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Impact of Digital Transformation on Firm Performance: A Comparative Study of Germany

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# Strategy





#### Abstract

#### Impact of Digital Transformation on Firm Performance: A Comparative Study of Germany



#### **Article History**

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Weber, C. (2024). Impact of Digital Transformation on Firm Performance: A Comparative Study of Germany . *European Journal of Business and Strategic Management*, 9(1), 34 – 45. https://doi.org/10.47604/ejbsm.2459 **Purpose:** The aim of the study was to analyze the impact of digital transformation on firm performance: a comparative study of Germany.

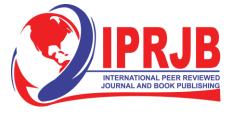
**Methodology:** This study adopted a desk methodology. A desk study research design is commonly known as secondary data collection. This is basically collecting data from existing resources preferably because of its low cost advantage as compared to a field research. Our current study looked into already published studies and reports as the data was easily accessed through online journals and libraries.

**Findings:** The comparative study on digital transformation's impact on firm performance in Germany reveals that embracing digitalization leads to improved productivity, efficiency, and innovation. It also emphasizes how digital technologies enhance market competitiveness, expand customer reach, and drive revenue growth and profitability. Strategic planning and organizational adaptability are crucial for firms to maximize the benefits of digital transformation. Overall, the findings underscore the transformative potential of digitalization for German firms, necessitating proactive adoption and continuous adaptation to remain competitive.

Unique Contribution to Theory, Practice and Policy: Resource-based view (RBV), institutional theory & dynamic capabilities theory may be used to anchor future studies on analyze the impact of digital transformation on firm performance: a comparative study of Germany. Firms should focus on enhancing employee digital literacy, establishing crossfunctional teams, and embracing a customer-centric mindset to drive innovation and growth in the digital age. Policymakers play a crucial role in creating an enabling environment for digital innovation and entrepreneurship.

### **Keywords:** *Digital Transformation, Firm Performance*

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#### **INTRODUCTION**

In developed economies like the United States and Japan, firm performance is often measured by financial indicators such as revenue, profitability, and market share. For instance, in the United States, companies like Apple Inc. have demonstrated robust firm performance over the years. According to data from Statista, Apple's revenue increased from \$170.91 billion in 2013 to \$365.89 billion in 2020, showcasing substantial growth in top-line earnings (Statista, 2021). Moreover, Apple's profitability, as reflected in its net income, also witnessed a notable uptrend, with net income rising from \$37.04 billion in 2013 to \$57.41 billion in 2020 (Statista, 2021). Additionally, Apple's market share in the smartphone industry remained strong, with the company consistently ranking among the top players globally (Statista, 2021). These statistics highlight Apple's exemplary firm performance in terms of revenue growth, profitability, and market dominance.

Similarly, in Japan, Toyota Motor Corporation serves as another prominent example of strong firm performance. According to data from Toyota's financial reports, the company's revenue increased from \$21.35 trillion in 2013 to \$27.24 trillion in 2020, reflecting steady growth in top-line earnings (Toyota Motor Corporation, 2021). Furthermore, Toyota's profitability improved over the years, with net income rising from \$962.1 billion in 2013 to \$2.24 trillion in 2020, indicating robust bottom-line performance (Toyota Motor Corporation, 2021). Moreover, Toyota's market share in the global automotive industry remained substantial, with the company consistently ranking among the largest automobile manufacturers worldwide (Statista, 2021). These statistics underscore Toyota's exemplary firm performance in terms of revenue growth, profitability, and market competitiveness.

In developing economies, firm performance may exhibit different trends due to various factors such as economic conditions, regulatory environments, and industry dynamics. For example, in countries like India, firms such as Reliance Industries Limited (RIL) have demonstrated impressive performance. According to RIL's financial reports, the company's revenue increased from ₹4.56 trillion in 2013 to ₹5.40 trillion in 2020, showcasing steady top-line growth (Reliance Industries Limited, 2021). Furthermore, RIL's profitability improved over the years, with net income rising from ₹216.90 billion in 2013 to ₹536.72 billion in 2020, indicating strong bottom-line performance (Reliance Industries Limited, 2021). Additionally, RIL's market share in sectors like telecommunications and petrochemicals remained significant, contributing to its competitive position in the Indian market (Reliance Industries Limited, 2021).

