The Role of Digital Leadership, Digital Capability, and Organizational Capability toward Digital Transformation Competencies and Competitive Advantage

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Abstract. In the wake of the disruptive era, digital technologies are causing widespread disruption across industries, particularly among small-medium-sized businesses. This research aims to find the digital leadership impact towards digital transformation competencies and competitive advantage through digital capabil- ity and organizational capability. Empirical data were collected from 205 re- spondents from SME businesses in Indonesia. Descriptive statistics and the struc- tural equation model (SEM) were used to examine the data. According to our study, digital leadership plays a critical role in fostering digital transformation competencies and giving an organization's digital capabilities the competitive edge they need to succeed. It includes things like the ability to spot new digital opportunities, adapt to digital transformations, acquire cutting-edge digital technologies, and create ground-breaking new products built on top of those technologies. We also find that: (1) digital leadership directly impacts digital capability and organizational capability, but it does not impact digital transformation competencies, and competitive advantage, (2) digital capability impacts digital transformation competencies and competitive advantage, and (3) digital transfor- mation competencies impact competitive advantage directly. However, organi- zational capability does not impact digital transformation competencies or com- petitive advantage.

Keywords: Digital Leadership, Digital Capability, Organizational Capability, Digital Transformation Competencies, Competitive Advantage.

1 Introduction

The prosperity of the Association of Southeast Asian Nations' (ASEAN) member states' micro, small, and medium-sized enterprises (MSMEs) is vital to the region's economic development and progress [1]. MSMEs are privately owned by a single entrepreneur, a family, or a group of entrepreneurs. MSMEs play an essen- tial role in economic and social development since they are highly engaged in the

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workforce and increase people's well-being while contributing to innovation and value-added activities. The 70 million MSMEs in ASEAN make up between 97.2% and 99.9% of all MSMEs in the member states of ASEAN. Most businesses are often made up of micro firms. MSMEs account for 85.5 percent of employment, 44.4 percent of GDP, and 18% of exports in the region, respectively. For ASEAN to achieve long-term, sustainable economic growth and close the development gap, small and medium-sized companies (SMEs) are also essential [1]

According to each nation's industrial and economic framework, the definition of MSMEs varies. The most critical metrics for identifying micro, small, medium, and big businesses are revenue, payrolls, total assets of businesses, and staff count ([2].

According to Indonesia Law Number 20/2008 concerning MSMEs, micro enterprises are successful firms owned by people or small business associations that adhere to the following legal requirements for microbusinesses: (i) A 50,000,000 IDR maximum asset requirement; and (ii) a 300,000,000 IDR maximum turnover requirement. According to this law, a small business is any profitable, independent economic venture run by a person or organization that meets the criteria for being a small business and isn't a parent company, subsidiary, or branch of another company. The asset and turnover criteria fall within the range of IDR 50,000,000 to IDR 500,000,000 and IDR 300,000,000 to IDR 2,500,000,000, respectively. A medium-sized enterprise (MSE) is defined in this law as an economically productive, stand-alone business that is run by an individual or a legal entity that is not a subsidiary or branch of another company, but rather is owned, controlled, or connected, either directly or indirectly, with a small or large business. The MSE must meet the asset and turnover criteria of IDR 2,500,000,000 to IDR 50,000,000,000 and total net worth of IDR 500,000,000 to IDR 10,000,000,000.In Indonesia, the backbone of the economy is currently MSMEs which contribute to 61.7% of the national GDP [3]. The government is paying serious attention to the 64.2 million MSMEs in Indonesia, and the MSMEs should be accustomed to going digital because competition is more challenging in terms of technology utilization. Therefore, MSMEs must pay attention to this phenomenon and master digital technology.

Despite the potential contribution of MSMEs to the nation's economy, numerous issues remain. The fundamental issue is that MSMEs are underproductive because their human resources in management, information technology, and marketing are underqualified. However, MSMEs must contend with a lack of productive resources, particularly in the areas of money or investment, knowledge, markets, and technology. Furthermore, several MSMEs experience serious problems in terms of funding or capital, which is difficult to obtain. This condition prevents MSMEs for developing a more extensive market [4]. According to Chandra (2002), an indicator of business develop- ment is capital that can be used to carry out business processes [5].

