

Factors influencing positive financial performance: The assessment given by Latvian companies

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ABSTRACT

The paper summarises the factors influencing positive financial performance (profit) in the digital age and the dynamic business environment. Based on the qualitative and quantitative literature analysis, 33 dominating financial and non-financial factors were selected, which the authors emphasize as important for sustainable and profitable business development. Web of Science-indexed research papers and a bibliometric analysis were used to assess them. The selected factors were approved and extended. A survey among Latvian businessmen was carried out to assess the practical influence of the specified factors on small and medium-sized companies. The survey involved 77 companies of various sectors and sizes. Turnover is taken as a unit to measure a company's size. In general, the businessmen evaluated the essential influence of the selected factors on the positive financial performance of small and medium-sized companies (profit). However, in additional comments, they specified risks or deeper views of the influence of the factors.

Keywords: Profit, Profitable business model, Profit strategies, Digitalization, Digital transformation, Disruptive innovation, Service-dominant logic, Business model.

1. INTRODUCTION

Digital impact on the business environment has been observed already since the 1990s. The development of IT technologies and the Internet offered people new, unknown opportunities. The traditional stereotypes were broken. The appearance of the internet changed people's behaviour and communication by moving plenty of physical things to virtual environments. The Internet and overall digitalization are much more than just another auxiliary technology. This is a qualitatively new and powerful tool. The Internet improved the speed of information gathering and made much information widely available [1].

Defining the factors influencing positive financial performance (further – profit) in the dynamically changing business environment and, consequently, the sustainable development of a company is becoming increasingly complicated. Based on scientific papers, the authors identified 33 dominating factors influencing a company's profit in the previous research [2]. The identified factors may be split into categories. The factors are grouped within the category according to their scope of influence. The structure of the category of financial factors shows that income growth is the main factor in profit retention [3,4]. Also, profit growth is often considered as cost saving. Digitalization is being applied, with the main emphasis on reducing fixed costs. The authors emphasize that combining multiple strategies can only retain a sustainable and productive

business. For this purpose, two non-financial categories, the non-financial digital category and the non-financial non-digital category, were added to the financial category. The non-financial digital category unites the following factors: automation, digital networking, digital development, and digital data. In turn, the non-financial, non-digital category consists of the business qualitative organization factors and disruptive innovation factors.

The survey among Latvian businessmen was carried out to assess the practical influence of the factors being identified globally on small businesses. The National Development Plan 2021-2027 [5] specifies that the Latvian business structure is mainly based on micro, small, and medium-sized companies, which lack sufficient capacity to invest in research and development. During the assessment of the business environment in Latvia, the data from annual reports of capital companies (Ltd and Joint-stock companies) were selected based on public data on the portal Firms.lv. The data about the active companies at the moment of the data selection was selected across 2021. Only 64,28% of all registered capital companies (77816 companies) specified in their annual reports that turnover was above 0, and their turnover total for 2021 made 73052 million euros. Only 234 companies, which is 0,30% of the total number of companies, make up 46% of the total annual turnover of the capital companies. The largest by number group unites 68 682 companies with a weighted share of 88,26%, making just 9% of the turnover. Compared to the turnover of the world's top companies annually ranked by the media portal Fortune.com/ranking, the turnover of the biggest retail network, WALMART, in 2021 reached 559,181 mlrd. USD exceeds six times the turnover of all Latvian capital companies together.

Making a summary of the survey results for Latvian businessmen, the authors concluded that generally, the businessmen scored highly on the influence of the selected factors on business profit. Still, in additional comments, they specified risks or deeper views of the influence of the factors. The businessmen noted product uniqueness and quality as the most paramount in the set of the defined non-financial factors, which is supported by the customer feedback that was not considered as dominating during the analysis of source documents.

Based on the research the authors conclude that the set of the defined factors creates the conditions for positive financial performance only remaining in reciprocal interaction. A sustainable and profitable business is based on the profit that a company generates through a combination of multiple strategies. Profit maximization is a company's capability to increase revenues using the most effective resources [6]. The key success factors that influence the viability of each implemented project are time, financing, and quality [7].

