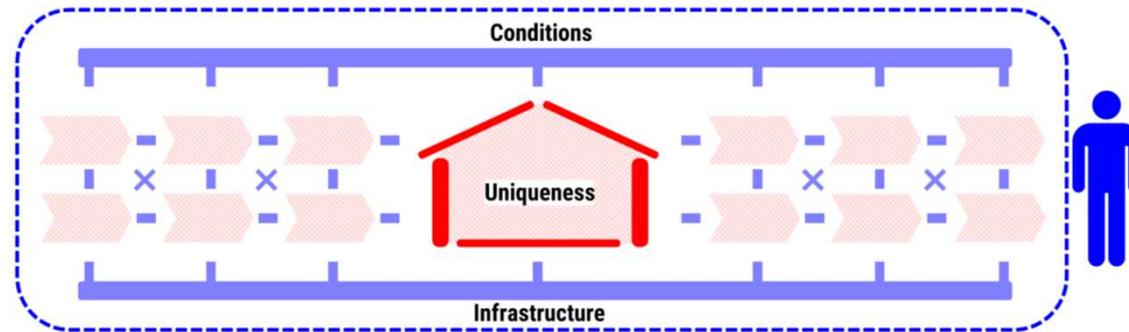
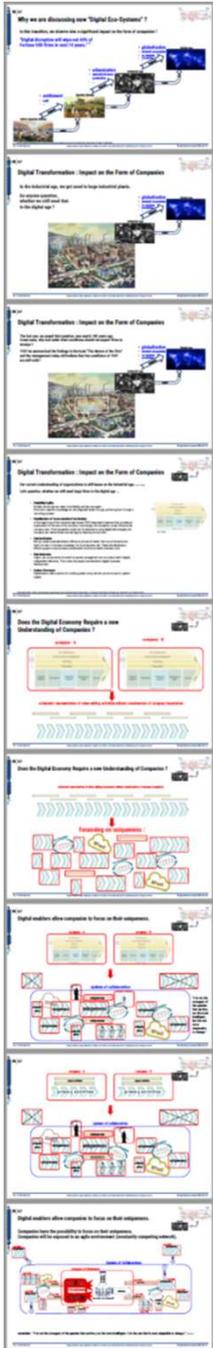


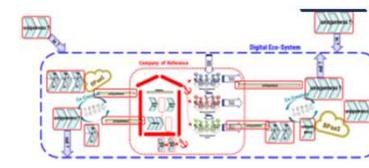
Strategic Business Innovation

Digital Eco-System



While the industrial age was characterized by centralization and production facilities, the digital age will be characterized by networked and decentralized value creation.

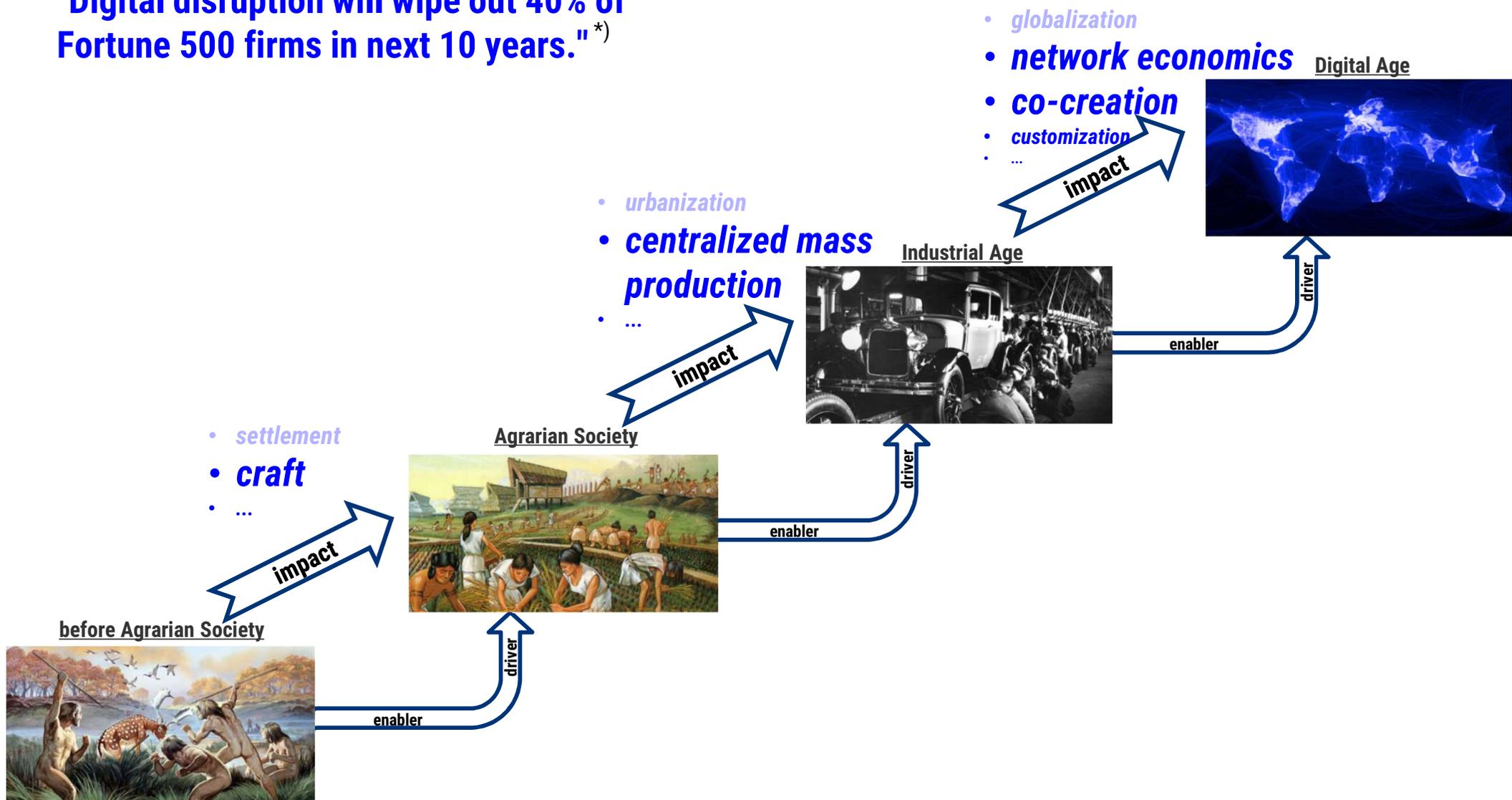




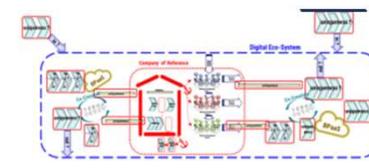
Why are we discussing now "Digital Eco-Systems" ?

In this transition, we observe also a significant impact on the form of companies !

"Digital disruption will wipe out 40% of Fortune 500 firms in next 10 years."^{*)}



^{*)} <https://www.information-age.com/65-c-suite-execs-believe-four-ten-fortune-500-firms-wont-exist-10-years-123464546/>



Digital Transformation : Impact on the Form of Companies

In the industrial age, we got used to huge industrial plants.

Do anyone question, whether we still need that in the digital age ?

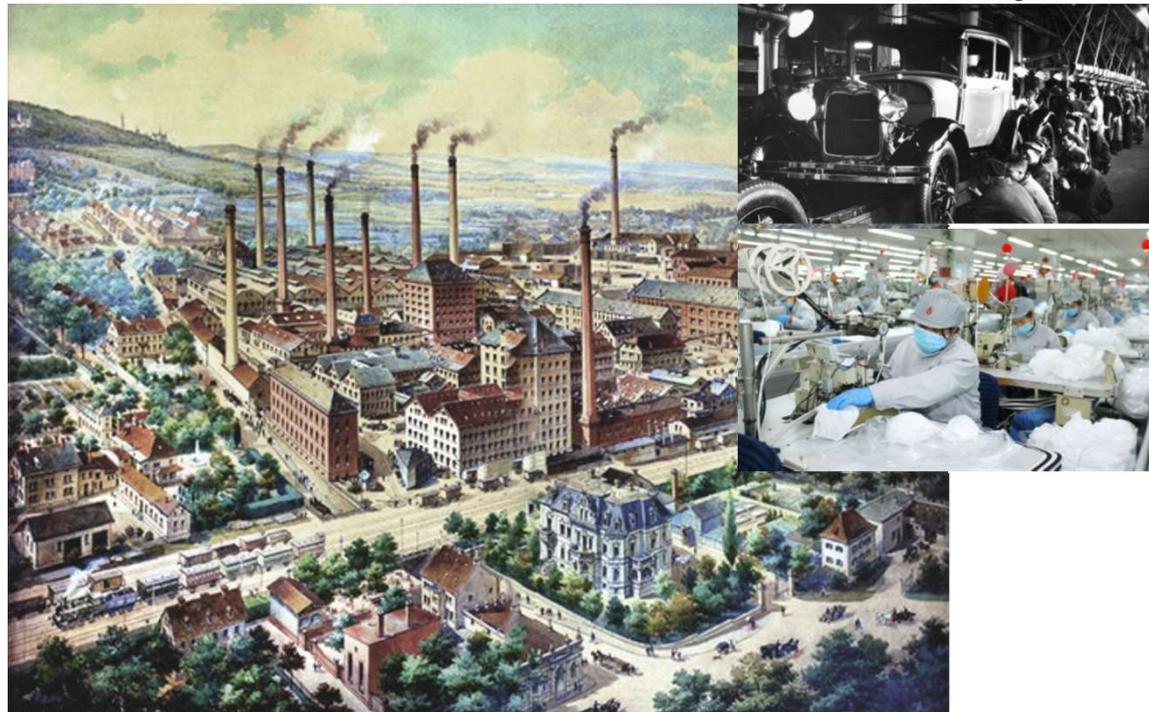
- globalization
- **network economics**
- **co-creation**
- customization
- ...



Digital Age



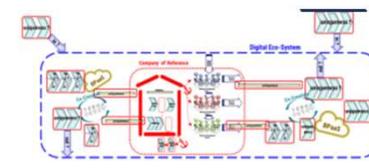
Industrial Age



enabler

driver

Digital Transformation : Impact on the Form of Companies



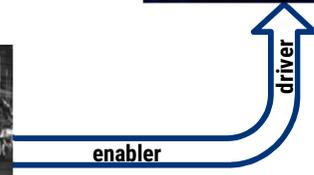
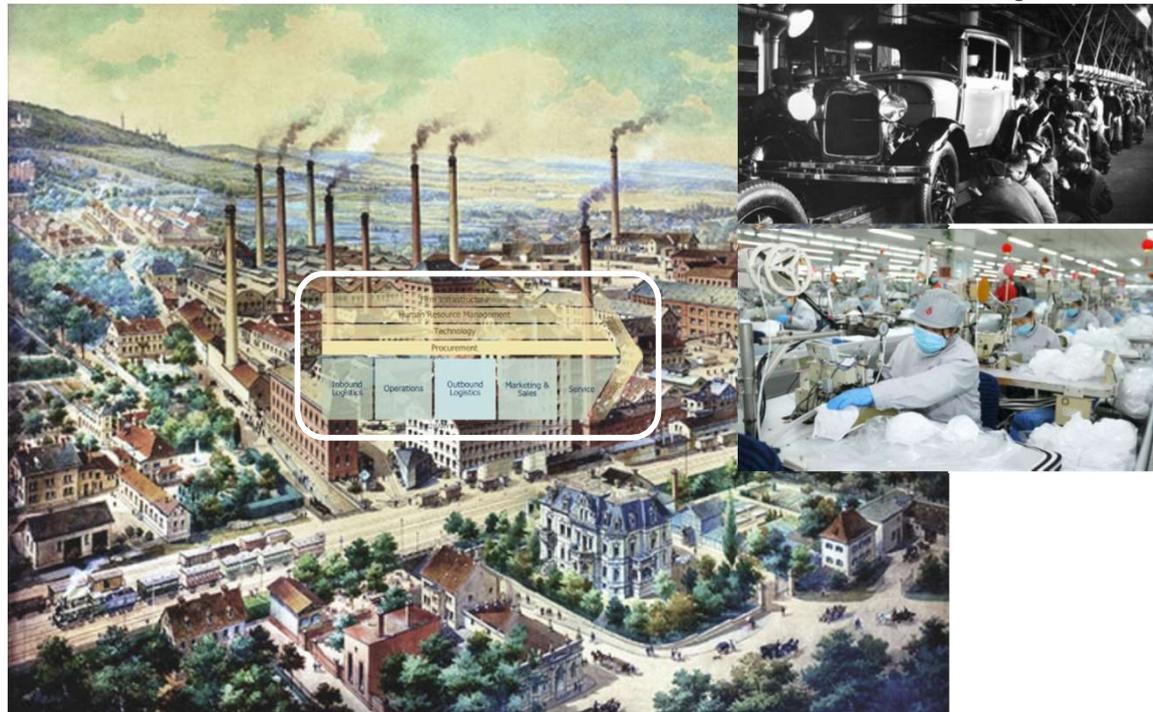
The last one, we posed that question, was nearly 100 years ago. Coase asks, why and under what conditions should we expect firms to emerge ?

1937 he summarized his findings in the book "The Nature of the Firm" and the management today still believe that the conditions of 1937 are still valid !

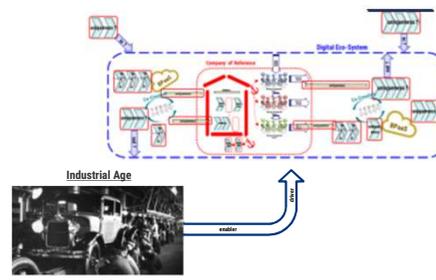
- globalization
- **network economics**
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- ...



Industrial Age



Digital Transformation : Impact on the Form of Companies



Our current understanding of organizations is still based on the industrial age. (p.es. Coase)

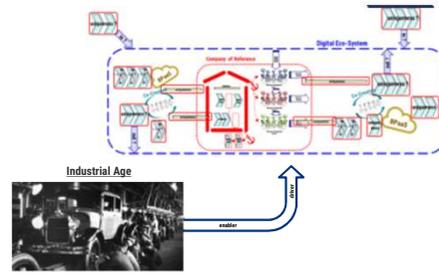
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 Short-term specific knowledge can be integrated faster through partnering than through a recruiting process.
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 We can observe standardization efforts at almost all levels. Not only at the technical level, but also in business processes, for cloud services, etc. These standardization efforts support cross-company collaboration and thus smaller business units.
- Risk Reduction**
 Higher risk components of overall corporate management can be outsourced to legally independent elements. This is also very easily transferable to digital business development.
- System Structures**
 Digitalization offers options for building system entry barriers as structures for system loyalty.



(M. Porter)

Does the Digital Economy Require a new Understanding of Companies ?



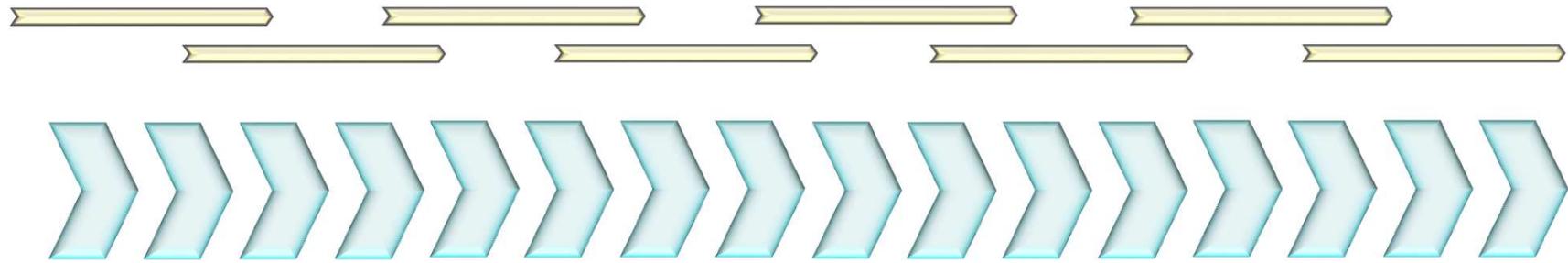
company - A



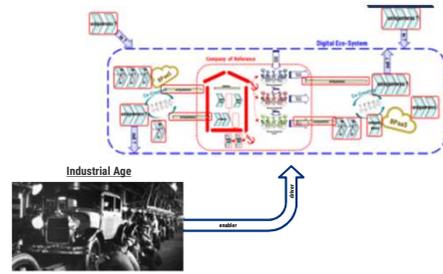
company - B



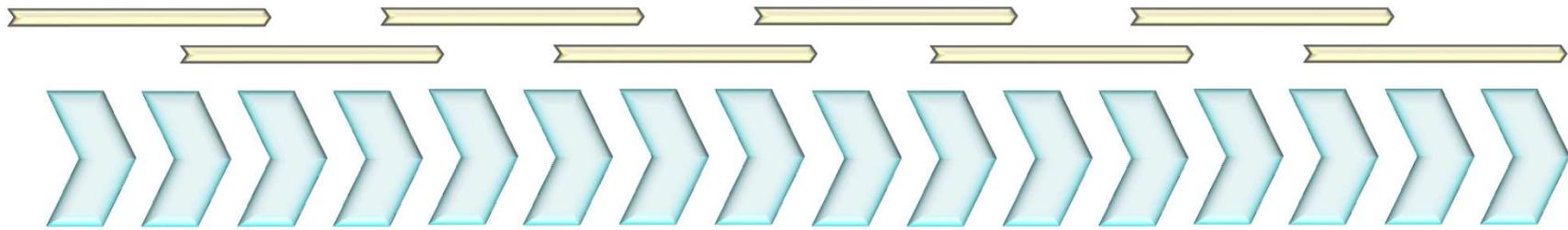
schematic representation of value-adding activities without consideration of company boundaries :



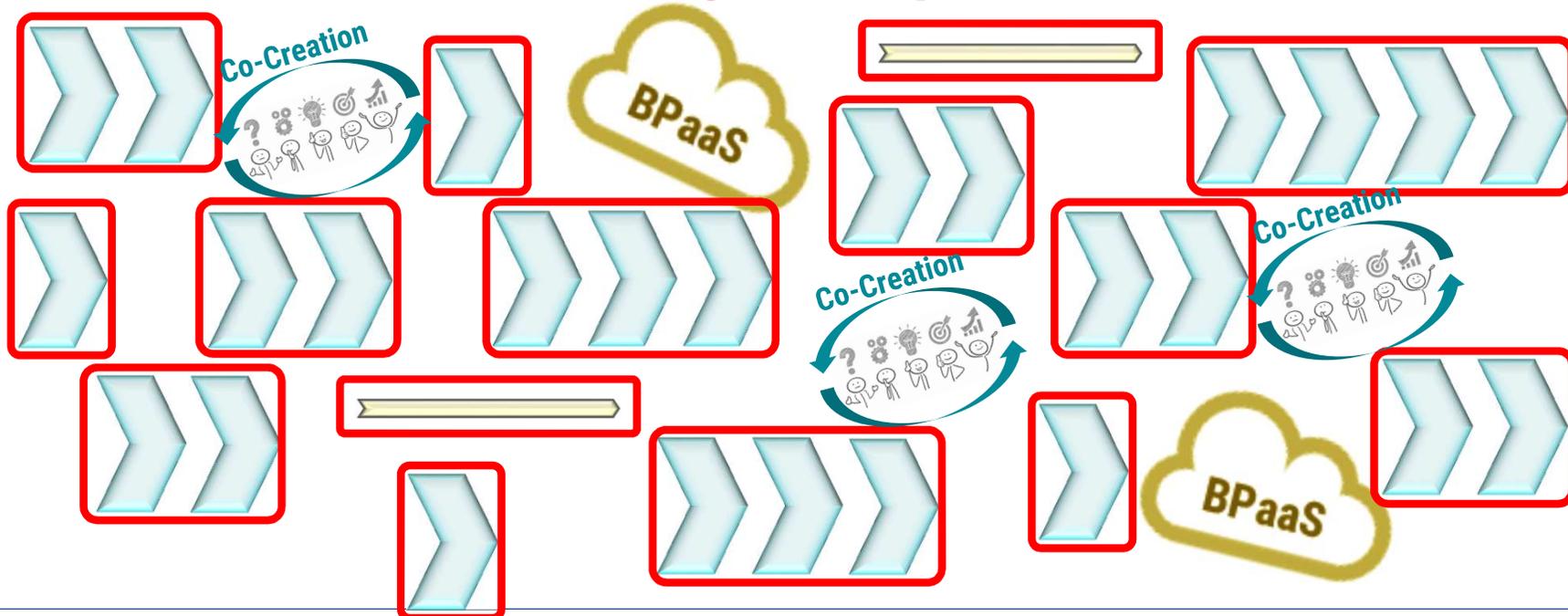
Does the Digital Economy Require a new Understanding of Companies ?