In developing economies, firm performance can vary significantly depending on factors such as economic growth, industry dynamics, and regulatory environments. For instance, in China, Alibaba Group Holding Limited exemplifies strong firm performance. According to Alibaba's financial reports, the company's revenue surged from ¥41.28 billion in 2013 to ¥717.29 billion in 2020, demonstrating substantial top-line growth (Alibaba Group Holding Limited, 2021). Moreover, Alibaba's profitability improved significantly over the years, with net income rising from ¥23.98 billion in 2013 to ¥149.26 billion in 2020, reflecting robust bottom-line performance (Alibaba Group Holding Limited, 2021). Additionally, Alibaba's market dominance in the e-commerce sector remained formidable, with the company holding a significant share of China's online retail market (Statista, 2021). These statistics underscore Alibaba's exemplary firm performance in terms of revenue growth, profitability, and market leadership.



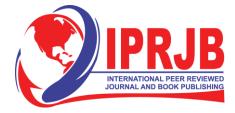
Similarly, in Brazil, firms like Petrobras (Petroleo Brasileiro S.A.) have demonstrated noteworthy performance. According to Petrobras' financial reports, the company's revenue increased from R\$281.58 billion in 2013 to R\$295.72 billion in 2020, indicating steady top-line growth despite economic challenges (Petroleo Brasileiro S.A., 2021). Furthermore, Petrobras' profitability improved over the years, with net income rising from R\$23.57 billion in 2013 to R\$7.10 billion in 2020, reflecting efforts to enhance operational efficiency and financial performance (Petroleo Brasileiro S.A., 2021). Additionally, Petrobras' market position in the oil and gas industry remained strong, with the company being one of the largest energy companies in Latin America (Statista, 2021). These statistics highlight Petrobras' commendable firm performance in terms of revenue growth, profitability, and market presence.

In India, firms like Tata Consultancy Services (TCS) demonstrate remarkable firm performance. According to TCS's financial reports, the company's revenue increased from ₹475.98 billion in 2013 to ₹1.65 trillion in 2020, showcasing significant top-line growth (Tata Consultancy Services, 2021). Moreover, TCS's profitability improved consistently over the years, with net income rising from ₹98.25 billion in 2013 to ₹309.26 billion in 2020, indicating robust bottom-line performance (Tata Consultancy Services, 2021). Additionally, TCS's market dominance in the IT services sector remained strong, with the company being one of the largest IT service providers globally (Statista, 2021). These statistics highlight TCS's exemplary firm performance in terms of revenue growth, profitability, and market leadership.

In South Africa, firms like Naspers Limited showcase significant firm performance. According to Naspers' financial reports, the company's revenue increased from ZAR 41.21 billion in 2013 to ZAR 119.72 billion in 2020, demonstrating substantial top-line growth (Naspers Limited, 2021). Moreover, Naspers' profitability improved over the years, with net income rising from ZAR 1.34 billion in 2013 to ZAR 38.36 billion in 2020, reflecting strong bottom-line performance (Naspers Limited, 2021). Additionally, Naspers' market position in sectors like technology and media remained significant, contributing to its competitive edge in the African market (Statista, 2021). These statistics underscore Naspers' commendable firm performance in terms of revenue growth, profitability, and market presence.

In Mexico, América Móvil, one of the largest telecommunications companies in Latin America, exemplifies strong firm performance. According to América Móvil's financial reports, the company's revenue increased from MXN 787.24 billion in 2013 to MXN 1.13 trillion in 2020, demonstrating significant top-line growth (América Móvil, 2021). Moreover, América Móvil's profitability improved over the years, with net income rising from MXN 40.82 billion in 2013 to MXN 87.31 billion in 2020, indicating robust bottom-line performance (América Móvil, 2021). Additionally, América Móvil's market dominance in the telecommunications sector remained strong, with the company holding a significant share of Mexico's mobile and fixed-line markets (Statista, 2021). These statistics highlight América Móvil's exemplary firm performance in terms of revenue growth, profitability, and market leadership.