2. LITERATURE ANALYSIS

2.1. Systematic literature analysis

The qualitative and quantitative analysis of relevant independent scientific literature was carried out to understand conceptually the factors promoting business profitability in the digital age. When selecting scientific sources, a restrictive time criterion was defined, starting from the year 1990 – the time when the Internet became available. Using the Internet search based on the keywords “Profitable business model,” 26 documents were selected, and 12 most appropriate were identified for an in-depth study. The study found additional keywords: “digital transformation, service platform, service-dominant logic, disruptive innovation, pricing strategies.” Then, an extra search was carried out that helped select 46 more documents. Of these, a total of 30 most appropriate ones were selected for an in-depth study. The research conclusions were made based on them. Thirty source documents were published in different periods: in 1990 – 1 (0.33%), in 2000 – 2009 - 7 (23%), and in 2010 –2019 – 22 (73%).

The research papers were selected using online science archives (www.researchgate.net, www.academia.edu, www.ijsrp.org, and others) to access reliable peer-reviewed and academic research results. The research papers were selected out of the most often published and cited.

In the previous study by the authors [2], three categories of factors influencing a company’s positive financial performance were created. These reflect the modern factors that the authors of the reviewed sources have emphasized as important in creating a sustainable, profitable business. The selected 33 factors are grouped into three categories. Factors influencing digital innovation are grouped in the nonfinancial digital category, which includes the following groups (adapted from [8]). “Digital Networking capabilities”, with factors: Partnership and alliances[3, 4, 9], Ecosystem [10, 11], Digital networking [12, 13, 14], Third-party digital platform [10, 11], Own services digital platform [11], Online sales channels [15]; “Digital Development”, with factors: Digital literacy of a company’s employees [8, 16, 17], BM digital transformation [3], Digital maturity [18, 19, 20]; “Digital Data” with factor Decision making through a data prism [8, 14, 15], and “Automation” with a factor: Automation [8]. Other nonfinancial factors belonging to the “Quality of business organisation” include Research and development [12, 13, 21], Dynamic Technological Progress [22], Recognition of existing innovations (adopting solutions from other business models) [12, 17, 21], The time effect of innovation implementation [7], Outsourcing [23], Unique product[11], Product quality [22], Innovation at the multi-dimensional level [14, 24], Customer feedback [4], Social impact [11]; and results from “Disruptive innovations” with the factors: Service-dominant (SD) approach [12, 6, 25, 26, 27, 28], Lower-priced products for the low-end market [7, 22] , Competitive threats from outside industry boundaries [29], Convergence of physical products and digitalization [13], A more sustainable, innovative and expensive products [7, 22], New-market disruptive products

[7] are grouped into a non-financial non-digital category. In turn, the financial category includes the factors through which profit strategies are implemented by improving the revenue/cost structure, as follows: Revenue growth as a determining factor [3], New pricing conceptions [25, 30], Cost savings through digitization [3], Transformation of fixed costs into variable costs by digitization [8, 11], Reducing costs by increasing or maintaining revenue [6], Limited time to make a profit [3].

Generally, the following factors are most frequently mentioned in the sources, and this indicates the diversity of the defined factors [2]:

- The factors that fall under the category Non-financial digital category in the group Digital Networking capabilities: “Ecosystem”, “Partnership and alliances”, “Digital networking”. The selected sources also show prevailing factors, Digital data, and “Decision making through a data prism”.
- The factors that fall under the non-digital category “Dynamic Technological Progress”, “Service-dominant (SD) approach” and “Research and development”.
- The factors specified by the authors as decisive under the financial category “Cost savings through digitization”.

2.2. Bibliometric analysis of scientific literature

The bibliometric analysis technique and Web of Science indexed research papers helped approve and extend the factors defined through qualitative literature analysis. The public software tool VOSviewer was applied for the visualization of results. Thematic clusters were formed by the use of the “co-occurrence” technique. The thematic clusters bring the keywords together by the principle of frequency of occurrence in one research paper. Each cluster has a different highlight colour, but the value of each keyword depends on their frequency of occurrence in the source “total link strength”; the link indicates how strongly certain keywords are linked to other keywords [31, 32].

When looking for the Web of Science database information, publications were selected using various criteria. Firstly, falling under the categories of Business, Management, Economics, Finance, Management, and Economics. Secondly, the type of document “Research paper”, years of publication 2016–2022, in English. Thirdly, the keywords profit, digitalization, and business model. All in all, the mentioned criteria helped identify 14011 research papers. The thesaurus was generated based on the selected research papers, which allows automated linking of similar keywords, i.e., Business model and business models, and improving possible errors. Altogether, the set of selections includes 1001 keywords, while the authors chose 48 keywords out of them. These are the words being mentioned in the sources at least 35 times.