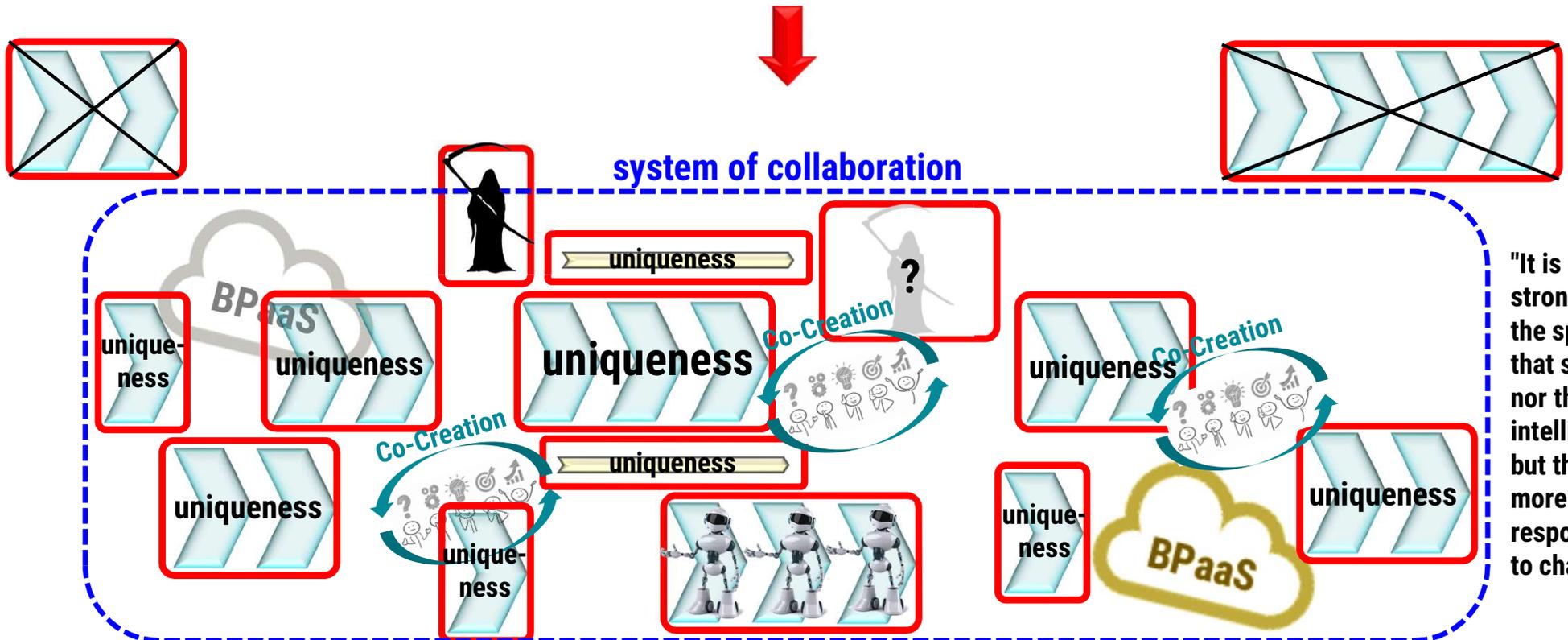
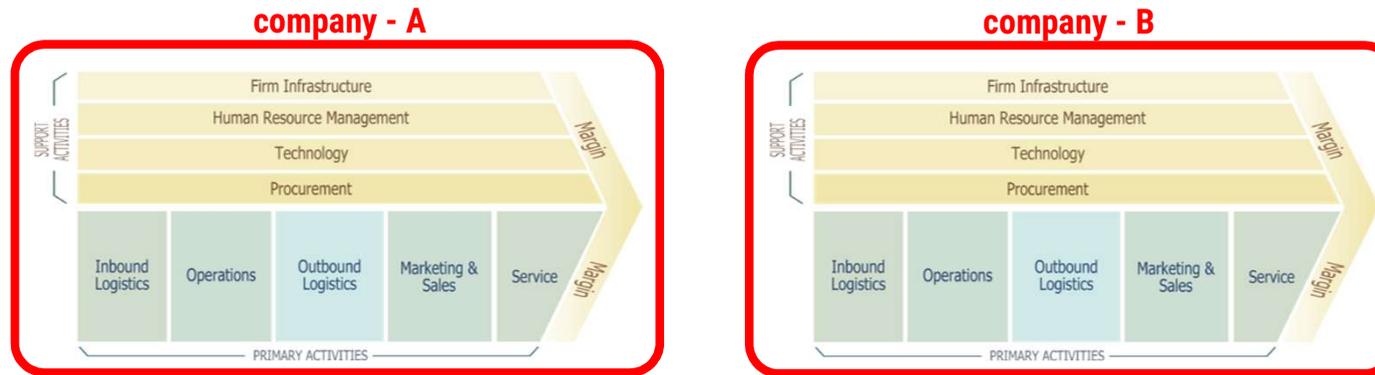
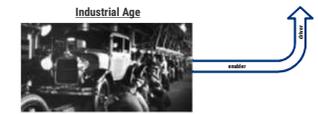
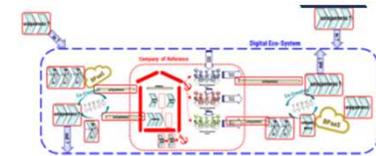
schematic representation of value-adding components without consideration of company boundaries



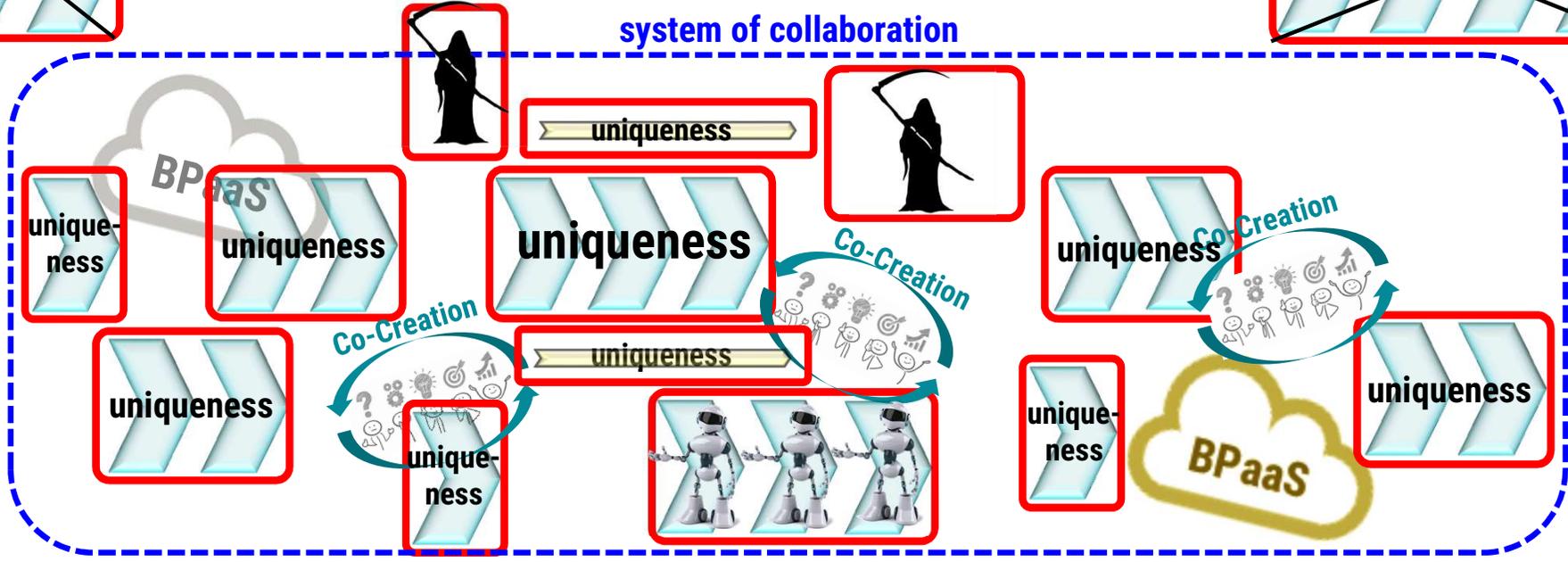
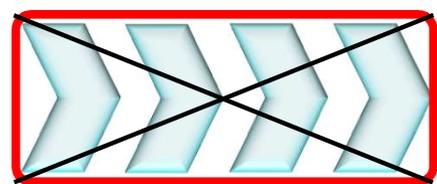
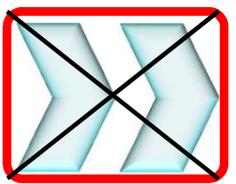
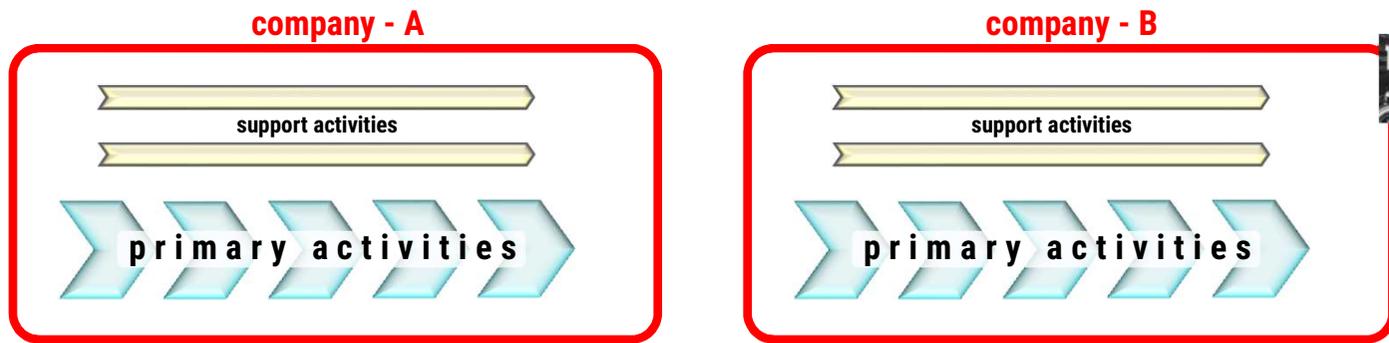
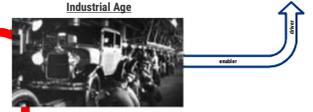
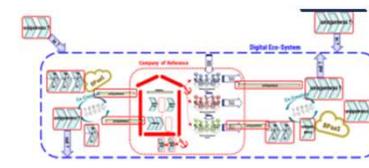
focussing on uniqueness :



Digital enablers allow companies to focus on their uniqueness.



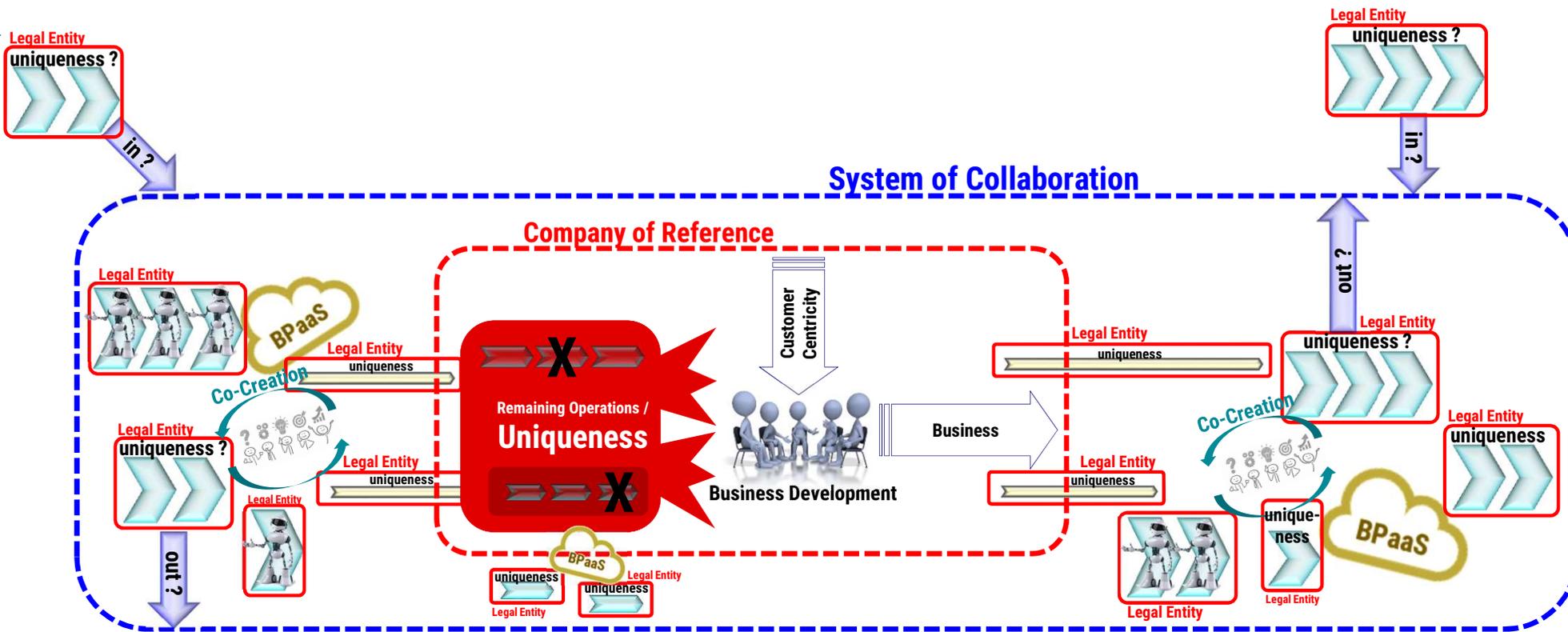
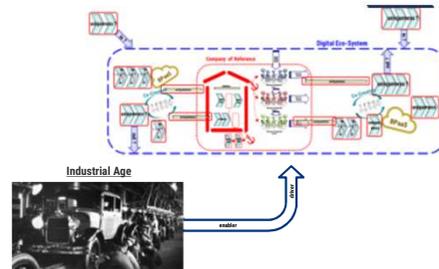
"It is not the strongest of the species that survive, nor the most intelligent, but the one more responsive to change."



Digital enablers allow companies to focus on their uniqueness.

Companies have the possibility to focus on their uniqueness.

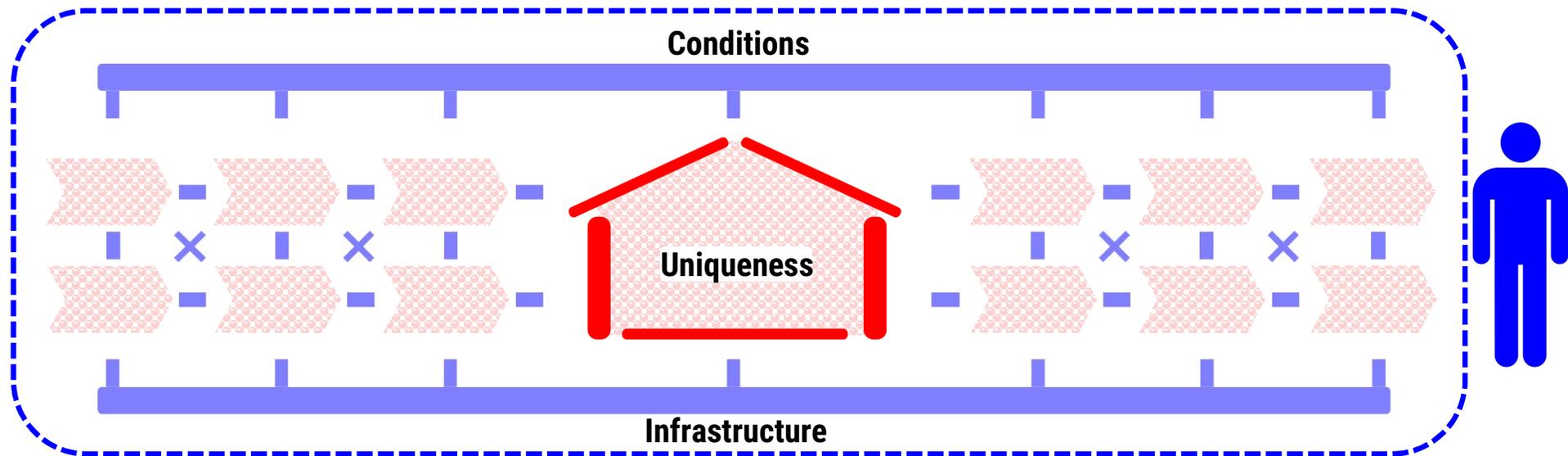
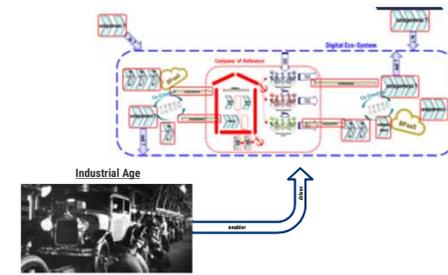
Companies will be exposed to an agile environment (constantly competing network).



remember : "It is not the strongest of the species that survive, nor the most intelligent. It is the one that is most adaptable to change." (Darwin)

Digital enablers allow companies to focus on their uniqueness.

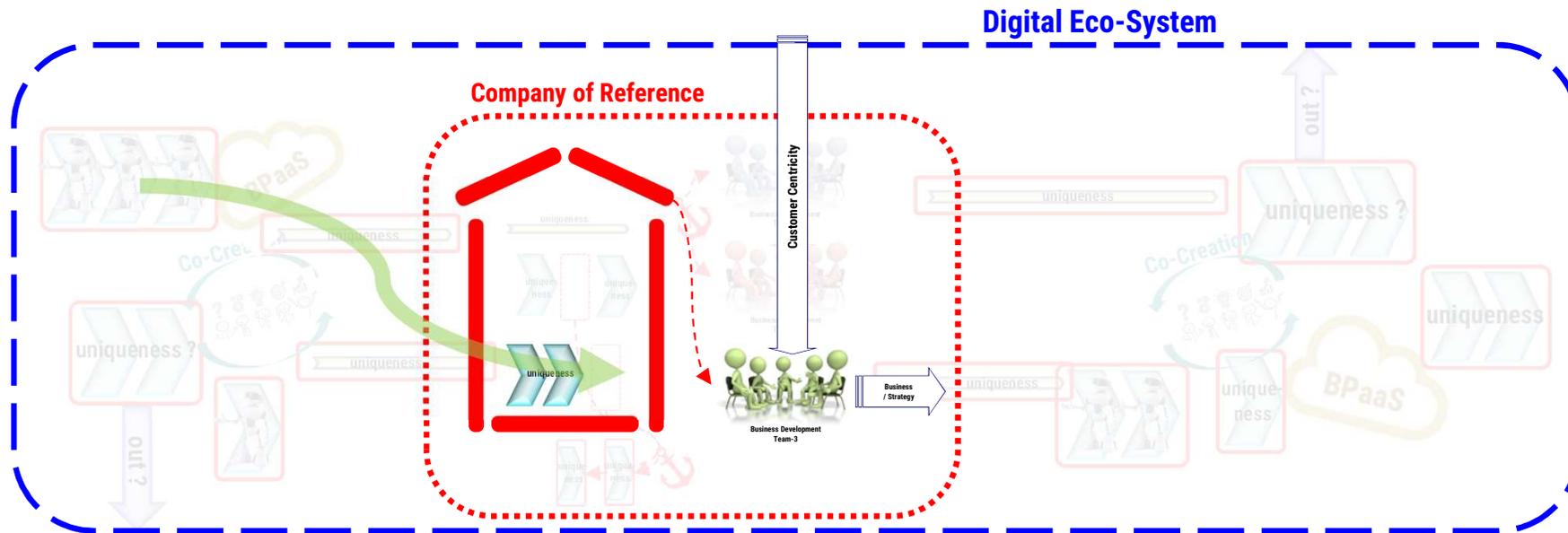
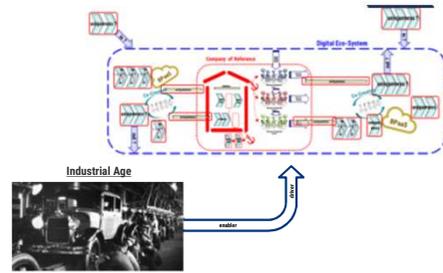
Sometimes we use this picture for publications :



A Digital Eco-System can be seen as a longer-term construct in which several shorter-term (agile) business models can be orchestrated.

