Impact of digital transformation on strategy in the insurance sector

Misheck Musaigwa (a) * Stephen Mutula (b)

(a) PhD student, University of KwaZulu-Natal 238 Mazisi Kenene Rd, Glenwood, 4041, Durban, South Africa
(b) Professor, Dean, School of Management, Information Technology and Governance University of KwaZulu-Natal, 238 Mazisi Kenene Rd, Glenwood, 4041, Durban, South Africa

Abstract

The purpose of this research which is predicated on a qualitative case study design was to examine digital transformation in an insurance firm in Gauteng Province of South Africa with an extensive footprint throughout the country. The study aimed to gain a deeper understanding of the insurance organisation’s response to the implementation of digital transformation and how it affects the organisational strategy. Purposive sampling was adopted to select participants, who are managers and heads of departments. Data was collected through in-depth interviews. Thematic analysis was used to analyse data. The study found that the firm understands the significance of incorporating digital transformation into the strategy. The findings revealed that the firm is taking steps to incorporate digital transformation in the business strategy, however, they are not doing enough to fully address the problem of slow adoption. It was recommended that the company should fully embrace digital transformation and consider undertaking fundamental changes in the business strategy or to redefine the strategy.

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Introduction

The study is motivated by the limited academic research on digital transformation in the insurance industry generally and South Africa in particular. In addition, insurance firms are traditionally slow adopters of technology and are increasingly at variance with consumers’ expectations, such as the millennials who value high engagement, speed, flexibility, and specificity. In addition, due to the lack of literature on the digitalisation of the insurance sector, it is not clear how the business strategy of insurers is affected by the adoption of digital transformation as impact in almost all the aspects of the organisation. This study, therefore, seeks to address this gap.

The current COVID-19 global pandemic further accentuates the urgency for insurers to embrace digital transformation as it has exacerbated the problem for insurers who lack digital technologies that enable them to serve customers more effectively. The objective of this study is to understand the impact of digital transformation on strategy in the insurance firms. The subject understudy is significantly important as it affects not only the insurance sector, but almost all industries. The world is moving towards the digital era, and in order for firms to survive and be successful in this environment, they are expected to embrace digitalisation to remain relevant and competitive.

The main research questions the study aims to answer is how the adoption of digital transformation is impacting the business strategy in the insurance sector. The study adopted a qualitative research approach with a view to comprehensively understand the problem through semi-structured interviews. In addition, the study comprised nine participants who are all managers in the insurance firm understudy.

* Corresponding author. ORCID ID: 0000-0002-1474-3949
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This paper is arranged as follows: it begins by discussing the theoretical framework adopted in the study followed by a comprehensive literature review. The paper further discusses the methodology employed, findings and discussion as well as the conclusion of the study.

**Literature review**

The purpose of the literature review section is to discuss the literature reviewed in this study. The discussion begins by explaining the theoretical framework adopted and its significance in this study. Literature review is later discussed, and its purpose is to provide a comprehensive understanding of subject understudy and what is known about digital transformation in the current body of knowledge. The reviewed literature was selected based on its relevance to digital transformation and its impact of strategy.

**Theoretical framework**

**Resource-based view theory**

Resource-based view theory has its roots in strategic management and is often used in business strategy to manage and organise business resources (Yuen et al., 2019). The theory uses an inside-out approach which relates to obtaining and exploiting a firm’s resources effectively (Day, 2011). The resource-based view approach evaluates a firm's capabilities and resources that enable it to satisfy customers, develop a sustainable competitive advantage, and earn financial returns (Yuen et al., 2019). Resources can be tangible or intangible and they include knowledge, employees, capital, equipment and information technology (Formentini and Taticchi, 2016). Resource-based view theory argues that resources and capabilities should be rare, valuable, inimitable and exploitable for a firm to gain a sustained competitive advantage over its rivals (Yuen et al., 2019). Resource-based view theory also adopts an inward approach by focusing on the bundling and configuration of the firms’ internal resources (Yuen et al., 2019).