During the bibliometric analysis, the factors were defined after quantitative and qualitative analysis of the source documents. VOSviewer visualization tool generated 4 clusters. The clusterization results and the relevant keywords are presented in Figure 1.

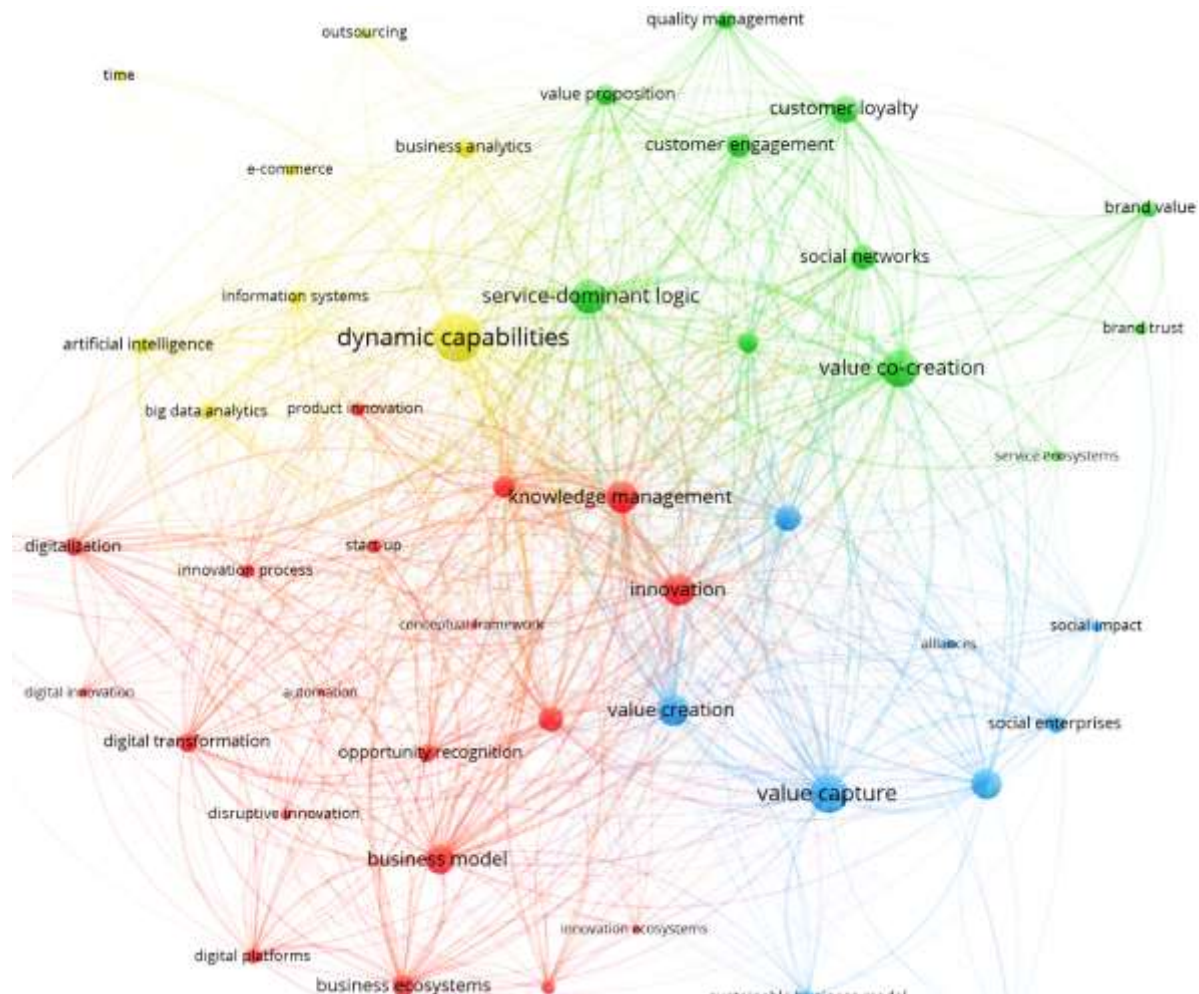


Fig.1. Bibliometric map of publications related to factors that affect positive financial performance (source: Web of Science, tools: VOSviewer, method: Keyword Co-occurrence)

