

# *The Impact of Digital Transformation on Company Valuation: A Case of Microsoft*

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**Abstract:** The digital economy is now the driving force behind global economic expansion. In 2014, Microsoft underwent a digital transformation, and its valuation soared. This essay aims to investigate how the digital revolution affects business valuation. This paper applies research in asset valuation, investment and financing strategies, and risk management to qualitatively analyze Microsoft through the SWOT analysis method. Advanced technology and corporate innovation can raise valuation expectations, while technological risks and business homogenization can impact market competition and lower company valuation. Microsoft's advancement in digitalization can not only improve the company's competitiveness, but also enhance its value and promote high-quality development. As a result, firms need to effectively manage technology risks and data security issues, control costs, or improve service quality to remain competitive in the marketplace and increase the firm's valuation, thereby maintaining its market position and overall value. In this and other contexts, factors affecting valuation are subsequently discussed.

**Keywords:** Microsoft, SWOT Analysis, Valuation.

## **1. Introduction**

With the ongoing development of information technology and the Internet, the digital economy now plays an increasingly vital role in global economic growth. The digital transformation is a stage that global corporations and all businesses must go through. In today's digital age, multiple cutting-edge technologies, such as cloud computing, big data, artificial intelligence, and the Internet, are critical to the success of various sorts of enterprises. [1, 2]. At this point, a new technological revolution is on the horizon, one that will not only change each country's competitive environment but will also disrupt the traditional division of labor inside that country. Technological innovation has emerged as an important feature in multinational corporations' global and competitive landscapes. In this setting, digital transformation has become an unavoidable trend for global businesses, particularly big, advanced, and inventive technology corporations. The knowledge that goes deeply into the advanced technological components of a company's valuation and the long-term feasibility of its growth is critical.

During the 2000–2013 era, Microsoft's market value fell from its peak of \$600 billion to less than \$300 billion, less than half of what it was in 2000. Microsoft is currently in an unusually low state. As a major, cutting-edge firm, Microsoft is regarded as an Internet technology powerhouse. Satya Nadella took over as CEO of Microsoft on February 7, 2014, abandoning Windows Phone in favor

of the "mobile first, cloud first" approach and directing the company toward cloud computing, artificial intelligence, and other key areas. After a decade of transition, Microsoft's worth skyrocketed, eventually hitting its all-time high share price in 2024, propelling it to become the world's largest computer software supplier.

The study of the impact of enterprise digital transformation on innovation has yielded several significant findings. Most academics believe that digital transformation can successfully foster enterprise innovation. For instance, Nylén and Holmström suggest that for those unpredictable enterprise products, some advanced digitization can better assess their value. [3]. Nambisa et al. believe that the increased level of digitization facilitates resource sharing across enterprise platforms, which in turn facilitates innovation and increases enterprise value [4]. However, a few scholars have opposite views. Ghase et al. explored the relationship between innovation performance and big data [5]. They discovered that the volume of big data does not significantly impact innovation performance. [5]. From the point of view of supply chain relationships, Chen and Liu suggested that when businesses go digital, it affects the growth of other businesses. This makes it uncertain for related businesses in the supply chain to work together, which in turn hurts supplier innovation [6].

Over the past few decades, researchers have increasingly explored the concept of digital transformation and its potential to promote enterprise innovation. In-depth research on the impact of digital transformation on company valuation is still lacking. Particularly for large technology companies, there is a dearth of research in this area. Therefore, this paper aims to bridge the research gap by examining how Microsoft transformed into the world's largest computer software provider through digital transformation. Therefore, the significance of this study lies in its ability to fill this gap and offer fresh perspectives and directions for further exploration in this field. This paper's research has important implications for Internet practice as well as the high-tech industry. The research results could not only provide the industry with new technologies and methodologies, but they could also contribute positively to the industry's sustainable development.

This paper will examine the impact of digital transformation on company valuation by combining theoretical and empirical perspectives. First, this paper will review existing literature to gather basic information about digital transformation and company valuation, as well as explore the relationship between these two concepts. Based on the current research findings, this research can conclude that the enterprise digital transformation primarily enhances the company's valuation by implementing innovative business models, reducing costs, improving performance, and creating value. Based on the relevant literature review, this article chooses Microsoft as a case study and, using a SWOT analysis, provides recommendations based on relevant results to enhance Microsoft's valuation.

