

Digital Transformation Strategy to Optimize Company Performance

Hendra Halim^{1*}, T. Meldi Kesuma², M. Ridha Siregar³

Fakultas Ekonomi dan Bisnis, Universitas Syiah Kuala

Corresponding Author: Hendra Halim hendra.halim@usk.ac.id

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ABSTRACT

This research explores digital transformation strategies to enhance company performance, identifying four common types of strategies emerging through the utilization of technologies such as artificial intelligence, data analytics, cloud computing, and the Internet of Things. Mature digital transformation strategies are key to success, focusing on specific goals and aspects. Research results indicate that companies with clear and comprehensive digital strategies tend to be more mature and achieve better performance. Digital transformation also impacts customer experience, facilitates better decision-making through data and analytics, and aligns human resources with digital technology. In conclusion, digital transformation is not just about technology; it involves digitizing all aspects of business to provide the best possible customer experience.

INTRODUCTION

In the digital era that continues to develop rapidly, companies in various industrial sectors face new challenges in maintaining their competitiveness and success. Digital transformation has become an urgent need for companies to be able to adapt to changes in an increasingly dynamic and competitive business environment (Erwin et al., 2023). Through digital technology, companies can increase efficiency, productivity, and innovation in their operations (Eskak, 2020; Hendriyaldi & Mailindra, 2019; Royyana, 2018). The evolution of digital technologies, including artificial intelligence, data analytics, cloud computing, and the Internet of Things (IoT), has profoundly transformed the business environment (Amane et al., 2023; Savitri, 2019). According to Laratmase (2023), companies that implement digital transformation strategies effectively can gain significant competitive advantages, including increased operational efficiency, reduced costs, market expansion, and better customer service.

Apart from that, changes in consumer behavior, which increasingly rely on digital technology, are also crucial in encouraging companies to transform digitally (Febriani & Dewi, 2019; Rumondang et al., 2020). Customers today prefer fast, easy, and personalized digital experiences (Kotler et al., 2019; Qurniawati & Nurohman, 2019). In order to meet customer expectations, companies must be able to provide digitally connected products and services, leverage data to gain valuable business insights and adopt technology that enables seamless digital interactions (Effendy et al., 2020; Setiawan et al., 2023). However, implementing digital transformation is a challenging task for companies. These changes require significant commitment, investment, and organizational culture and structure adjustments. Therefore, companies need to deeply understand the importance of digital transformation and the right strategy to implement it successfully.

This research will discuss two elements of Industry 4.0, namely big data and the Internet of Things (IoT). This study follows the idea of (Imran et al., 2018), which reports a significant relationship between these factors and increased company performance. In addition, they promote performance and significantly affect production and service. It has been proven that Industry 4.0 positively influences production and service and improves performance (Imran et al., 2018; Nawanir, 2016; Shahbaz et al., 2019). Several studies affirm the significant correlation between technology adoption and business performance (Brynjolfsson & Hitt, 2000; Ghobakhloo & Hong, 2014), with organizational structure and processes exhibiting a robust connection to the implementation of information technology (Heracleous & Barrett, 2001). Industry 4.0's strategy or technology implementation is shown to positively impact the business performance of SMEs (Nawanir, 2016). For SMEs, sustaining improvements in business performance hinges on organizational structures and processes that facilitate the acceptance and implementation of new technologies like big data, IoT, and smart factories.

This research delves into a company's digital transformation strategy as a crucial element in optimizing overall performance. By exploring this context, the study aims to enhance understanding regarding the significance of digital transformation, the potential benefits it can yield, and the strategic measures companies can undertake to achieve success through digital transformation.