The generated map of keywords demonstrates the diversity of factors influencing business performance in the digital age. Four generated clusters feature multiple directions, and all the directions specified below are highly interrelated, creating a common system. The Innovations cluster (red cluster) brings together digital and non-digital factors related to digital maturity (digitalization), knowledge management, disruptive innovation recognition, start-up establishment, and digital transformation, as well as indicating digital ecosystems and platforms. The second cluster brings together customer- and product-oriented non-digital factors (green cluster), oriented toward quality, customer loyalty, customer involvement, brand strengthening, and product servitization. The third cluster characterizes value capture (blue cluster) related to social responsibility, impact, and sustainable business development. The fourth cluster characterizes a company's dynamic capability (yellow cluster); the related keywords indicate the development of technologies and IT, AI implementation, e-commerce, big data analysis, 'time' factor, and outsourcing.

Among the variety of identified factors, the keyword "dynamic capabilities" is mentioned most often, and it emphasizes the main and necessary company capabilities: to change, adapt, and combine new opportunities through the disposal of non-

productive resources. Additionally, the following keywords are highlighted as dominating: "value co-creation", which confirms the factor of Partnership and alliances; "service-dominant logic" which confirms the factors of Convergence of physical products and digitalization and Service-dominant (SD) approach, "knowledge management" that confirms the factor Digital literacy of company employees and Digital maturity, also, the factor "corporate social responsibility" being highlighted as dominating, the factors that did not frequently occur during the systematic analysis of literature.

3. RESEARCH METHODOLOGY

The factors selected by the qualitative and quantitative literature analysis and confirmed by bibliometric analysis formed the basis for the survey among businessmen (further in the text - respondents) to measure the importance of the listed factors and their influence on business profitability. The first part of the questionnaire includes demographic characteristics of the respondents: sector of business activities, personal information, job position, annual turnover interval (under 145 thousand Euro,

from 145 thousand Euro to 1 million euro, from 1 million euro to 10 million euro, or over 10 million. Euro). Further, the respondents were offered to measure the importance of each factor listed in the questionnaire by its influence on the profit of their companies using the 5-point Likert scale from 1 point – “does not affect” to 5 points – “affects significantly”. Also, the questionnaire survey adds comments based on a company’s experience of the real influence of the listed factors on business activities or factors outside the survey.

The questionnaire includes 32 questions altogether. Each of them corresponds to the factors that were confirmed after the analysis of the source documents. The questions are divided into the financial and the non-financial categories; in turn, the non-financial category has a more detailed split-up into the digital and the non-digital subcategories.

To improve the survey response rates, managers of 31 companies were contacted in person and agreed to participate. Also, approximately 5324 companies were invited to fill out the survey questionnaire, while only 46 businessmen, or 0,8%, responded to the emails. As a result, the survey was carried out among 77 respondents; the questionnaire was filled out by company managers, booking accountants, or unit managers. The survey involved representatives of various sectors. The majority of them represented the sector of Services – with 34 respondents (44.16%), followed by Trade – with 14 respondents, Healthcare with 12 respondents, Production with eight respondents, Construction with six respondents, and Agriculture with three respondents, which accounted for a lower percentage (see Table 1). In the split-up by turnover intervals, microenterprises with turnover under 145 thousand Euros are represented by 31 respondents and for a turnover interval from 1 million. Euros to 10 million. Euros – by 21 respondents, for a turnover interval from 145 thousand euros to 1 million euros - by 16 respondents, and big companies with a turnover over ten million. Euros are represented only by a small number -just nine respondents (see Table 2).

It is provided that the maximum possible score for the highest measurement of the influence of the factors on business profit would make 160 for one completed questionnaire, 12320 for 77 completed questionnaires and all the factors, and 385 for one factor in all 77 completed questionnaires (see Table 3).

