



Transformation: Challenges, Impact, and Consequences

Editorial to the SBUR Special Issue Transformation – Challenges, Impact, and Consequences, 2023

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The grand challenges at the start of the 21st century such as climate change, globalization, increased competition, or rapid technological innovation require organizations and individuals to transform (George et al. 2016). They create at the same time opportunities as well as threats in Schumpeter's (1942) sense of “creative destruction”. Therefore, organizations and individuals have to learn how to deal with change and how to make use of it, both of which are at the heart of entrepreneurial and managerial decision-making and action. The 100-year-anniversary conference of the German Academic Association of Business Research (VHB) in 2022 served as a forum for many scholars and practitioners to discuss these megatrends and their impact on existing paradigms in business research and practice. This is also a topic in international discussion (e.g., Alvarez et al. 2020), thus doubly motivating the call for this Special Issue of the *Schmalenbach Journal of Business Research*.

Below, we discuss why transformation is a subject at the core of business research, our common understanding thereof and whether or how it differs from change and challenges in the earlier 20th century for the established business models and firm behavior. Subsequently, we summarize the contributions of the six papers we have selected to form this Special Issue.

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1 Transformation as a Subject at the Core of Business Research

Existing organizational forms in business can lose their efficiency and effectiveness over time (Picot et al. 2020a). Solutions and action strategies that companies have been able to use successfully in the past to realize business opportunities can become outdated as society, markets, technologies, organization possibilities or regulation change. This presents not only organizations with the permanent challenge of facing up to changes and transforming themselves, but also instigates changes within its regulatory and information environment. At present, companies need to transform, for example, due to new regulatory requirements such as ESG reporting under the Corporate Sustainability Reporting Directive (CSRD) having entered into force on January 5, 2023, but also due to technical possibilities of discriminative and generative artificial intelligence, to new trends in work such as hybrid and platform work, or to social factors such as the shortage of workers and skilled labor.

But transformation is not just a way for companies to more effectively adapt to changing environmental conditions. It is also crucial for long-term firm success as old structures are displaced and ultimately destroyed when product innovations or new combinations of production factors become successfully established in the market. Therefore, optimally using suitable transformation processes and instruments becomes an essential element of competitive strategy (Teece et al. 2016).

2 What We Mean by Transformation

For several decades, transformation has been a buzzword in scientific and political discourse. One of the first publications to coin this phrase in sociological discussions was Karl Polanyi's (1971/1944) monograph 'The great transformation'. Polanyi argued that traditional or pre-industrial societies, where economic activities were embedded in social relationships, transformed into market-based societies, where economic activities were disembedded from social norms and governed by market mechanisms. This development also provided the basis for the emergence of modern corporations and their business models (Berle and Means 1932). Today, as a catchphrase, transformation has also been taken up by the rapidly growing body of normative literature on sustainability, referring not only to radical ecological and societal changes per se, but to the active role of institutions and also science within this process (e.g., Hölscher et al. 2021).

In business research, transformation can be related to the organizational concept of change. But while the term 'change' refers to all types of modifications within an organization and encompasses also adaptations at the micro-level, 'transformation' extends its focus to a change of the overall business model or at least major parts of it. In other words, discussions on transformation within business research mainly refer to fundamental shifts in firms' environments which trigger changes within organizational boundaries. The aim of business research on transformation in our understanding is then to analyze these changes in underlying processes and routines in companies as well as their organizational capabilities and structures, so as to deliver as well as inform on outstanding performance relative to their environments.

3 Contemporary Transformation Challenges

Is transformation a new topic in business research? We argue that it is. However, we acknowledge that companies always had to transform to stay competitive and to survive. In market-based societies, it was always necessary for them to cope with their specific environments as well as with changes within them, and innovators have constantly been trying to exploit opportunities arising from new technologies, regulations or societal change. The related activities influence the design and the use of processes, structures and instruments in virtually all business functions within an organization. Therefore, in a way, a large portion of existing business research is, at least to some extent, research on transformation. Nonetheless, there are several distinctive new issues and approaches that to our mind allow to differentiate contemporary business research on transformation more clearly.