## 2. Literature Review

### 2.1. Definition

Digital transformation is the process by which an enterprise uses various digital technologies and related digital thinking to create a new business model that improves operational efficiency and innovation, generating more value for the business. Digitization entails the utilization of pertinent digital technologies, such as data collection, transformation, and utilization, along with the effective and efficient conversion of information into digital formats and data processing. Digital transformation entails not only the use of corresponding technologies, but also the innovation of some business models, the improvement of the company's internal organizational structure, and the improvement of the professional skills of the employees in the corresponding departments. Some foreign scholars, such as Vial and Singh, give the following definitions: digitization is a way in which an enterprise improves internal management using digital technology [7]. Digital transformation refers to the strategic arrangement of an enterprise's digital activities, utilizing digital technologies to

integrate its management and operations [8]. Businesses can improve enterprise digitization by developing appropriate policies. Digital technologies such as big data, the Internet of Things, and blockchain can enhance operational efficiency and foster innovation within enterprises. [9]. Digital transformation has become an inevitable requirement for the sustainable development of enterprises of all sizes around the world.

In summary, digital transformation significantly enhances an enterprise's competitiveness and innovation. Digital transformation necessitates not only robust science and technology, along with corresponding management policies, but also a thorough consideration of various external factors, including business operating conditions, market environment, market competition, and capital operations. This approach enables enterprises to more effectively adapt to market requirements, enhance internal operations, and create new opportunities and options to expand into new markets and customer groups. This, in turn, enhances the sustainable growth of enterprises and maximizes their value.

Company valuation is the process of assessing and valuing the value of a company by evaluating the current value of an asset. This process involves not only a comprehensive consideration of the company's financial position, performance level, and market environment, especially the potential for increasing the company's value in a competitive environment, but also the valuation of the company's overall assets. Company valuation is also an important measure, primarily used in equity financing and assessing the company's overall value.

## 2.2. Important Results

Digital transformation can affect a company's valuation in several ways. First, digital transformation can encourage the development of innovative business models. To promote internal technological reforms, enterprises introduce some advanced technologies, which can promote the company's rapid development and increase its valuation. In 2021, Yi and other academics utilized big data text recognition technologies to examine the impact of technological progress and countermeasures on a company's business model throughout its digital transition using empirical research techniques [10]. Studies indicate that the process of digital transformation inside a firm promotes innovation in its business model, allowing businesses to overcome technical obstacles and improve the effectiveness of their core operations. As a result, this greatly enhances the organization's worth, affecting its assessment [10].

Implementing advanced technology may enhance the enterprise's performance mechanisms, streamline internal business operations, foster collaboration inside the organization, and enhance market competitiveness through digital transformation. Implementing digital transformation initiatives may stimulate innovation in corporate business models, leading to substantial enhancements in corporate performance and an increase in firm valuation. In 2020, Hu scholars explored two dimensions, internal learning and external cooperation, to reflect on the impact of digital transformation on firm performance [11]. Companies can promote digital transformation through both internal learning and external cooperation to reduce operating costs, increase revenues, improve profitability, and make the company more competitive and flexible in the modern market environment. This, in turn, increases the company's performance and enhances its share value [11].

Additionally, digital transformation decreases the time and errors associated with manual operations, and digital systems facilitate the efficient sharing and utilization of information and resources, thereby enhancing the company's operational efficiency and enabling faster and more accurate operations. thereby increasing the company's valuation. In 2019, scholars He Fan and Qin Wang delved into real-world enterprises driven by innovation, which are likely to experience economic repercussions due to digital transformation [12]. The scholars found that digital transformation can promote internal specialization of the division of labor and improve the efficiency

of the company's operation through the channel effect, thereby reducing operating costs, increasing profits, and enhancing the company's valuation [12].

