

The Impact of Digital Transformation on Corporate Governance: Spillover Effects of Internal Governance

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Abstract:

With the rapid development of the digital economy, digital transformation has shifted from being an “option” for enterprises to a “necessity for survival”. At present, research has found that digital transformation of corporate governance can help reduce costs and increase efficiency, optimize business operations, and reduce risks. However, these studies mostly focus on the impact of digital transformation on internal and external governance, and there is still a research gap in studying the impact of digital transformation on corporate governance from the perspective of the connection between internal and external governance. Therefore, this paper will take Kweichow Moutai Co., Ltd. as an example for case analysis. Research has found that the digital transformation of internal governance can affect external governance through multiple channels, either directly or indirectly. Therefore, companies should pay attention to the spillover effects of internal governance during the digital transformation process to avoid unnecessary negative impacts on external governance.

Keywords: Corporate governance; digital transformation; internal governance; external governance.

1. Introduction

The rapid development of the digital economy has significantly improved production efficiency and injected new vitality into economic growth. As digital technology reshapes market rules and user demands shift towards personalization and timeliness, competition among enterprises has become a contest of response speed to changes and depth of demand insight. If enterprises do not actively embrace digitalization, they will find it difficult to establish them-

selves in the fierce market competition.

Gurbaxani & Dunkle define digital transformation as a company using digital technology to reshape its vision, organizational structure, procedures, capabilities, and culture to quickly adapt to a constantly evolving digital landscape [1]. Warner and Wager define digital transformation as a method of significant business improvement that uses new digital technologies such as mobile devices, artificial intelligence, cloud technology, blockchain and other Internet technologies to achieve consumer experience,

streamline operations, and create new business models [2]. Gurbaxani&Dunkle's definition focuses more on reshaping the company as a whole, including vision, organizational structure, and other aspects, to adapt to the digital landscape; Warner and Wagner's definition focuses more on utilizing new digital technologies to achieve business improvement. Although the emphasis is different, both definitions emphasize the core position of digital technology and technology in digital transformation, as well as its positive role in driving company operations [3].

Corporate governance is a complete system for managing and controlling a company. The corporate governance system consists of two parts: internal governance and external governance, and is connected by two main lines: property rights and the market. Internal governance is a series of legal and institutional arrangements for shareholders and other participants to participate in corporate governance through internal institutions and procedures. External governance mainly comes from the market, but also includes government and communities. Among them, the governance of companies by the market includes the capital market, product market, manager market, and labor market [4].

The research of Li shows that within the framework of agency theory, digital technology promotes the transformation of corporate governance models, enhances the link between compensation and performance, and reduces reliance on manager outcome incentive mechanisms through process evaluation of manager behavior [5]. In addition, digital transformation can help alleviate agency problems, as it can improve information quality, internal control standards, and governance systems. In addition to alleviating agency problems, scholars such as Yuanyuan Wang, Jijie Ma, Kun Zhang, and others have also found that digital transformation can suppress companies' illegal behavior. Digital transformation not only has a positive impact on the supervision and compliance mechanisms of corporate governance but also reduces costs, improves efficiency, optimizes decision-making, and lowers company risks. Digital transformation helps companies organize a large amount of non-standardized and unstructured data from daily business activities into structured and standardized information. By utilizing high-quality information, management can improve the quality and efficiency of decision-making. In addition, digital transformation can significantly reduce the cost of information collection, communication, and control activities, optimize the company's cost structure, and big data analysis has changed information processing technology and analysis methods, enhancing information processing capabilities, which helps maximize decision quality [6-8]. Digital transformation accelerates the innovation of business models, enhances the flexibility and sensitivity of enterprises to respond to market changes, reduces the possibility of future

risks, mitigates the negative impact of high-risk events, and thus reduces company-specific risks [9,10]

However, existing research lacks exploration from the perspective of internal and external governance connections, which makes it difficult for us to fully and deeply understand the overall impact of digital transformation on corporate governance. Therefore, this study selects Kweichow Moutai Co., Ltd. as a case study to reveal the impact of internal governance on external governance and the relationship between the two in the context of digital transformation 2. Case introduction

Kweichow Moutai Co., Ltd. was formally established in 1999 and listed on the Shanghai Stock Exchange in 2001. After years of development, Kweichow Moutai Co., Ltd. ranked 114th in the 2020 Fortune 500 list, with a net profit margin of 46.38% ranking first among the companies with the highest net profit. In 2024, its annual turnover reached 170.899 billion yuan. In 2025, the brand value of Kweichow Moutai will reach US\$74.446 billion, making it the most valuable liquor brand in the world among the "2025 Kaidu BrandZ Top 100 Most Valuable Global Brands".