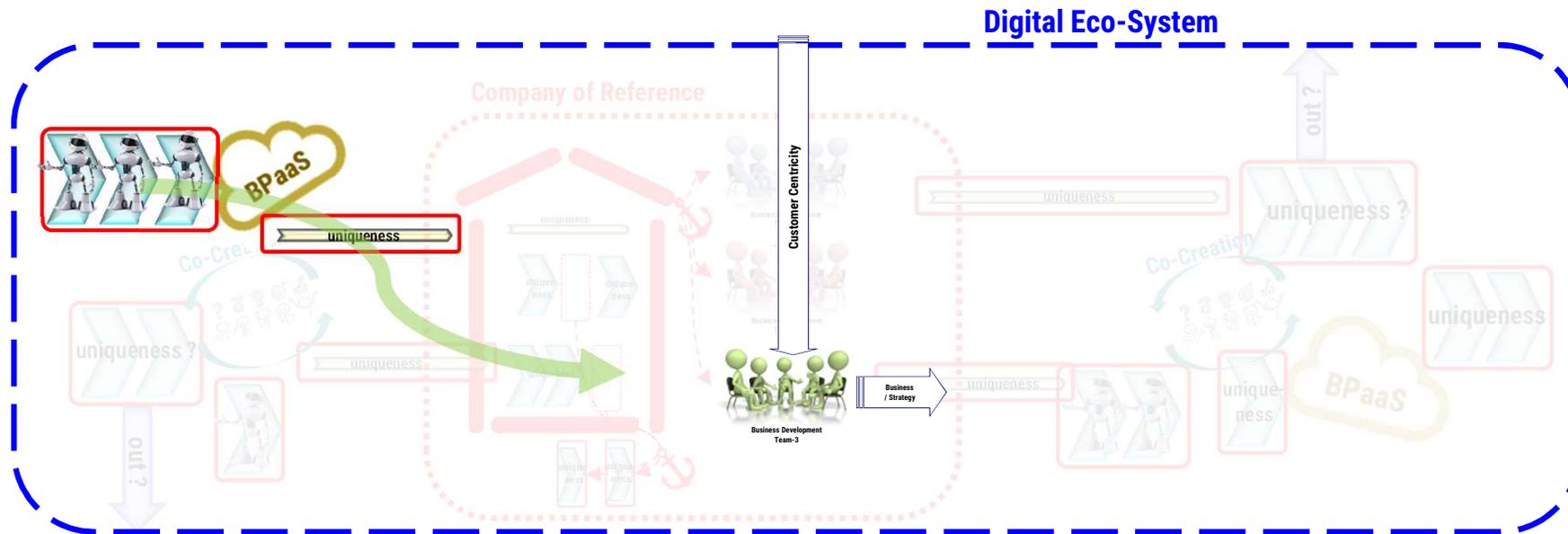
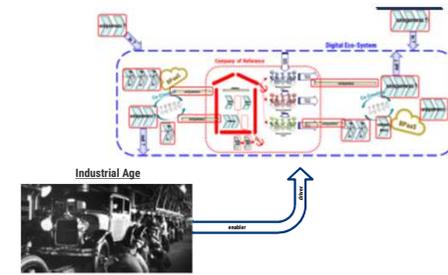
Business Agility

Explicit business development teams can integrate elements of the parent company - as well as leveraging elements from networked partners or industrial IoT (Industry 4.0) stages.



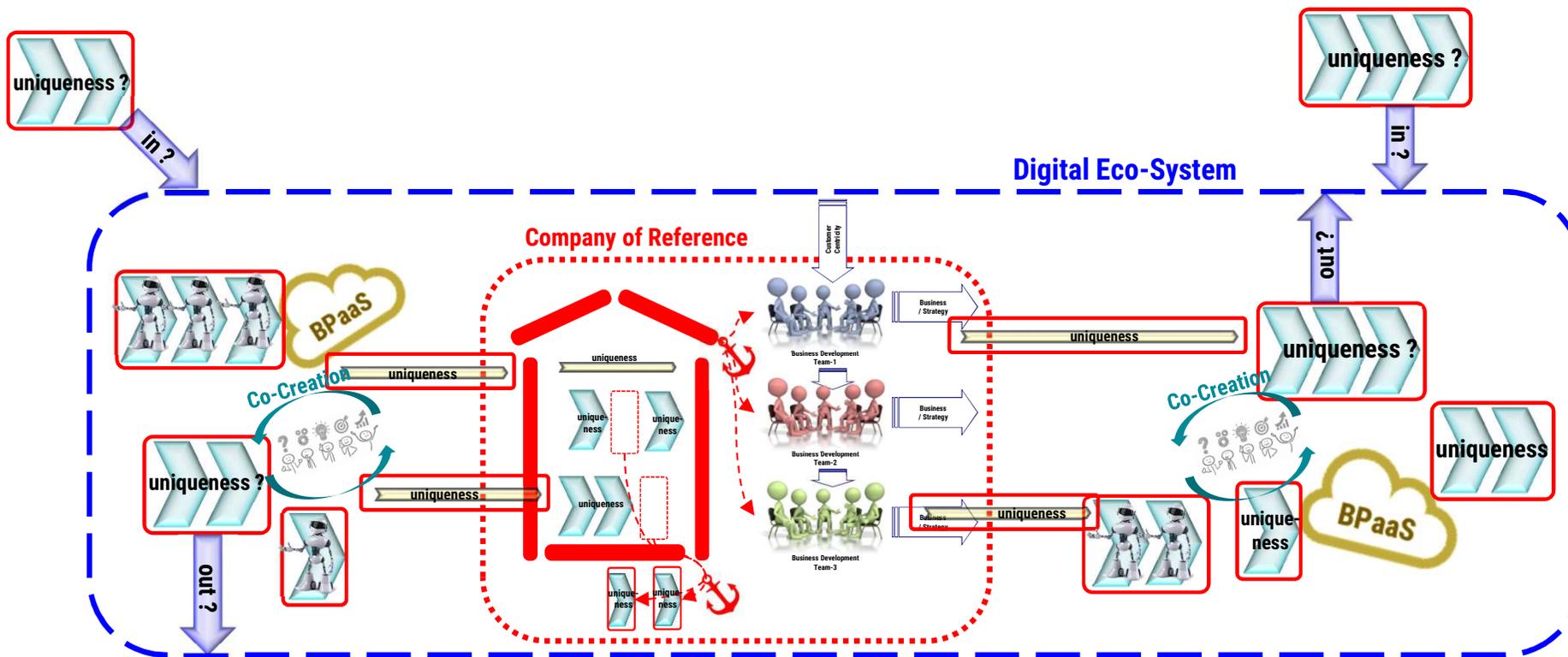
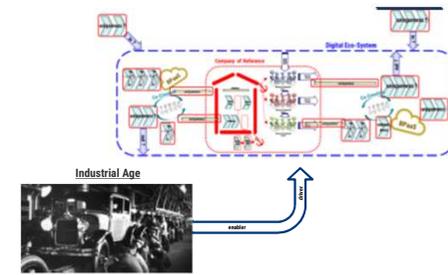
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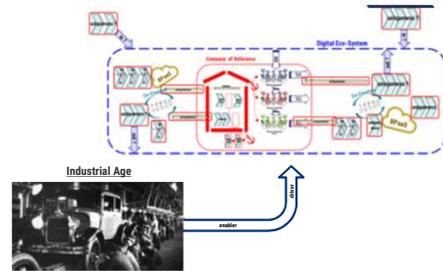


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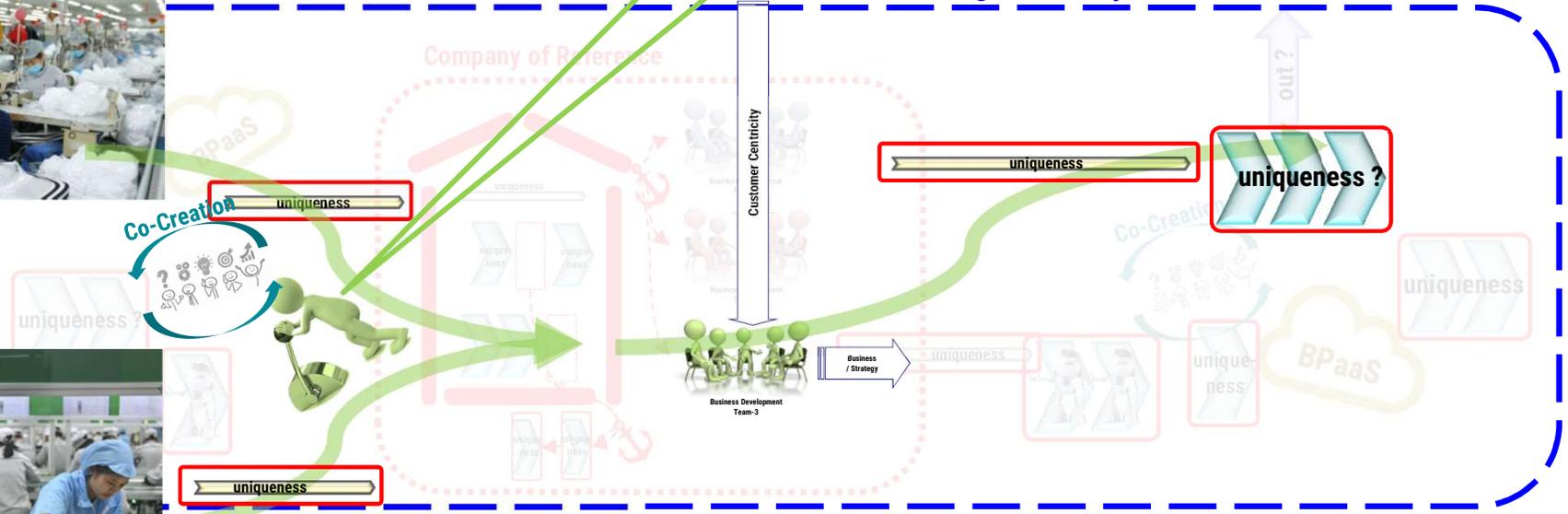
Business Agility - Perspective



industrial perspective

virtual perspective

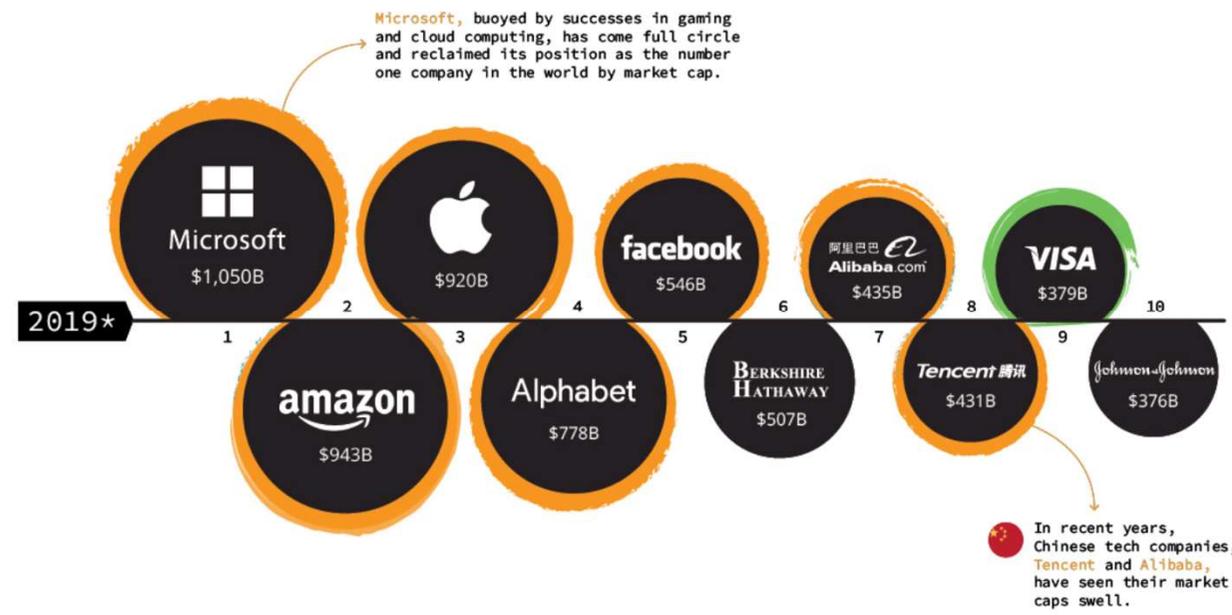
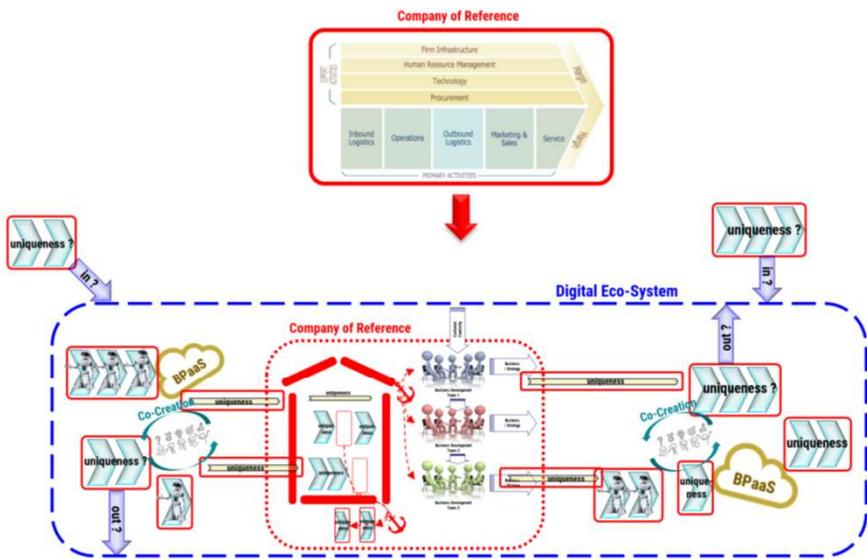
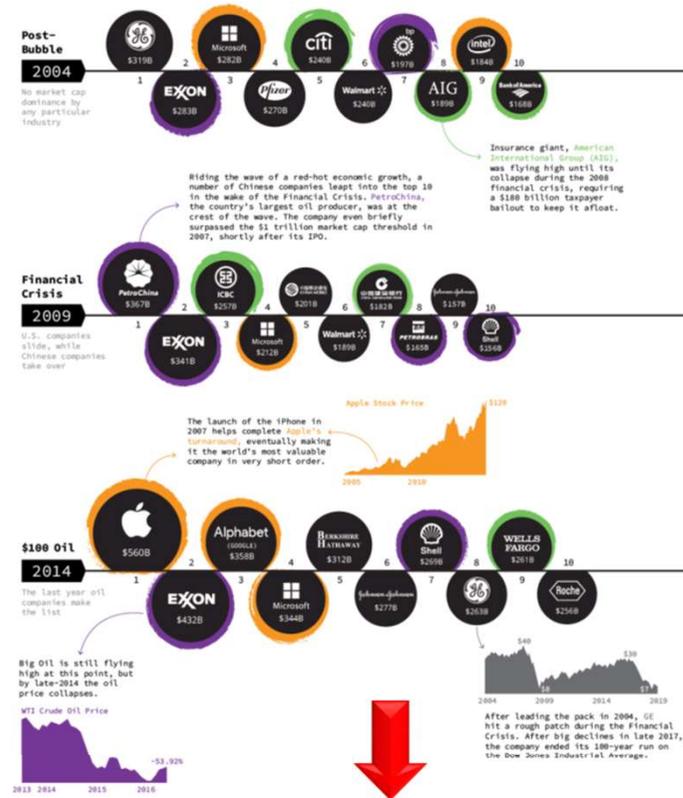
Digital Eco-System



Transformation into the Digital Age / Digital Economy & Business Agility

2019: **7** of the 10 worlds largest firms in terms of market capitalization are based on Eco-Systems !

10 years ago: **0** of the 10 worlds largest firms in terms of market capitalization are based on Eco-Systems !
 (Microsoft Azure was available from 2010 on.)

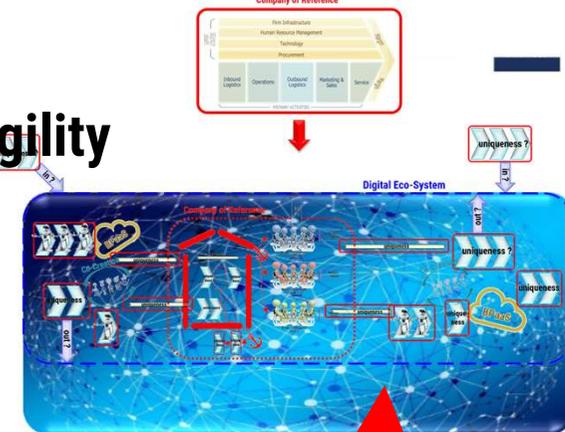


SOURCE: The Financial Times, Google Finance

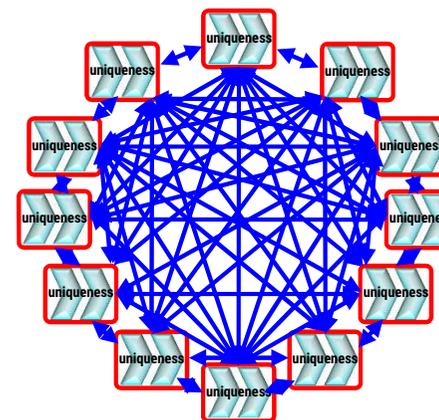
* Market caps as of June 21, 2019

Transformation into the Digital Age / Digital Economy & Business Agility

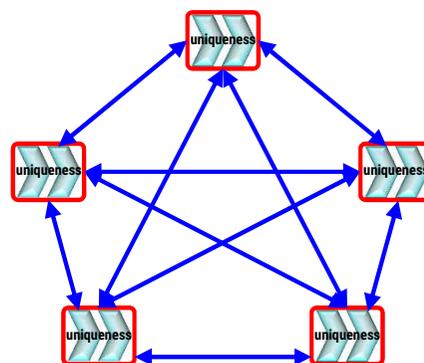
The competitiveness of an Eco-System grows with their size.



12 partner =
66 connections



5 partner =
10 connections



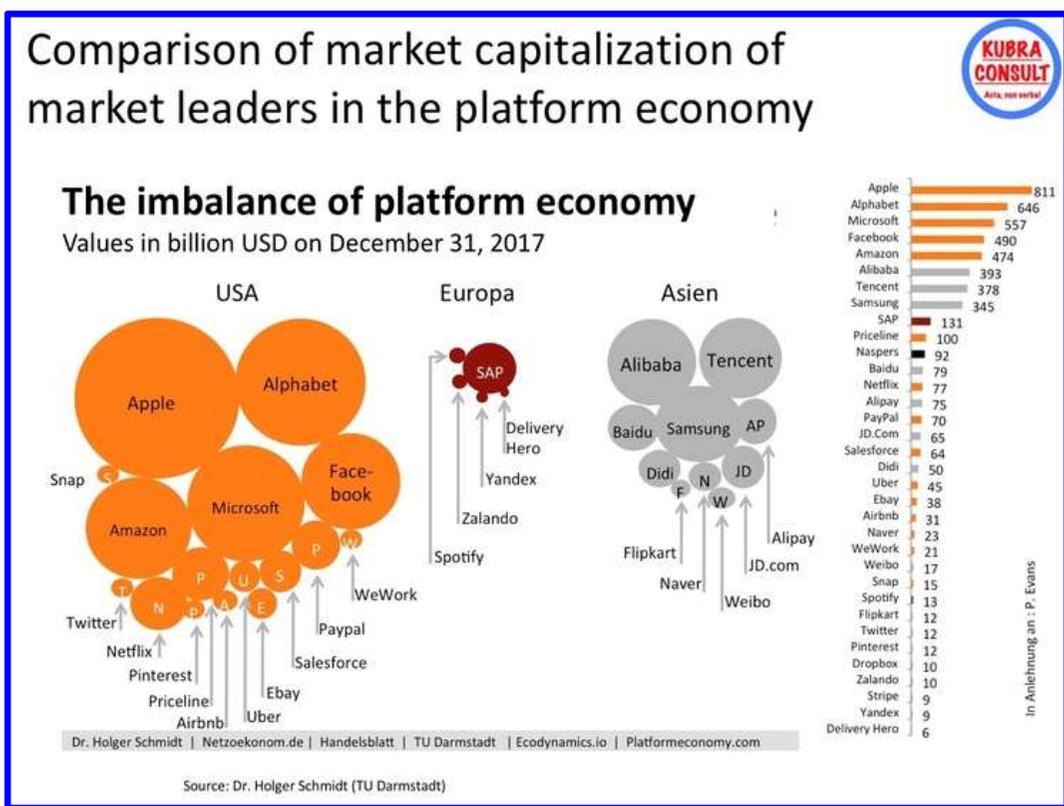
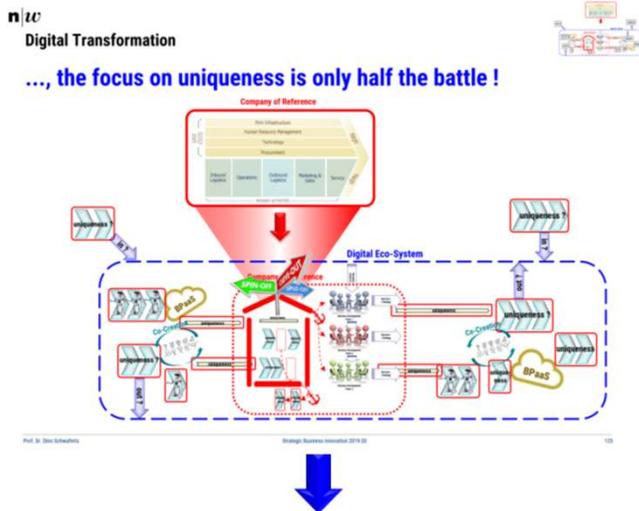
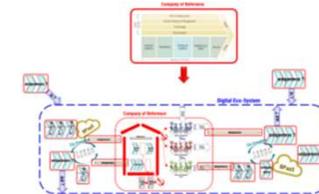
2 partner =
1 connection



Transformation into the Digital Age / Digital Economy & Business Agility

The competitiveness of an Eco-System grows with their size.

Due to the higher Business Agility in the USA and Asia, the prevalence of Digital Eco-Systems is higher in these economic areas.