Information systems researchers that adopt a resource-based view approach identified different information technology-related resources that can be used as a possible source for gaining a competitive edge (Bharadwaj, 2000). In support of this view, Mata et al. (1995) suggested that skills such as the managerial information technology competencies are rare and specific to the organisation and can thus, serve as a source of competitive edge. The resource-based view theory was considered more appropriate for this study as it helps explain both digital transformation and the business strategy. Considering that every organisation requires resources to be successful and achieve its goals, the resource-based view perceives technology as a fundamental resource of the organisation, which may provide a firm with a competitive advantage. Similarly, digital transformation also implies the use of new technologies which are resources of the organisation to achieve the organisational goals. These new technologies are essential for the firm particularly insurers in this case. Adopting new technologies enables the firm to remain relevant in the market and effectively compete and earn a competitive edge.

**The impact of digital transformation on strategy**

According to Porter (1980), there are three generic strategies available for businesses to deploy, and these include differentiation, cost leadership, and focus strategy. These three strategies are widely used by firms and discussed by many scholars (Baroto et al., 2012). Differentiation strategy is concerned with the uniqueness perceived by customers where products and services are considered unique by them. Cost leadership is employed by firms when they intend to gain a competitive advantage by attaining the lowest cost in the sector (Louw and Venter, 2013). A focus strategy is deployed when the firm focuses on a narrow market niche within a sector (Louw and Venter, 2013). While these business strategies have been widely used in the past and continue to be deployed, the digital era is forcing businesses to consider revisiting these business strategies to ensure they align with the new digital technologies.

It is argued that in light of the digital era, Porter’s (1980) concept of generic strategy, which is regarded as the fundamental paradigm in traditional business management, is unable to adequately address the current digital business challenges and the new digital economy. This has given rise to many approaches and proposed strategies in the digital business environment (Wirtz, 2021). Kiel et al. (2016) also affirm that the increasing number of business opportunities created by digitalisation is compelling firms to critically re-examine their existing strategies.

The new proposed strategies considered relevant in the digital era suggested by Wirtz (2021) include service leader, quality leader, price leader, assortment leader, scale leader and innovation leader. Service leader strategy is highly focused on customer orientation and reliable service. Quality leader is focused on the value of the range of services and the process, service, and product quality. Assortment leader focuses on a diversified variety of services and products to deal with many different target groups. In addition, an innovation leader strategy consists of a high degree of innovative and creative power as well as the first-mover advantage. Scale leader focuses on the automation of production and service at a large scale.

The definition of the new business strategies and the traditional generic strategies suggest that there has been a fundamental shift in the market where the new strategies appear to be more relevant in addressing customers' needs in the digital economy. The customer-oriented approach, creativity and innovative power, automation, and a wide range of products and services appear to be the characteristics of the new and optional digital strategies.

Digital transformation has also led to adjustments in the growth strategies, such as the Ansoff (1957) growth matrix. The Ansoff (1957) growth strategies include market development, market penetration, and product development. Using a digital platform lens,
Verhoef et al. (2019) found new growth strategies that expand the conceptualisation of Ansoff’s (1957) growth matrix. The new proposed strategies are deployed by organisations that have adopted digital transformation. For example, the proposed new product development strategy for a digital organisation is implemented through online channels to attract customers, enhance market share, target and service new business markets. Digital organisations can also propose new platform-based market penetration by developing and launching a platform that comprises different existing services and products in the new market. Moreover, firms adopting digital transformation can also use product development strategy by developing and launching new products in a platform environment since platforms enable stronger synergies between products (Verhoef et al., 2019).

Despite the urgency required to respond to digital transformation, many organisations lack the understanding and knowledge of adapting and coping with the current disruptions (Gimpel et al., 2018). When adopting digital transformation, the lack of strategy may lead organisations to focus more on technology than on customers (Schwertner, 2017). At the strategic level, studies have analysed the impact of digitalisation on business strategy and business models (Schmidt and Drew, 2016). Studies have shown that firms are faced with the challenge of making strategic decisions to adopt digital technologies regardless of the scarcity of information on digital strategy (Legner et al., 2017).