At the end of 2017, Maotai Group officially proposed the construction of "Smart Maotai". The top-level design plan for the "Smart Maotai" project proposes to take innovation as the core, the integration of the two industries as the mainline, and the improvement of quality and efficiency as the center. Through a comprehensive, full process and full field information management, it aims to promote the digital transformation and upgrading of Maotai Group.

iMaotai is a digital marketing platform produced by Kweichow Moutai that focuses on digital marketing and complements new retail weaknesses through digital integration based on the "five marketing" (resource integration, digital integration, cultural integration, brand convergence, management and service integration) proposed by Chairman Ding Xiongjun. Starting from March 31, 2022, i-Maotai will be launched for trial operation and topped the free list on the Apple App Store on the first day. On May 19, i-Maotai will officially go live. As of 2024, the platform has over 67 million registered users, nearly 20 million monthly active users, and a cumulative sales revenue of over 56.6 billion yuan (with a single-year sales revenue of 22.374 billion yuan in 2023, a year-on-year increase of 88.29%), becoming the core engine for Maotai's direct sales revenue growth. The "i Maotai" e-commerce platform has become an important entry point for Maotai's C-end traffic, which may help Maotai accelerate its new product cultivation cycle in the future.

2. Case Analysis

2.1 Reshaping External Market Relations

As shown in Figure 1, revenue situation of the direct

agency of Guizhou Moutai from 2019 to 2024. It is shown that the proportion of direct sales revenue of Kweichow Moutai has jumped from 22.7% in 2021 to 43.8% in 2024 [11]. This phenomenon is since Kweichow Moutai launched the iMoutai platform in 2022, it promoted the reform of the marketing system through digital transformation, reconstructed product sales channels connected with the external market by relying on iMoutai’s digital marketing platform, broke the traditional distribution hierarchy, reached consumers directly and sold directly at the official guidance price of 1499 yuan/bottle. This measure not only recovers channel premium profits (direct sales gross profit margin of 95.46%, higher than wholesale’s 89.29%), redistributing profit margins from intermediate links to brand owners and end consumers, but also builds precise consumer insight capabilities through direct outreach, conducting accurate personalized recommendations and social interactions. By accurately targeting high gross profit products such as Zodiac liquor and premium Maotai, it aim to increase the conversion rate and repurchase rate of the Maotai platform. From 2019 to 2022,

the average conversion rate of the platform increased by 15%, and the repurchase rate increased by 20%. During the Double Eleven shopping festival, Maotai’s limited edition products achieved a 32% year-on-year increase in sales through precision marketing. In addition, Kweichow Moutai also realized the innovation of consumption scenarios through the flow pool of 67 million registered users (such as the binding sales of Non-Fungible Token (NFT) digital collections and real wine), restructured the connection mode between Moutai and young consumers, optimized the key processes in the supply chain through digital means, and strived to achieve more accurate and efficient market demand response [12]. The recovery of channel premium profits enabled the brand to obtain more funds for product research and development and market expansion. The accurate consumption insight ability helped to launch products that were more in line with market demand, and the combined effect of the two promoted the transformation of the external market profit structure to brand-led.