Management decisions regarding the entire value creation, that were assigned to the top management in large organizations of the industrial age, require in the digital age a position of power so that their consideration by co-creating partners in the networked value creation can be ensured.

This has an impact on the management concepts of the industrial age.

The possibility to make decisions regarding the entire value creation according own interests is a position for which a competition arises.

Transformation into the Digital Age / Digital Economy & Business Agility

Please remember the already discussed impact on the form of companies.

- ⇒ Digital enablers allow companies to focus on their uniqueness, reducing the size.
- ⇒ A reduction of the individual company size leads to an increase in networking.
(if the over-all value creation remains unchanged)

But, ...

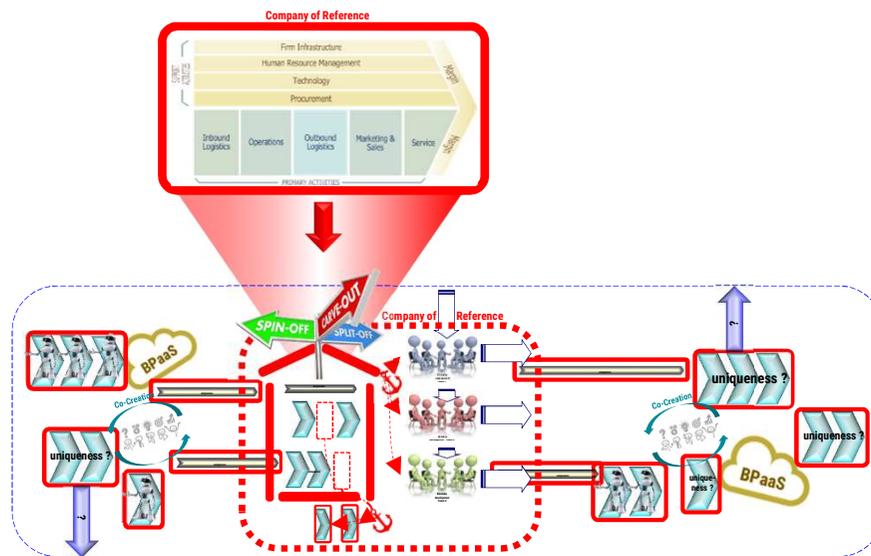
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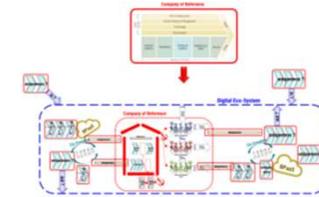
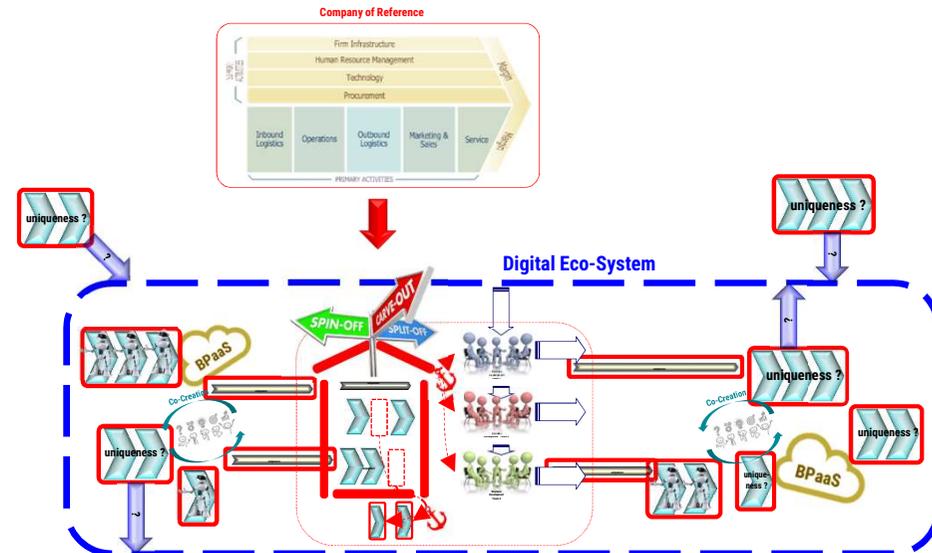
Schwarzfeller/Baas, Digital Transformation Management and Digital Business Development, in: Business Information Systems and Technology 4.0, Springer 2018
Prof. Dr. Dino Schwaferts Strategic Business Innovation 2019-20 113



Transformation into the Digital Age / Digital Economy & Business Agility

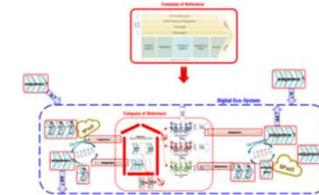
..., the focus on uniqueness is only half the battle !

- ⇒ Digital enablers allow companies to focus on their uniqueness, reducing the size.
- ⇒ A reduction of the individual company size leads to an increase in networking.
(if the over-all value creation remains unchanged)
- ⇒ The larger the range of possible partners, the easier / better a partner with a needed uniqueness can be found inside the network.
- ⇒ The competitiveness of a networked value creation (= Eco-System) grows with their size.



Transformation into the Digital Age / Digital Economy & Business Agility

To consolidate the position is the other half !

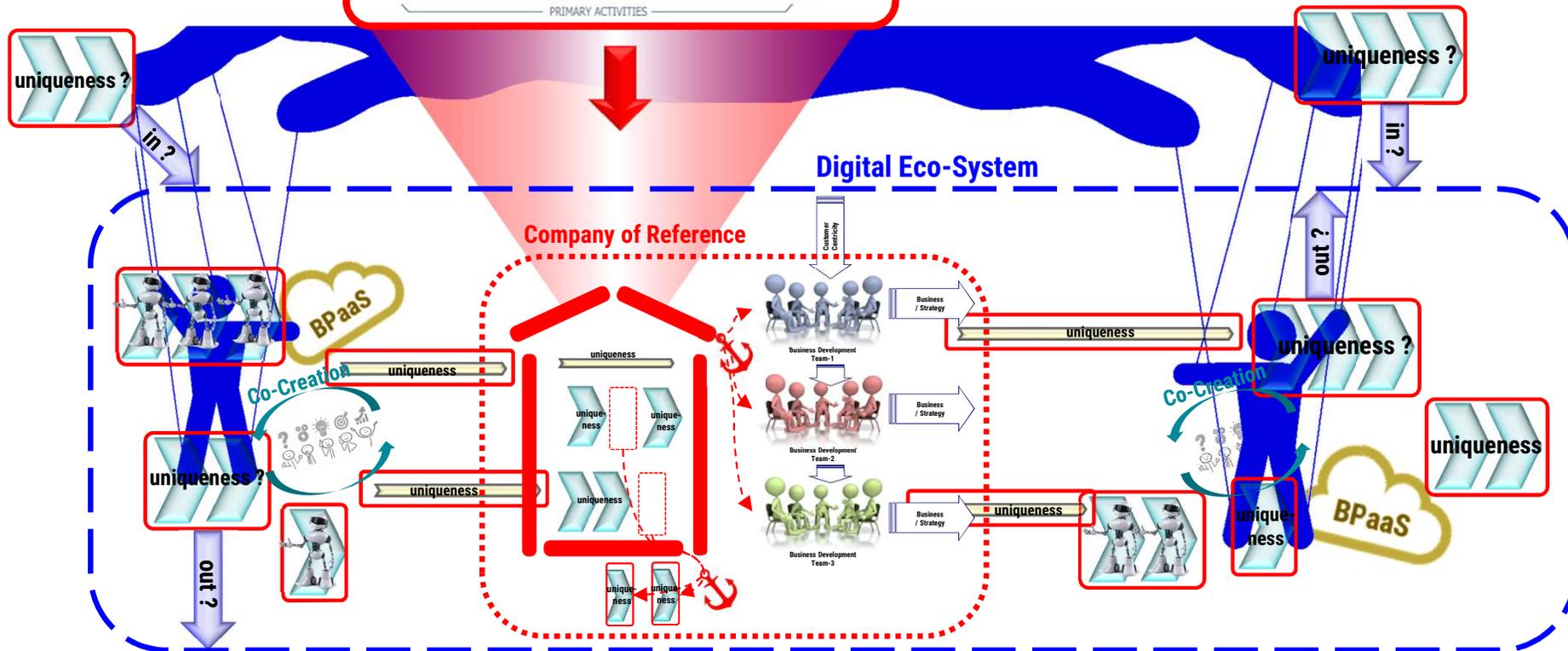


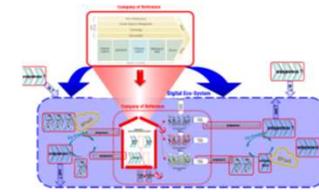
Company of Reference



OK, admitted ... The picture is strange ...

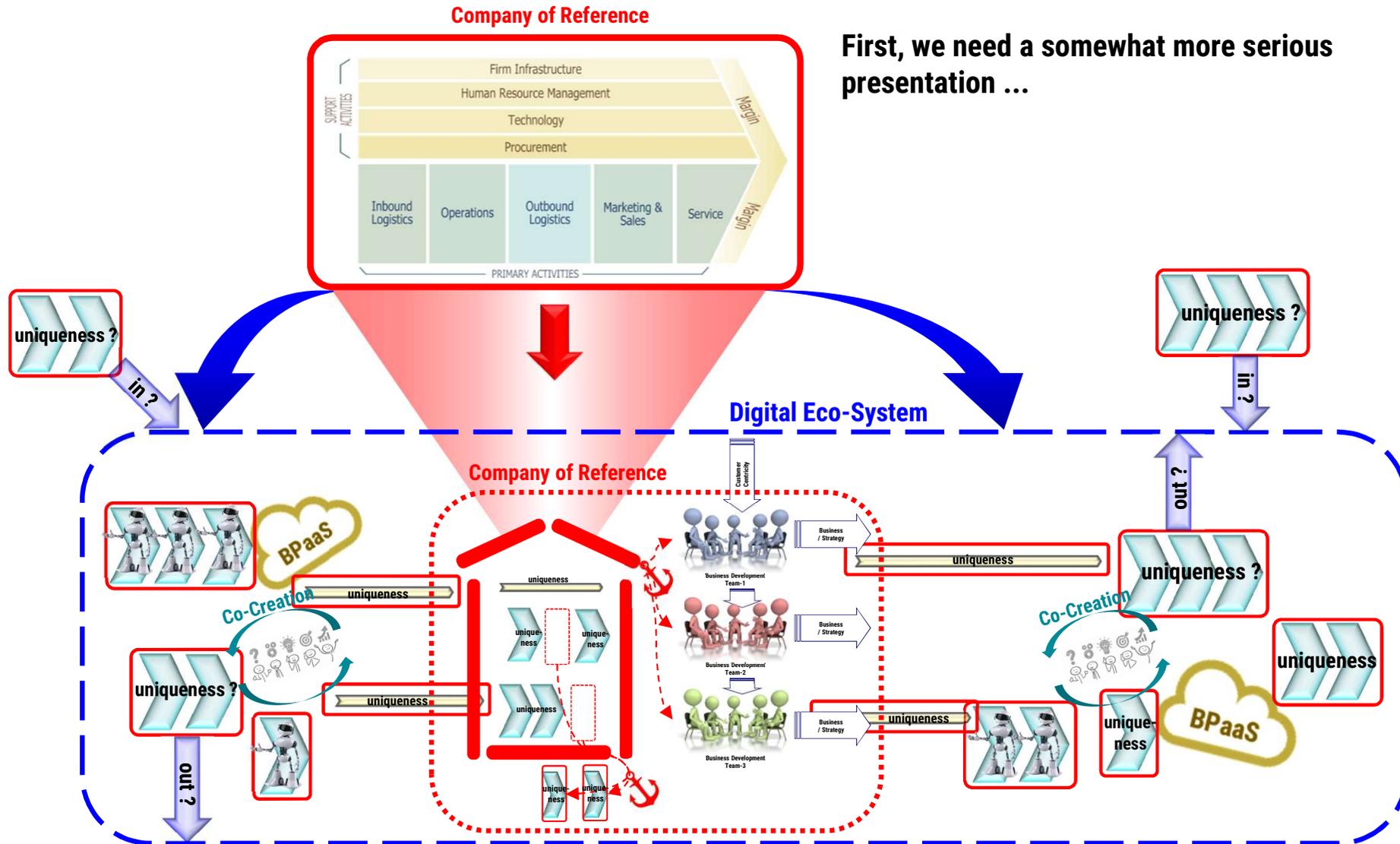
But, let's reflect whether we can find in this structure **any idea** that could support any business objective ...





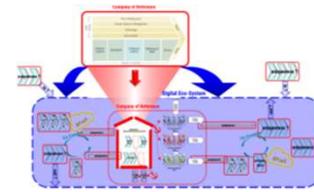
Transformation into the Digital Age / Digital Economy & Business Agility

To consolidate the position is the other half !



First, we need a somewhat more serious presentation ...

Transformation into the Digital Age / Digital Economy & Business Agility



To consolidate the position is the other half !

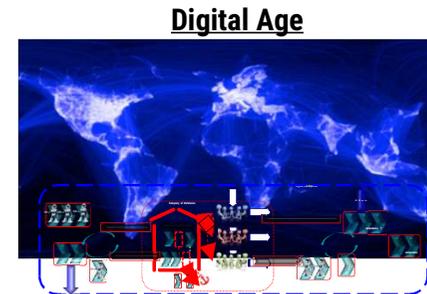
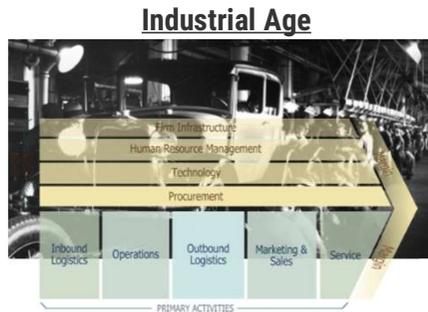
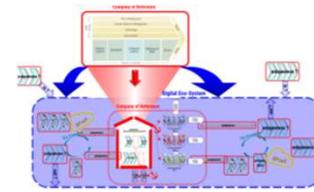
This (new) situation opens a wide range of additional challenges / opportunities / questions / research fields :

- **Extending / Adjusting the Management Understanding**
alignment, orchestration, and common customer understanding
- **Managing Power / Managing the Position**
- **Managing Collective Intelligence**
- **Managing Culture**
- **Managing Distributed Trust and Ethics**
- **Managing Reliability Scoring**
- **Managing Economy-Like Rules**
- **3rd Party Management**

To consolidate the position is the other half !

Extending / Adjusting the Management Understanding

p.es. Marketing



"Marketing is the consistent orientation of the **entire company to the needs of the market."**

(orig. "Marketing ist die konsequente Ausrichtung des gesamten Unternehmens an den Bedürfnissen des Marktes." *)

"Marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large." **)

Marketing provides a lot of concepts :

- for the senior management how to implement these activities, set of institutions, and processes in the firm
- for the corporate level
- for strategic business units
- for the functional level related to departments within the firm

Providing these concepts, marketing again implicitly assumes their application in a company.

In the Digital Economy we might go on with the same objectives of marketing.

But in addition, we need concepts for :

- alignment of **independent and interchangeable / replaceable partners in a framework**

for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large

- **orchestration of the value creation over independent and interchangeable / replaceable partners in a framework**

for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large

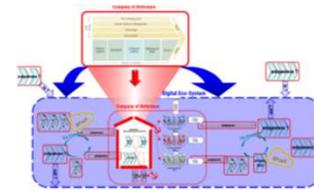
*) Kirchgeorg, M., Marketing, in Gabler Wirtschaftslexikon, <https://wirtschaftslexikon.gabler.de/definition/marketing-39435>

**) American Marketing Association, <https://www.ama.org/the-definition-of-marketing-what-is-marketing/>

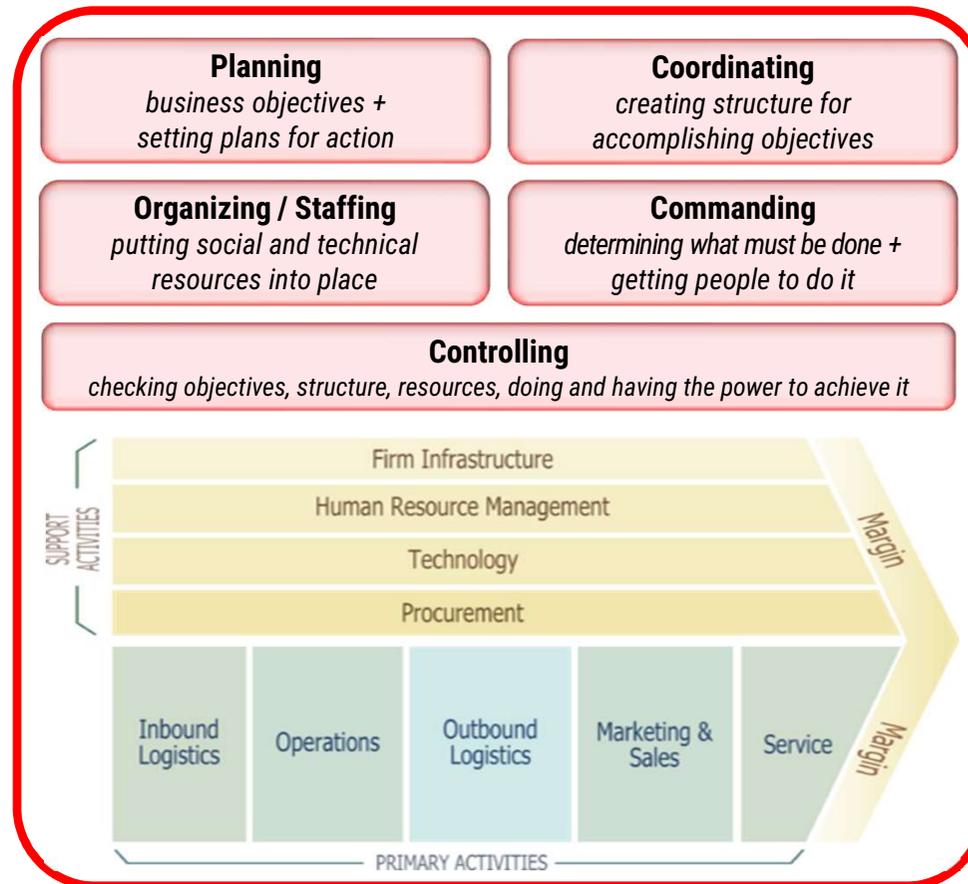
To consolidate the position is the other half !

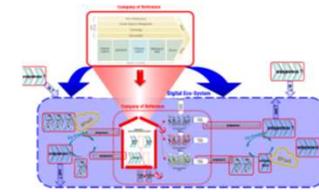
Extending / Adjusting the Management Understanding

Next, we will have a look on some known management-tasks from the industrial age.



Company in the Industrial Age



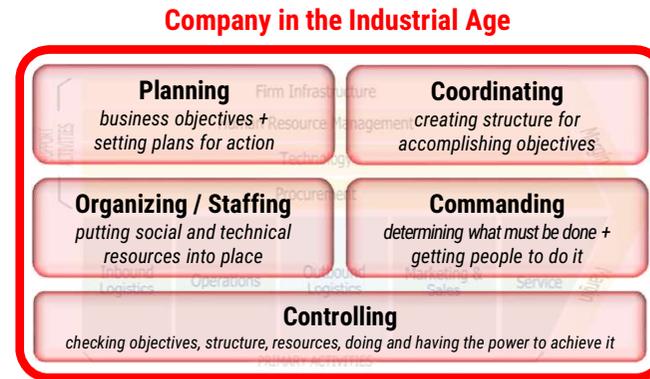


To consolidate the position is the other half !