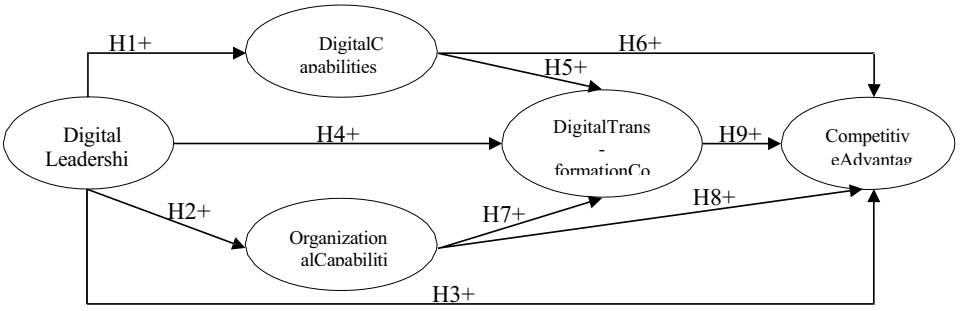
The Indonesian government is currently working to support the performance of its MSMEs, one of which is through a digitization plan. The importance of digitalization technologies has increased during the COVID-19 pandemic [6]. Un- fortunately, SMEs have limited online presence as well as barely embrace digitalization and technology, leaving them vulnerable during the pandemic, especially for individuals and family enterprises (Bartik et al., 2020). As such, embracing digitalization will be likely vital to SMEs' survival [7].

This condition raised the question “what are the current SMEs' biggest challenges?”.

2 THEORETICAL FRAMEWORK AND HYPOTHESIS

This chapter presents literature related to the constructs under investigation, namely digital leadership (DL), digital capability (DC), organizational capability (OC), digital transformation competencies (DT), and competitive advantage (CA). These constructs are depicted in Figure 1 below.

Figure 1 Conceptual Model Framework



Source: Author’s own study

2.1 Digital Leadership

Digital leadership entails leveraging power to foster visible digital transformation processes, as articulated by [8]. [9] contends that digital leadership is paramount in navigating the digital era. Notably, successful digital trans- formation hinges on employing various leadership strategies, including transactional and transformational approaches [10].

As a business develops its digital leadership, platform strategy activities are related. Platform strategies can only succeed if they are backed up by the company's internal

digital and organizational capabilities and have an influence on the company's competitive advantage and digital transformation competencies. In light of this, the following theories are proposed:

H1: Digital leadership (DL) has a positive impact on digital capabilities (DC)
H2: Digital leadership (DL) has a positive impact on organizational capabilities (OC)
H3: Digital leadership (DL) has a positive impact on competitive advantage (CA)
H4: Digital leadership (DL) has a positive impact on digital transformation competencies (DT)

2.2 Digital Capabilities

Digital capabilities encompass an organization's ability to integrate and leverage digital technologies to enhance operations and serve stakeholders effectively [11]. These capabilities extend beyond IT skills, encompassing digital assets and generating value through digital outcomes [12].

Effective digital capabilities require technological competence, enabling organizations to conceive and develop innovative products and processes [13]. Such competence is vital for navigating digital transfor- mation and sustaining competitive advantage [14]. When the ex- ternal environment is dynamic, the relationship between a company's competitive ad- vantage, capabilities, and ability to develop new products is non-linear. As a result, the research proposes the following theories:

H5: Digital capabilities have a positive impact on digital transformation competencies (DT)
H6: Digital capabilities have a positive impact on competitive advantage (CA)

2.3 Organizational Capabilities

Organizational capabilities refer to an organization's capacity to execute coordinated actions and utilize resources effectively to achieve desired outcomes [15]. These capabilities facilitate learning, innovation, and performance improvement [16].

When an enterprise develops its organizational capabilities, platform strategy activities are related. To implement platform strategies successfully, organizational capabilities must support the strategies within the organization and have an impact on digital transformation competencies and competitive advantage. As a result, the research proposes the following theories:

H7: Organizational capabilities have a positive impact on digital transformation competencies (DT)
H8: Organizational capabilities have a positive impact on competitive advantage (CA)

2.4 Digital Transformation Competencies

Digital transformation competencies are essential for innovation and competitive advantage, requiring dynamic capabilities to integrate internal and external resources effectively [6]. These competencies enable organizations to respond to market changes and drive growth in the digital age. The relationship between digital transfor- mation competencies and competitive advantage is crucial, as organizations must de- velop capabilities that align with external shifts to gain a competitive edge. Hence, it is proposed that digital transformation competencies positively impact competitive advantage.