### 2.3. Summary

Current academic research suggests that the digital transformation of enterprises primarily influences the company's valuation by innovating its operating model. This leads to enhanced performance, operational efficiency, and reduced operating costs. Furthermore, it fosters closer collaboration between enterprises, thereby improving the company's value and, ultimately, its valuation. These conclusions reflect only a few objective factors that influence company valuation. The study of company valuation must also consider various other factors, such as internal factors, industry conditions, and market dynamics. Enterprises must implement appropriate measures to ensure stable development and enhance company valuation in different scenarios.

## 3. Method

### 3.1. Research Design

The research design employs both a qualitative analysis approach and a SWOT analysis approach. The purpose of qualitative analysis is to identify the development trends of various aspects based on experience and subjective judgment. It has a wide range of applications, particularly in the field of innovation assessment. Through in-depth qualitative research, it can provide a more accurate assessment of the technological development of enterprises and enhance their valuation.

The main purpose of SWOT analysis is to better analyze the internal situation and external environment of the research subject and formulate more effective development strategies. This kind of analysis method is very suitable in the business field, especially in enterprise valuation, which can largely help the company understand its own situation more clearly, make more informed decisions, and improve its valuation.

This topic perfectly fits the characteristics of both the qualitative analysis approach and the SWOT analysis approach, so this paper decided to adopt the SWOT analysis approach in qualitative analysis to explore the impact of digital transformation on company valuation, using Microsoft as a case study.

### 3.2. Microsoft

Microsoft, the American multinational technology company, is a global leader in computer software. As one of the world's largest computer software providers, Microsoft plays a leading role in the development of software for personal computers (PCs). Among the company's product lines, the Windows operating system and the Office software series are particularly well known and loved by consumers. In addition, Microsoft's computer hardware, cloud computing services, and search engine service Bing are also very popular.

Between 1975 and 2000, Microsoft's valuation grew significantly with the widespread use of its software thanks to the windows system and office software. Microsoft was one of the most valuable companies in the world when its market capitalization reached approximately \$600 billion in 2000. However, from 2000 to 2013, due to Microsoft's missed opportunities in the mobile Internet and the rise of many emerging technology companies, Microsoft's market capitalization has fallen all the way from the high point of 600 billion U.S. dollars, and eventually fell to less than 300 billion U.S. dollars, which is only half of the peak period, and plunged into an unprecedented trough. As a result, Microsoft had to undergo a digital transformation in the face of this predicament. On February 7, 2014, Satya Nadella began to take over Microsoft Corporation and undertook a large digital transformation of the company. He abandoned the Windows Phone business and shifted his focus to

the enterprise market, leading Microsoft into core areas such as cloud computing and artificial intelligence. Since then, the valuation of Microsoft Corporation has skyrocketed to become the third most valuable technology company in the world in 2018, and currently its Microsoft Corporation valuation is still in a phase of continuous growth.

### 3.3. SWOT Analysis

#### 3.3.1. Strength

Microsoft's strongest advantage is its technological superiority. First and foremost, Microsoft has strong technological capabilities, effortlessly combining the Internet of Things, artificial intelligence, and cloud computing. Microsoft Azure is the leading cloud computing platform, offering a diverse set of cloud services and solutions to assist companies with digital transformation and artificial intelligence applications. With extensive research and rich practices in artificial intelligence, Microsoft has introduced tools such as Microsoft 365 Copilot and GitHub Copilot, which considerably boost users' work productivity and inventiveness.

Azure has become Microsoft's principal business, and it is rapidly expanding its capabilities. Through intelligent cloud and edge computing, Microsoft is also focusing on IoT and developers. These cutting-edge technologies, particularly the Azure cloud platform, have significantly increased Microsoft's worth. In the first quarter of 2018, Microsoft's cloud service revenue exceeded \$20 billion, accounting for more than 20% of overall revenue, a huge increase from 5% at the start of 2015. [13]. Azure cloud service revenue surged by 93%, demonstrating significant growth momentum. In 2018, Microsoft became the world's third-most valuable firm due to its technological advantages. [13].