Extending / Adjusting the Management Understanding

Some of the tasks traditionally assigned to the management of a **company** in the industrial age

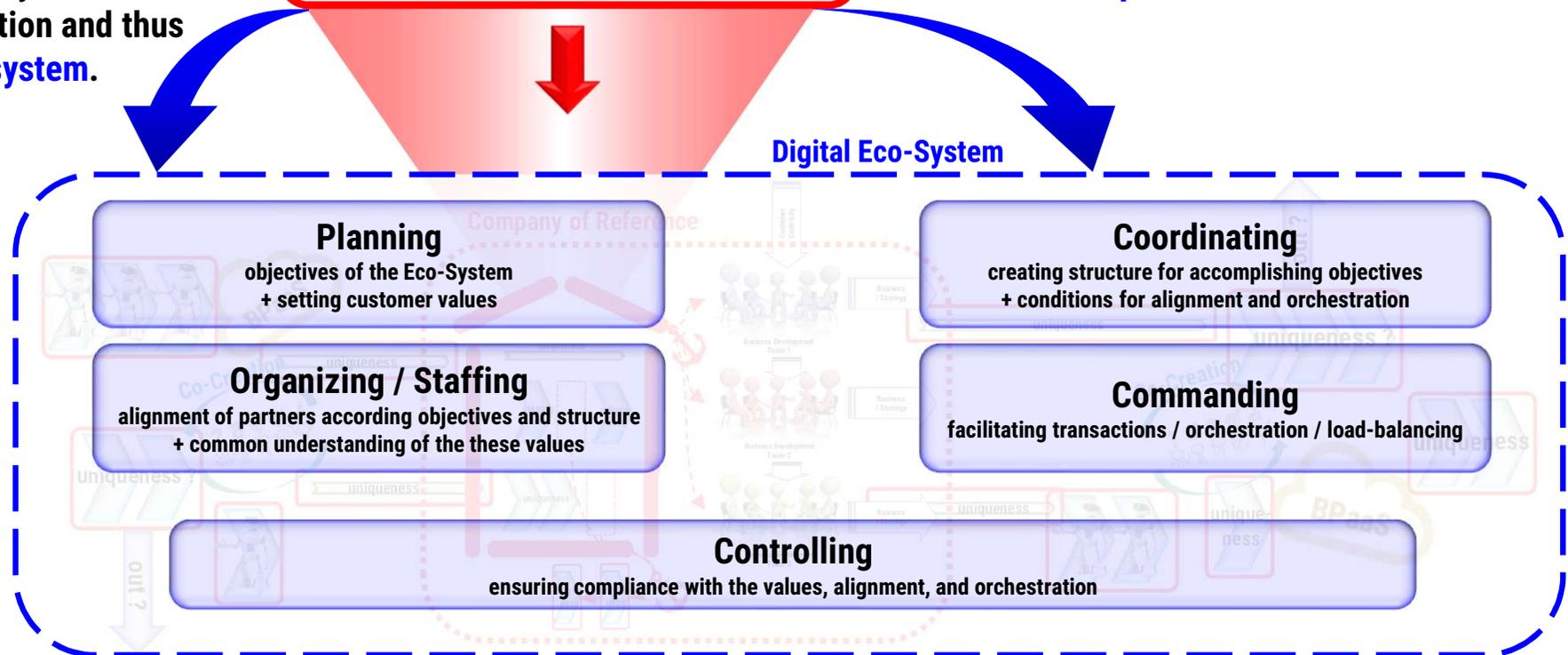
can in the context of a digital transformation adapted and transferred to the layer of the over-all value creation and thus of the **digital eco-system**.

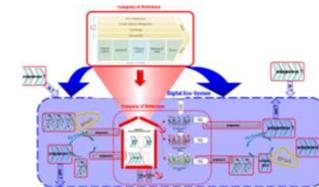


What in the industrial age was named "**competence**" in an organizational chart,

...

requires in a Digital Eco-System different a different approach ! We call it "**power**".





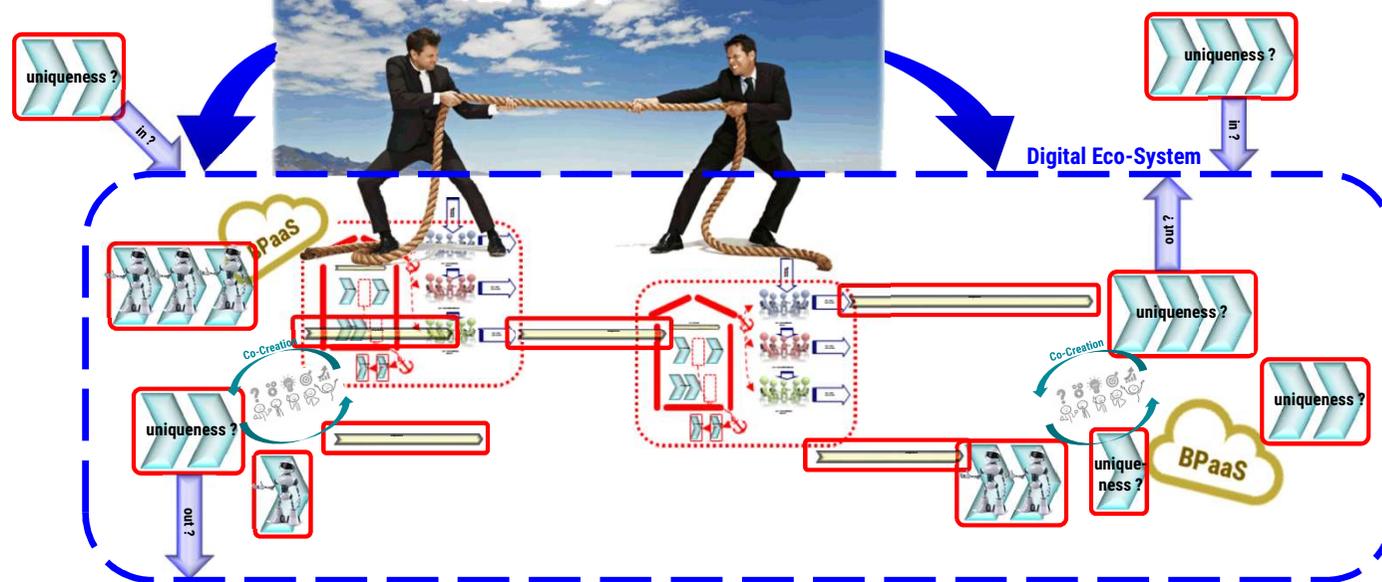
To consolidate the position is the other half !

Power : Managing the Position in a Digital Eco-System

Having the possibility to determine conditions according the own advantages may be very desirable for a company. It is therefore of advantage if a company already at a very early stage to consolidate the own position inside a Digital Eco-System.

For example by establishing dependencies, based on :

- data ?
- customer obsession ^{*)} ?
- trust ?
- size ?
- knowledge ?
- brand ?
- customer loyalty / consequences of leaving ?
- ... (your innovation is required to find more)



Please remember our starting case (page 22).

^{*)} please have a look at the interview with Jeff Bezos "what made Amazon so successful, including his key principles", <https://www.youtube.com/watch?v=FJ3jw6TkVmc>

To consolidate the position is the other half !

Example : Google's Masterplan in HealthCare

Calico : "California Life Company"

- established 2013
- combating aging and associated diseases
- there is very little information about ABC to find
- "No one was incentivized to fix the underlying causes of ageing as too many of the big players in medical and insurance industries benefit from the current system." (Dr. Yun)

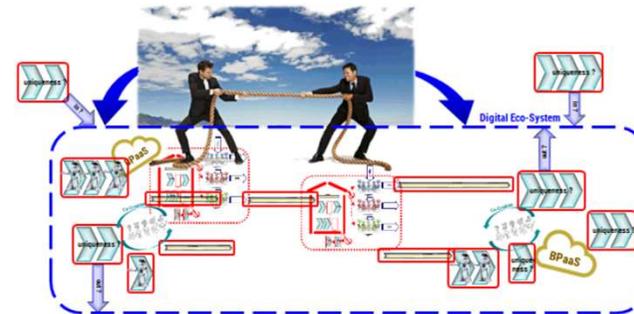
Verily

- On December 7, 2015, Google Life Sciences (part of google [x]) was renamed Verily.
- preventative and proactive healthcare

Project Nightingale

- Google reportedly collecting personal health records

<https://www.youtube.com/watch?v=VsLik7rQY6A>
<https://www.youtube.com/watch?v=yZ6bwg5qB5g>
https://www.youtube.com/watch?v=Lyv0_GIGsbY
<https://www.youtube.com/watch?v=a70wGpzASUI>



2,600+ HOSPITALS & HEALTH CARE CENTERS

21 STATES

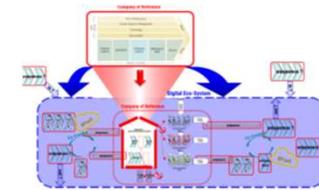
©PRIVACY WATCH

WSJ: GOOGLE SECRETLY COLLECTING PERSONAL HEALTH RECORDS
TECH COMPANY CAN REPORTEDLY ACCESS DATA OF MILLIONS OF U.S. PATIENTS AFTER PARTNERING WITH HEALTH CARE SYSTEM

PROJECT NIGHTINGALE

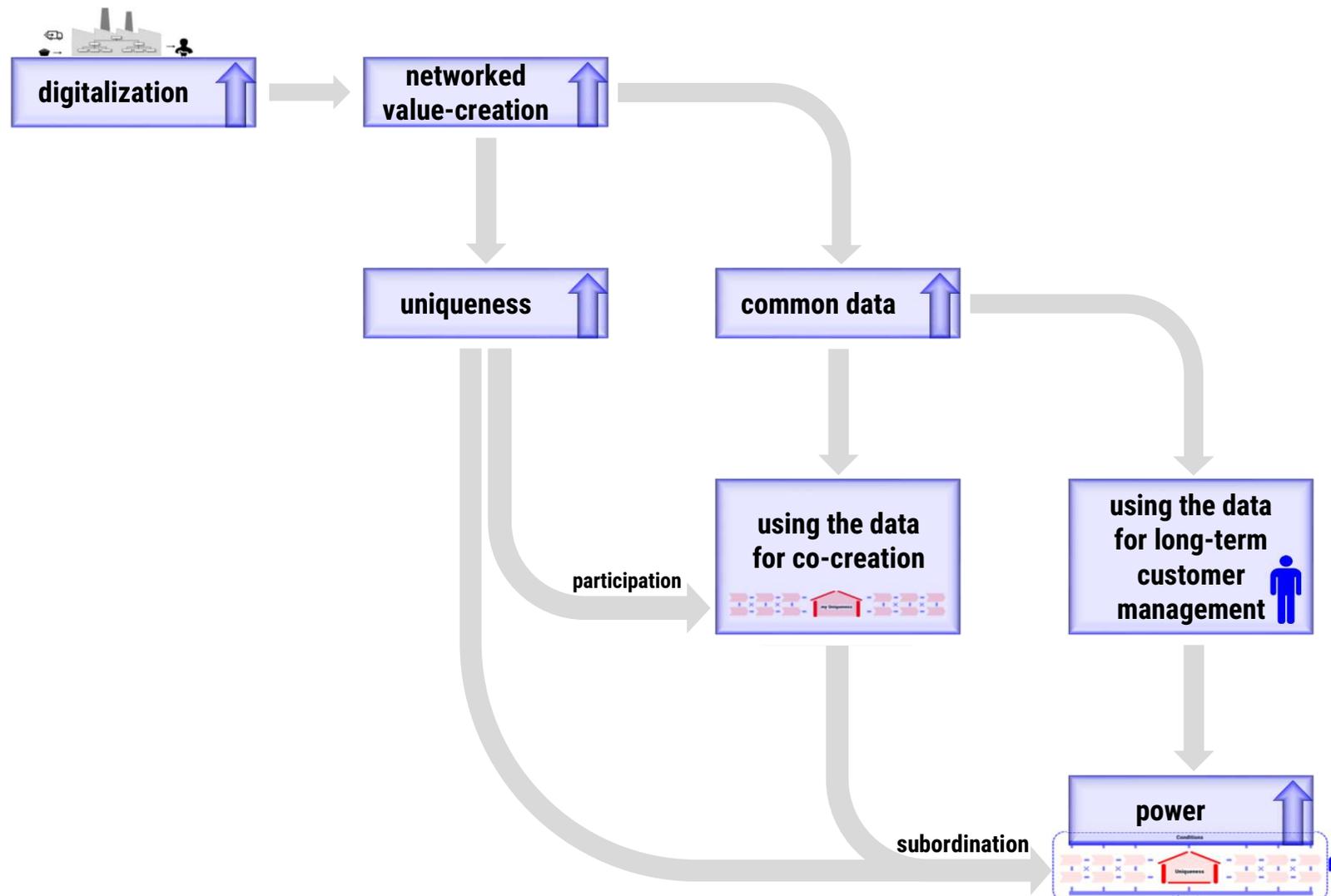
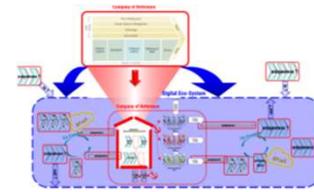
- PATIENT NAMES
- DATES OF BIRTH
- LAB RESULTS
- HOSPITALIZATIONS
- DIAGNOSES

©CBSN



The focus on uniqueness is only half the battle !
To consolidate the position is the other half !

Digital Mind-Switch

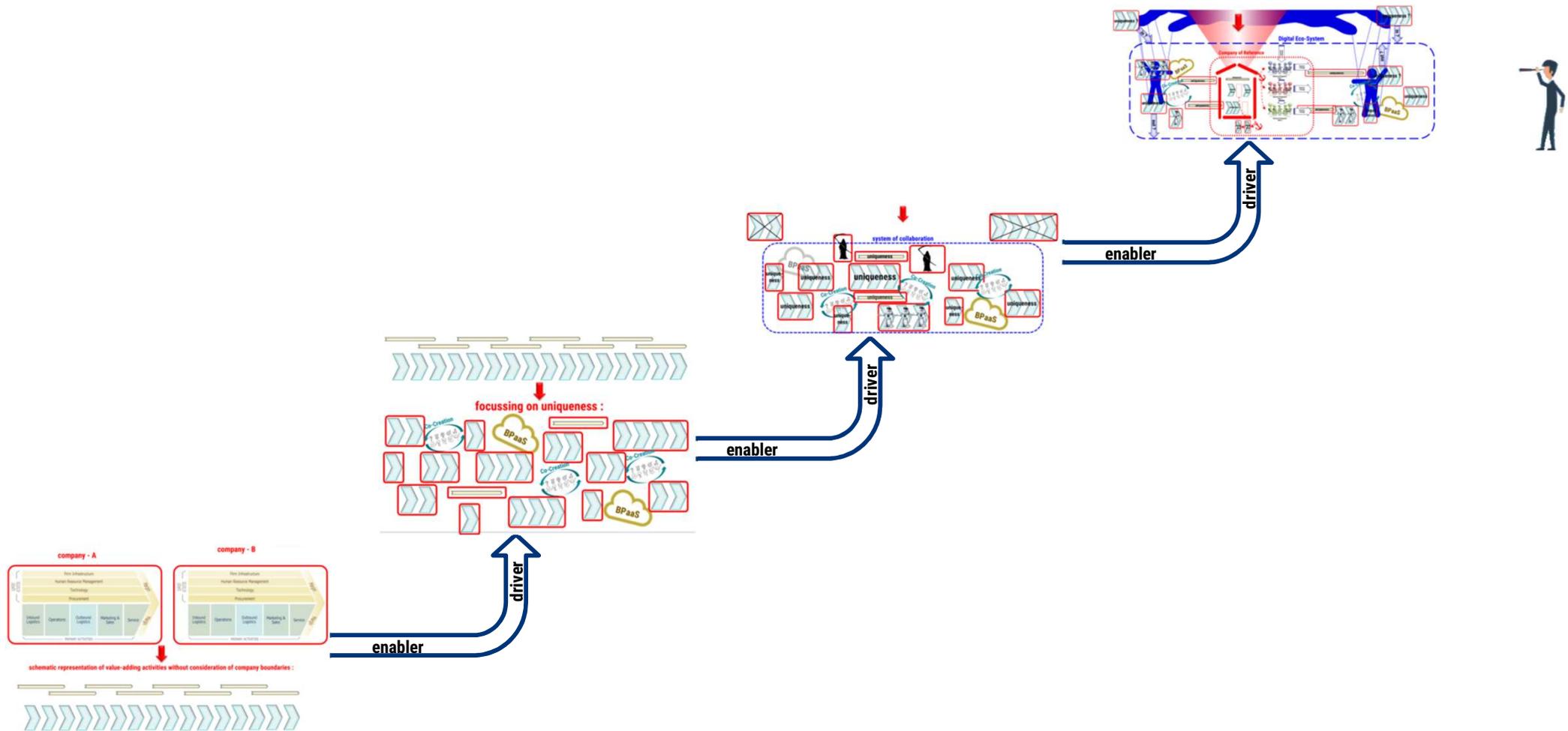


"Creating" a Digital Eco-System ?

NO ! We don't actively create them.

Their emergence is a logical consequence.

In addition, their perception can be different for each company.





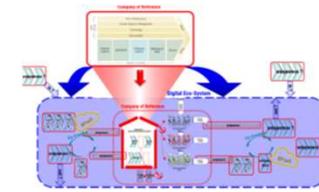
With "alignment" we refer to the coordination and agreement of value contributing partners. We complement this by the structural composition of the partners, the management of the conditions for cooperation / co-creation, as well as the setting of a common value and customer understanding.

With "orchestration" we refer to the flexible combination of services into a meaningful conception (composition) that describes a value creation. We add that orchestration should be based on alignment and can be business-model-specific or instance-specific.

The boundary of a Digital Eco-System is where the influence of the most powerful company ends.
Digital Eco-Systems in Digital Eco-Systems are also possible.

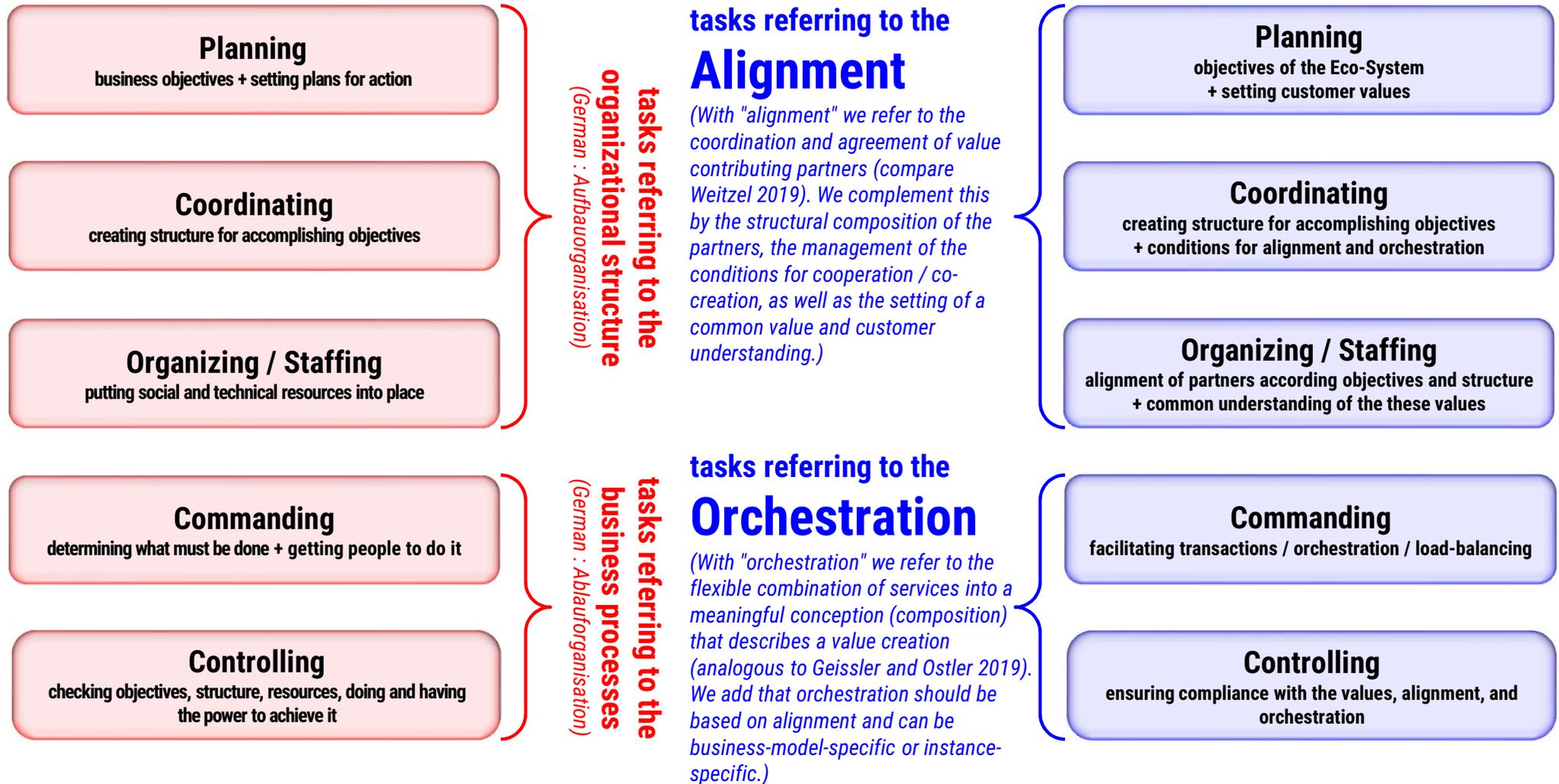


Examples of decision fields that most powerful company can shape.



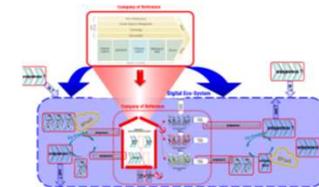
To consolidate the position is the other half !

Taking responsibility for the Eco-System means setting rules according to its own preferences and business objectives.