H9: Digital transformation competencies (DT) have a positive impact on the competitive advantage (CA)

2.5 Competitive Advantage

Competitive advantage stems from a company's superior performance in a specific market, driven by unique resources and internal processes [17]. It enables firms to differentiate themselves and outperform rivals [6].

Organizations must continuously innovate and adapt to maintain a competitive edge, particularly in the digital age. Digital transformation competencies play a vital role in driving competitive advantage, as organizations leverage digital technologies to enhance operations and create value.

3 DATA METHODS

3.1 SAMPLE AND DATA COLLECTION

The type of data used in this study is Quantitative descriptive data. The main quantitative information comes from the respondent’s questionnaire results filled by SMEs Owner, Top, Middle, and Low management levels. A total of 201 respondents accepted to participate in the survey, which was delivered online between September 2022 and January 2023. SEM Lisrel 8.8 was used to analyze the gathered data to assess the validity, reliability, and goodness of fit indices of the constructs. Descriptive statistics were also conducted using SPSS.

3.2 MEASURES

Only validated questionnaires that have been used to examine the constructs in earlier studies were employed in this investigation. Self-administered online questionnaires are used to collect the data, which is then given to randomly chosen SMEs in Indonesia across a range of industries.

Every questionnaire had a 7-point Likert scale to complete. After then, 25 people were given the questionnaire as part of the pilot testing. In order to evaluate the outliers from each observable variable, the findings were processed using descriptive statistical analysis using the Statistical Package for the Social Sciences (SPSS). Following the pilot testing, the outliers and other respondents participated in a focus group discussion (FGD) to talk about the questionnaires, if there were any misconceptions about the questions, and whether any changes to the questions were necessary. The completed questionnaire was prepared for mass distribution to the intended respondents following any required revisions.

3.2.1 INDEPENDENT VARIABLES

The Digital Leadership variable in this research is the independent variable, which is assessed using questionnaires adapted from [18]. The example of a digital leadership questionnaire: Leadership in my organization acts and behaves according to word of mouth to drive the digital transformation process. Questionnaires derived from [4] were used to evaluate a company's digital leadership, digital transformation competencies, and competitive advantage, with digital capacity serving as a moderating variable. Example of a digital capability questionnaire: Leadership in my organization can identify new digital opportunities.

Organizational capability can be seen as the mediating variable between the digital leadership variable, digital transformation competencies and competitive advantage variable; it is measured using the adopted measurement from [19]. An example of an organizational capability questionnaire: The organization has the ability to anticipate surprises and crises that they may be facing.

Adopting a measurement from [19], the Digital Transformation Compe- tencies are a moderating factor between Digital Leadership, Digital Capability, Organizational Capability, and Competitive Advantage. The following is an example of a question from the digital transformation competencies survey: Leadership is actively used to bolster digital enterprises.

3.2.2 DEPENDENT VARIABLES

The dependent variables that are assessed using the Xu Xinghua et al. questionnaire are the competitive advantage variables (2020). Competitive advantages are determined by the perceived competitive advantage of the firm. These observed factors, taken as a whole, provide a comprehensive analysis of competitive advantages in an SME firm.

3.2.3 CONTROL VARIABLES

Demographic information including gender, age group, and educational attainment is used in this study as a control variable. Even though this study's respondents are individuals, these variables have been demonstrated to have an impact on their behaviour [12] despite the fact that the research is being conducted

at the organizational level. At the person level, their role within the organization is likewise documented as a control variable. This study incorporates geographic location as an extra control variable at the organizational level since research has indicated that this element might affect organizational behaviour [12].

3.3 DATA ANALYSIS

In this work, the actual data (EFA) is utilized to identify variables, and confirmatory factor analysis (CFA) is used instead of exploratory component analysis (ECA) to assess how well the measurement theory matches the data [20]. The CFA in this work is conducted using structural equation modeling, or SEM. The average variance extracted (AVE), validity, and composite reliability (CR) of the components were assessed through the use of measurement models.

4 RESULTS

4.1 DESCRIPTIVE STATISTICS AND CORELATIONS

The correlation coefficient value of 0.90 or above is the test's cutoff, which denotes the presence of significant correlations and likely multicollinearity among components [20]. The Spearman's correlation coefficients in Table 1 were all below 0.90, indicating that there was no multicollinearity among the components. The detail of Descriptive Statistics & Correlations can be seen in the Table 1 and table 2 as on below.