Organisations need to deploy a digital strategy in order to ensure a successful digital transformation process (Bharadwaj et al., 2013). A digital business strategy is different from the traditional information technology strategy in that it cuts across all functions of the firm, such as logistics, marketing, operations, and procurement. The formulation of a digital strategy encompasses the design of services and products, how they inter-operate with other supporting platforms, and how they will be deployed to exploit the advantages of digital resources (Bharadwaj et al., 2013). According to Chania et al. (2019), digital business strategy is the combination of the business strategy and information technology strategy. Yeow et al. (2018) argue that a digital business strategy serves both the business and technology needs as it is technologically inspired and business-focused. The formulation of a digital strategy also comprises various activities such as the definition, formulation, description, planning, and implementation (Wirtz, 2021).

**Difference between digital strategy and digital transformation strategy**

While a digital strategy can align and combine the business strategy and information technology, a digital transformation strategy exclusively consists of a vision, planning and execution of the firm’s change process (Matt et al., 2015). This suggestion distinguishes between a digital transformation strategy and a business strategy. Digital transformation affects many areas of the organisation, such as product development, marketing, information technology and human resource. Consequently, many stakeholders participate in defining a digital transformation strategy (Berghaus and Back, 2016).

Matt et al. (2015) advocate for a digital transformation strategy as an appropriate approach for a successful digital transformation. A digital transformation strategy is a guide map that provides a framework for a firm to manage the transformation process (Matt et al., 2015). Matt et al., (2015) distinguish digital strategy and digital transformation strategy by suggesting that a digital transformation strategy is comprehensive and broad in scope. It goes beyond other business strategies that must be aligned with it. In addition, digital transformation strategies pursue a different approach and different goals, with a business-oriented approach and it emphasises the transformation of the firm’s aspects, processes and products (Matt et al., 2015). A digital business strategy describes the intended future of the business strategies and opportunities for the company that are either fully or partly based on digital technologies with the transformational insights stipulating how the intended future will be reached (Matt et al., 2015).

Digital transformation requires a holistic approach instead of a functional approach to address the risks and opportunities resulting from the arrival of new technologies (Singh and Hess, 2017). Therefore, the organisation must formulate a digital transformation strategy to transform digitally (Singh and Hess, 2017). Matt et al. (2015) explain that digital transformation strategy outlines how digital transformation should be executed and works as a guideline for managers to ensure the success of the transformation. Nwaiwu (2018) argues that the digital transformation framework sets the academic foundation for digitalisation, and that digital transformation strategies should consist of four crucial dimensions, these are: change in the creation of value, use of digital technologies, financial aspects, and structured changes.

Schallmo et al. (2018) revealed that a digital strategy is currently a developing concept still in its early stages. Studies show that there is currently no consensus on the definition of the term digital strategy despite the concept being widely used in literature (Schallmo et al., 2018). However, Leischnig et al. (2017) believe that a digital strategy supports the firm to accomplish digital transformation by underscoring digitally empowered customers, digital leadership skills, expandable and agile digital operations, and emerging digital innovations. Yeow et al. (2017) revealed that when a firm embarks on formulating a digital business strategy, the discrepancy between resources and an emergent strategy can cause internal tension to increase. It is, therefore, vital for organisations to ensure that resources are reconfigured to align with the new digital business strategy (Yeow et al., 2018). Digital business strategy formulation should also include product and service design and how they will operate with other complementary platforms (Bharadwaj et al., 2013).

Unlike in the past, where information technology strategy was relevant, it is no longer fit to address challenges posed by digital transformation as it mainly focuses on the management of the information technology infrastructure of a company; thus, it does not go far enough to deal with innovations in business development (Matt et al., 2015). As a result of these shortcomings, the information
technology strategy limits the firm from achieving the customer-oriented and product-oriented opportunities created by new digital
technologies, which usually extend beyond the company’s borders (Matt et al., 2015). The information technology strategies provide
a system-oriented approach to the future exploitation of technology in a company; however, they do not lead to the transformation
of processes, structural changes and product innovation that is in line with the fusion of technologies (Matt et al., 2015). Bharadwaj
et al. (2013) argue that the digital era requires management to redefine information technology strategy and change it from a
functional strategy that aligns with a business strategy and integrate it with the business strategy to become an overall digital strategy
business of the firm.