Weitzel, T.: IT Business Alignment (<https://www.uni-bamberg.de/isdl/transfer/it-business-alignment/>)

Geissler, O., Ostler, U.: Was ist Orchestrierung? Partitur der Effizienz (<https://www.datacenter-insider.de/was-ist-orchestrierung-a-683610/>)



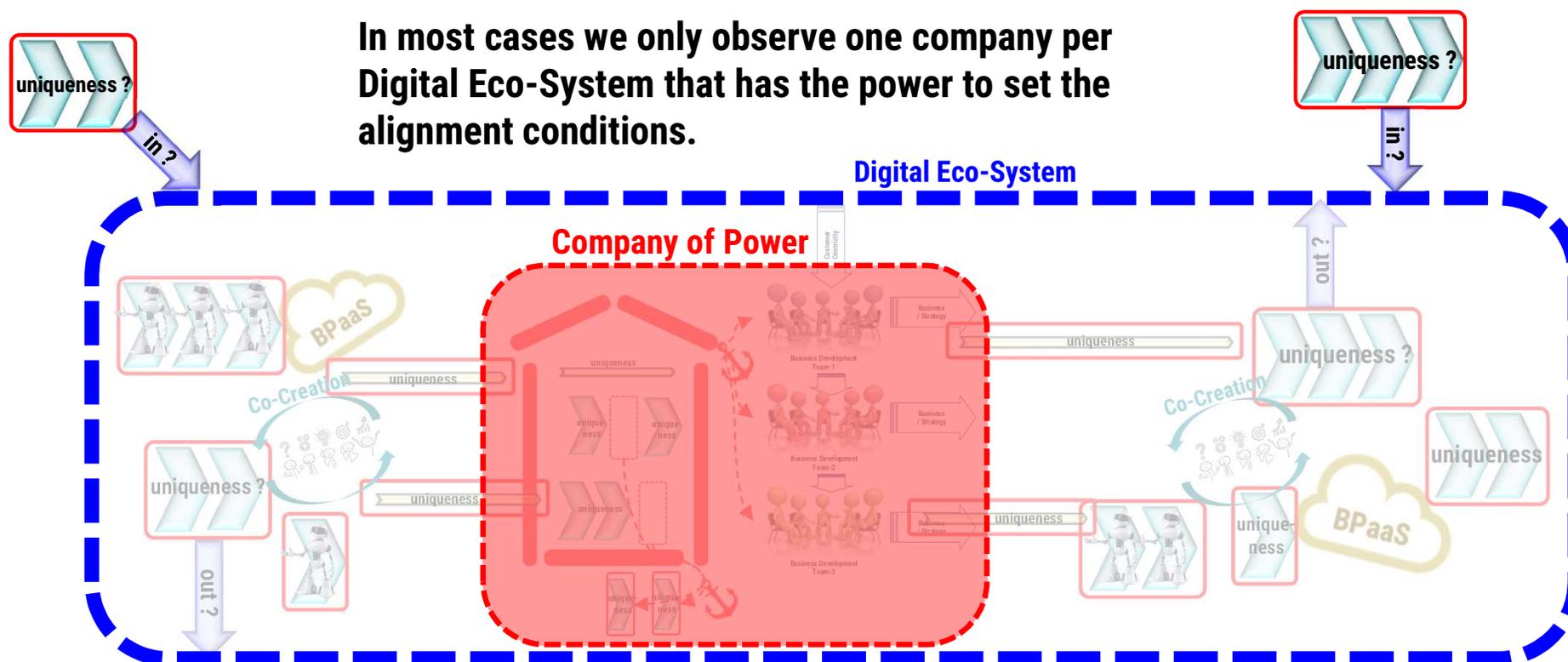
To consolidate the position is the other half !

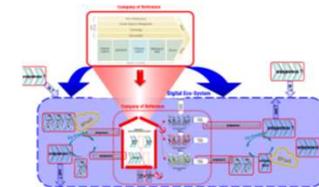
Managing / Consolidating the Position in a Digital Eco-System

Alignment : structural management of value contributing partner

- composition of the partners
- creation of a common customer understanding
- creation of a common value understanding
- management of the framework conditions for the collaboration
- management of trust and reliability scoring of partner and customer
- definition of economy-conditions

In most cases we only observe one company per Digital Eco-System that has the power to set the alignment conditions.





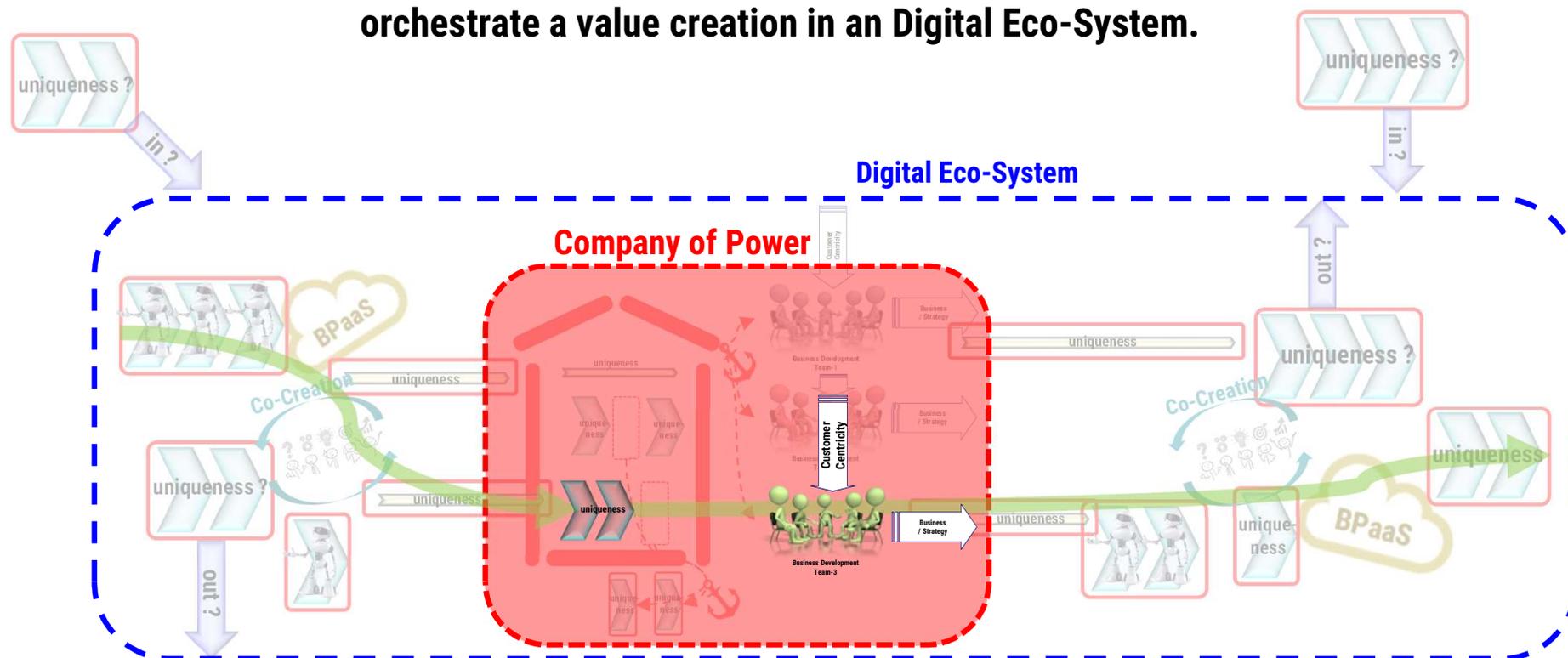
To consolidate the position is the other half !

Managing / Consolidating the Position in a Digital Eco-System

Orchestration : flexible combination of value contributions composing a value chain

- built upon the alignment
- includes load balancing (specific for every instance)
- impacts the need of agility
- the orchestration can be specific for every business model / idea / innovation

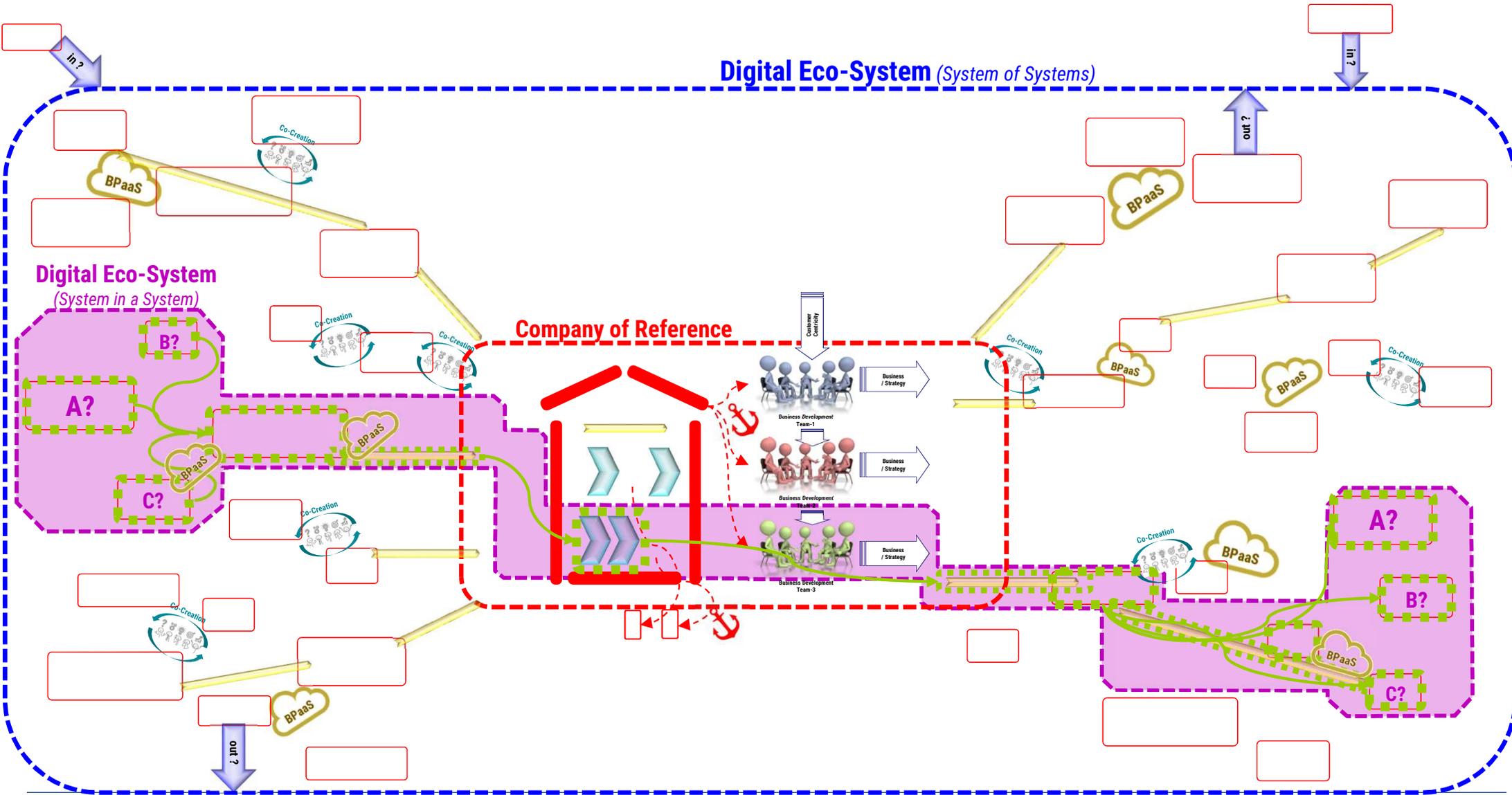
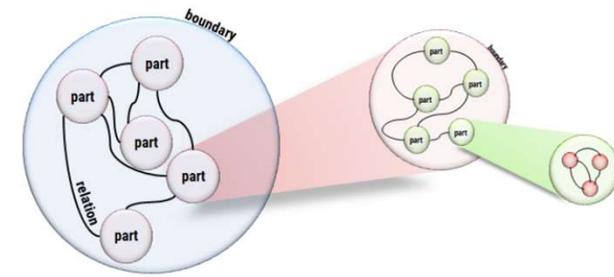
More companies or business development teams can orchestrate a value creation in an Digital Eco-System.

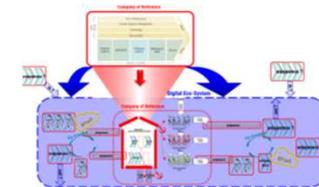


To consolidate the position is the other half !

Managing / Consolidating the Position in a Digital Eco-System

The relevant boundary of a Digital Eco-System can also be, where the impact of power ends !

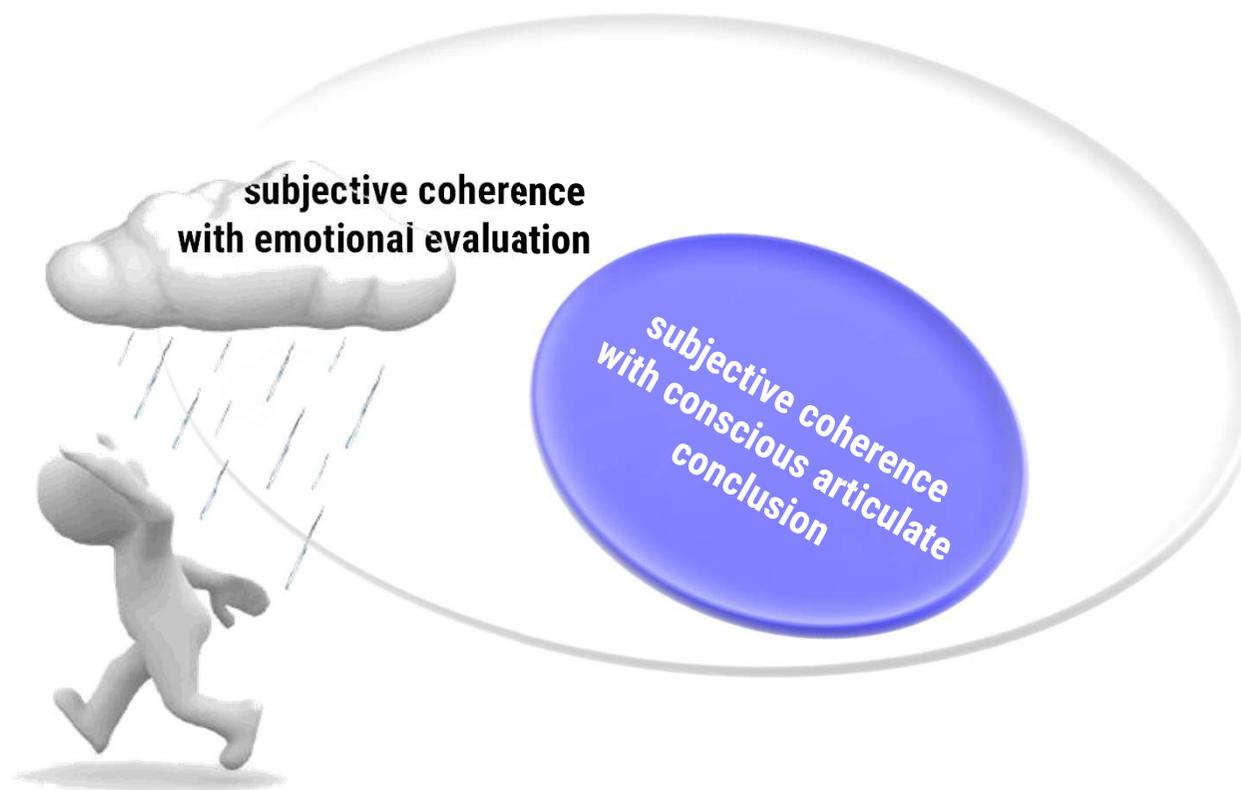




To consolidate the position is the other half !

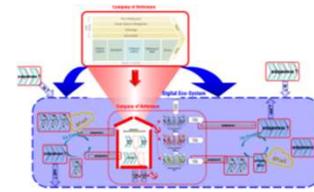
Managing Collective Intelligence in a Digital Eco-System

The explicit Management of Collective Intelligence boosts co-creation and collaboration.



To consolidate the position is the other half !

Managing Culture in a Digital Eco-System



In the current state of research, we are at least able to name the challenges.

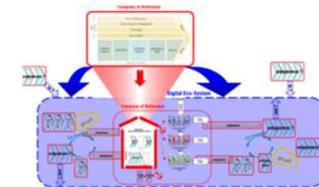
Culture of Co-Creation

- How do I perceive the orchestration and the conditions for the alignment ?
- How do I perceive the performance and the engagement inside the Digital Eco-System ?
- How do I perceive the appreciation within the co-creation ?
- How do I perceive vision^{*)} and mission ^{**)} ?
- How do I perceive relevant partners as a way of example ?
- Do I feel comfortable in co-creation ? Do I see a perspective for development and growth ?
- Do I feel that partners have the same trust in me as I have in them ?
- If I see misconduct by partners, does that partner's sanction match what I would expect ?
- Does the perception (reputation) of the eco system correspond to the perception (reputation) as I would like to be seen by my customers ?
- Is my contribution to the added value of the Eco-System transparent for me ?
- Do I think that the culture is stable and that partners are selected according to the culture?



^{*)} where the Eco-System wants to be in the future

^{**)} how the Eco-System will get what it wants to be



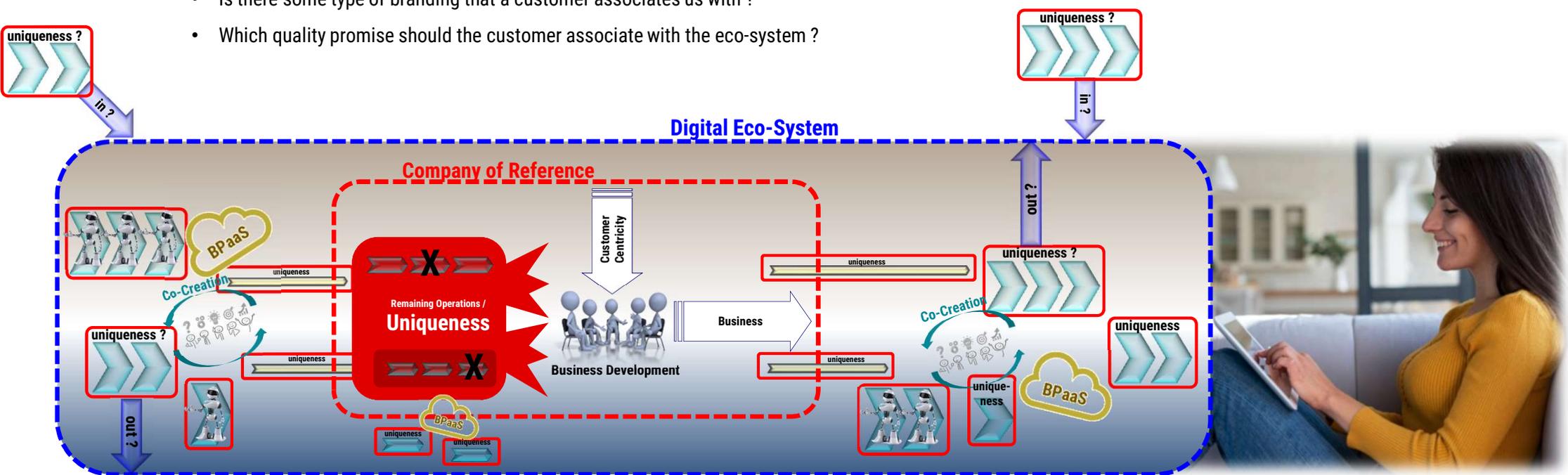
To consolidate the position is the other half !

Managing Culture in a Digital Eco-System

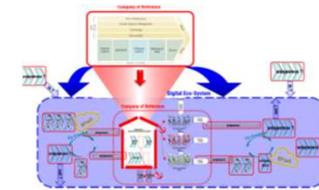
In the current state of research, we are at least able to name the challenges.

Perception of the customer values and lifestyle

- Beside the Culture of Co-Creation, we need also to ensure a common understanding of the customer values and lifestyle inside a Digital Eco-System.
- Is there some type of branding that a customer associates us with ?
- Which quality promise should the customer associate with the eco-system ?



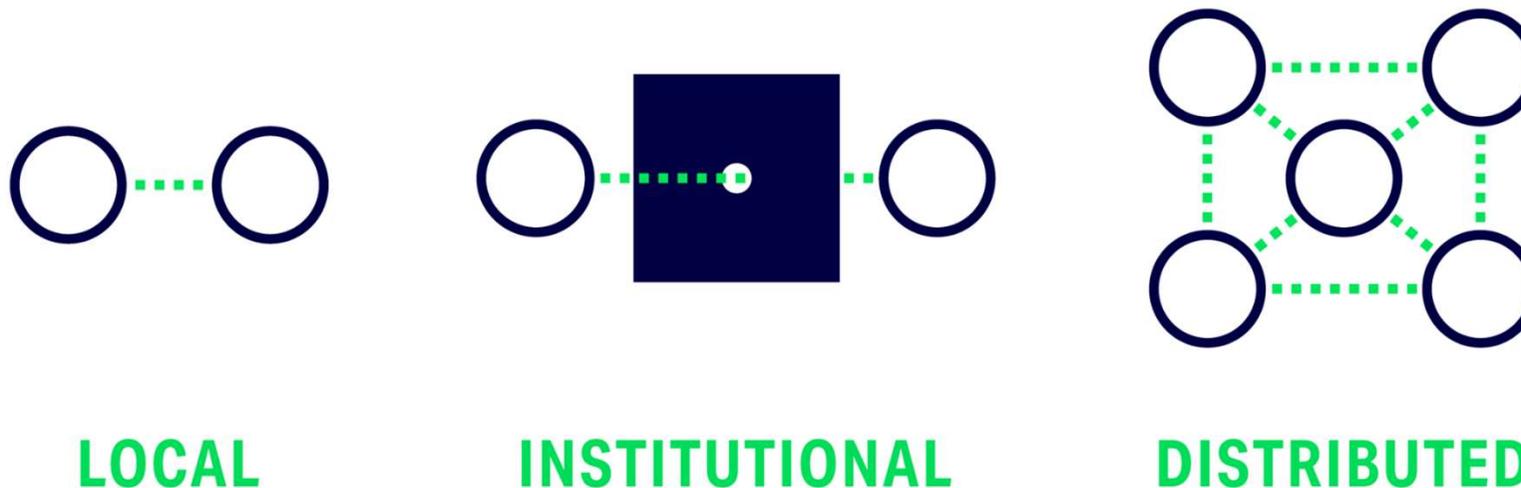
To consolidate the position is the other half !