Instead, despite the pandemic's impact, Microsoft achieved a 15% sales increase from 2020 to 2022. Teams, a telecommuting platform, has 75 million daily active users [14]. Microsoft's Productivity & Business Processes and Intelligent Cloud Services divisions, specifically The Power Platform and The Power Platform, which are part of Microsoft 365 alongside Teams, Azure, Windows virtual desktops, and advanced security solutions, generated the most revenue during this time period. The cloud usage of Power Platform, a corporate management software, has considerably expanded. In the last 12 months, the Azure platform has gained over 1,000 new capabilities in areas like AI, machine learning, virtualization, Kubernetes, and databases [14].

#### 3.3.2. Weakness

As its cloud computing company grows, Microsoft's revenue model becomes increasingly reliant on Azure. This reliance has raised the company's valuation susceptibility to variations in the cloud computing sector, resulting in higher unpredictability. Azure has become one of Microsoft's primary income streams. However, if Azure's growth slows or falls short of market expectations, it may have a big influence on Microsoft's stock price and valuation.

Currently, cloud computing technology is rapidly evolving, necessitating Microsoft's ongoing technological research and development and infrastructure enhancements. This necessitates considerable expenditures in R&D, infrastructure building, and talent acquisition, while also increasing managerial complexity. In the near term, these high costs may put pressure on the company's financial performance and margins, thereby lowering its valuation.

High operational expenses and severe pricing rivalry in the cloud computing industry may lead to variable profit margins. Microsoft's overall financial performance may suffer from reduced profit margins if it fails to properly control expenses or improve the added value of its offerings. As a result, although the Azure company has outstanding development potential, it also adds new risks and challenges for Microsoft.



### 3.3.3. Opportunity

As enterprises become more reliant on digital transformation, the need for efficient and dependable cloud computing services develops continuously. Many sectors extensively use Microsoft's Office 365 office suite, which includes several apps like Word, Excel, and PowerPoint. With the rise in demand for remote work and collaboration, Office 365 has grown in popularity and become an essential tool for everyday corporate operations. Azure, one of Microsoft's primary businesses, offers a comprehensive set of cloud services and solutions, including data storage, processing, data analytics, and machine learning, to satisfy the different demands of corporations. By offering these new solutions, Microsoft has not only capitalized on market possibilities but has also greatly expanded sales and earnings, as well as the company's worth, by satisfying the diverse demands of its customers.

Microsoft has experienced new business growth thanks to the development of emerging technologies like artificial intelligence, the Internet of Things, and edge computing. The emergence of smart devices and the Internet of Things has resulted in their popularity, and the demand for smart cloud services from enterprises continues to increase. With its strong technological capabilities and complete ecosystem, Microsoft can provide high-quality services and solutions in the areas of intelligent cloud computing and the Internet of Things. Investing in these emerging technologies and innovative projects can yield high returns in the future, increasing the company's valuation expectations.

Despite the epidemic's impact on the gaming industry, Microsoft's gaming business still showed outstanding potential. Microsoft has not only expanded its game library but also plans to combine these games with its subscription service, Xbox Game Pass, to provide users with more choices and value, thereby increasing the company's valuation. The subscription model of Xbox Game Pass not only increases Microsoft's revenues but also improves user stickiness and satisfaction.

Overall, Microsoft faces numerous opportunities in the current market, not only in its traditional software business but also in emerging areas such as cloud computing, IoT, and gaming. Therefore, Microsoft needs to continue to promote technological advancement, especially the emergence of smart devices and the Internet of Things, which have resulted in their popularity and cloud computing, to ensure its leading position in the market through continuous R&D and innovation. At the same time, the company should also focus on diversified business development to avoid over-reliance on a single business segment, thus reducing the risks associated with market volatility. This all-encompassing strategy not only enhances the company's current market value but also lays a solid foundation for sustainable growth in the future.

### 3.3.4. Threats

As organizations' digital transformation accelerates, Microsoft must deliver more products and services customized to their digital requirements. However, Microsoft faces competition from other IT suppliers, consulting companies, and professional service providers in this market. Despite its dominant position in operating systems and office applications, Microsoft faces competition from other manufacturers. For example, Microsoft must compete with Apple and Linux in the operating system sector, as well as Google and Apple in the office software market. With the tremendous growth of its cloud business, Microsoft faces tough competition from cloud computing behemoths such as Amazon and Google. These competitors have considerable power and expertise in the cloud business, offering a significant threat to Microsoft.