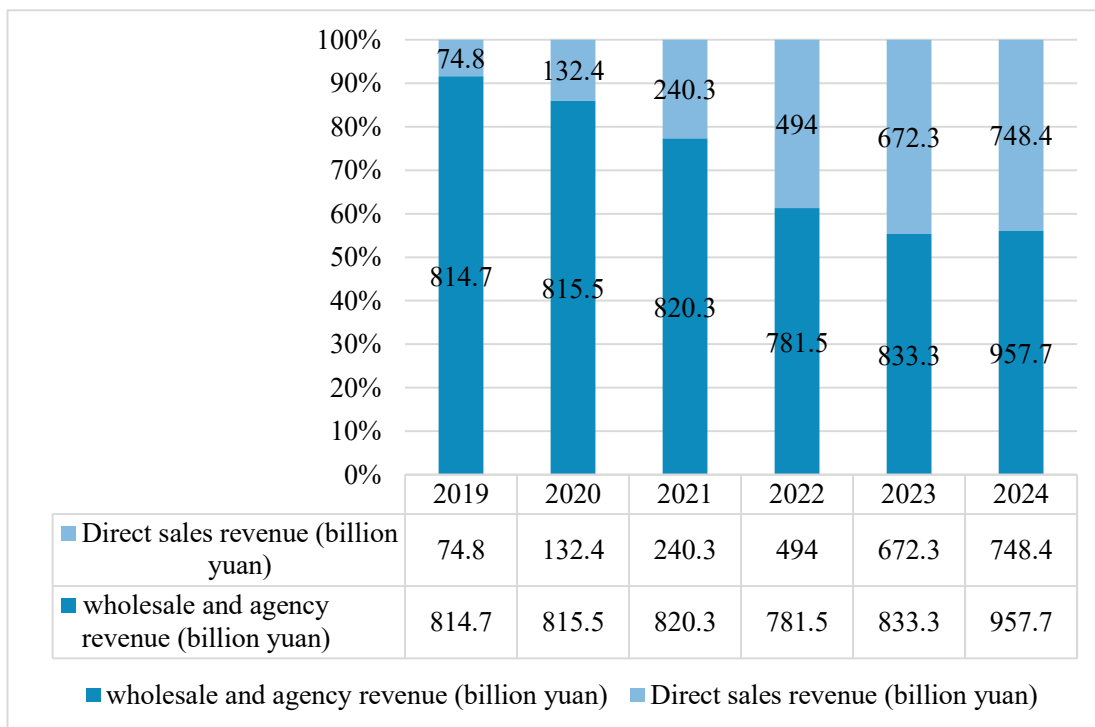


Fig. 1 Revenue situation of direct agency of Guizhou Moutai from 2019 to 2024 (Picture credit: Original)

2.2 Optimizing External Market Efficiency

Kweichow Moutai guarantees the fairness of subscription through the use of blockchain technology, and the user will pay a fee of Registered on the Maotai platform, and then randomly assigned purchase qualifications by the large platform, changing the previous online purchase

first come, first served, competing for speed and network speed, avoiding subscription becoming an improper tool for scalpers to make price differences. Through digital means, the key information of each bottle of wine from production to sales is integrated into the bottle code, achieving end-to-end traceability from product to com-

modity, reducing the occurrence of counterfeit and shoddy products. This digital transformation of internal governance standardizes the transaction access and participation mechanism connected to the external market, reduces information asymmetry, suppresses speculative market behavior, safeguards the fair participation rights of various market entities, and ultimately promotes the transformation of the external market from asymmetric competition to orderly competition based on legitimate rights and interests, optimizing the market ecology [13].

2.3 Reshaping the Cognitive Order and Reputation Ecology of the External Market

Kweichow Moutai further optimized its marketing strategy through accurate data analysis and consumer behavior prediction through digital marketing, which significantly enhanced the brand's precise positioning and market penetration ability. Its brand influence has risen to the top of the industry in the minds of consumers, especially in the 30-45 age group, where Maotai's brand preference has increased by more than 30%. Consumers' emotional connection with the "i Maotai" platform has also been strengthened. In the survey of brand sentiment index, 70% of "i Maotai" users reported a significant increase in brand identification, especially after interacting with the brand; their sense of participation and belonging were enhanced [13]. Consumers' perception of the Maotai brand is no longer limited to the traditional high-end Baijiu, but believes that it has more innovative vitality and cultural connotation, and is closer to the needs of young consumers. This reflects the digital transformation of marketing in internal governance, establishing precise connections and deep interaction channels with external consumers, enhancing the effectiveness of brand information transmission and consumer participation experience, promoting consumer cognitive upgrading, emotional resonance, and trust enhancement towards the brand, ultimately forming a more stable brand consumer relationship order, and enhancing the brand's influence and dominance in external governance.

2.4 Promoting Governance Relationships with Partners

After the launch of "Smart Moutai", Kweichow Moutai has carried out the construction of a raw material supply chain platform to realize the whole process information management of organic sorghum planting, storage and processing. By utilizing digital technology to standardize and improve the entire process of agriculture, agricultural materials, storage, quality inspection, and payment, while effectively ensuring the quality of Maotai raw materials, it has streamlined and standardized the intermediate links, achieving direct payment to over 156000 farmers.

Previously, farmers had to wait for three months or even longer to receive grain payments, but now it has been greatly shortened, ranging from as fast as three days to as slow as two weeks. The digital transformation of internal governance simplifies the processes of external entities, shortens the interaction cycle between both parties, makes cooperation between enterprises and suppliers smoother, and promotes the formation of a more efficient and predictable collaborative order.

2.5 Improving the Quality of Interaction between Enterprises, the External Environment, and Stakeholders

In 2017, Kweichow Moutai began its digital transformation and carried out the construction of smart Moutai. As Figure 2 trend chart of operating indicators of Guizhou Moutai from 2014 to 2022. It shows that the marketing channel reform in Kweichow Moutai in 2017-2018 has achieved certain results, the sales capacity and efficiency have been improved, and the inventory backlog has been reduced, so the inventory turnover rate in this period has increased. From 2019 to 2022, the inventory turnover rate of Kweichow Moutai declined slightly, mainly because the COVID-19 epidemic had a significant impact on the domestic economy. Affected by the reduction of income and health factors, the market demand for Baijiu decreased, resulting in a certain degree of inventory backlog. From 2017 to 2019, the construction of Smart Maotai implemented digital reforms in the supply chain, achieving visual management of the production process, timely adjustment of the production process, improving production efficiency, and further enhancing the utilization of funds, resulting in an overall upward trend in total asset turnover and current asset turnover during this period. However, due to the impact of the epidemic, the total asset turnover rate and current asset turnover rate experienced a slight decline from 2019 to 2021. In 2022, with the liberalization of the epidemic situation, and the online self-operated channels of Kweichow Moutai to help sales, the turnover rate of total assets and the turnover rate of current assets began to resume an upward trend [11].