Methodology
The case study approach offers the researcher a broader perspective, it entails undertaking an empirical study of a phenomenon in its
natural settings using multiple sources of data (Yin, 2003). Hancock and Algozzine (2016) assert that, unlike experimental research,
case study research is normally more exploratory than confirmatory, this suggests that case study researchers usually intend to
establish themes of events and behaviour as opposed to testing a hypothesis or proving relationships.

A case study provided this research with an in-depth understanding of the phenomenon by focusing on one specific case. Saunders
et al. (2016) argue that case studies are specifically appropriate for helping the researcher to obtain a comprehensive understanding
of the context of the study and the events happening in that context. Researchers such as McCutcheon and Meredith (1993) suggest
that case study research is appropriate when the research topic is very complex and broad, when there is not much theory about the
research area and when the context is essential. There are many different techniques that a case study can employ, such as qualitative
and quantitative approaches as well as the collection of and analysis of data (Gerring, 2006).

A case study approach is also appropriate if the study intends to answer questions such as how and why, when the researcher cannot
manipulate the informant’s behaviour and when the context is relevant to the study (Yin, 2003). Gerring (2017) explains that a case
study is a comprehensive study of a single or small number of cases that collect data and give findings on a larger population. As
indicated by Gerring (2017), a case study is highly focused, which means that a substantial amount of time is taken by the researcher
analysing and finally presenting the selected case or cases, and the case is regarded as essential evidence for the study.

There are many other reasons for selecting a case study, such as exploration to find areas for research and theory building. Case study
research has produced most of what is known today about the empirical world and much of the treasured work in every field (Denzin
and Lincoln, 2017). While case studies have been largely used in the social sciences and proved to be valuable, they have also been
used in disciplines such as management, education, social work, and public administration (Starman, 2013). Starman (2013) states
that case studies are more qualitative than quantitative in nature, although not exclusively, it can be quantitative, qualitative or a mix
of both approaches. Simons (2009) stresses that a case study should not be viewed as a method of itself, but instead, it is a design
that may be combined with various methods. While an individual case can be conducted using both quantitative and qualitative
methods (Starman, 2013), this study used a qualitative approach alone. A case study approach enabled the researcher to have a holistic
view of the problem being researched, and it also provided a full picture as it used data from multiple sources including interviews,
literature and the theory.

A case study was used in this study because of its ability to give the context, and a comprehensive understanding of the issue under
study in the organisation through in-depth interviews since the aim was to gain insight and not to generalise the findings. Moreover,
the study also adopted a descriptive single case study approach, which enabled the researcher to describe participants’ experiences
and views in detail and better understand the situation from their standpoint. Furthermore, the case study helped to describe the
fundamental elements of digital transformation and how the adoption process has been rolled out in the company under investigation.

As a complex and multi-faceted concept, digital transformation required a case study design to generate in-depth understanding, by
focusing on one firm to enable a thorough examination of the situation through the rich collected data. In view of this, using a case
study design to understand digital transformation in the insurance sector is appropriate because to understand technological changes
and their impact on the organisation, this design provides the techniques to obtain relevant data. Understanding technological
advancement requires the researcher to use multiple data sources to develop a full view of the problem.

A case study enables the researcher to focus on one case organisation to gain insight into how they organise their technological
resources and how this has an internal impact. While some of the challenges and experiences of organisations are similar in dealing
with technological resources, each organisation also has its own unique experience; therefore, a single case study was necessary to
gain more insight and not to generalise the results.

