

How could changing a long-trodden path boost a company's digital transformation?

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A new study has found that organizations with a committed and stable business model can improve digital transformation by identifying the

paths of least resistance.

Co-authored by Bayes Business School, the research paper states that by following a path that offers fewer obstacles, businesses can effectively adopt one of two strategies to alter the environment, structure, strategy, and leadership of an organization. This is dependent on the level of changes that are necessary to achieve [digital transformation](#).

Decision-makers can choose between horizontal (direct) reconfiguration, which involves moving from one structure to another, or vertical reconfiguration, which involves increasing the complexity of the current configuration by incorporating another structure via merger, acquisition, or organic growth.

The authors find, through a study of the digital games industry, that if the "distance" between initial and target configurations is "reasonable," then horizontal reconfiguration makes sense. However, as the distance increases, increasing the complexity of the current configuration may be a less costly alternative, especially when reconfiguration targets a firm's core competency. The same approach has been successfully applied in the BioPharma Sector by some of the co-authors.

How Sony and Nintendo are adapting business models

In this paper, the authors sampled 67 business models using data from 32 company types, such as console manufacturers, including Sony, Nintendo, and Microsoft, arcade game manufacturers, including Atari, publishers, including Sega and Ubisoft, and development studios, including Activision and Riot Games.

One example of horizontal business model transformation is Obsidian Entertainment. It was founded in 2003 to develop a new genre of games that was not yet appealing for big publishing companies at the time. By

building worlds and stories, its goal was to develop games where players can forge their own unique stories and experiences that can change with each play. The company first changed its business model from third party development to crowdfunded development relying on its stellar reputation and loyalty from supporters before being acquired by Microsoft; then changing again to second party development. Although no longer an independent company, starting from a small, crowdfunded studio before being acquired by Microsoft shows a successful journey for their founders.

An example of vertical business model transformation is XBOX. Microsoft initially underestimated the significance of a strong library of video games to support the console sales and lost significant ground to its competitor SONY. By investing heavily in acquiring new development studios and publishers—most notably Zenimax for \$7.5 billion and Activision Blizzard for \$69 billion, the biggest acquisition in the history of the industry—it is creating an unparalleled library of video games to support Game Pass, their subscription-based publishing model.

A firm's history matters

Finally, transforming business models requires the careful consideration of the history of a firm's resource configuration, as path dependency often poses significant challenges for organizations when repositioning strategically. The authors highlight the case of Atari, which has existed throughout the entire history of the industry, and the way its business model has evolved is significantly shaped by its own organizational routines and legacies as it responded to industrial changes.

Professor Feng Li, Chair of Information Management at Bayes Business School and co-author, believes digital transformation is not just the privilege of digital firms or new business start-ups.

"This paper systematically identifies pathways for organizations to reconfigure their resources and implement new business models.

"Incumbent organizations from all sectors need to consider opportunities and challenges in using digital techs to transform their [business models](#). Coming up with new ideas is one thing but taking the organization from where it is to where you want it to be is where most organizations fail."

"How to overcome path dependency through resource reconfiguration" is published in the *Journal of Business Research*.

More information: Nikolaos Goumagias et al, How to overcome path dependency through resource reconfiguration, *Journal of Business Research* (2022). [DOI: 10.1016/j.jbusres.2022.02.040](https://doi.org/10.1016/j.jbusres.2022.02.040)

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