LITERATURE REVIEW

Organizational Performance

Organizational performance encompasses the overall evaluation of an organization's goal achievement. This can be measured through financial indicators such as net profit, sales growth, and profit margins (Kaplan & Norton, 2010). Individual performance refers to the assessment of outcomes and behaviors of employees in accomplishing their tasks and responsibilities. Measuring individual performance may involve periodic evaluations and achievement of performance goals (DeNisi & Pritchard, 2006). The Balanced Scorecard concept emphasizes a balanced performance measurement involving financial, customer, internal processes, and learning and growth perspectives (Kaplan & Norton, 2010). It provides a comprehensive view of organizational performance. KPIs are critical metrics used to measure success in achieving strategic goals. KPIs may cover various areas such as customer satisfaction, operational efficiency, and product innovation (Parmenter, 2015).

The implementation of information technology and information systems plays a key role in improving organizational performance. Automation systems, data analytics, and artificial intelligence can assist in monitoring and improving performance (Brynjolfsson & McAfee, 2014). Performance management involves the planning, supervision, and measurement of performance to achieve organizational goals. Approaches such as results-based management can enhance accountability and productivity (Drucker, 1954). Organizational culture can significantly impact performance. Organizations with cultures supporting innovation, collaboration, and learning tend to achieve higher performance (Cameron & Quinn, 2006). Sustainable performance includes environmental, social, and economic aspects. Organizations paying attention to sustainability in their operations can gain long-term competitive advantages (Elkington, 1998).

The adoption of digital technologies is often a key driver in enhancing organizational performance. Digital transformation involves integrating technology to streamline processes, improve efficiency, and achieve strategic goals (Westerman et al., 2014). Organizational performance indicators may shift with the successful implementation of digital strategies, emphasizing the need for a comprehensive understanding of how digital initiatives impact overall performance. In the context of digital transformation, individual performance is closely linked to the ability of employees to adapt to and leverage digital tools. Training and upskilling become essential components to ensure that employees can contribute effectively to the digitalization of processes, ultimately influencing the overall performance of the organization (Schwab & Sala-i-Martin, 2016).

The Balanced Scorecard adapts to the digital landscape by incorporating metrics related to digital initiatives. It reflects the organization's ability to innovate through technology, measure customer satisfaction in digital interactions, enhance internal processes through automation, and foster a culture of continuous learning in the digital age (Delen et al., 2013). Digital KPIs become crucial in assessing the success of digital transformation efforts. Metrics related to online customer engagement, conversion rates, data security, and the effectiveness of digital marketing strategies contribute to a holistic evaluation of the impact of digital initiatives on performance (Galliers & Leidner, 2014).

The role of technology in performance management is magnified in the era of digital transformation. Automated performance tracking systems, data analytics for employee assessments, and real-time feedback platforms are examples of how technology enables more efficient and effective performance management (Marler & Boudreau, 2017). The influence of organizational culture on performance becomes intertwined with the digital culture fostered during transformation. Cultivating a culture that values digital innovation, collaboration through digital platforms, and continuous learning in the digital space contributes to overall organizational performance in the digital age (Kraus et al., 2021). Sustainability efforts in the digital realm involve considerations of energy efficiency, responsible data management, and ethical use of technology. Organizations that integrate sustainable practices into their digital transformation strategies contribute not only to environmental goals but also to long-term economic and social performance (Verhoef et al., 2021).

Digital Transformation

Digital transformation is often defined as the integration of digital technologies to fundamentally change business operations and customer experiences (Westerman et al., 2014). The literature emphasizes several key enablers of digital transformation, including data analytics, cloud computing, artificial intelligence, and the Internet of Things (IoT) (Kraus et al., 2021). These technologies are recognized for their role in reshaping organizational processes and strategies. Digital transformation is viewed as a strategic imperative for organizations seeking to thrive in the digital age (Bharadwaj, 2013). It involves rethinking business models, customer engagement, and operational efficiency to gain a competitive advantage. Scholars have identified challenges and barriers to digital transformation, such as resistance to change, legacy systems, and cybersecurity concerns (Bughin et al., 2019). Understanding and addressing these obstacles are crucial for successful implementation.

