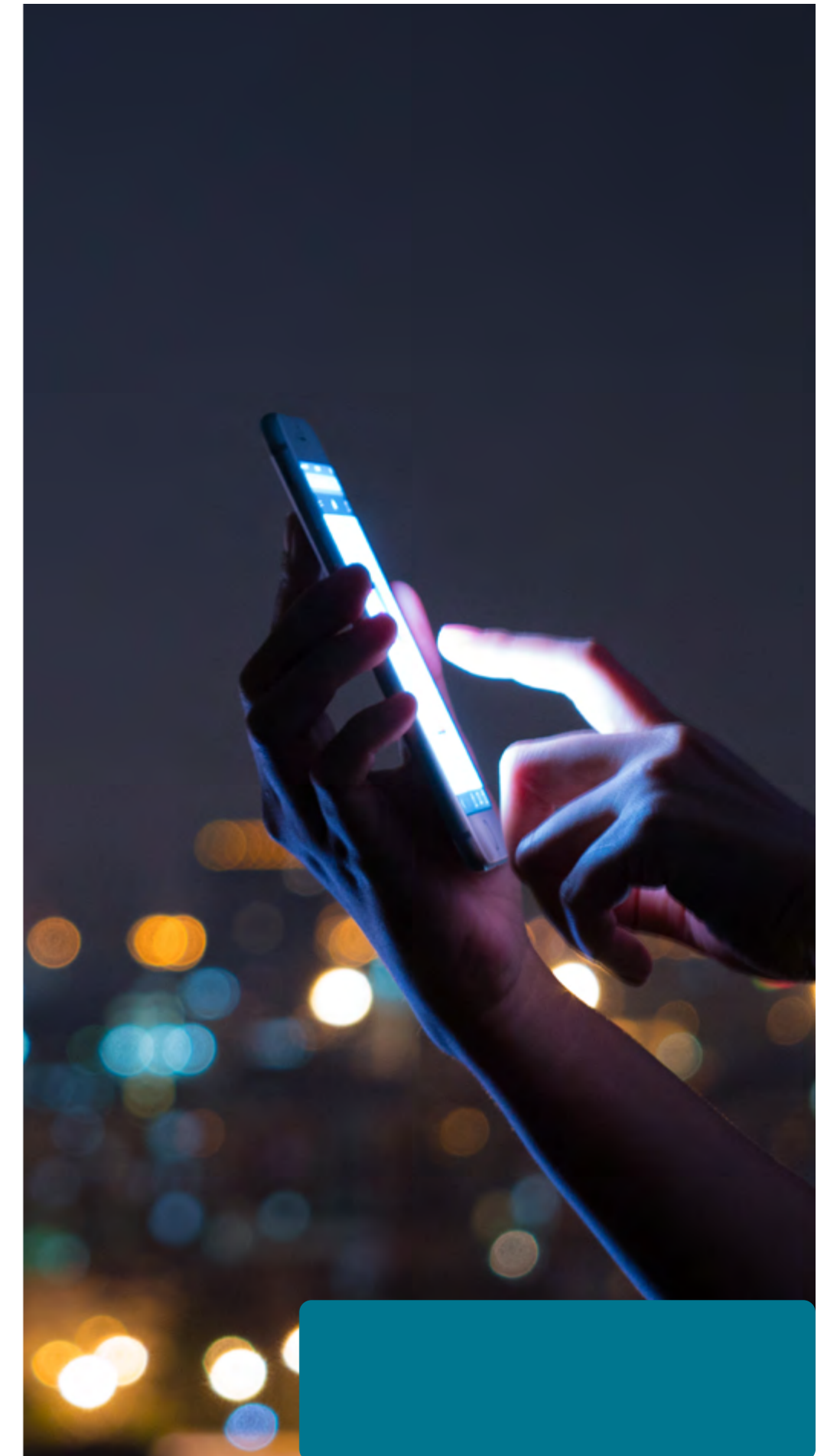


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Methodology

18 
countries in CEE

c.100 
participants

 **Digitalisation strategies**

 **Investment plans**

 **Regulation and risk**

As part of this series of Digital Horizons reports, a survey was conducted by CMS in July-August 2020. The survey canvassed the views of nearly 100 participants whose operations span 18 countries across the CEE region: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Kosovo, Latvia, Lithuania, Macedonia, Montenegro, Poland, Romania, Serbia, Slovakia, Slovenia and Ukraine.

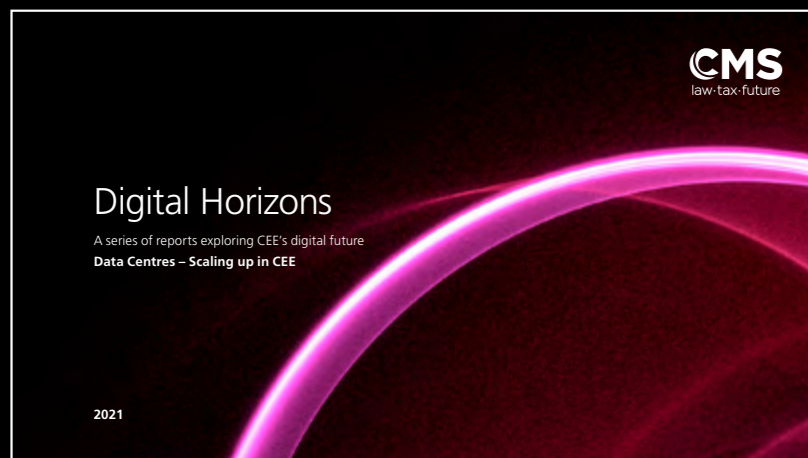
In seeking the views of senior professionals in business/management, IT/IT Security and legal/compliance, a broad range of sectors were included: aviation, consumer products, energy, financial services, hotels & leisure, life sciences & healthcare, manufacturing, private equity, professional services, real estate, and TMT.

Respondents were asked questions focussed on a range of topics in relation to their digitalisation activities and priorities, which together form part of their strategic digital agenda. These include: AI, data analytics, ethics, IT investment plans, 5G, operational and legal risk, as well as regulation and compliance.

The data included in this report is drawn entirely from this survey. The research and writing of this report was conducted in collaboration with Dominic Carman, journalist and writer.



Digital Horizons: A series of reports exploring CEE's digital future



Read the rest of the Digital Horizons series [here](#):

Introduction: CEE's digital ambitions fuelling future economic growth?

Closing the gap – CEE's digital infrastructure and business ambition

Data and ethics – what does the future hold for CEE?

Innovation vs regulation – can AI redefine CEE's economic future?

Technology transforming industries in CEE – what's next?

Stress-test: is your business' digital strategy future-ready?

Data Centres – Scaling up in CEE



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