Survive and Thrive: Examining the Drivers and Means of Enterprise Transformation in Germany

Enterprises must adapt to rapidly changing environments in order to survive. In light of this, research on enterprise transformation is of paramount importance. Despite its importance, enterprise transformation is a relatively new scientific field that is rooted in the literature on organizational change and enterprises as systems. Several disciplines are concerned with the study of enterprise transformation, including management, economics, industrial and systems engineering, computer science, and social science. However, there is a lack of collaboration among disciplines, which leads to missed opportunities. Moreover, several scholars have identified enterprise transformation as a fertile research area that requires further investigation. Among the area for investigation is why enterprises need to transform, that is, the drivers of enterprise transformation. This is because in the literature, there is a lack of clarity about what precisely drives enterprise transformation. A further area for investigation is how enterprises can transform, that is, the means of enterprise transformation. The need for enterprises to transform is widely recognized, but there is little agreement regarding how to accomplish this. Eventually, another area for investigation concerns the role of enterprise acquisitions as an obvious means of enterprise transformation. Scientific literature has given little attention to this field of research thus far.

The central objective of this study is to provide interdisciplinary insights into the specific drivers and means of enterprise transformation, and to shed light on the role of enterprise acquisitions in this context. In particular, this work intends to examine (a) what are the drivers of enterprise transformation, (b) what are the means used to transform an enterprise, and (c) what role do enterprise acquisitions play in this context? The research questions were addressed using a mixed method approach consisting of a qualitative research in the form of semi-structured interviews with 21 high ranking managers of German

enterprises, as well as a quantitative research on the acquisition activities of German enterprises.

The data for the quantitative research were obtained by searching the MergerMarket database for the period from 2016 to 2020. The resulting dataset included a total of 6,864 transactions, thereof 4,370 acquisitions and 2,494 divestitures. For the analysis of the underlying motive in enterprise acquisitions, a sample of 500 transactions was drawn from the population and coded based on the following acquisition motives: (1) revenue growth through innovation and new product development, (2) diversification of revenue streams, and (3) digitization objectives. The analysis revealed that, among German enterprises, the primary objective in transactions was revenue growth. In this regard, the most frequent motive was the expansion of the product portfolio, followed by new market entry and innovation. Further, cost reduction was identified as an underlying strategic motive, as well as market capitalization and digitization. Market liquidity, financing alternatives, and diversification of revenue streams were also identified but appeared to have a minor relevance for German enterprises.

In terms of the qualitative research, semi-structured interviews with 21 high-ranking managers were conducted. The interview guide consisted of three sections, including the (a) drivers of enterprise transformation, (b) means of enterprise transformation, and (c) acquisitions as a means of enterprise transformation. The interviews were transcribed and systematically analysed by filtering out the statements relevant to the research questions.

Based on the participants' statements, a very heterogeneous picture of transformation drivers emerged. The following drivers were discussed, with participants indicating that these factors were a transformation driver: Economic crises (52.6%), declining or insufficient profits (75.0), changes in customer expectations (80.0%), competition or industry consolidation (86.7%), omission or change of the business model (88.2%), and strategic

resources such as platforms and networks (90.9%). In addition, the drivers with the highest level of agreement were technological change or digitization (95.2%) as well as return expectations of stakeholders (100%). Apart from this, I also identified further drivers of enterprise transformation, including legislation and politics, a changing zeitgeist in society, simplification of the organizational structure, as well as the prevention of hostile takeovers. As far as taxes, employee participation, liability and legal consequences are concerned, the interviews indicated that taxes as well as liability and legal consequences play a minor role in enterprise transformations; however, employee participation may play a role in some enterprises due to the fact that it can impede the pace of transformative activities.

Moreover, the following means were discussed, with participants indicating that these factors were a means of enterprise transformation: Research and development (50.0%), incubators, accelerators, and corporate venture capital (61.1%), employment of managers (63.4%), and the establishment of joint ventures, platforms, or cooperation (77.8%). The three means with the highest level of agreement were the sale of enterprise parts (83.3%), internal reorganization (85.7%), and enterprise acquisitions (100.0%).

Based on a closer examination of the role of enterprise acquisitions, the following acquisition motives were identified: Business model transformation (63.6%), diversification of revenue streams (66.7%), enterprise digitization (71.4%), revenue growth (78.6%), and new market entry (78.6%). Eventually, 88.2% indicated that the acquisition of know-how or capacities was another acquisition motive, notably the acquisition of know-how (80.0%).

Based on the qualitative research, I propose that fundamental enterprise transformations are primarily driven by external factors, i.e., changes in the external environment of an enterprise. This confirms previous findings in the literature (e.g., Agarwal & Helfat, 2009; Dainty & Kakabadse, 1990; Kotnour, 2011; Rouse, 2005). Nonetheless, I also find that enterprise transformation may be triggered by internal factors, which lends support

to Dainty & Kakabadse (1990). Furthermore, I find it difficult to reduce the phenomenon of enterprise transformation to a few primary factors, since enterprises are exposed to a variety of factors throughout their existence. Based on the statements made by the interview participants, I suggest that economic crises and strategic resources are less relevant transformation drivers. In contrast, I propose that the following factors are relevant drivers of enterprise transformation, in increasing order of relevance: declining or insufficient profits, changing customer expectations, competition or industry consolidation, and omission or change of an enterprise's business model. In addition, I claim that technological advancements and return expectations of stakeholders appear to be one of the central drivers of enterprise transformation at the present time. Moreover, I suggest that employee participation may also play a certain part in transformative activities for some enterprises.

In terms of the second research question, I suggest that research and development, accelerators, incubators, and venture capital as well as the establishment of joint ventures, platforms, and cooperation are less relevant means of enterprise transformation. However, I propose that the following factors are relevant means of enterprise transformation, in increasing order of relevance: employment of managers, sale of enterprise parts, internal reorganisation and enterprise acquisitions.

Considering the third research question, I propose that the following factors are acquisition motives in the context of enterprise transformation, in increasing order of relevance: business model transformation, diversification of revenue streams, enterprise digitization, revenue growth, new market entry, and acquisition of know-how.

This study contributes to the research on enterprise transformation by investigating and summarizing the specific factors that drive enterprise transformation. Further, this work extends the current knowledge base by demonstrating that stakeholders' return expectations are another driving force behind transformations. Moreover, this study expands the body of

knowledge by discussing several means of enterprise transformation – a research area that has been devoted little literature thus far. This study further provides insights into enterprise acquisitions as a fundamental transformation means.

In terms of managerial implications, this work contributes to managers' awareness of certain driving forces, so that they may be better able to understand the reasons for potential performance gaps. Nonetheless, this work also demonstrates to managers that a transformation may be necessary due to internal factors of the enterprise. In addition, this work illustrates some means available to managers for transforming their enterprises. It seems that enterprise acquisitions are particularly suitable for achieving this objective, for example, to acquire critical know-how.

In conclusion, this study demonstrates that enterprise transformation is primarily driven by external factors, such as technological advancements and return expectations of stakeholders. Furthermore, enterprises can use a variety of means to transform, with enterprise acquisitions being one of the most popular options. Upon closer examination of acquisitions as a means of enterprise transformation, it became evident that the primary motives for enterprise acquisitions are revenue growth through new market entry and the expansion of the product portfolio as well as access to relevant know-how. Providing a summary and extension of existing knowledge on the drivers and means of enterprise transformation, this research offers a promising starting point for future research on stakeholders' return expectations as a driver of enterprise transformations, acquisitions as a means of achieving environmental adaptation, and finally the development of Rouse's (2005) foundational theory of enterprise transformation.

Key References

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