Table 1

Split-up of respondents by sectors

| Sector | Number of respondents | Structure of survey respondents, % |
|--------------|-----------------------|------------------------------------|
| Construction | 6 | 7.79 |
| Agriculture | 3 | 3.90 |
| Services | 34 | 44.16 |
| Production | 8 | 10.39 |
| Trade | 14 | 18.18 |
| Healthcare | 12 | 15.58 |
| Total | 77 | |

Table 2

Split-up of respondents by turnover

| Annual turnover intervals of respondents | Number of respondents | Structure of survey respondents, % |
|--|-----------------------|------------------------------------|
| under 145 000 euro | 31 | 40.26 |
| from 145 000 euros to 1 million. euro | 16 | 20.78 |
| from 1 million. euro to 10 million. euro | 21 | 27.27 |
| over 10 million. euro | 9 | 11.69 |
| Total | 77 | |

Table 3

Values of the analysed units by the 5-point Likert scale

| Nr. | Analysed units | 5-point Likert scale | | | | |
|-----|---|----------------------|-------|-------|-------|--------|
| | | 1 | 2 | 3 | 4 | 5 |
| 1 | Scored points per one questionnaire = number of questions 32 (factors) x measurement by the Likert scale | 32 | 64 | 96 | 128 | 160 |
| 2 | Scored points for all questionnaires = 77 respondents x possible scored points for Table 1 item of one questionnaire | 2 464 | 4 928 | 7 392 | 9 856 | 12 320 |
| 3 | Scored points per factor across all questionnaires = 77 respondents x measurement by the Likert scale | 77 | 154 | 231 | 308 | 385 |

To analyse the surveyed opinion about the influence of the selected factors on business profit, all the questionnaires were divided into two groups: the questionnaires scoring a total of 96 to 160 points (Table 3) united respondents who assessed the significant influence of the surveyed factors (further in the text – a group of significant influence factors) on business profit, in turn, the questionnaires scoring total 32 to 95 points, unite respondents who consider that the surveyed factors do not influence business profit (further in the text - a group of low influence factors).

To make the analysed data comparable and considering a different number of factors in each category and different numbers of respondents in each sector and turnover interval, average values were used to analyse the survey results.

4. ANALYSIS OF THE SURVEY RESULTS

4.1. Overall assessment of respondents

The majority of the respondents - 47 respondents, or 61% of the total respondents- assessed the significant influence of the surveyed factors on business profitability. Thirty respondents

suppose that the mentioned factors and digitalization, in general, do not influence their business activities; those respondents make up 39% of all the survey participants.

No big difference in the distribution of opinions among the companies grouped by turnover intervals was observed. (see Fig. 2).

In turn, when analysing responses by sectors, respondents working in the services and construction sectors see the strongest influence of the surveyed factors on business profitability. The average number of points in one questionnaire out of the maximum 160, accordingly in the sector of services: 121 factors in the group of significant influence /75 factors in the group of low influence; in the sector of construction: 119 factors in the group of significant influence /73 factors in the group of low influence; in the sector of Agriculture all three surveyed respondents measured the influence of the surveyed factors on their business profit as low (see Fig.3).

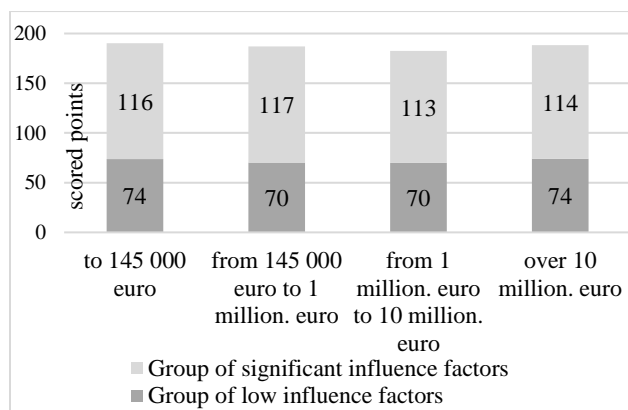


Figure 2. Measurement of factors of influence distributed by respondent turnover

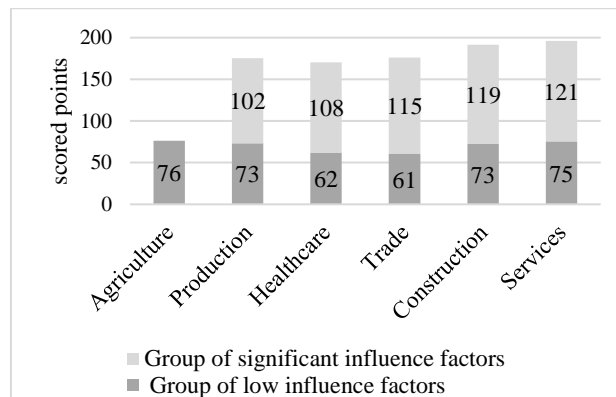


Figure 3. Measurement of factors of influence distributed by economic sectors

In their comments, four respondents from different economic sectors noted that digitalization and the factors under the survey practically do not influence the company's financial performance. Still, business performance is determined by professionals who work in this field. More than about the influence of the mentioned factors, the respondents are concerned about big corporations gradually driving small and medium-sized businesses and craft-type enterprises out of the market. Also, the respondents are concerned about digital fraud risks. A solvency risk exists along with the necessity to build a stronger client portfolio in the context of enhanced competition.