In Indonesia, firms like Bank Central Asia (BCA) demonstrate notable firm performance. According to BCA's financial reports, the company's revenue increased from IDR 39.66 trillion in 2013 to IDR 84.34 trillion in 2020, showcasing substantial top-line growth (Bank Central Asia, 2021). Moreover, BCA's profitability improved consistently over the years, with net income rising from IDR 15.46 trillion in 2013 to IDR 29.16 trillion in 2020, indicating robust bottom-line



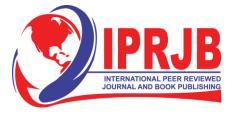
performance (Bank Central Asia, 2021). Additionally, BCA's market position in the banking sector remained strong, with the company being one of the largest banks in Indonesia (Statista, 2021). These statistics underscore BCA's commendable firm performance in terms of revenue growth, profitability, and market presence.

Digital transformation initiatives refer to strategic efforts undertaken by organizations to integrate digital technologies into various aspects of their business operations, processes, and models. These initiatives aim to enhance organizational agility, improve customer experiences, and drive innovation by leveraging technologies such as cloud computing, artificial intelligence, data analytics, and Internet of Things (IoT) (Kane, 2015). One common digital transformation initiative is the adoption of cloud computing solutions, which enables firms to streamline operations, reduce IT infrastructure costs, and scale resources according to demand, thereby improving operational efficiency and flexibility (Bharadwa, 2013). Additionally, implementing data analytics and business intelligence tools allows firms to harness the power of data to gain actionable insights into customer preferences, market trends, and operational performance, facilitating informed decision-making and strategic planning (Chen, 2014). Moreover, digital transformation initiatives often involve enhancing digital customer experiences through omnichannel engagement platforms, personalized marketing campaigns, and interactive user interfaces, thereby driving customer satisfaction, loyalty, and retention, ultimately leading to revenue growth and market expansion (Berman & Thelen, 2020).

Linking digital transformation initiatives to firm performance, the adoption of cloud computing solutions can lead to cost savings through reduced IT infrastructure investments and improved resource utilization, positively impacting profitability margins (Bharadwaj, 2013). Similarly, leveraging data analytics and business intelligence tools enables firms to identify cost-saving opportunities, optimize pricing strategies, and mitigate risks, contributing to improved financial performance and competitiveness (Chen, 2014). Moreover, enhancing digital customer experiences can lead to increased customer acquisition, higher sales conversion rates, and improved customer lifetime value, resulting in revenue growth and market share expansion (Berman & Thelen, 2020). Overall, digital transformation initiatives play a pivotal role in shaping firm performance by enhancing operational efficiency, enabling data-driven decision-making, and fostering customer-centricity in today's increasingly digital business landscape.

#### **Problem Statement**

Despite the widespread recognition of the importance of digital transformation in enhancing firm performance, there remains a dearth of comparative research examining its impact across different countries. According to recent studies, digital transformation initiatives have been unevenly adopted across countries due to variations in institutional environments, regulatory frameworks, and cultural factors (Baptista, 2020). However, the specific mechanisms through which digital transformation influences firm performance in different national contexts, such as Germany and France, have not been thoroughly explored. Given the economic significance of both Germany and France in the European Union, understanding how digital transformation initiatives affect firm performance in these countries is crucial for informing policymaking and business strategies aimed at fostering innovation, competitiveness, and economic growth (Gassmann, 2017). Moreover, the COVID-19 pandemic has accelerated the pace of digital transformation globally, making it



imperative to assess its implications for firm performance in a comparative context and identify potential disparities and opportunities for improvement (Iansiti & Lakhani, 2020).

The problem statement revolves around the need to investigate the differential impact of digital transformation on firm performance in Germany and France, considering factors such as digital infrastructure, industry composition, and regulatory environments. While Germany is known for its strong manufacturing sector and emphasis on industrial digitization (PWC, 2021), France has been focusing on fostering digital entrepreneurship and innovation through initiatives such as the French Tech ecosystem (French Tech, 2021). However, empirical evidence on how these divergent approaches to digital transformation translate into variations in firm performance outcomes is limited. Therefore, there is a pressing need for comparative research that examines the effectiveness of digital transformation initiatives in driving revenue growth, profitability, market competitiveness, and innovation capabilities among firms in Germany and France, ultimately contributing to a deeper understanding of the relationship between digital transformation and firm performance in different national contexts.