Findings and discussion
Incorporating digital transformation into the business strategy
The findings discuss the impact of digital transformation on the business strategy. The participants indicated that the organisation
had to change the business strategy to incorporate digital transformation and make it part of the strategy to achieve its long-term
objectives.
Participant A1 explained that:

*I think digital transformation is a critical component of the business strategy; maybe up to now, it's been generally not part of the strategy to try and incorporate digital transformation in all the elements of a company strategy. It's almost rethinking and elevating this strategic planning process that makes it a critical component to ensure the organisation remains relevant in the market in the years to come.*

The participant stressed the importance of incorporating digital transformation into the business strategy. These views indicate that the organisation understands the significance of a digital strategy and is taking steps to incorporate it. The views are supported by literature as indicated in the study of Bharadwaj et al. (2013) that the digital era requires management to redefine information technology strategy from being a functional strategy and combine it with the business strategy to create a digital business strategy that becomes the overall strategy of the firm. The firm shows that as a fundamental resource of the organisation, digital transformation is essentially becoming part of the organisation’s strategic planning. This aligns with the resource-based view theory which emphasises the significance of adopting information technologies in the organisation to earn a competitive advantage.

Participant B1 suggested that:

*The issue of digital transformation and business strategy is a very key question because what I have noticed with companies, including ours is that every department and every strategy has to include digitalisation. That is a big change, so you can be talking about training and development. They have had to come up with new ways of training people remotely that are digital.*

It is evident from the view of the participant that the digital transformation has changed the way organisations operate including the business strategy, various functions and activities. As indicated in the literature, these findings are supported by Bharadwaj et al. (2013) who argued that digital business strategy cuts across all functions of the organisation, including marketing, logistics, operations and procurement. The changes in the firm as noted by the participant are supported by the resource-based view theory which argues that the organisation’s strategy and success depend on the resources it owns such as information technology (Coates and McDemott, 2002). Resource-based view theory suggests that the physical information technology assets that form the organisation’s overall information technology infrastructure consist of the database, computer and communication technologies, and shareable technical platforms (Ross et al., 1996). More emphasis is on internal resources owned and developed by the firm, not externally acquired resources (Coates and McDemott, 2002).

The following views were expressed by participant C1:

*We have a big impetus on the strategy for digital transformation, not only digital but also digital technology especially the physical resources, specially because we are in this competitive environment. We have to adjust to those strategies to make space for digital transformation and technology, and we also have to change our strategies too. So, our strategy has to include the digital transformation and the market for the products even our middle structures have to be included in this strategy we do not have a choice.*

The formulation of a digital strategy encompasses the design of services and products, how they inter-operate with other supporting platforms, and how they will be deployed to exploit the advantages of digital resources (Bharadwaj et al., 2013). Bharadwaj et al. (2013) argue that the digital era requires management to redefine information technology strategy from a functional strategy that should be aligned to a business strategy and integrate it with the business strategy into an overall digital business strategy of the firm. The information technology skills coupled with the human information technology skills as well as the collaboration between the company’s business unit management and the information technology influences the organisation’s capacity to deploy information technology for strategic objectives (Ross, et al., 1996). Kohtamäki et al. (2019) argue that resources need to be reconfigured to take advantage of the new business opportunities.

**Understanding the impact of digital transformation on strategy**

The following views were expressed by participant D1:

*So digital transformation has taught us that it is necessary for us to review our strategy. We are reviewing our processes. We bring along everybody so that they understand that things are no longer going to be done the old way. So yeah, we do not have a choice we have to change even the strategy.*

Digital transformation affects many areas of the organisation at the same time. Consequently, many stakeholders participate in the process of defining digital transformation strategies such as product development, marketing, information technology and human resource (Berghaus and Back, 2016).

Participant D1 suggests that the business strategy is affected by the adoption of digital transformation. Below are the respondent’s views:

*100% digital transformation affects the whole business strategy; the whole business strategy has been completely redesigned towards making new business strategies that are focused online on digital transformation. All the training that is done that is systems related in our organisation was never online and now business’s different departments are building their strategies around online learning.*
The study revealed that the adoption of digital transformation leads to the adjustment or review of a business strategy to ensure that digital transformation is incorporated in all the company's planning, including strategic decisions. In other words, digital transformation has become an essential part of the planning at the organisation understudy, they incorporate digital transformation in almost every aspect of their planning, as highlighted by the findings. The findings demonstrate that the management of the firm understudy understands the significance of digital transformation on the strategy and the whole strategic planning process. Most of the participants agreed that it was necessary to incorporate digital transformation into the business strategy and that the company is adjusting the strategy to ensure that digital transformation is a significant component of the planning process.