4.2. Assessment of individual factors.

The total points across all 77 survey questionnaires make 7580 which is 62% of the maximum possible 12 320 points. This suggests that the respondents recognize the influence of the surveyed factors on business profitability (see Table 4).

Table 4

Respondent assessment of the influence of the factors on business profit (average values).

| Categories | Group | Factors | Survey points scored for one factor and category together | Influence of one factor and category, percentage in relation to the maximum points % |
|--|---------------------------------------|---|---|--|
| Non-financial digital - 11 factors | Automation | Automation of business processes and use of artificial intelligence | 212 | 55% |
| | Digital networking capabilities | Own service digital platform | 195 | 51% |
| | | Ecosystem | 205 | 53% |
| | | Partnership and alliances | 211 | 55% |
| | | Digital Networking capabilities (external and internal networking) | 257 | 67% |
| | | Sales channels through the online environment | 221 | 57% |
| | | Own serviss digital platform | 230 | 60% |
| | | Digital development | Digital maturity | 262 |
| | Digital literacy of company employees | | 256 | 66% |
| | Business model digital transformation | | 204 | 53% |
| | Digital data | Decision making with data prism | 231 | 60% |
| Average of scored points in a category | | | 227 | 59% |
| Total of scored points in a category | | | 2 041 | |

Respondent assessment of the influence of the factors on business profit (average values).

| Categories | Group | Factors | Survey points scored for one factor and category together | Influence of one factor and category, percentage in relation to the maximum points % |
|---|----------------------------------|---|---|--|
| Non-financial non-digital - 15 factors | Quality of business organisation | Social Aspect | 206 | 54% |
| | | Outsource | 221 | 57% |
| | | Research and development | 225 | 58% |
| | | Dynamic Technological Progress | 232 | 60% |
| | | The time effect of IT innovation implementation | 246 | 64% |
| | | Customer feedback (collection and processing) | 256 | 66% |
| | | Unique selling points | 285 | 74% |
| | | Recognition of existing innovations (adopting solutions from other business models) | 291 | 76% |
| | | Quality | 348 | 90% |
| | Disruptive innovation | Competitive threats from outside company traditional industry boundaries | 202 | 52% |
| | | Discount pricing at the low end of the market | 215 | 56% |
| | | A more sustainable, innovative and expensive products | 222 | 58% |
| | | New-market disruptive products | 223 | 58% |
| | | Service-dominant (SD) approach | 236 | 61% |
| | | Interactive effect of physical products and service offerings convergence | 191 | 50% |
| Average of scored points in a category | | | 247 | 64% |
| Total of score points in a category | | | 3 599 | |
| Financial - 6 factors | Revenue items | New pricing conceptions | 260 | 68% |
| | | Revenue growth as a determining factor | 285 | 74% |
| | Cost positions | Transformation of fixed costs into variable costs by digitization | 206 | 54% |
| | | Cost savings through digitization | 244 | 63% |
| | Financial result as a whole | Limited time to make a profit | 216 | 56% |
| | | Reducing costs by increasing or maintaining revenue | 286 | 74% |
| Average total of scored points in a category | | | 238 | 62% |
| Total of scored points in a category | | | 952 | |
| Total 32 factors / Scored survey points across all questionnaires | | | 7 580 | |

As the dominating one, the respondents named the financial category. The average points scored by one factor of this category make 250, or 65%, out of the maximum possible 385 points for one factor. The authors explain the leadership of the financial category by the fact that the survey emphasizes profit, which is unambiguously clear by the values of the factors of the financial category. Among the non-financial categories, the leading role belongs to the non-digital category with an average point of 247, or 64% out of the maximum possible 385 for one factor (see Fig.4).