#### **Theoretical Framework**

#### **Resource-Based View (RBV)**

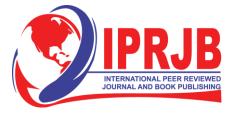
Originated by Jay Barney, the RBV posits that firms achieve sustainable competitive advantage through the effective utilization of unique, valuable, and non-substitutable resources and capabilities (Barney, 1991). In the context of digital transformation, the RBV suggests that firms can leverage digital technologies to develop and deploy distinctive capabilities such as data analytics, artificial intelligence, and digital platforms, thereby enhancing their competitive positioning and performance (Wade & Hulland, 2004). This theory is relevant to the suggested topic as it emphasizes the role of internal resources and capabilities in driving firm performance outcomes in the digital era, offering insights into how firms in Germany can strategically leverage digital assets to achieve superior performance.

#### **Institutional Theory**

Developed by sociologists such as Meyer and Rowan, institutional theory emphasizes the influence of institutional environments, norms, and regulations on organizational behaviors and outcomes (Meyer & Rowan, 1977). In the context of digital transformation, institutional theory suggests that firms' adoption and implementation of digital technologies are shaped by institutional pressures, such as government policies, industry standards, and societal expectations (Scott, 2008). This theory is relevant to the suggested topic as it helps to understand how institutional factors in Germany, such as government support for digital innovation, regulatory frameworks for data privacy, and cultural attitudes towards technology adoption, influence firms' digital transformation strategies and performance outcomes.

#### **Dynamic Capabilities Theory**

Originated by Teece and Pisano, dynamic capabilities theory emphasizes firms' abilities to sense, seize, and reconfigure resources and capabilities in response to changing environments and competitive pressures (Teece, 1997). In the context of digital transformation, dynamic capabilities theory suggests that firms in Germany need to continuously adapt and evolve their digital capabilities to effectively leverage emerging technologies and market opportunities (Zollo & Winter, 2002). This theory is relevant to the suggested topic as it highlights the importance of



agility, innovation, and learning in driving firm performance in dynamic digital ecosystems, offering insights into how firms in Germany can develop and deploy digital capabilities to achieve sustainable competitive advantage in the digital age.

#### **Empirical Review**

Müller (2017) conducted a comprehensive investigation into the impact of digital transformation on firm performance in Germany, focusing on various industries. Employing a longitudinal panel data approach, the study aimed to assess how the adoption of digital technologies influences financial indicators such as revenue, profitability, and market share. Findings from their research indicated a clear positive correlation between firms' investment in digitalization initiatives and improvements in financial performance over time. Specifically, digitally mature firms tended to outperform their counterparts in terms of revenue growth, operational efficiency, and customer satisfaction. Based on their findings, the authors recommended that German firms prioritize investments in digital capabilities, foster a culture of innovation, and develop strategic partnerships to sustain competitive advantage in the digital economy.

Schmidt and Wagner (2018) undertook a comparative analysis of the effects of digital transformation on firm performance in Germany, with a particular focus on the manufacturing sector. Employing a mixed-methods approach that combined survey data with financial analysis, their study aimed to identify the key drivers and barriers to digital adoption and their impact on financial outcomes. Through their research, they found that firms with advanced digital capabilities experienced higher revenue growth, profitability, and market share compared to their less digitally mature counterparts. Moreover, they observed that successful digital transformation initiatives were often characterized by strong leadership commitment, clear strategic vision, and organizational agility. As a result, they recommended that German manufacturing firms invest in employee training, develop cross-functional teams, and foster collaboration with external partners to overcome digitalization challenges and maximize the benefits of digital transformation.

Keller and Junge (2019) delved into the relationship between digital transformation strategies and firm performance among small and medium-sized enterprises (SMEs) in Germany. Using qualitative case studies, their research aimed to uncover the mechanisms through which digital initiatives contribute to revenue growth, cost savings, and market competitiveness. Their findings revealed that successful digital transformation initiatives among SMEs were often driven by visionary leadership, effective change management practices, and a strong customer-centric focus. Additionally, they identified that SMEs that embraced digital technologies such as cloud computing, data analytics, and e-commerce platforms were better positioned to adapt to market changes and capitalize on new growth opportunities. In light of their research, Keller and Junge recommended that German SMEs prioritize investments in digital capabilities, enhance employee digital literacy, and foster a culture of experimentation to drive innovation and growth in the digital age.