Table 1 Summary of Descriptive Statistical Analysis

Variable	Dimension	Mean	Std. Deviation	Min	Max	onbach's Alpha
DL (Digital Leadership)	Character	5,79	0,96	3,50	7,00	0,852
	Competencies	5,80	1,01	3,25	7,00	
DC (Digital Capability)	ital Technology Acquisition	6,13	0,93	2,00	7,00	0,851
	ital Opportunities Identification	5,98	1,03	3,00	7,00	
	Digital Transformation Response	5,31	1,02	3,00	7,00	
	Mastering State of Art Digital Technology	5,75	0,99	3,00	7,00	

	Innovate Digital Technology Product Development	6,04	1,01	3,00	7,00	
OC (Organizational Capability)	Surprise & Crisis Anticipation Ability	5,74	0,96	2,00	7,00	0,692
	New Ideas Generation Ability	6,04	0,97	4,00	7,00	
	Fast Strategic Decision Ability	5,58	0,90	2,00	7,00	
DT (Digital Transformation Competencies)	Opportunity Identification	5,64	0,99	4,00	7,00	0,914
	Business Design and Resource Development	5,61	1,06	3,67	7,00	
	Business Organization and Corporate Culture Regulation	5,72	1,06	3,33	7,00	
A(Competitive Advantage)		5,12	0,88	4,00	7,00	0,838

Source**:** Author's own study

Table 2 The Spearman's correlation coefficients

No	Variable	DL	DC	OC	DT	CA
1	DL	1.000				
2	DC	.710	1.000			
3	OC	.650	.640	1.000		
4	DT	.667	.716	.586	1.000	
5	CA	.399	.369	.279	0.540	1.000

Source**:** Author's own study

4.2 MEASUREMENT MODEL ANALYSIS

To ensure that the study's findings can be relied upon, researchers are checking their goodness of fit (GOF) calculations. The results of the Goodness of Fit show that three indicators of 10 indicators are not fit. However, we could accept the results since there are more indicators that are being fulfilled (good fit and marginal fit) than not fulfilled.

Table 3 Overall model fit analysis

Chi- Square	938.24	Not Fit
P-Value	0.00	Not Fit
GFI	0.76	Marginal Fit
RMSEA	0.09	Marginal Fit
AGFI	0.72	Fit
NFI	0.93	Fit
CFI	0.96	Fit
IFI	0.96	Fit
RFI	0.93	Fit
PNFI	0.85	Marginal Fit
PGFI	0.65	Not Fit

Source**:** Author's own study

4.3 STRUCTURAL MODEL ANALYSIS

The comprehensive examination of model fit in this investigation indicates that the model is well-suited, as evidenced by favorable conclusions across all model fit indices. Detailed results of the overall model fit analysis are presented in Table 3. Figure 2 show the hypotheses of testing results of this study.

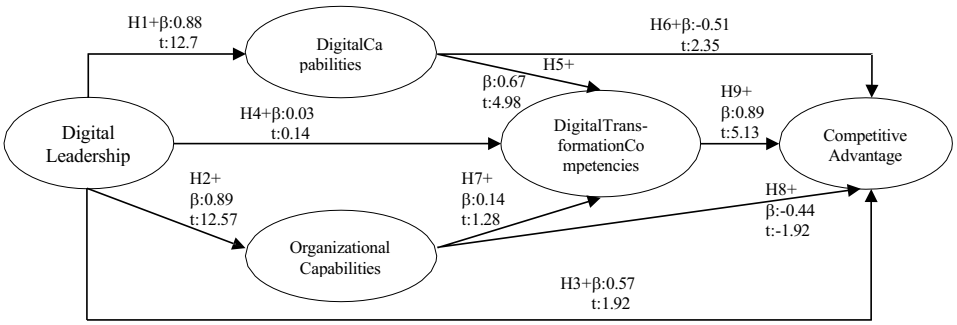
Table 4 Hypotheses testing results

	Path	Path Coeffi cient	t-statistic	Remarks	Conclusion	R Square
H1	Digital Leadership has a positive im- pact on Digital Ca- pability	0.88	12.70	Significant	Supported	0.77
H2	Digital Leadership has a positive im- pact on Organiza- tional Capability	0.89	12.57	Significant	Supported	0.80
H3	Digital Leadership has a positive im- pact on Competi- tive Advantage	0.57	1.92	Signifi- cant	Not Supported	0.73
H4	Digital Leadership has a positive im- pact on Digital Transformation Competencies	0.03	0.14	Signifi- cant	Not Supported	0.41
H5	Digital Capability has a positive im- pact on Digital Transformation Competencies	0.67	4.98	Significant	Supported	0.73