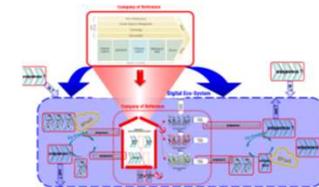


Managing Distributed Trust in a Digital Eco-System

The explicit Management of Distributed Trust inside a Digital Eco-System can be a uniqueness and can be a possibility to consolidate ones position.

EVOLUTION OF TRUST



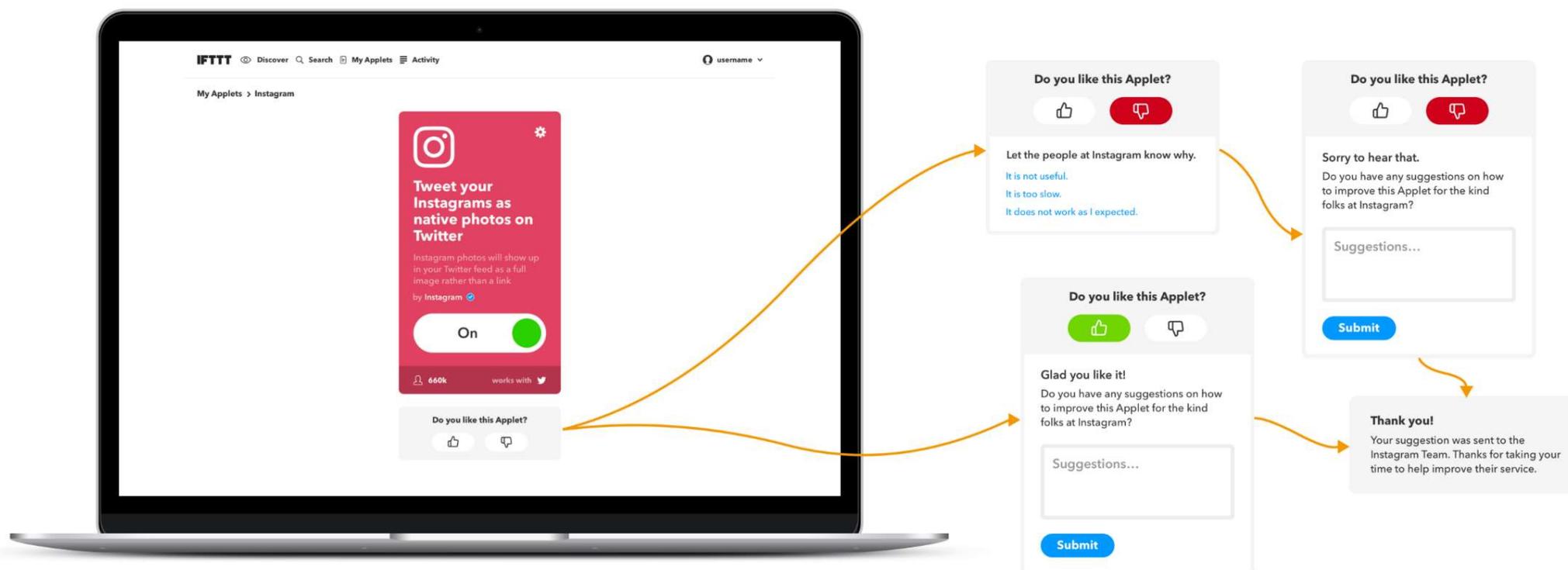


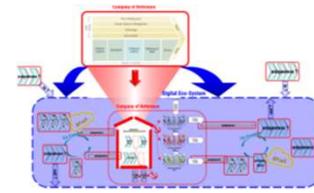
To consolidate the position is the other half !

Managing Distributed Trust in a Digital Eco-System

Not to confuse : Trust and feedback are not the same thing !

Trust becomes more important when I cannot use a feedback system, or if I don't have one.
by the way : Also, Blockchain can serve to reduce the need for trust.





To consolidate the position is the other half !

"Another example (to build dependencies) is owning the uniqueness that motivates the customer to remain in the Eco-System (p.es. Trust)."

Please see the following video from Joe Gebbia, co-founder of Airbnb "How Airbnb designs for trust" :

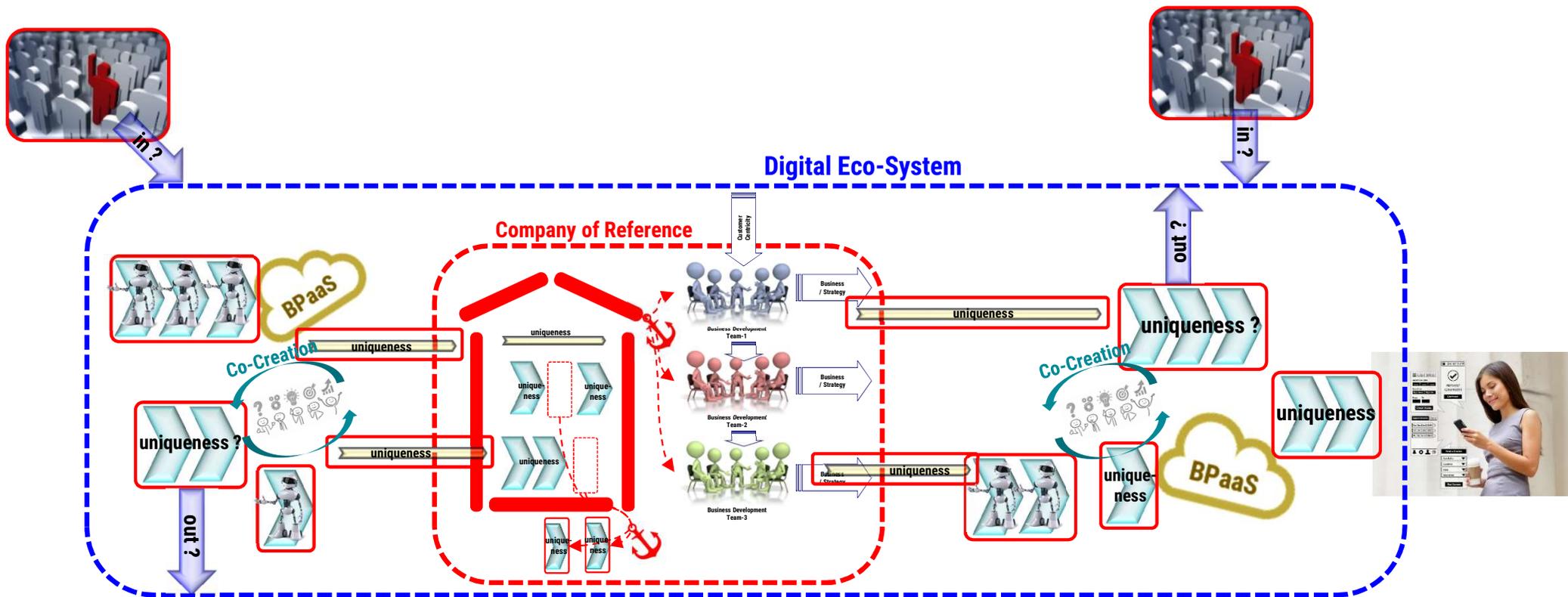
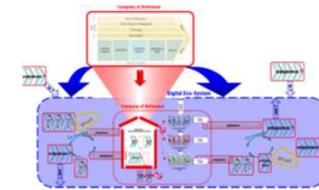


To consolidate the position is the other half !

Managing Reliability Scoring in a Digital Eco-System

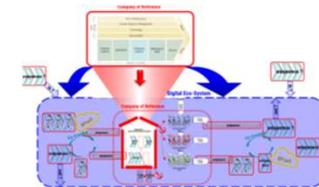
The explicit Management of Reliability Scoring inside a Digital Eco-System or Digital Arena supports **partnerization** in the co-creation and **customization**.

For partnerization and customization please remember the example of Max Fashion.



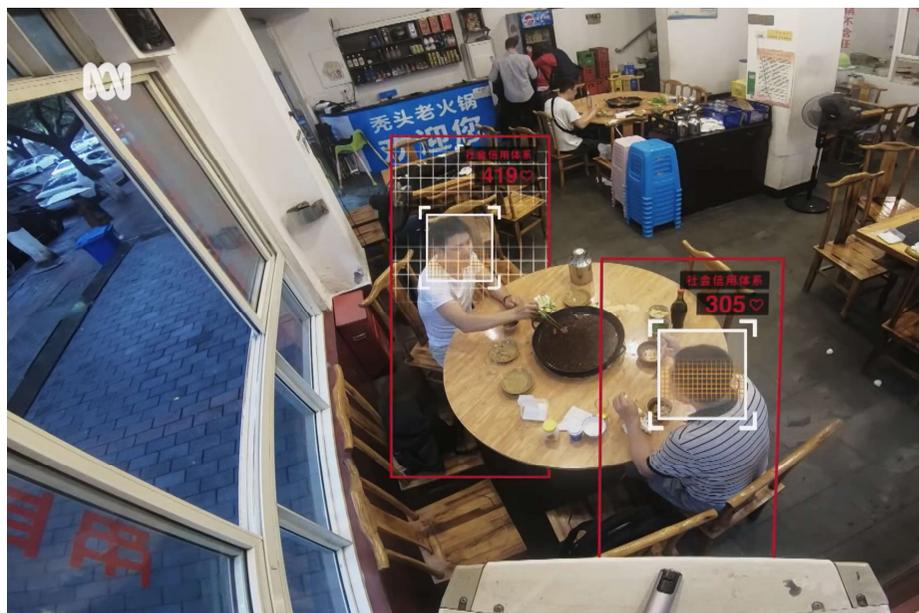
To consolidate the position is the other half !

Managing Reliability Scoring in a Digital Eco-System



A distant example can provide suggestions for the possibilities :
Chinas Social Scorecard

- face recognition is already part of our life
- based on big data and AI technology
- arguments are often the safety



<https://www.youtube.com/watch?v=TGhRoY1ct50>
https://www.youtube.com/watch?v=eViswN602_k
<https://www.youtube.com/watch?v=0cGB8dCDF3c>

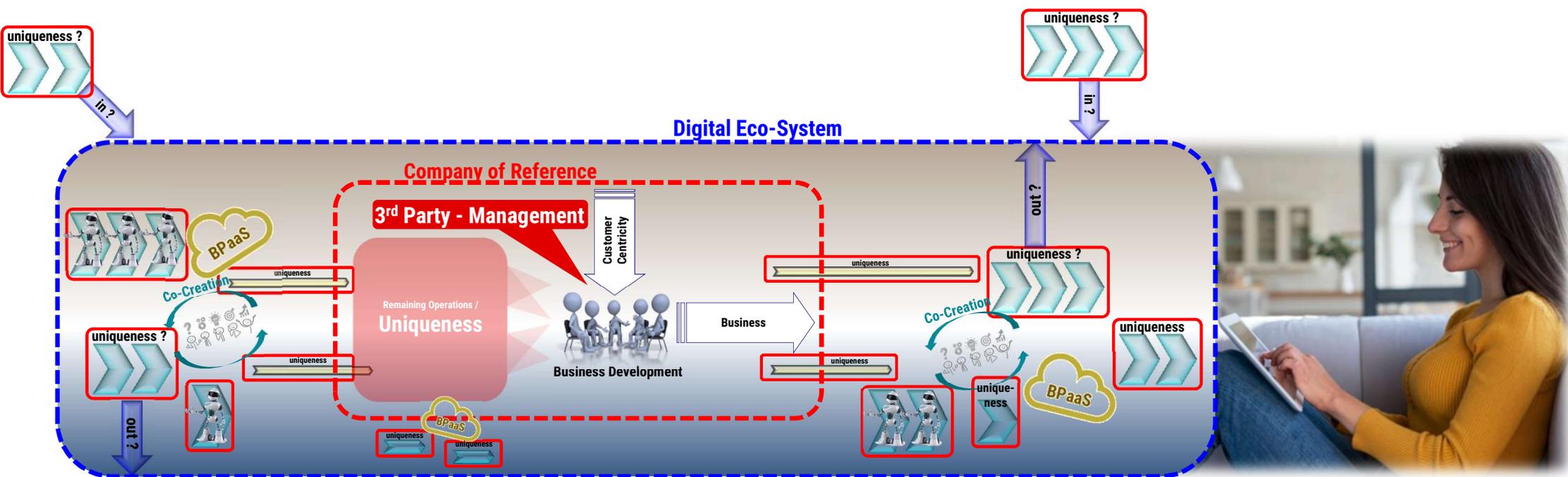
3rd Party Management

Managing actions on behalf of another party

"We want Google to be the third half of your brain." *)

- Artificial intelligence can improve the quality of my decisions. The parameters available to artificial intelligence are information that can be described and transmitted.
- Just as I can initiate an AI support for myself, I can also initiate it for someone else.

I want to be the third half of my client's brain.



*) Sergey Brin

3rd Party Management

Managing a personalized value creation for a third person

selecting or creating a client based on a persona

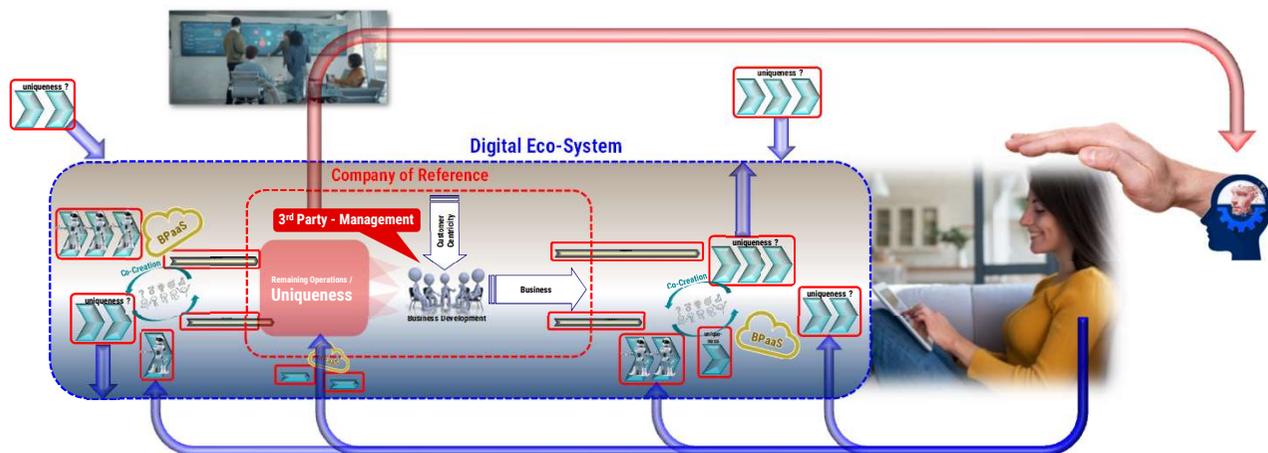
- remember for example the introductory videos (<https://www.youtube.com/watch?v=8PrSvj6ZLes>)
- addressing human motives*) can help tie the customer into the system (<https://www.youtube.com/watch?v=y6-plegDvrY>)

assuming his/her perspective and providing support based on human driver*)

- personalization can require higher configuration/orchestration steps
- recommendations/actions can be done based on personality traits or needs
- artificial intelligence can be used to make decisions/actions for the client that could not be possible for this client by himself
- interaction/influencing (without perception ?) or appearance/avatar according to the client's expectation
- artificial intelligence decisions can be based on a value system that is defined by the 3rd party management

performing actions on behalf of the client

- Google Duplex can be one example
- p.es. potential can be seen in : leisure time planning, single portals, home interior design, cosmetics, fashion advice, ...



*) please remember the human motives and driver (conscious motivation or unconscious motivation)

- survival / prosperity
- convenience / laziness
- social needs / eros (sex)
- power / thanatos (aggression)

3rd Party Management

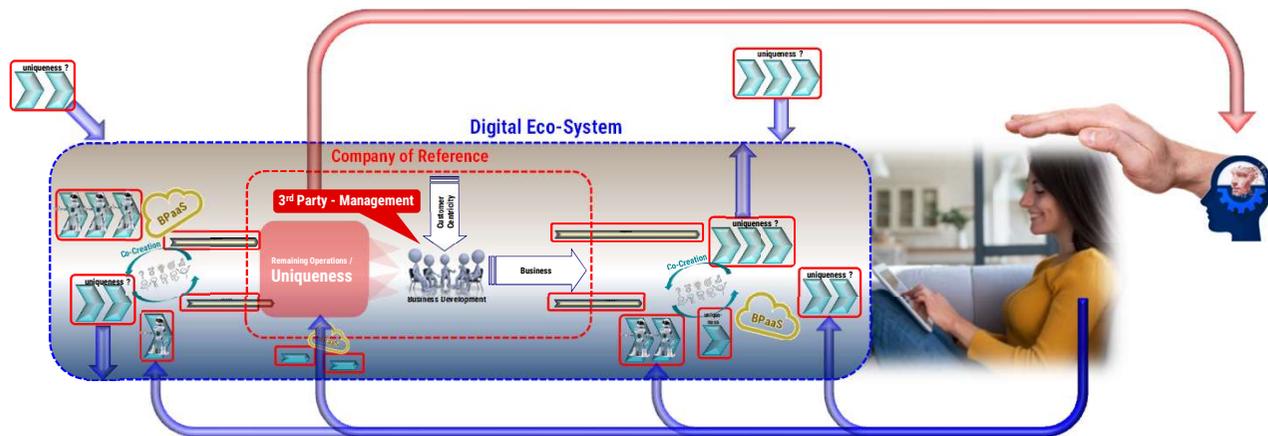
Managing a personalized value creation for a third person

customer point of view ^{*)}

- feels guided / protected
- quality of decisions can be increased significantly
- relief in routine tasks
- feels socially included

economic point of view

- customer can be owned by a Digital Eco-System
- classification of clients / society



^{*)} please remember the human motives and driver (conscious motivation or unconscious motivation)

- survival / prosperity
- convenience / laziness
- social needs / eros (sex)
- power / thanatos (aggression)

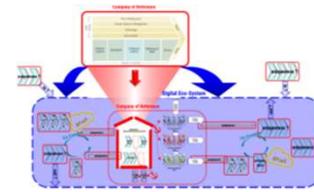
Examples of decision fields that most powerful company can shape.

The image shows a vertical stack of seven presentation slides. Each slide has a blue header with the text 'To consolidate the position in the other half!' and 'Managing Economy-Like Rules in a Digital Eco-System'. The slides contain various diagrams, text, and examples related to digital business models and economic rules. Some slides are marked with 'EXAMPLE' in a red box. The diagrams include flowcharts, circular diagrams, and network maps. The text discusses topics like 'MEAs: Merge and Acquisition', 'BEPs: Break Even and Profit Shifting', and 'OECD: Organisation for Economic Co-operation and Development'. The slides also mention 'Digital Business Development' and 'Digital Eco-System'.

To consolidate the position is the other half !

Managing Economy-Like Rules in a Digital Eco-System

Please remember what we already discussed regarding the monetary system on the example of digital yuan (DC/EP – Digital Currency Electronic Payment).



n|w

discussing our starting case :



Are Alipay and WeChat currently replaced by China's Digital Yuan ?

cna INSIDER

China Has Two Paths to Global Domination



China is about to launch one of the most revolutionary financial projects in the world.

AIIP-PrivateGPT AI/2020...
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Strategic Business Innovation 2020, slide 19

n|w

discussing our starting case :

Alipay and WeChat Pay go global :

Are they creating new economic areas that are independent of national borders ?

Where in the World Is Alipay



International 2017 Alipay economic platform
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Strategic Business Innovation 2020, slide 19

n|w

discussing our starting case :

"WeChat Pay and ... Alipay account for 90% of the (Chinese) industry."

Please remember importance of a monetary policy and the relevance of determination of the amount of base money in circulation :

"In practice, to implement any type of monetary policy the main tool used is modifying the amount of base money in circulation."

https://en.wikipedia.org/wiki/Monetary_policy
Prof. Dr. Dino Schwaferts
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Strategic Business Innovation 2020, slide 19

To consolidate the position is the other half !