New Issues Today, companies face radical changes in their environments that co-evolve and are interrelated. For example, digital technologies constantly advance. Lately, artificial intelligence, with its ability to learn and decide and thus independently develop programs for actions (Domingos 2015; Lösse and Weißenberger 2023), implies unprecedented opportunities and threats for organizations (Neuburger and Fiedler 2020). Companies will have to fundamentally transform to either proactively exploit these opportunities or cope reactively with the threats that artificial intelligence poses to their business models and entire industries (Mayer et al. 2020; Strich et al. 2021).

Furthermore, whereas the comprehensive developments in digital technologies may also lead to drastically shorter digital product life cycles, efforts to increase the sustainability of manufactured products on the other hand bring about longer physical product life cycles. Related to the latter, the economic development trajectory from a take-make-waste approach towards a circular economy means, e.g., reimagining business models and managing stakeholder expectations as well as designing products for longevity, reuse and repair (Zeiss et al. 2021). This creates the necessity to reevaluate and rearrange supply chains and to transform value chains towards higher resource efficiency and sustainability awareness (Geissdoerfer et al. 2017). As new competitors appear, industries transform and companies not only have to redesign their business models but also must identify the resulting work force skills and give new professional role identities to their employees (Lewandowski 2016). Furthermore, political pressure, e.g., the EU Green Deal with its objective to channel financial resources into sustainable economic activities, together with the worldwide ESG transparency regulation efforts force companies to establish a broad array of new information (Dinh et al. 2023) and control systems (Gond et al. 2012) and also to adapt communication strategies with external stakeholders (Hahn et al. 2021). Making sustainability efforts to strive for non-financial performance, but without violating financial performance objectives, is thus another issue that drives firms' transformation endeavours. Even though several studies provide evidence of a link between ESG performance and financial profitability (Friede et al. 2015), this association cannot be taken for granted and may be related to successful management practices in transformation processes (Busch and Lewandowski 2017).

Another example for the new issues making transformation a relevant issue in companies deals with change within societies around the globe. Most prominently, organizations in Western societies face a shortage of workers and skilled labor, which impacts their operations, competitiveness and growth prospects (Ployhart 2006). Labor shortages may necessitate restructuring and redistributing tasks and thus subsequently transform organizational practices such as reskilling, hybrid work and agile methods to increase flexibility and responsiveness. Furthermore, in some societies the forces of separation and inclusion are parallel and partly conflict with each other, while globally, polarization seems to increase, fueled, for instance, by echo chambers in social media, and an increasing disbelief in traditional meritocratic principles (Arora et al. 2022). Lastly, as another example, co-developing forces and more aggressive competitive actions disrupt industry boundaries and blur entire business models (Downes and Nunes 2013). Among others, these new issues require answers on transforming in order to stay competitive and survive.

New Approaches The new issues companies have to deal with are expressions of a new reality typically subsumed under the term VUCA world (Bennett and Lemoine 2014). The acronym VUCA was first used in politics and military sciences to describe an environment marked by volatility, uncertainty, complexity, and ambiguity (Mack and Khare 2016). In a business context, this suggests that firms and their businesses are confronted with increasingly opaque and turbulent environments, which in turn requires appropriate organizational answers. Among the many approaches that have developed in the last years, two are conspicuous: flexibility and connectedness.

With respect to the first, management must support the organizational ability to innovate and to constantly renew, thus highlighting the role of dynamic capabilities as organizational competencies (Teece et al. 1997). Their relevance is high, as VUCA environments change speedily and also in unpredictable ways. As a result, there is less time to amortize investments or set-up costs while the benefits of innovation and standardizations have to be reaped quickly. With respect to the second, when environments in which firms act become more interconnected, this necessitates management to use transformation approaches that appropriately relate their organizations to these environments and at the same time integrate different parts of their organizations. The importance of connectedness for firm success is also driven by value-creation processes and markets becoming increasingly decentralised (Sheth and Sisodia 1999; Picot et al. 2020b). As on the other hand recent anti-globalization forces impressively show that the world is not simply “flat” (Friedman 2005), i.e., providing a level global playing field for business opportunities, but instead rather “spiky” (Florida 2005), this, in turn, raises awareness of the ecological and social boundaries of corporate activities (Kim and Aguilera 2015; Picot et al. 2020b). Transformation approaches that put flexibility and connectedness at center stage therefore also contribute toward greater firm and business resilience (Duchek 2020).