H6	Digital Capability has a positive im- pact on Competi- tive Advantage	-0.51	2.35	Signifi- cant	Not Supported	0.41
H7	Organizational Capability has a positive impact on Digital Transformation Competencies	0.19	1.28	Signifi- cant	Not Supported	0.73
H8	Organizational Capability has a positive impact on Competitive Advantage	-0.44	-1.92	Significant	Supported	0.41
H9	Digital Transformation Competencies has a positive impact on Competitive Advantage	0.89	5.13	Significant	Supported	0.73

Source: Author's own study

Figure 2 The Relationship of the Constructs with t-value and Structural Coefficient



Source: Author's own study

5 DISCUSSION

This study conducted in Indonesia aimed to investigate the impact of digital leadership (DL), digital capabilities (DC), and organizational capabilities (OC) on digital transformation competence (DT) and competitive advantage (CA).

The results suggest that there is a correlation between DL and DC, indicating that businesses need to undergo significant management restructuring to effectively integrate

new digital capabilities and achieve adaptive capabilities. However, contrary to prior research, DL alone does not directly enable a competitive advantage. Instead, strengthening digital abilities and transformation skills among SMEs is crucial for gaining a competitive edge.

DC was found to positively correlate with DT, emphasizing the importance of SMEs being competent in digital transformation to thrive in the disruptive era. Moreover, higher levels of digitalization positively influence competitive advantage, as SMEs seek to maximize profits and explore digitalization opportunities. Interestingly, OC was not found to significantly impact DT or CA, suggesting that SMEs prioritize other aspects of digital development over organizational capabilities.

Overall, this research highlights the significance of digitization in enhancing business operations and competitiveness. As SMEs increasingly embrace digitalization, factors such as digital leadership, digital capabilities, and digital transformation competence play pivotal roles in shaping competitive advantage in the digital era.

6 CONCLUSION

This study highlights the pivotal role of digital capabilities and digital transformation competencies in attaining competitive advantage amidst disruptive environments. The cultivation of competencies in digital leadership is paramount for effectively implementing digital advancements. Such efforts must be iterative and sustained over time to foster a corporate culture conducive to achieving competitive advantage. SME leadership must possess robust digital competencies to navigate the evolving technological landscape effectively.

6.1 THEORETICAL CONTRIBUTION

The conclusions drawn from this research offer theoretical insights that challenge conventional wisdom. Our study not only establishes connections among the discussed constructs but also pioneers integrated research in this domain. Importantly, we shed light on a nuanced perspective of competitive advantage, suggesting that it entails more than just staunch resistance to change but rather embraces adaptive responses.

Our findings demonstrate a positive correlation between digital leadership, digital capabilities, organizational capabilities, and competitive advantage in today's expansive digital landscape. Thus, it is evident that digitalization drives progress across various business sectors, fostering distinctive, creative, and adaptable organizational responses.

Furthermore, our study underscores the importance of adaptability and exploitative creativity over exploratory creativity in navigating digital transformations—a crucial insight for businesses aiming to thrive in dynamic environments.

6.2 MANAGERIAL/ PRACTICAL CONTRIBUTION

The findings shed light on the crucial role of digital leadership, digital capability, organizational capability, digital transformation competence, and competitive advantage in driving business resilience and success in the aftermath of the pandemic.

SMEs are encouraged to enhance their products and adapt to digitalization trends to safeguard their business operations effectively. Prioritizing organizational resilience is paramount, as it correlates positively with corporate performance and organizational creativity.

In promoting their products, SMEs must embrace creativity and agility to thrive in the competitive market. While strong digital leadership is generally beneficial, its impact on organizational survival may vary. Overall, this study underscores the importance of fostering digital leadership, digital capability, and organizational capability to enhance digital transformation competence and competitive advantage among SMEs, offering valuable guidance for business resilience and growth.

7 LIMITATION AND FUTURE RESEARCH OPPORTUNITIES

This study employs a descriptive, cross-sectional approach to investigate Indonesian SMEs, thereby providing insights into the prevailing conditions at a particular point in time. However, the study's design limits its ability to delineate sector-specific nuances or establish causal relationships among the examined factors.

Future research endeavors could delve into specific industries undergoing similar digital transformation initiatives to discern potential variations. Employing longitudinal methodologies would enable scholars to explore the temporal dynamics of interrelationships among the study components. Additionally, replicating the study across diverse contextual settings, as suggested in prior research, would facilitate the generalization of findings and mitigate any unwarranted assumptions.

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