The role of organizational culture and leadership in digital transformation has been extensively studied (Verhoef et al., 2021). Cultivating a culture of innovation and having leaders who champion digital initiatives are considered essential for successful transformation. Digital transformation has implications for business models, leading to the emergence of new digital business models (Fleisch et al., 2015). Organizations are exploring innovative ways to create and deliver value in the digital ecosystem.

The literature underscores the importance of adopting a customer-centric approach in digital transformation (Berman, 2012). Understanding customer needs and preferences in the digital realm is crucial for designing effective digital strategies. Digital transformation is linked to various performance outcomes, including improved efficiency, enhanced customer experiences, and increased innovation (Bharadwaj, 2013). Organizations that successfully navigate digital transformation often experience positive impacts on their overall performance. Collaboration within digital ecosystems is highlighted as a key strategy for successful digital transformation (Zott et al., 2011). Engaging with external partners and leveraging ecosystem resources are seen as essential for sustained transformation. The literature acknowledges the ethical dimensions of digital transformation, including concerns related to privacy, data governance, and algorithmic bias (Verhoef et al., 2021). Ethical considerations are integral to responsible and sustainable digital practices.

Digital transformation is often positioned as a strategic imperative, emphasizing the need for organizations to adapt and innovate to gain a competitive advantage (Bharadwaj, 2013). Strategic alignment with digital initiatives has a direct impact on the overall performance of a company, influencing its market positioning and long-term viability. The evolution of business models in the digital era directly affects financial performance. Companies that innovate and adapt their business models to leverage digital technologies often experience improved financial outcomes (Fleisch et al., 2015). This includes revenue growth, profitability, and shareholder value. Digital transformation is associated with positive performance outcomes, including increased innovation (Bharadwaj, 2013). Companies that invest in digital technologies often demonstrate a higher capacity for continuous innovation, leading to the development of new products or services and improved market competitiveness. Collaboration within digital ecosystems is linked to improved performance through the creation of performance networks (Zott et al., 2011). Engaging with external partners, suppliers, and stakeholders in a digital ecosystem can enhance a company's capabilities, contributing to overall performance.

METHODOLOGY

The research utilizes secondary data, which was subjected to descriptive analysis. The written content was acquired through a literature review involving the exploration and scrutiny of data and information from diverse sources. These sources encompass a range of study outcomes published in various outlets, including books, journals, materials from webinars and virtual conferences, proceedings, and other publications. Additionally, information was gathered from print and electronic media (Juliandi & Manurung, 2014).

RESEARCH RESULT AND DISCUSSION

The Impact of Digital Transformation on Optimizing Company Performance

The influence of digital transformation on optimizing company performance has been a subject of extensive exploration in the literature. Scholars have delved into various aspects of this phenomenon, highlighting its multifaceted impact on organizational efficiency, innovation, and strategic positioning. The integration of digital technologies, including artificial intelligence, data analytics, and cloud computing, is recognized for its potential to streamline organizational processes and enhance operational efficiency (Kraus et al., 2021). Digital transformation is positioned as a strategic imperative, enabling organizations to align their strategies with evolving market dynamics and gain a competitive advantage (Bharadwaj, 2013). Digital transformation is closely linked to fostering a culture of innovation and adaptability within organizations, contributing to their ability to respond proactively to changing market conditions (Westerman et al., 2014).

The adoption of digital transformation often involves a shift toward customer-centric approaches, leading to improved customer experiences and satisfaction, ultimately influencing overall company performance (Berman, 2012). The utilization of data analytics in digital transformation facilitates more informed and efficient decision-making processes within organizations, positively impacting performance outcomes (Brynjolfsson & McAfee, 2014). Digital transformation contributes to the development of agile operations, providing organizations with the flexibility to adapt to market changes swiftly (Henderson & Venkatraman, 1999). Collaboration within digital ecosystems is emphasized to achieve synergies and enhance overall company performance through the collective capabilities of the ecosystem partners (Zott et al., 2018). Ethical considerations in the context of digital transformation are crucial for maintaining and enhancing corporate reputation, which, in turn, influences the overall perception of company performance (Verhoef et al., 2021).