On the whole, since the beginning of the digital construction of Smart Moutai in 2017, all operating indicators of Kweichow Moutai have performed well, which reflects the positive impact of digital reform on corporate governance. It can be seen from the above that Kweichow Moutai optimizes the processes involving external entities through digital tools, shortens the interaction cycle, reduces friction and mismatch, improves the efficiency of internal resource turnover and operation, and enhances the ability to respond to market and supply chain demands, thus promoting both parties to form a more efficient and predictable cooperative order.

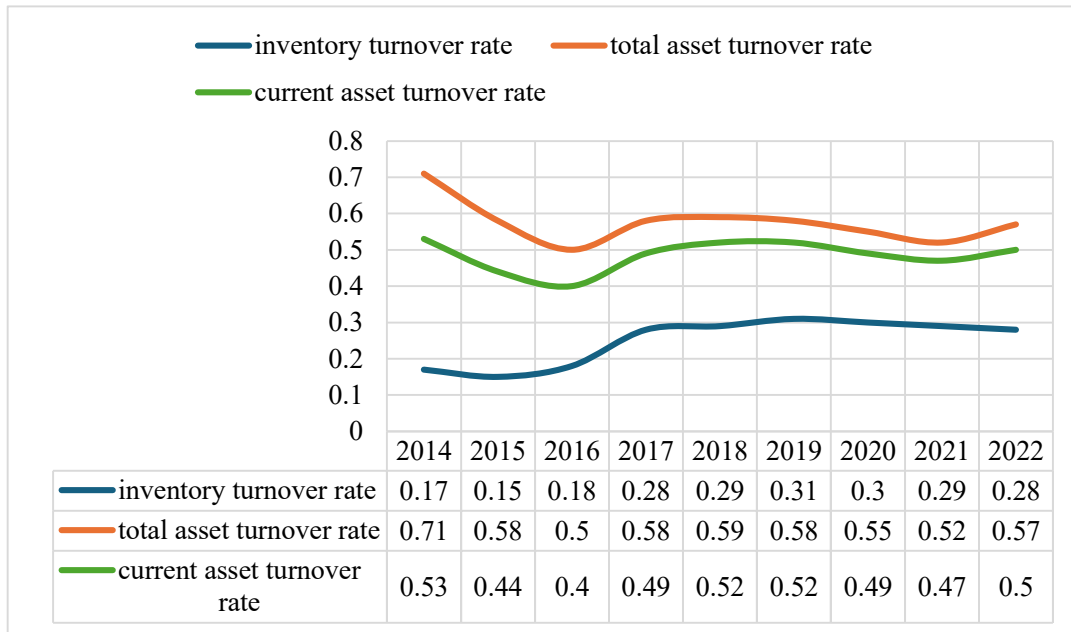


Fig. 2 Trend chart of operating indicators of Guizhou Moutai from 2014 to 2022 (Picture credit: Original)

3. Conclusion

The digital transformation of internal governance can directly or indirectly influence external governance through multiple channels. The impact of the digital transformation of internal governance on external governance can be specifically achieved by influencing key interactive links connected to the external market, such as relevant business processes (resource turnover, procurement), transaction access, participation mechanisms, product sales channels, etc. The digital transformation based on internal governance will have an impact on external governance. When enterprises carry out digital transformation of internal governance, they should pay attention to the potential risks and negative impacts that may arise from external governance, to ensure the smooth progress of digital transformation, avoid unnecessary risks, strengthen strategic planning and cross departmental collaboration, clarify transformation goals, and ensure that they are consistent with the overall strategy and external governance needs of the enterprise. By establishing an efficient collaboration mechanism, internal and external information sharing can be promoted.

This study selects high-end Baijiu enterprises as the research object. In the future, enterprises in different industries in multiple countries can be selected for research and analysis to improve the universality of the study. In the future, empirical analysis can be used to further confirm the impact of the digital transformation of internal governance on external governance. In addition, this study fo-

cuses more on the research of product markets in internal governance and external governance. In the future, it can deeply explore the impact on the manager market, labor market, capital market, as well as the government and environment, and more comprehensively explore the comprehensive connection between internal governance and external governance.

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