4 Specific Questions and Preliminary Answers

With respect to these contemporary transformation challenges, three groups of business research objectives arise that have been taken up in the six papers submitted to and selected for this Special Issue. The first group comprises research on how firms transform. In this context, the papers included in this Special Issue provide input to better understand the drivers of transformation in business models that are relevant for different types of companies, e.g., small vs. large organizations or different industries. A second set of research objectives focuses on managerial instruments used within the transformation process. This Special Issue therefore also covers how organizations develop and exploit dynamic capabilities to shape their internal processes and structures as well as stakeholder relationships, specifically addressing the predominant role of digital technologies within contemporary transformation. The third group of research objectives deals with the informational environment in finance and accounting, which also is subject to transformation, as increasingly not only financial performance, but also non-financial information on environmental, social or governance issues within firms is included into corporate communication. Addressing this field, our Special Issue provides novel results on how and why such non-financial information is relevant for capital market participants and other stakeholders.

The first paper selected for our Special Issue was already published in the June issue of the *Schmalenbach Journal of Business Research* (<https://link.springer.com/article/10.1007/s41471-023-00162-2>). It contains an analysis by Kesting (2023) on the organizational theory of transformation. His research makes a significant contribution to achieving the first two objectives of our Special Issue by delivering an integrated, action-based micro-foundation on the theoretical grounding of routine (ex)change that maintains rigidity as well as changeability which are both two seemingly contradictory characteristics. Kesting (2023) resolves this issue by locating routines conceptually as only one of many theoretical elements constituting the framework of action within firms, and also by specifically tying his conceptual foundations to the concept of action repetition, thus defining routine as action-specific knowledge. Following these ideas, Kesting shows to what extent routines change incrementally and how the exchange of routines can be explained. He draws essential conclusions on how routine change is organized and thus how companies can stay flexible.

Brand et al. (2023) complement this research by studying transformation processes in an organizational setting at the intersection of multiple societal trends, i.e., high-reliability health care organizations. Today, such organizations are increasingly required to submit themselves to program accreditation, for instance, with respect to quality management practices, to maintain external legitimacy. As accreditation requires standardization, this could interfere with the pursuit of organizational ambidexterity, i.e., balancing both the generation and implementation of knowledge, and thus limit organizational ability to innovate or—in the sense of this Special Issue—to transform. Nonetheless, using interviews with physicians and quality managers in 19 small vs. large German hospitals, Brand et al. (2023) find little evidence of the inhibiting effects of program accreditation. Instead, especially in small hospitals,

accreditation emerges as a driver of transformation by improving processes through standardization, whereas for large hospitals, accreditation rather turns out to be more of a formal nuisance.

The papers by Stahl et al. (2023) and by Witschel et al. (2023) both target digitalization as most relevant aspect of contemporary transformation challenges within our Special Issue and the resulting requirements for change within firm's and their business models.

Specifically, Stahl et al. (2023) discuss 'data first' or 'business first' as two archetypes and opposite ends of the transformation trade-off continuum for advancing traditional business models in manufacturing firms. In other words, firms can establish new digital business models and generate value by either making data more accessible to their customers or by using these data to provide actionable recommendations derived with their own advanced analytical skills. The most important contribution of this paper is to integrate a layered enterprise architecture model with a maturity transformation model, thus combining the perspective of two typically distinct research fields, i.e., organizational transformation and information technology, to identify and evaluate relevant capability dimensions. Applying their model to two case studies from manufacturing firms that have both been working on digital business models for roughly ten years, Stahl et al. (2023) find that in both archetypes, transformation is in fact slowed down as the focus on one dimension (data gathering vs. purposeful design of recommendations) and a resulting degree of high maturity is associated with comparatively low degree of maturity in the other dimension.

