

## **A Boardroom Perspective on Digital Transformation**

**Theme:** Digital Transformation – Digital Strategy

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### **ABSTRACT**

#### **Purpose**

The paper presents a strategic transformation framework intended to enable the senior management of established, ‘incumbent’ companies to assess the potential strategic impact of digital technologies at industry and company level. Conceptually, the objective is to bridge a gap between classic strategy models and more operationally-oriented business transformation models. Managerially, the paper provides practical guidelines for non-tech companies to take advantage of digital technologies as well as to identify and counter emerging threats.

The paper is written from a practitioner’s perspective and intended to stimulate discussion rather than to present final research conclusions.

#### **Approach**

The paper presents a transaction cost-economics based transformation framework first published in 2000. Four hypotheses on the impact of digital technologies on the strategy and structure of companies are derived from the framework and discussed. The hypotheses are examined through a 15-year longitudinal review of industry-level case studies on digital transformation. The methodology is predominantly conceptual, although conscious effort is made to focus on industry-level, generalizable case studies rather than single-company examples.

## Findings

The analysis finds strong support for the four hypotheses derived from the transformation model:

- 1) Efficiency is not enough – using digital technologies to enhance current products, processes and practices does not provide competitive advantage, yet is the focus of many digital transformation programmes
- 2) Value is shifting from tangible products to value added services – access to customer information is a critical success factor in providing services. Ability to gain access to customer information therefore increasingly becomes a source of competitive advantage
- 3) Several industries are delayering into infrastructure owners, operators, and controllers of the customer experience – access to customer information enables companies to become platforms, or orchestrators of these value systems, thus gaining advantage
- 4) Industry boundaries become meaningless – leading platform companies are rapidly entering new sectors by leveraging their customer experience (and other) capabilities. An industry as a unit of competitive analysis and strategic decision making is increasingly irrelevant

The findings apply across a diverse set of industries such as Automotive, Real Estate, Financial Services, and Hospitality. The implications for incumbent company strategy and structure are transformative, rendering many current strategic management practices obsolete.

## Value

The framework for analyzing the potential impact of disruptive, digital technology-enabled challenges at company and industry level should enable managers to avoid some of the pitfalls of digital transformation, such as succumbing to hype, overestimating short-term impacts of technology, and underestimating the long-term strategic implications. Better strategic decision making enables senior management and Boards to better fulfil their fiduciary duty to a company's shareholders through more effective resource allocation.

The paper also contributes to management theory by providing a conceptual connection between transaction cost economics, strategic management, and technology management.