EXAMPLE

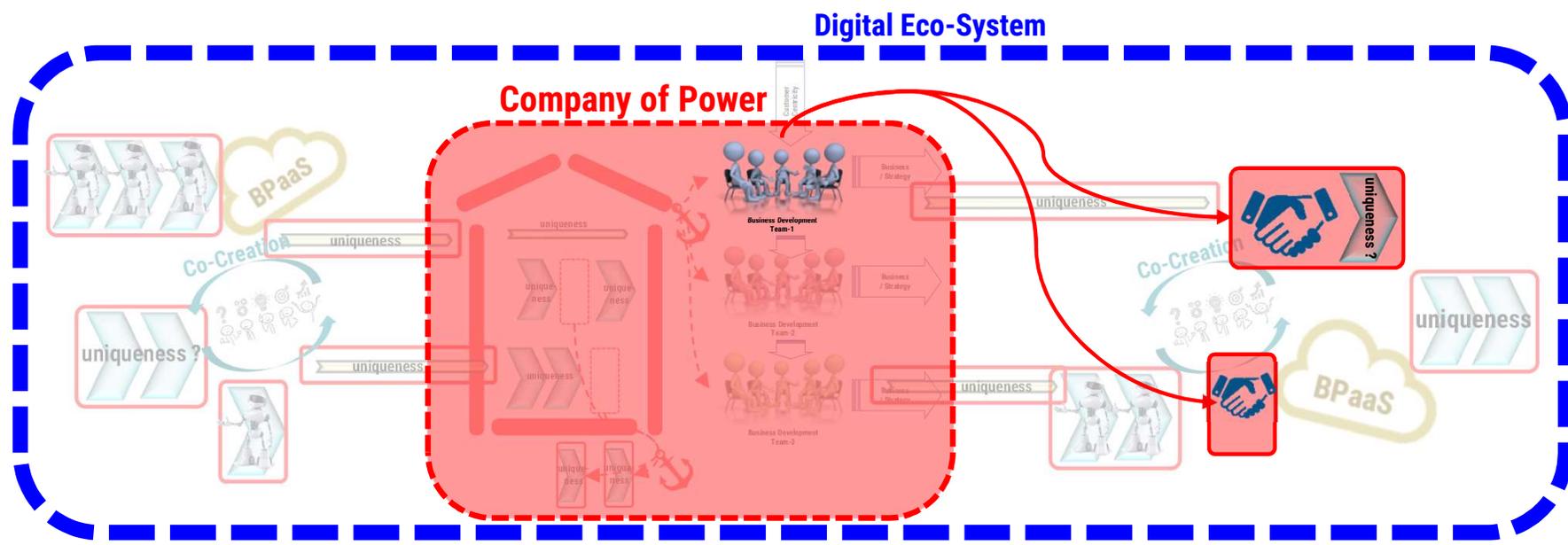


Managing Economy-Like Rules in a Digital Eco-System

M&A : Merger and Acquisitions inside a Digital Eco-System open a wide range of opportunities

BEPS : Base Erosion and Profit Shifting
 = tax avoidance strategies that exploit gaps and mismatches in tax rules to artificially shift profits to low or no-tax locations

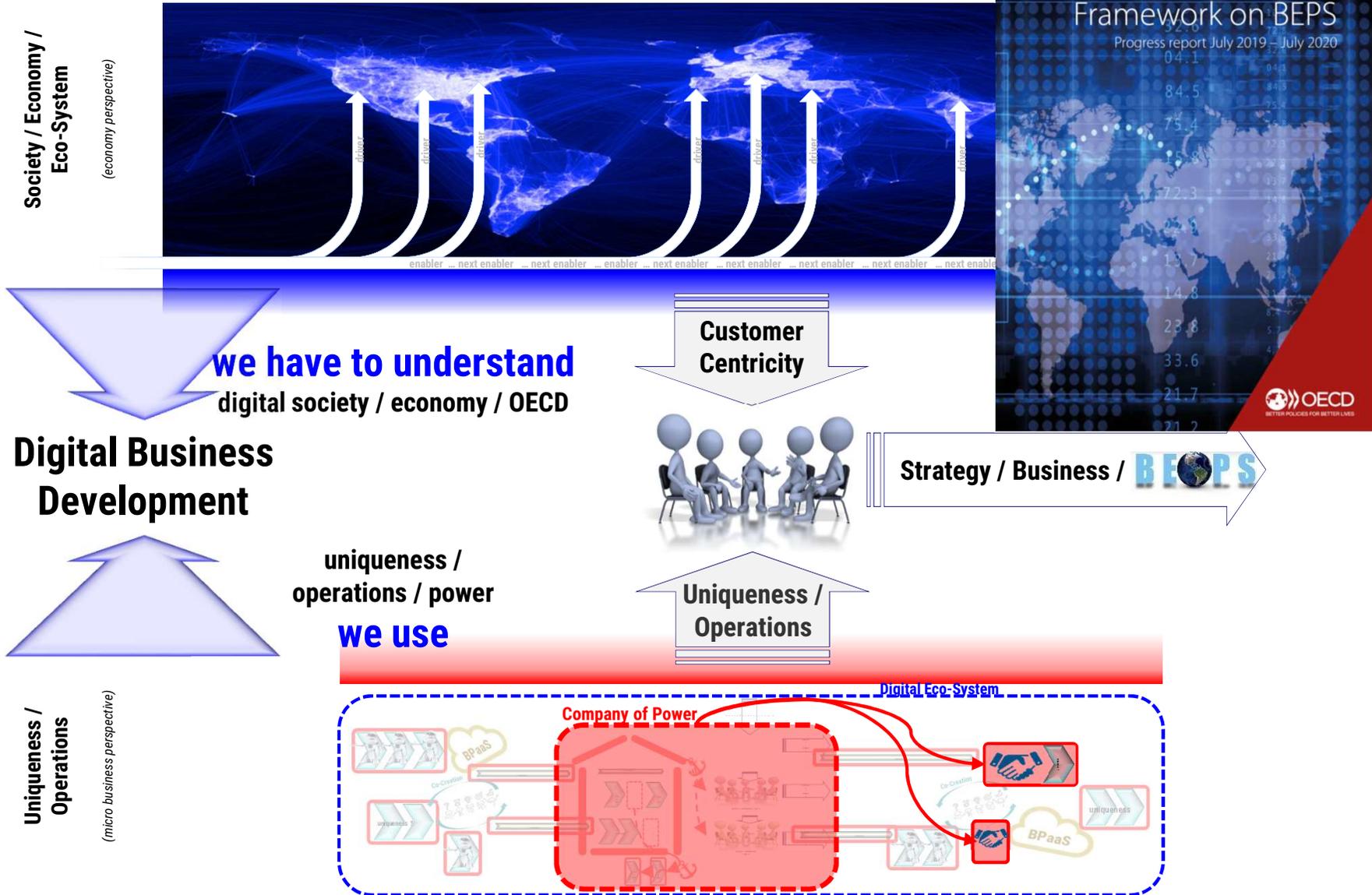
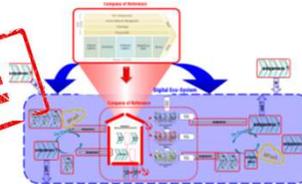
OECD : Organization for Economic Co-operation and Development
 Tax challenges arising from digitalization : More than 100 countries agree to work towards a consensus-based solution.



<https://www.oecd.org/tax/beeps/>
https://read.oecd-ilibrary.org/taxation/tax-challenges-arising-from-digitalisation-interim-report_9789264293083-en

M&A inside a Digital Eco-System open a wide range of opportunities

EXAMPLE

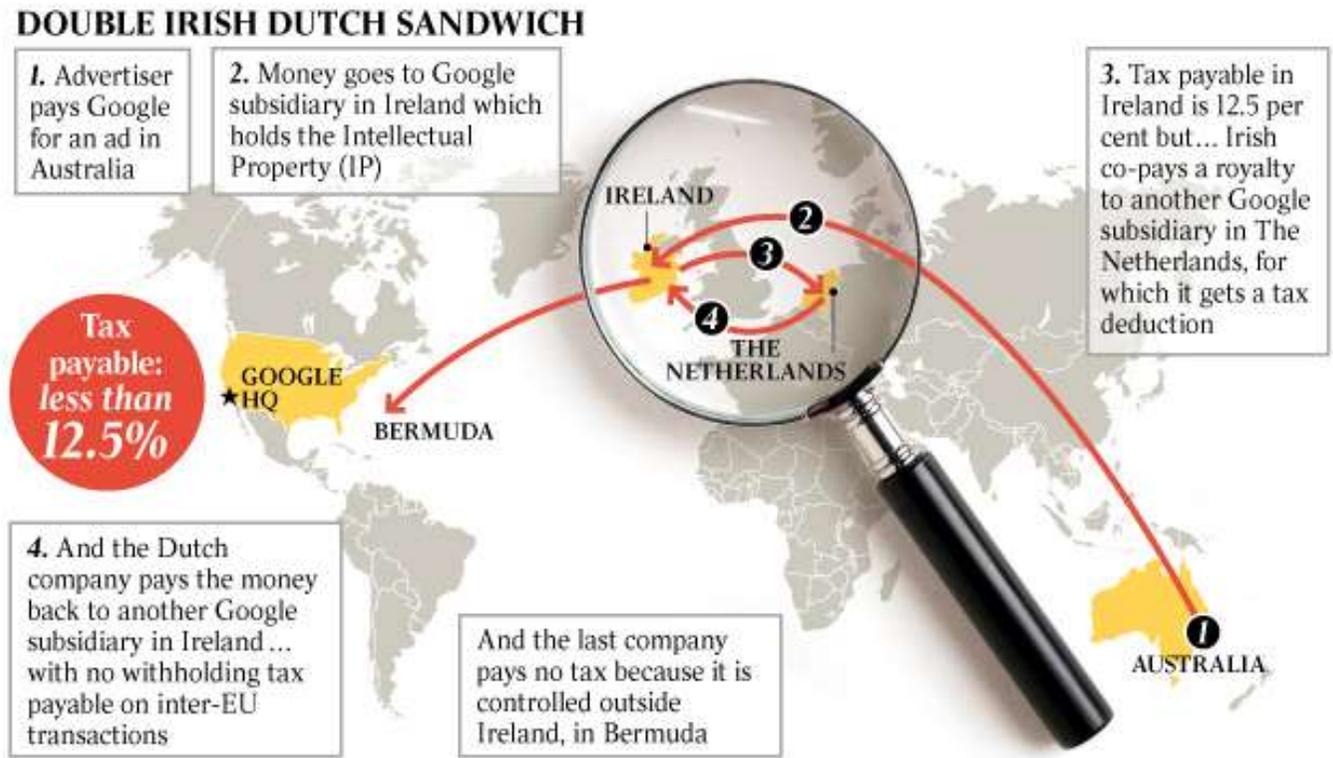


<https://www.oecd.org/tax/beps/oecd-g20-inclusive-framework-on-beps-progress-report-july-2019-july-2020.pdf>

BEPS (Base Erosion and Profit Shifting)



Most BEPS activity is associated with industries with intellectual property, namely Technology (e.g. Apple, Google, Microsoft, Oracle), and Life Sciences
[\[https://en.wikipedia.org/wiki/Base_erosion_and_profit_shifting\]](https://en.wikipedia.org/wiki/Base_erosion_and_profit_shifting)

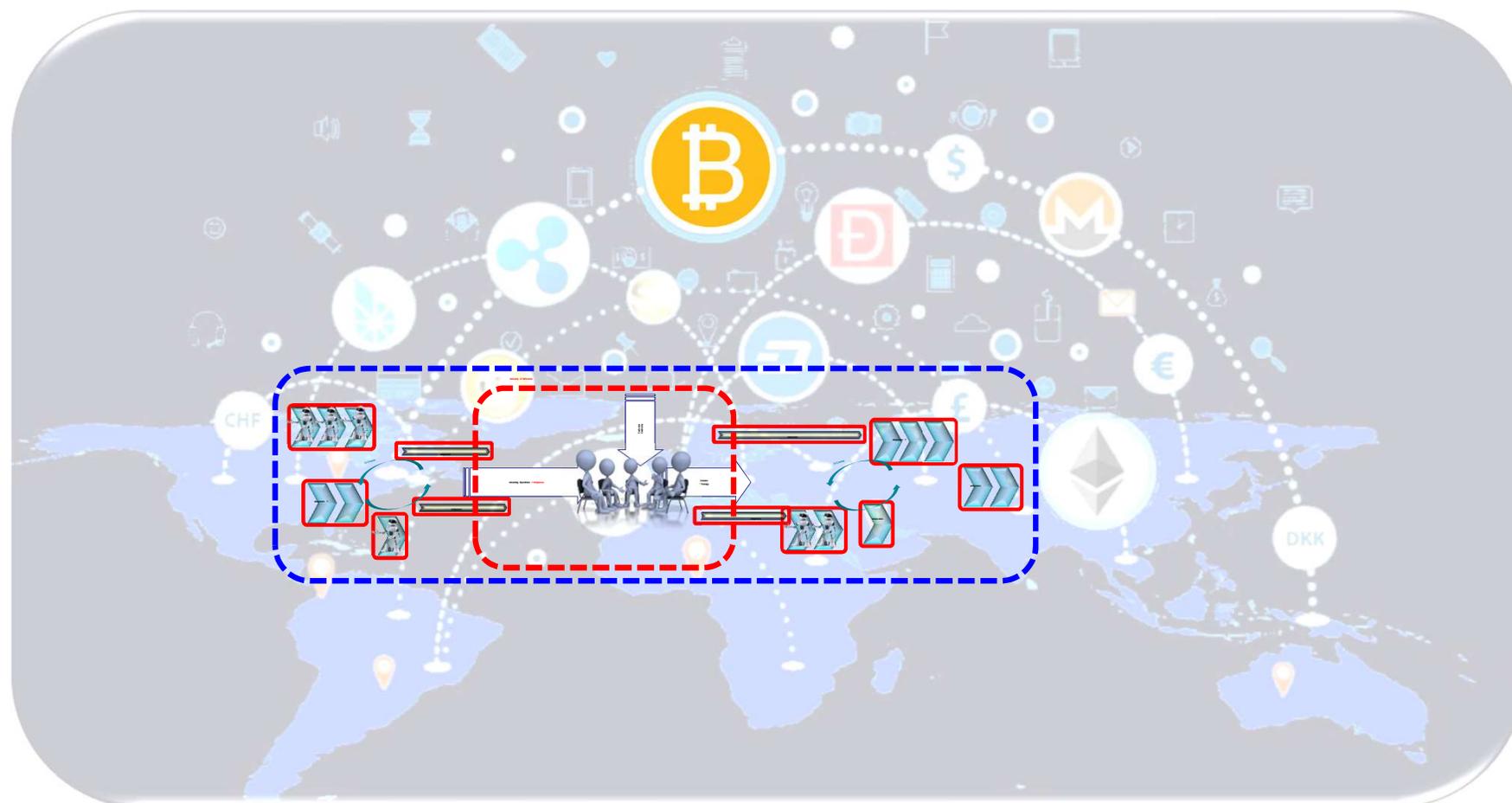
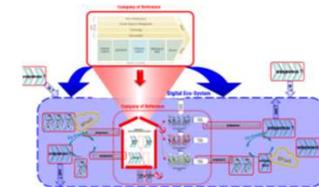


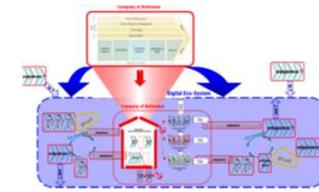
<https://antioligarch.files.wordpress.com/2013/05/302724-121123-w-google-tax-1.jpg>

To consolidate the position is the other half !

Managing Economy-Like Rules in a Digital Eco-System

The explicit Management of Economy and Rules inside a Digital Eco-System or Digital Arena is a currently upcoming research field.



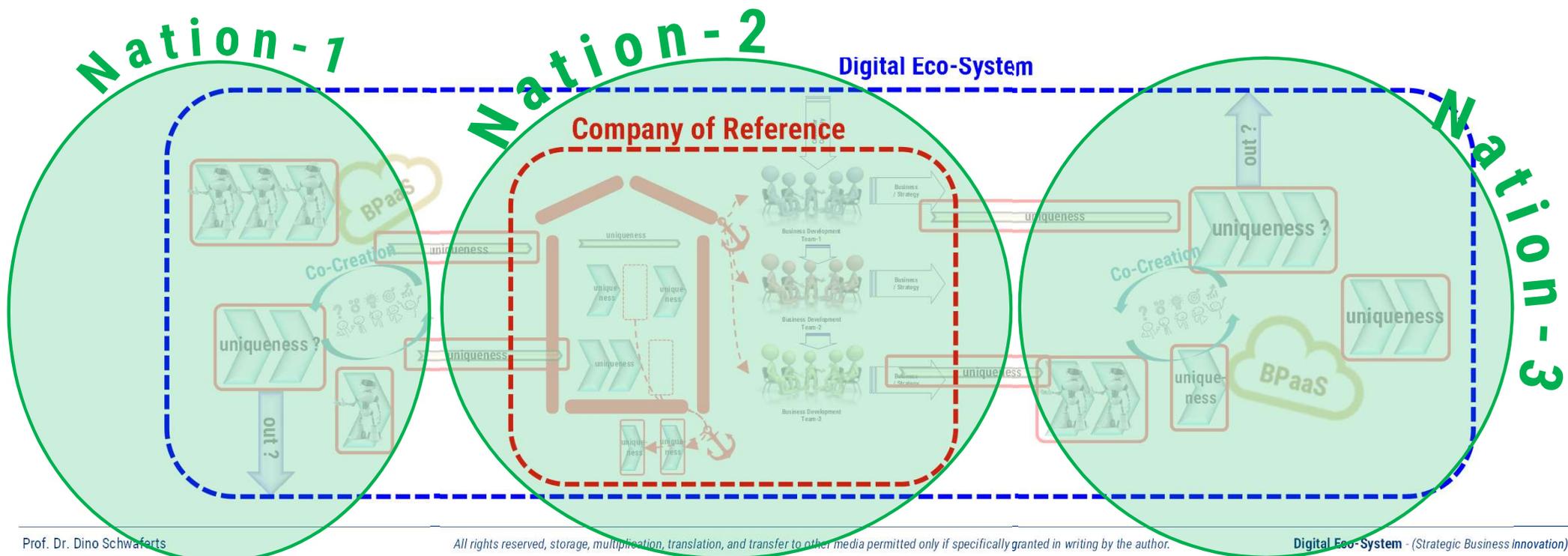


To consolidate the position is the other half !

Managing Economy-Like Rules in a Digital Eco-System

Up to now, we distinguish between business - and economics education.

- Up to now : A student who studies business will always also attend modules in economics, as his / her business will later be embedded in a (national) economy.
- From now on : A student who studies business needs in addition to knowledge in micro-/macro-economics, knowledge in Digital Eco-Systems, as his / her business will later be embedded in a (national) economy and possibly in one or more Digital Eco-Systems.



Let's summarize again

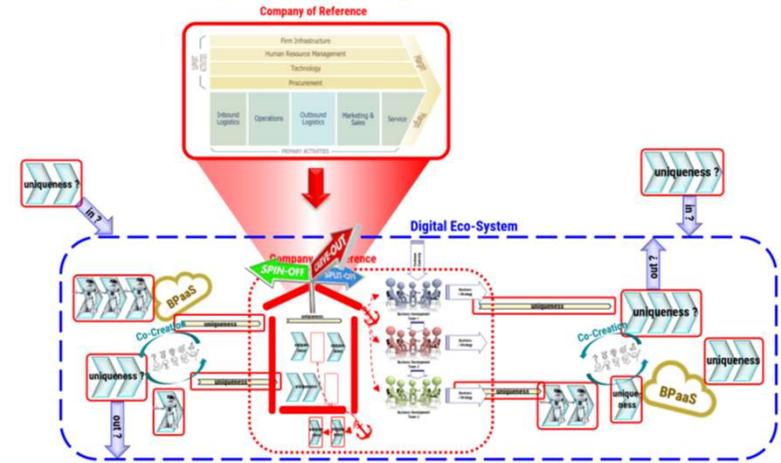
Talking about Digital Transformation, Digital enablers can (allow?) (force?) companies to focus on their uniqueness, reducing the size of the company.

It is of advantage if a company already at a very early stage to consolidate the own position inside a Digital Eco-System by establishing dependencies, based on :

- data ?
- customer obsession ?
- trust ?
- ...

Digital Transformation

..., the focus on uniqueness is only half the battle !

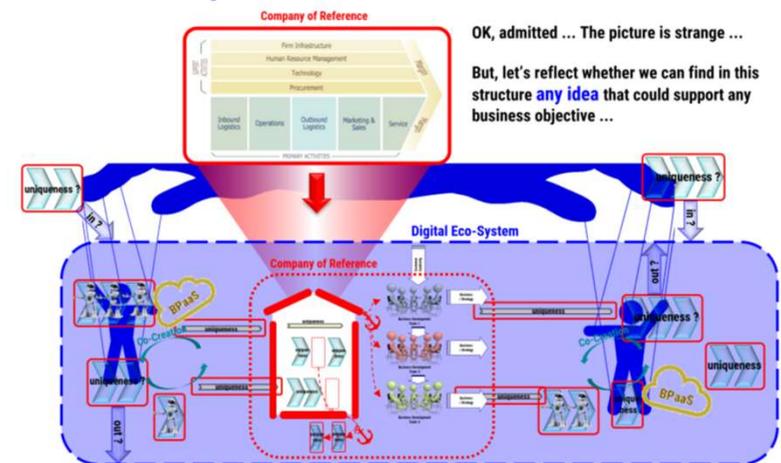


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Transformation into the Digital Age / Digital Economy & Business Agility

To consolidate the position is the other half !



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