To maintain its competitive edge, Microsoft must continue to innovate and adapt to market changes. Technology Companies such as Apple, Google, and Amazon are fiercely competing with Microsoft. If Microsoft is unable to effectively respond to these competitions, it may lose market share and revenue. In addition, Microsoft needs a large amount of R&D funding to maintain its technological

leadership. The company's competitiveness may decline if it does not invest enough in R&D or if it goes in the wrong direction. Microsoft's competitive advantage will suffer severely if it cannot keep up with the pace of technological change.

In conclusion, despite Microsoft's strengths in digital transformation and innovation, the competitive pressures and technological challenges it faces remain significant. To maintain its technological and market leadership, the company must continue to invest in R&D and respond flexibly to market changes. The rapid advancement of technology necessitates that Microsoft continuously innovate to meet market demand. However, technological innovation is inherently uncertain. As digital transformation and innovation accelerate, remote working and online services become more common, and the number, speed of attack, and sophistication of digital threats increase.

#### 4. Results Discussion

SWOT analysis reveals that Microsoft's advanced technological capabilities greatly boost its market competitiveness and appeal, resulting in an increased valuation for the corporation. The adoption of new and advanced technologies, especially those that are still in the early stages of development, can lead to increased profits for the firm and boost the anticipated value of the company. Nevertheless, Microsoft is vulnerable to technical malfunctions, which could result in a decrease in consumer confidence and customer attrition, ultimately impacting the company's stock price. Moreover, Microsoft's excessive dependence on Azure services renders the corporation more susceptible to variations in the cloud computing industry, resulting in volatility in the stock price and diminished market competitiveness. These several circumstances have the potential to reduce the company's worth.

The study shows that innovation and advanced technology in a company can enhance operational efficiency, promote growth, and increase company valuation. This conclusion perfectly fits the viewpoints of previous studies, and this paper complements them in terms of internal company factors, industry factors, and market factors by detecting that technological risks and business homogeneity also affect company valuation.

Therefore, while digital transformation indicates enormous opportunities for Microsoft, the company still needs to effectively manage technology risks and data security issues, control costs, or improve service quality. Microsoft can maintain its market position and overall value by incorporating Open AI's generative AI technology into its production tools to remain competitive in the volatile cloud computing market and further increase the company's valuation.

#### 5. Conclusion

In today's digital era, digital transformation has become a crucial trend for global enterprises, particularly large-scale science and technology innovative companies, as it enhances their valuation and strengthens their position in the market. The study aims to investigate how Microsoft has transformed into the world's largest computer software provider through digital transformation. The research aspects of asset valuation, investment and financing strategies, and risk management are organized, and the SWOT research method is used to analyze the impact of digital transformation on company valuation for Microsoft. The study shows that innovation and advanced technology in a company can increase its valuation. Technology risk and business singularity will reduce company valuation.

This paper makes up for the shortcomings of the company's own factors, industry factors, and market factors. Digital transformation has stabilized the value of companies, significantly influencing their valuation, particularly in the Internet and cutting-edge high-tech industries. The research findings can not only provide new technologies and methods for the industry, but they can also make

positive contributions to its sustainable development. The use of digital technology within the enterprise can enhance the efficiency of the company's internal operations. Confirming the internal value of the company's assessment is of enormous significance for the company's corresponding corporate strategy and response, as well as for attracting potential investors and development prospects. As a result, there are more opportunities and options for exploring new markets and customer groups. Therefore, enhancing the company's value through sustainable development and value maximization is crucial.

In the future, academic researchers will have the capacity to conduct quantitative analyses of how digital transformation impacts the company's value by acquiring more precise, genuine, and efficient data, enhancing the theoretical learning capacity, comprehending the market and its surroundings, and enhancing the study's precision. This, in turn, empowers relevant enterprises to enhance their competitiveness in the market, boost the company's valuation, and establish a more robust foundation for future company growth.

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