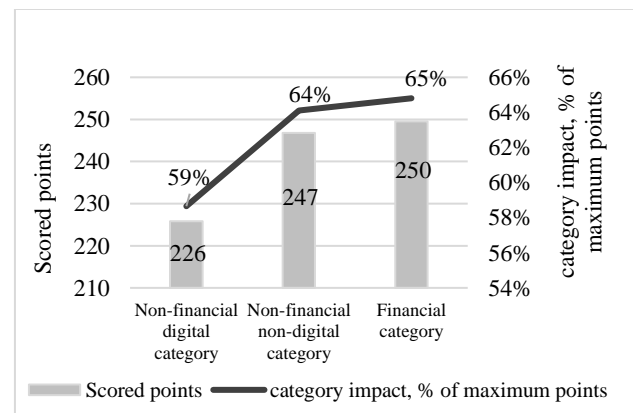


Fig. 4. Respondent assessment of the influence of the categories on business profit

The non-financial factor of the non-digital category “product/service quality” is recognized as the dominating, much ahead of other factors. This factor was assessed as significant by 70 companies, which is 90% out of all respondents. The factor received 348 points altogether, which makes 90% of the maximum possible 385 points.

The factor “recognition of innovations available in the market and integration across your company” has a significant influence (named in 53 questionnaires). The comments specify that it is important to be aware of not only general trends in the market but also society, politics, big companies, and global economics as much as possible. Before integrating innovations and digital solutions across a certain company, they should dedicate the time to research and design of correct configuration of corresponding solutions.

In 44 questionnaires, the “product and service uniqueness” factor is assessed as significant and specified for customized offers.

The “digital maturity” factor was also assessed as significant (scored in 40 questionnaires). In their comments, the respondents noted that sometimes, full digitalization of a company business model requires disproportionately high investment in relation to turnover. Not just “Digital maturity” matters, but also client and customer skills to use digital tools, search and order products on e-commerce sites, and keep up with available data and analytic trends.

In their comments, the respondents noted various issues they had faced by specifying the significant influence of the factor “digital literacy of company employees” (scored in 39 questionnaires). In general, the respondents mentioned the lack of talented employees in the market and the issue of their retention. In contrast, existing employees lack motivation and fear to apply new digital tools.

By specifying the significant influence of the factor “Customer feedback (its collection and processing)” (scored in 39 questionnaires), in their comments, the respondents noted that in the modern digital world, brand success depends on the confidence and loyalty of customers, one negative feedback or phrase online can damage a company’s reputation and reduce sales by many ways. To mitigate the effect of one case of negative feedback, you need to receive lots of positive feedback.

Even though the factors “Digital networking (external and internal networking)” and “Use of third-party digital platforms” generally were assessed by the respondents as low influence factors, in a variety of comments, they noted that relevant information about a company and its products should be available on the Internet, the same information also should be available in social media. Permanent information promotes product marketing and raises company profiles in the labour market. As their negative experience, many respondents specified compulsory use of the state digital platform despite its outages or sophisticated user-unfriendly logic.

All in all, in their comments, many respondents noted the influence of modern dynamic environment development and the factor of time as determining when adapting digital solutions to products and processes, service and support, collection of cash and payment proceeding speed.

5. CONCLUSIONS

The research aimed to study the opinion of Latvian businessmen about the influence of 32 factors extracted by a literature analysis on company profitability in the authors' previous research.

Generally, the businessmen assessed the influence of the surveyed factors on a company's profit generation, but they assessed several factors as dominating. The businessmen assessed the factor “product/service quality” as the most influential. Its significant influence was mentioned by 90% of all the surveyed businessmen. In the same way, product uniqueness and customer feedback highly influence profit. Nevertheless, the abovementioned factors were not indicated as determining during the literature analysis.

Furthermore, the businessmen assessed as important the mentioned below factors, being mentioned in the scientific papers as of significant influence on business profit: permanent up-to-date information about a company is available in the digital environment; digital networking channels; digital maturity, with the caveat that clients and product/services users also have digital skills; digital knowledge (awareness) of employees, although the issue of the businessmen's concern is the lack of motivation in employees and their fear of learning innovative digital tools; also, the market offers limited access to highly professional employees; revenue growth or retention at reduced costs, as well as effective cost structure based on digitalization.

In their comments, in the conditions of developing a modern dynamic environment, many businessmen indicated time as determining when adapting digital solutions to products and processes, service and support, collection of cash, and payment proceeding speed.

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