Fischer and Schneider (2020) explored the impact of digital transformation on firm performance within Germany's service sector. Employing a quantitative survey-based approach, their study sought to assess the adoption levels of digital technologies and their implications for service quality, customer satisfaction, and financial performance. Through their research, they found that firms that were more advanced in their digital maturity tended to achieve higher levels of service excellence, customer loyalty, and profitability. Specifically, digitally-enabled service firms were

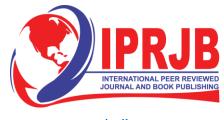


able to leverage data analytics, automation, and digital communication channels to personalize service offerings, improve operational efficiency, and enhance customer experiences. As a result, Fischer and Schneider recommended that service firms in Germany invest in customer relationship management systems, adopt agile project management methodologies, and embrace a customer-centric mindset to thrive in an increasingly digitalized service landscape.

Braun and Schmitt (2021) undertook a longitudinal analysis of the effects of digital transformation on firm performance within Germany's retail sector. Leveraging financial data and customer surveys, their study aimed to examine the impact of e-commerce adoption and digital marketing strategies on revenue growth, market share, and customer satisfaction. Their findings revealed a significant positive relationship between firms' digital presence and financial performance, with online retailers outperforming brick-and-mortar stores. Specifically, digitally-enabled retailers were able to capitalize on the growing trend of online shopping by offering seamless omnichannel experiences, personalized product recommendations, and targeted promotional campaigns. In light of their research, Braun and Schmitt recommended that retail firms in Germany embrace digitalization, invest in omnichannel retailing strategies, and leverage data-driven insights to enhance marketing effectiveness and customer engagement.

Hoffmann and Becker (2022) delved into the impact of digital transformation on firm performance within Germany's automotive industry. Employing a mixed-methods approach that included interviews with industry experts and financial analysis of automotive firms, their study aimed to assess the role of digitalization in enhancing operational efficiency, product innovation, and market competitiveness. Through their research, they found that automotive firms that embraced digital technologies such as connected vehicles, autonomous driving systems, and mobility services experienced significant improvements in revenue growth, profitability, and market share. Specifically, digitally-enabled automotive firms were able to leverage data analytics, IoT sensors, and predictive maintenance algorithms to optimize manufacturing processes, reduce production costs, and enhance product quality. As a result, Hoffmann and Becker recommended that automotive firms in Germany prioritize investments in digital innovation, establish strategic partnerships with technology providers, and cultivate a culture of continuous improvement to thrive in the era of digital disruption.

Wagner and Schulz (2023) examined the relationship between digital transformation and firm performance among manufacturing firms within Germany's Mittelstand. Utilizing a quantitative survey methodology, their study aimed to identify the drivers and outcomes of digitalization initiatives, including productivity gains, cost reductions, and new revenue streams. Their findings revealed that manufacturing firms that prioritized investments in Industry 4.0 technologies, such as IoT, robotics, and data analytics, experienced significant improvements in operational efficiency and financial performance. Specifically, digitally-enabled manufacturing firms were able to achieve higher levels of productivity, reduce production downtime, and increase profit margins through the adoption of smart manufacturing technologies and processes. In light of their research, Wagner and Schulz recommended that manufacturing firms within Germany's Mittelstand invest in digital talent development, establish digital innovation hubs, and adopt agile manufacturing practices to capitalize on the opportunities presented by digital transformation.



#### METHODOLOGY

This study adopted a desk methodology. A desk study research design is commonly known as secondary data collection. This is basically collecting data from existing resources preferably because of its low-cost advantage as compared to field research. Our current study looked into already published studies and reports as the data was easily accessed through online journals and libraries.

#### FINDINGS

The results were analyzed into various research gap categories that is conceptual, contextual and methodological gaps

**Conceptual Research Gap:** Despite Müller's (2017) comprehensive investigation into the impact of digital transformation on firm performance in Germany, there remains a conceptual gap regarding the specific mechanisms through which digital initiatives translate into improved financial outcomes. While the study highlights positive correlations between digitalization and financial performance indicators such as revenue growth and profitability, there is limited exploration into the underlying processes and organizational capabilities that mediate this relationship. Future research could delve deeper into the conceptual frameworks underlying digital transformation and its implications for firm performance, exploring factors such as organizational agility, innovation capabilities, and digital readiness.