In a more general sense, Witschel et al. (2023) contribute to the micro-foundations of dynamic capabilities by analyzing six case studies of large incumbent industrial firms in German-speaking countries, and exploring the challenges of building such dynamic capabilities, i.e., sensing, seizing and transforming, for digital business model innovation. A first key point they make is that in the area of sensing, challenges in building dynamic capabilities are attributed to information or knowledge deficits, whereas in the seizing dimension, this involves overcoming knowledge-related challenges at both individual and process levels. In addition, process-related issues such as coordination and communication difficulties promise to be an important lever. Second, they find that whereas the logic of profit generation within traditional business models is mainly based upon sales of products, scaling up digital business models requires instead establishing new value-capture mechanisms through cooperation with new partners or even whole ecosystems that are able to deliver complementary competencies compared to the incumbents. Third, Witschel et al. (2023) also observe that to successfully build dynamic capabilities in digital business model innovation, the ability to change corporate culture as well as established routines in knowledge and information exchange is more relevant than purely technological or data-related digital capabilities.

The study of Wagner et al. (2023) in this Special Issue also addresses digital transformation, but rather in the context of globalization and the increasing relevance of cross-border e-commerce in consumer goods markets. For customers, such novel distribution channels result in both advantages, e.g., lower prices or a larger choice set, but also risks, e.g., lack of legal protection against quality deficiencies, con-

tract violation or even fraud compared to traditional distribution. Capturing these risks in the construct of (perceived) customer vulnerability Wagner et al. (2023) identify their impact as a major obstacle to the increase of global border shopping and the scaling-up of product-market combinations from a firm perspective. They use a survey of 808 German and Chinese consumers to analyze mechanisms for overcoming disadvantages caused by customer vulnerability as a basis for transformation within cross-border e-commerce marketing strategies. A major contribution of their analysis is that even though perceived vulnerability reduces the intention to cross-border online-shopping, a minimum level of trust compensates for this effect. In a more specific perspective, German online shoppers need a higher level of trust than Chinese customers, with whom this interaction effect is less pronounced.

The Special Issue closes with an analysis by Horn (2023) who addresses the broadening informational environment in international capital markets, which increasingly includes ratings on environmental, social or governance issues within firms, and the impact of such ratings on idiosyncratic firm risk. In contrast to neo-classical finance theory, where expected stock returns to do not depend on associated idiosyncratic risks that can be measured, for example, by stock volatility, more recent research indicates that stocks with lower idiosyncratic risks have significantly higher returns and vice versa. In this vein, the most significant contribution of this paper is that the mere existence of an ESG rating, even if it is low, reduces idiosyncratic stock risk significantly, as the mean internal volatility of stocks subject to an ESG rating is 0.85 percentage points lower compared to stocks without an ESG rating. Interestingly, Horn (2023) finds that also stocks with a negative screen, i.e., issued by firms in so-called sin industries, benefit from this effect, even though such stocks in general have a higher idiosyncratic risk in times of economic growth and a lower one in times of recessions, and furthermore do not outperform stocks without a negative screen. But most importantly, Horn (2023) shows that the reduction in idiosyncratic risk measured for stocks with an ESG rating is not caused by other economic factors like, e.g., liquidity risk, firm age, firm size or industry. Obviously, the grand societal challenges not only induce companies to build up dynamic capabilities and transform internal processes, structures and stakeholder relationships, but the reflection of this transformation in non-financial ESG ratings is per se informative from an economic perspective as well.

5 Note by the Editors-in-Chief

This Special Issue includes papers on the topic “Transformation—Challenges, Impact, and Consequences”. Out of numerous submissions, the Special Issue editors have selected six excellent articles and provide an introduction to the topic and an overview of the papers in this Editorial.

You will find five of the six articles in this issue; one article, “(Ex)Change of Routines: An Action-Based Microfoundation” by Peter Kesting, has already been published in the June issue of the *Schmalenbach Journal of Business Research*.

We thank the authors and reviewers of the submissions, and particularly the Special Issue editors Marina Fiedler, Thomas Hutzschenreuter, Martin Klarmann

and Barbara E. Weißenberger, for their efforts. And we trust that our readers find the articles stimulating.

Thomas Gehrig and Alfred Wagenhofer
Editors-in-Chief

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