The findings confirm what has been suggested by most of the literature that digital transformation is forcing organisations to review and formulate new strategies that incorporate this concept. Digital insurance documents also corroborate the study’s findings that the business strategy should incorporate digital transformation. The McKinsey & Company (2018) report suggests that insurance firms need a digital strategy as their new business strategy. The proposed digital strategy is a combination of business and information technology strategies. Insurers need a well-defined and comprehensive digital strategy to fully take advantage of the opportunities presented by digital transformation (McKinsey & Company, 2018).

A digital business strategy is formulated by the company that is adopting digital transformation, and it is the combination of both the business strategy and information technology strategy, thus, there is no separation of these strategies as it was in the past or in the pre-digital organisations (Chania et al., 2019). Yeh et al. (2015) argue that in view of the business environment characterised by the dynamic and rapid change prompted by globalisation, the conventional business strategy in which firms work in isolation does not contribute to achieving competitive advantage. Instead, companies should move towards forming partnerships as a new approach to achieve a competitive strategy. Yeh et al. (2015) further note that due to the turbulent business environment firms operate in, is characterised by competitive pressure from trading partners. Lin and Lin (2008) described competitive pressure as one that emanates from a threat to lose a competitive advantage which compels the firm to seek new technological options to adopt in their existing strategies. Similarly, the insurers are faced with pressure from competitors which serves as a driving force that compels them to embrace digital transformation and remain competitive.

The resource-based view theory suggests that organisations are heterogeneous in connection with the strategic resources in their control, and these resources are not perfectly mobile; thus, the firm’s competitive advantage is due to the resources and capabilities it controls that are rare, valuable, not substitutable and imitable. These types of capabilities and resources can be perceived as bundles of intangible and tangible, for example, organisational processes and routines, management skills and information and knowledge (Barney, 1991). The knowledge and information and management skills are all essential capabilities the organisation possesses in order to formulate a digital strategy the firm needs for effective implementation of digital transformation.

**Conclusion**

The study revealed that the organisation understands the significance of incorporating digital transformation into the strategy, and as such, they are practising this by making digital transformation part of the business strategy. In addition, all the departments of the organisation are making digital transformation part of their planning as they have realised that it is essential even at the departmental level. While this is a step in the right direction, the actions taken to address the digital business strategy or digital transformation strategy are not sufficient to fully address the problem. The approach of creating space for digital transformation in the business strategy is not adequate to address or achieve a successful digital transformation.

While the study has revealed that the business strategy is reviewed and adjusted to make space for digital transformation, it is not sufficient to successfully achieve it. Therefore, it is recommended that the company fully embrace digital transformation and consider undertaking fundamental changes in the business strategy or to redefine the strategy. To successfully achieve digital transformation, the company should make fundamental changes in the business strategy beyond just making space for digital transformation or making limited adjustments on the strategy. There is a need for the redefinition of the business strategy to formulate a digital business strategy or the digital transformation strategy which is more comprehensive to incorporate all the functions and stakeholders of the firm. Considering that this study focused mainly on the impact of digital transformation on strategy, future research should focus on a broad perspective of digital transformation and how it impact the whole insurance sector and.

The study focused on the insurance sector and how its adoption of digital transformation affects the strategy. The current literature on the digitalisation of the insurance sector is limited internationally and in South Africa in particular, therefore, this study aimed to expand the knowledge on the impact of digital transformation in this sector as well as addressing the problem of the limited literature. This study would inform insurance companies’ policy, practice, and scholarship on digital transformation, which has fundamentally transformed the insurance industry from the process, product, and customer service. The study could also inform the scholars by providing empirical evidence on the impact of digital transformation on the insurance sector. Given the limited academic research on the effects of digital change on the insurance industry, this study adds to the body of knowledge in the insurance field.
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75
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