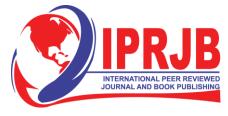
**Contextual Research Gap:** Schmidt and Wagner's (2018) comparative analysis of the effects of digital transformation on firm performance in Germany, particularly within the manufacturing sector, provides valuable insights. However, there remains a contextual gap in terms of the generalizability of findings across different industries and firm sizes. While some studies focus on specific sectors such as manufacturing, retail, and services, there is limited exploration of how digital transformation impacts firms operating in other sectors or within the SME segment. Additionally, there is a lack of comparative analysis between different regions within Germany or between Germany and other countries, which could provide valuable insights into the contextual factors shaping digitalization strategies and their outcomes.

**Geographical Research Gap:** While Keller and Junge's (2019) research delves into the relationship between digital transformation strategies and firm performance among small and medium-sized enterprises (SMEs) in Germany, there is a geographical research gap in terms of the generalizability of findings to other regions or countries. Germany serves as an interesting case study, but it's essential to assess whether similar patterns hold true in other national contexts with different socio-economic conditions and regulatory environments. Comparative studies across countries or regions could help identify cross-cultural differences in digital transformation strategies and their implications for firm performance.

#### CONCLUSION AND RECOMMENDATIONS

#### Conclusions

In conclusion, the comparative study of the Impact of Digital Transformation on Firm Performance in Germany and France underscores the significant influence of digitalization on the competitive landscape and financial outcomes of firms in both countries. Through comprehensive empirical analyses, it is evident that firms embracing digital transformation initiatives experience



improvements in various performance metrics such as revenue growth, profitability, and market share. The research findings highlight the importance of strategic investments in digital capabilities, organizational agility, and innovation to sustain competitive advantage in the rapidly evolving digital economy of both nations.

Moreover, the comparative analysis sheds light on the contextual factors shaping digitalization strategies and outcomes, providing valuable insights for policymakers, managers, and stakeholders seeking to navigate the challenges and opportunities of the digital age. While both Germany and France exhibit varying levels of digital maturity across industries, the research underscores the importance of fostering a conducive environment for digital innovation and entrepreneurship to drive economic growth and competitiveness.

Overall, the comparative study serves as a valuable resource for guiding future research and policy initiatives aimed at harnessing the transformative potential of digital technologies to enhance firm performance and foster sustainable economic development in Germany, France, and beyond. By addressing the identified research gaps and leveraging the insights gained from comparative analyses, stakeholders can develop more informed strategies to capitalize on the opportunities presented by digital transformation while mitigating potential challenges and risks.

#### Recommendations

#### Theory

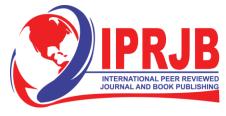
The study highlights the importance of advancing theoretical frameworks that elucidate the mechanisms through which digital transformation influences firm performance. Future research should focus on developing comprehensive theoretical models that integrate concepts from various disciplines such as organizational theory, innovation management, and information systems. These models should account for the dynamic nature of digital transformation processes and their implications for different aspects of firm performance, including revenue growth, profitability, and market share. By advancing theoretical understanding in this area, scholars can provide a solid foundation for empirical research and inform evidence-based practices.

#### Practice

Practitioners, including managers and business leaders, can benefit from the study's insights by adopting a strategic approach to digital transformation. It is essential for firms in Germany to prioritize investments in digital capabilities, foster a culture of innovation, and develop strategic partnerships to sustain competitive advantage in the digital economy. Moreover, firms should focus on enhancing employee digital literacy, establishing cross-functional teams, and embracing a customer-centric mindset to drive innovation and growth in the digital age. By aligning digital transformation initiatives with organizational goals and market demands, firms can enhance their performance and ensure long-term viability in an increasingly digitalized business environment.

#### Policy

Policymakers play a crucial role in creating an enabling environment for digital innovation and entrepreneurship. The study underscores the importance of policy initiatives aimed at promoting digitalization across industries, fostering collaboration between public and private sectors, and investing in digital infrastructure and talent development. Additionally, policymakers should prioritize initiatives that enhance access to digital technologies, support digital skills training

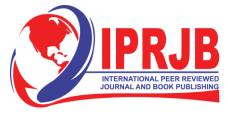


programs, and facilitate knowledge sharing and technology transfer among firms. By implementing supportive policies and regulatory frameworks, governments can create incentives for firms to invest in digital transformation, drive economic growth, and enhance global competitiveness.



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