A successful digital transformation necessitates the presence of a well-crafted digital transformation strategy. Developing a practical, transparent, and robust strategy ensures the smooth execution of digital transformation, serving as a valuable roadmap in the business transformation journey. The formulation and implementation of such a strategy have become pivotal for organizations in various traditional industries prior to embarking on digital transformation initiatives (Chanas et al., 2019). Digital transformation strategies fall into four general types, delineated by their utilization of digital technologies and preparation of business models for digital operations (Tekic & Koroteev, 2019). Studies highlight that companies enhance their digital transformation strategies by incorporating innovative technologies and new values, thereby updating business models and processes (Min & Kim, 2021). Many companies have progressed beyond the formulation stage of digital transformation strategy and are currently in the implementation phase (Lichtenthaler, 2020). A new strategic implementation framework, encompassing planning, implementation, and review phases, can be adopted for digital transformation (Barrane et al., 2021). In essence, digital transformation stands out as the optimal strategy for companies, necessitating reflection in all aspects of business implementation, operations, and

performance evaluations. It requires more than mere technical integration; it mandates the digitization of decision-making, work processes, collaboration, and the provision of optimal customer experiences.

Implications

Digital transformation occurs through the continuous enhancement of existing technologies and swift adoption of new ones, influencing all aspects of a company. The ongoing emergence of potent digital technologies facilitates this transformation. While technology is commonly perceived as the primary driver of digital transformation, it's crucial to note that the strength of digital technologies lies not in their standalone usage but in a company's capability to integrate them effectively for transformation. A well-developed digital transformation strategy serves as the foundation for success. This strategy's advantage lies in its focused goals, addressing transformation in products, processes, and organizational aspects through digital technology. Emphasizing its trans-functional nature, this strategy impacts all company activities, necessitating a comprehensive digital business strategy that unifies functional and operational strategies. Research collaboration with MIT Sloan Management Review and Deloitte indicates that digitally mature companies overwhelmingly possess clear, coherent, and comprehensive digital strategies (Kane et al., 2015).

The success of management and employees in crafting and implementing high-quality digital business strategies significantly influences a company's digital maturity. Digitally mature companies excel in business process automation, minimizing operational costs, ensuring efficient planning, and establishing a logical sequence between business functions. Their focus is on the integrated application of modern digital technologies, distinguishing them from less digitally mature companies, which address individual business challenges through separate digital solutions.

CONCLUSIONS AND RECOMMENDATIONS

Digital transformation has a significant impact on optimizing company performance. Companies need to develop a mature and well-integrated digital transformation strategy to achieve success in digital transformation. This strategy must include innovative digital technologies and new values that renew business models and operational processes. Digital transformation must also include aspects of an organizational culture that is innovative, adaptive, and open to change. Applying digital technologies such as artificial intelligence, data analytics, cloud computing, and the Internet of Things is vital in digital transformation. However, the success of digital transformation depends not only on more than just the technology itself but also on the company's knowledge and understanding of implementing this technology in an integrated manner. The importance of a digital transformation strategy is reflected in research showing that companies with a clear and comprehensive digital strategy tend to be more digitally mature and achieve better performance.

Digitally mature companies have advantages in business process automation, reduced operational costs, integration of business functions, and better customer experience. In the digital transformation era, companies must view it as the primary strategy and implement it in all business processes, operations, and performance assessments. Digital transformation is not just about the technical level; it is also about digitizing all aspects of decision-making, work, and collaboration to provide the best experience for customers.

ADVANCED RESEARCH

Still conducting further research to find out more about the author's limitations regarding Digital Transformation Strategy to Optimize Company Performance

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